

The Community Reinvestment Movement: How Community Based Organizations are Shaping Their Futures

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This dissertation project investigates whether the Community Reinvestment Act and the Home Mortgage Disclosure Act have substantially strengthened community-based organizations' capacities to influence residential credit availability in US cities and neighborhoods. The community reinvestment movement developed as a response to extensive post-war urban disinvestment and racism in US housing markets. While these problems persist, the community reinvestment movement appears to have made great strides in promoting homeownership opportunities for minority and low-and-moderate income borrowers. This abstract briefly recounts the history of urban disinvestment in the US, describes the research questions and methodology of my dissertation, and then couches the work in the broader context of local control of capital. My goal is to connect the mechanics of these two laws to Agenda 21's concerns with participatory planning and community-based issue analysis (International Council for Local Environmental Initiatives, 1996).

In 1950 central cities, as distinct from their suburbs, accounted for nearly 6 of 10 persons living in metropolitan areas in the US. By 1970 central city residents accounted for barely 4 of 10 persons. The dramatic population shift from cities to suburbs, indeed the deep distinction between the two, is a particularly American urban phenomenon with many explanations. Strong and persistent consumer preference for new homes in the suburbs has played a significant factor in the process. But other less benign forces have also been identified. For instance, from the passage of the

National Housing Act in 1934 through the early 1960s Federal Housing Administration (FHA) mortgage insurance implicitly condoned neighborhood racial homogeneity thereby excluding large areas of many cities from federal loan guarantees (Jackson, 1985). The building industry's preference for large-scale suburban development projects was reinforced by the federal government's preference for builders who could deliver large numbers of mortgages en masse (Checkoway, 1983). Finally, more than a dozen studies conducted in the late 1960s and early 1970s documented outright racism in mortgage markets across the US (Committee on Banking, Housing, and Urban Affairs, 1975). Despite these and other factors penalizing urban residents, more than 60 million Americans still lived in a central city in 1970.

In response to racism in the mortgage markets and the trend toward private disinvestment from cities, a loose network of housing advocates, civil rights proponents, and consumer groups began to petition cities, states, and the federal government for legislative action. These early advocates, founders of the still-vibrant community reinvestment movement, earned two important victories when Congress passed the Home Mortgage Disclosure Act of (HMDA) 1975 and the Community Reinvestment Act (CRA) of 1977. Initially, HMDA required lenders to keep tally of their approved mortgage loans by census tract, a small areal measure typically containing about 4,000 people. The CRA mandated that banks have an affirmative obligation to fully serve their designated service areas, including minorities and low-and-moderate income persons and neighborhoods. The CRA also gave individuals and communities the opportunity to protest a bank's application for regulatory approval, for example, a bank merger or a branch closing, on the grounds that the bank was not meeting its legislatively-mandated affirmative obligation. Another, more amicable and organic option than the legal protest, was the use of negotiated CRA agreements. The details surrounding CRA agreements vary widely but, in general, they are a formal, but not legally binding, arrangement between a bank and a community group(s) in which the bank commits to improve banking services for low-and-moderate-income persons and neighborhoods. Increased mortgage dollars is a common component of most of these agreements and a good way to measure their effectiveness.

Despite the hopes surrounding HMDA data and the potential for community participation thanks to CRA, few benefits accrued to communities. Between 1977 and 1988 the Federal Reserve formally reviewed 139 applications by banks in which a community group had protested the bank's application for regulatory approval; not one application was denied because of a CRA protest (Cowell and Hagler 1992, 92). CRA agreements offered little more. Between 1977 and 1991, community groups negotiated more than 160 CRA agreements but managed to secure only \$7.1 billion in mortgage commitments (National Community Reinvestment Coalition, 1998). Then, suddenly, between 1992 and 1997 community based organizations negotiated nearly one trillion dollars in mortgage commitments (National Community Reinvestment Coalition 1998). What brought this success? And have these pledges of more mortgage dollars been kept? Despite a comprehensive inventory of community reinvestment agreements and a data set which inventories the 12 to 15 million annual mortgage applications, there has been little systematic follow-up to measure the effects of CRA agreements on the people and the places which they are meant to help. In addition, if these commitments have been kept, as the preliminary evidence suggests (Nesiba, 1995; Schwartz, 1997; Shlay and Goldberg, forthcoming), there has been little analysis of how or why these laws became so effective in the 1990s. The situation brings two important questions to the forefront:

