Opinion

A Green Light for Banks to Start 'Redlining' Again

By Jesse Van Tol
Mr. Van Tol is the chief executive of the National Community Reinvestment Coalition.

The Community Reinvestment Act, passed in 1977, has encouraged investment in previously neglected neighborhoods such as Marin City, Calif.CreditCreditScott J. Ferrell/Congressional Quarterly, via Getty Images

For decades, Americans living in certain neighborhoods couldn't borrow money to buy houses and build businesses. These neighborhoods were home to people of color, immigrants and poor white people. Banks, real-estate agents, local officials and the federal government labeled their neighborhoods "hazardous," marking them off with red lines on maps.

The Community Reinvestment Act was passed in 1977 to end this practice of "redlining," by requiring banks to lend money in the communities where they are chartered to do business or receive deposits. Banks have made nearly $2 trillion in small-business and community development loans since 1996, according to our calculations, to meet the requirements of the law. That's an impressive record.

But the law didn't erase discrimination. Nor has it ended America's glaring economic segregation, which is caused in part by unequal access to banking and credit. Three out of four neighborhoods marked "hazardous" by government surveyors 80 years ago are still lower-income today, according to our analysis.

Lending through the Community Reinvestment Act has supported housing and other development in Richmond, Calif.CreditScott J. Ferrell/Congressional Quarterly, via Getty Images

Nevertheless, the Trump administration is proposing changes promoted as ways to simplify the law that will, in fact, be a huge step backward.

On Tuesday, the Office of the Comptroller of the Currency announced it will review and revise the rules it sets for banks to comply with the Community Reinvestment Act. One of the proposed changes is the introduction of a mathematical formula, a ratio, that banks and regulators could use to measure a bank's performance under the law.

This ratio would be the value of all of a bank's community lending activities — loans, services and philanthropy — divided by some measure of the bank's capacity, such as total assets or total deposits. It is supposed to bring more clarity to how the government assesses compliance with the law.

It sounds reasonable. But coupled with an expansion of the kinds of activities that could count as "community lending," it could allow banks to make fewer loans in poorer neighborhoods.

The law doesn't force banks to make risky loans. It simply requires them to make safe loans to borrowers in all ZIP codes in their communities. If banks win their battle to effectively reduce or eliminate the requirement that they invest in specific, historically underserved communities, then they could comply with the law by investing more in some places while doing nothing in others.

This seemingly small change could have sweeping consequences for millions of Americans and affect tens of billions of dollars annually in lending. A Federal Reserve Bank study in 2017 showed that after a change to the statistical definitions of the Philadelphia metropolitan area resulted in some parts of the area becoming ineligible for Community Reinvestment Act lending, bank loans in the newly ineligible sections fell by about 20 percent for borrowers with incomes between $44,000 and $61,000.

To be sure, the Community Reinvestment Act, like most regulations, can be improved. We're eager to work with the regulatory agencies, Congress, banks and the entire financial sector to modernize it. Over 500 national and community groups have proposed sensible approaches to do just that.

As it stands now, the law is by no means a burden on banks. A study by three economists for the Federal Reserve System board found that the three biggest bank mortgage lenders in the United States, accounting for more than one-third of all deposits, reported making only 15 percent of their lending to low- and moderate-income borrowers in 2016, down from 32 percent in 2010. Under the current rules, 98 percent of banks passed their most recent evaluations. If anything, the law and the rules enforcing the law need to be strengthened.

Most people don’t pay attention to banking rules. That’s what bankers, lawyers and government regulators are supposed to do. But these laws define where money flows in the richest nation on earth and where it doesn’t. And the flow of capital determines, in turn, who has access to affordable housing, to good public education, to small business loans and to financial services that aren’t abusive and predatory.

Discrimination, in the past and continuing today, is at the core of the wealth gap between whites and people of color. We can’t allow banks to cherry-pick where they lend. One easy formula is no substitute for a commitment to invest in all of America’s communities.

Jesse Van Tol is the chief executive of the National Community Reinvestment Coalition.