

WANTED: A COMMUNITY REINVESTMENT POLICY IN NEW YORK CITY

By Mark Winston Griffith

Policy makers and the financial services industry must make community reinvestment a cornerstone of any effort to rebuild the economies of New York’s working class communities. I’m using “community reinvestment” to refer to any policy that determines that government-supervised or subsidized institutions have an obligation to return economic benefits to the public.

The Community Reinvestment Act (CRA) of 1977, which encourages federally regulated banks to meet the credit needs of all the communities they serve, including low- and moderate-income areas, is the definitive community reinvestment statute. New York City would be wise not only to resuscitate the letter and spirit of the CRA, which is an increasingly neglected and ineffective law, but consider applying it to a broader range of local industries, institutions, and practices.

In its heyday, during the 1980s and 1990s, the CRA was the driving force behind mostly positive relationships between local organizations and community stakeholders. Banks maintained active CRA offices that provided them with the institutionalized capacity to respond to pressing needs. These offices facilitated grants to community-based organizations, brokered multi-million dollar housing development partnerships, supported local merchant associations, and promoted aggressive mortgage and small business lending programs, just to name a few things.

CRA officers were like beat cops for the banks, keeping a finger on the pulse of the community, responding to civic calls for assistance, and helping to maintain the peace between banks and their customer base. Bank CRA offices were the clearing house for millions of dollars

flowing into affordable housing, small business development, loan funds, credit unions, etc. In return, residents, community-based organizations and businesses gave these banks their business.

Community organizations and local leaders were empowered by the fact that they could challenge mergers and transactions that required regulatory approval. Activists like me tracked the business activities of banks and attended countless regulatory hearings in which we felt deputized to keep institutions accountable for their lending practices, or lack thereof. Although federal regulators in my experience never actually held up a merger because of a bank's CRA lapses, banks at least reacted as if they were being put on notice.

In case I'm waxing too nostalgic, let me admit that CRA offices in many instances served as glorified public relation arms of the banks. Also, the critique that community groups used the CRA to extort dollars from banks was not always unfounded. This was sometimes inevitable and simply the price of doing business, because CRA was in fact the only leverage point for community groups to get the attention of multi-billion dollar banking institutions.

Still, when functioning at its most effective level, CRA enabled banks to make strategic investment decisions based on collaborations with local organizations responsible for stimulating economic activity. Those decisions, when made well, helped provide housing, create and protect jobs, and inject badly needed credit and capital into communities and neighborhoods. The National Community Reinvestment Coalition estimates that trillions of dollars have been leveraged since 1977 in low- and moderate-income communities as a result of the CRA.

For years, the acknowledgment of community reinvestment responsibilities on the part of banks, even when superficial, shaped the conversation around community development, and connected words to deeds. But just as the opening and closing of bank branches, and terms like "redlining," and "Home Mortgage Disclosure Act" (HMDA) were on advocates' lips in the 1980s and 1990s, subprime loans, shady brokers, foreclosure rescue scams, and loan remediation dominated our

attention in the 2000s. Today community reinvestment is no longer a stated goal for banks and regulators alike, so much so that few banks maintain active CRA offices anymore. With banks looking more to their multi-national profits, partnerships with local organizations have become low priority, and ad hoc.

It's easy to see how this dynamic has gone hand-in-hand with active disinvestment. Millions of dollars that could keep community-based organizations alive, employ people, and stimulate economic activity are now directed elsewhere. Furthermore, the hawking of high-priced loan products quickly became the default method of being responsive and “sensitive” to “high-risk” community needs. Working class neighborhoods of color like Central Brooklyn and Southeast Queens that should have been leading the way in an economic revival instead became drilling fields for exploitative gimmicks like “overdraft protection”, refund anticipation loans, and exotic home equity products. If open and effective channels to bank regulators and banks had been kept intact, the abusive lending and real estate practices that we community reinvestment watchdogs complained about for years could have been addressed. Instead, because these complaints threatened the new business model and initial windfall profits of the banks, they were ignored or denied.

Any informed observer can recognize that, in recent years, the financial services infrastructure in NYC and throughout the country has stripped wealth and equity from the most vulnerable communities, rather than reinvest in them. Just consider the foreclosure crisis and the omnipresence of check cashing operations, rent-to-own stores, and payday lenders—particularly in urban neighborhoods of color—for painful verification of this assertion. It's no coincidence that savings rates and home equity levels among Americans are at record lows these days.