- 1) Have banks with CRA agreements actually increased mortgage availability to low-and-moderate income and minority persons and neighborhoods?
- 2) What happened in the 1990s to suddenly make the CRA and HMDA such effective tools in the hands of community based organizations across the country?

To answer the first question, I will compare the lending trends of banks with CRA agreements to the lending trends of banks without them over the six year period 1992 to 1997. This section will rely on HMDA data and the National Community Reinvestment Coalition's CRA agreements inventory. Controlling for bank mergers, I will use fixed-effects multiple regression to measure the effects of CRA agreements on mortgage supply and demand at the bank level. The data consist of more than 100 CRA agreements signed between 1993 and 1995 and approximately 4 million mortgage applications made in 25 cities between 1992 and 1997.

To answer the second question, I will begin by researching the legislative histories of HMDA and the CRA and their subsequent amendments. Next, I will use semi-structured interviews with community based organizations which have negotiated CRA agreements, the banks which signed them, and federal regulators in order to analyze what happened in the 1990s to make the two laws seemingly so effective. Many things can explain the boom in mortgage lending after the recession of the early 1990s. On the demand side the changing demographics of the US population meant that if banks wanted to increase their deposit bases they would have to attract and satisfy minority and low-and-moderate income customers, both groups which traditionally they had underserved. On the supply side, relaxed underwriting criteria in the secondary mortgage markets permitted lenders greater flexibility in originating mortgages to low-and-moderate income homebuyers (Temkin et al., 1998). Also, the growth of a rich network of community development corporation has improved affordable housing production in some cities (Keating, et al. 1990). Finally, of course, the booming economy after 1992, helps to explain the rise in borrowing among minority and lower-income people over the 1990s (Federal Financial Institutions Examination Council, 1992 to 1997). The goal of this second question, however, will be to ascertain from community groups, banks, and regulators what role, if any, the legislative amendments which strengthened the CRA and dramatically improved the availability of HMDA data, played in promoting mortgage activity among low-and-moderate-income persons and neighborhoods.

There is a clear connection between the promoting urban reinvestment issues and curtailing suburban sprawl. Redirecting future growth back to the cities would surely encourage more sustainable development patterns. It is interesting to note that banks are given CRA credit for loans that redevelop brownfields in urban areas. Nonetheless, my interest is to connect the HMDA/CRA framework to the citizen participation requirements contained in Agenda 21. For example, the significant role which community based organizations have played over the past two decades relates directly to Agenda 21's concerns with integrated decision-making. The Community Reinvestment Act gives citizens and the organizations who speak for them direct standing in the regulatory process. Second, Home Mortgage Disclosure Act provides data to community groups which can help to mitigate the substantial information inequalities which exist

between banks, regulators, and community organizations. Finally, from the perspective of non-governmental organizations, the HMDA/CRA framework offers insights into what local organizations need to effectively negotiate with national and international stakeholders—both businesses and government regulators. In sum, the success of the community reinvestment movement and its use of HMDA and CRA tell a provocative story of a new public policy instrument which promotes community control of extra-local actors.

I hope to prove that CRA agreements are effective and that the combination of having a voice in the regulatory process (thanks to CRA) and information (thanks to HMDA) is a requisite for community based organizations to be effective as «regulators from below» (Fishbein 1992). The chance to introduce these laws and the community based organization who use them to an audience of European planners would be exciting. In addition, the 1999 AESOP Conference and Ph.D. Workshop would also provide me with an excellent opportunity to think about the bigger questions surrounding market governance and local control.

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