If you're looking for physical justification for community reinvestment, as well as a poetically tragic symbol of the trajectory that community-based finance has followed in New York, then travel with me to the northeast corner of Fulton Street and Bedford Avenue in Bed-Stuy Brooklyn.

Throughout the 1980s and early 1990s two conjoined brick buildings on this corner were home to a federally insured commercial bank. For decades it marginally served the surrounding community by taking deposits from its mostly low-and moderate Central Brooklyn customers without returning much in the way of credit. In 1993, that bank merged with another, closed several branches throughout New York City, and, through the prodding of the CRA, passed these two buildings onto the fledgling Central Brooklyn Federal Credit Union I had co-founded.

Using this large commercial space as a base of retail operations, the credit union was able to grow at a remarkable pace and convert deposits—made by local residents and from other banks similarly prodded by the CRA—into millions of dollars worth of loans and services that were used, among other things, to build businesses, send people to college and buy homes.

Unfortunately, the credit union couldn't afford the taxes and rent that came with the new real estate. So it had to move to another, smaller building in 1998. Today, one of these buildings is home to a lending institution that does not have any CRA obligations and does brisk business by charging local people usury rates to lease household furniture and appliances—the very antithesis of community reinvestment. Meanwhile, the bank that started off on that corner doesn't have a functioning community reinvestment program anymore, and the surrounding commercial and residential area, which has been the focus of countless revitalization efforts, is struggling.

We shouldn't let community reinvestment become a thing of the past. Fortunately, the National Community Reinvestment Coalition and other organizations have been working on CRA improvements for years. In devastated New York City neighborhoods, crucial areas of CRA advocacy must include: new criteria and standards that place a higher premium on relationships with local organizations; investments in civic and commercial revitalization; incentivizing job and affordable housing creation; more affordable pricing of products and services; and a proven commitment to consumer protection. Higher disclosure and transparency requirements that make it easier for local groups to access community reinvestment records and measure

community reinvestment progress are also essential. Federal attempts to reform banking regulatory institutions must fully appreciate how much regulators have become deeply compromised by their dependence on the very institutions they are supposed regulate.

But the actual mechanics of a new commitment to community reinvestment in New York City are less important than summoning the political will to make community reinvestment a priority. That opportunity is upon us, in spite of the recent attempts by conservatives to discredit the CRA. In the wake of massive government bailouts of Wall Street and all the data and evidence available on abusive lending practices, public sentiment has never been more aligned with the concept of bank accountability and the notion that tax payers deserve a return on their investment. A more robust and enforceable CRA regime would have the power to proactively stimulate the economy, while flagging and guarding against destructive practices that threaten to strip further wealth and equity from struggling local communities and neighborhoods. The overarching goal of community reinvestment should be enabling local organizations to challenge and recover from the harmful actions of the banks that were responsible for leading us into this financial crisis.

Community reinvestment in New York should not begin and end with banks, though. Developers who receive public subsidies, for instance, are perfect candidates for a more comprehensive approach. Small community development projects, as well as high-profile, high-impact projects like Atlantic Yards, Willets Point, and the Mets and Yankee Stadium deals can, in the future, be converted into opportunities to aggressively redirect corporate profits toward community-based projects that have indisputable public benefits and spur new economic activity, thus pre-empting public opposition. Devices such as “clawbacks,” community-benefit agreements, and inclusionary zoning already provide the precedent for development-related community reinvestment provisions. But they need to be strengthened and expanded.

Another element to consider is empowering a citywide office like the Public Advocate with the authority to monitor community reinvestment activity and compliance among banks, financial institutions,

and developers. Although many believe New York City has little jurisdiction over corporate entities and federally regulated institutions, a determined and creative City Council, Public Advocate, or Mayor could challenge this assumption and find ways to apply local standards and increase accountability.

Community reinvestment is inseparable from economic recovery. If we don't find a way to recycle the profits, and police the activity, of financial institutions, developers, and other corporate institutions, corners like Fulton and Bedford will remain monuments to economic injustice and wasted potential.

Mark Winston Griffith is a former senior fellow in economic justice and executive director at the Drum Major Institute for Public Policy. He has been a community organizer and activist in Central Brooklyn for more than twenty years. During the fall 2009 election cycle, he ran for New York City Council to represent Central Brooklyn's 36th Council District.