Communities & Banking

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Community Reinvestment Act: Strategic Planning and Strategic Partnerships

Increasingly, banks understand that in order to flourish they must foster a stable and growing economic base. Development of a strong local economic foundation must be important to their goals as lending institutions. Community development lending, which directs resources toward low- and moderate-income areas, furthers such a mission. The Community Reinvestment Act was designed to encourage lending that would yield a strong economic base, to the ultimate benefit of all involved — community residents and small businesses, as well as the banks that provide financing. This issue of *Communities & Banking* addresses how banks can, in the context of the Community Reinvestment Act, become partners in community revitalization and ultimately benefit from the economic progress they help create.

Beyond Compliance

With the objective of communicating to senior bank officials the advantages of incorporating community development lending into a bank's mission, the Federal Reserve Bank of Boston recently hosted its second series of seminars entitled, "Community Reinvestment Act: Beyond Compliance to Strategic Planning." The program addressed the importance of reorienting management thinking about the Community Reinvestment Act — from considering it simply a matter of compliance to adopting community development as a goal central to the success of the bank. Many lending institutions already have recognized the advantages of approaching community development lending the way they would any other market opportunity. The most successful banks are those whose directors and senior executives have embraced the Community Reinvestment Act and have incorporated its goal of community revitalization into the institution's mission. As organization leaders, senior officers are uniquely positioned to articulate a vision for the institution; a successful community development lending program rests on management's ability to create a vision that communicates throughout the institution the importance of this type of lending and mobilizes resources to realize bank goals.

Constructive Partnerships

This issue presents the keynote addresses from each of three seminars held in New England during the last year. Each speaker discusses ways in which banks and local community organizations can fulfill common community development goals by working together to maximize their individual efforts. Speakers include Ron Phillips, president of Coastal Enterprises, Inc., a nonprofit community development corporation in Maine; John Taylor, president and chief executive officer

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Communities & Banking explores viable roles for financial institutions in community economic development. The newsletter is produced by the Federal Reserve Bank of Boston's Public and Community Affairs Department.

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Views expressed are not necessarily those of the Federal Reserve Bank of Boston or the Federal Reserve System. Information about upcoming events and other organizations should be considered strictly informational, not as an endorsement of their activities.

Readers interested in having community development programs or projects described in *Communities & Banking* should contact:

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of the National Community Reinvestment Coalition in Washington DC; and Richard Driscoll, President of the Massachusetts Bankers Association.

Reciprocal Relationship

Each contributor explores ways to achieve economic development objectives by keeping in mind the reciprocal relationship between banks and the communities they serve. Implicit in each address are the convictions that the interests of community development are linked to the health of the banking sector, and that the vitality of the banking sector is equally dependent on its ability to foster the development of prosperous communities. Each plays a unique but related role in furthering the goal of economic revitalization. Community groups have their finger on the pulse of community credit needs, know how to structure successful community development projects, and have information about and access to other sources of financing. Banks establish underwriting criteria, develop financing vehicles that meet borrower credit needs, and match public funds to help ensure the viability of lending in low-income communities. By recognizing the expertise embodied in community organizations, and by involving these groups in marketing loan products to low- and moderate-income communities, lenders can tap into previously unrealized market opportunities.

New CRA Rules

Recently, new CRA regulations were announced and, as outlined in the Winter 1995 issue of *Communities & Banking,* they now stress bank effectiveness in reaching low- and moderate-income communities — especially as it relates to actual loans made. The new regulations de-emphasize documentation and focus on results. Each of this issue's contributors underscores this same theme. Both Ron Phillips and John Taylor comment on the ultimate impact that community development lending has on individual communities. And Richard Driscoll discusses the role of the banking industry — particularly in the context of CRA and fair lending guidelines — in furthering economic opportunity in traditionally underserved communities.

Market Opportunity

What all of these contributors emphasize — and the new CRA regulations echo — is that the greatest impact of community development lending can be realized by approaching the CRA as a market opportunity rather than as a regulatory requirement. Banks and community groups no longer can afford to regard each other's interests as divergent from their own. Indeed, the very idea of community means just the opposite, that through association all members of the community — banks and residents alike — establish links that ultimately make everyone stronger and more prosperous. CB

Banks and community groups no longer can afford to regard each other's interests as divergent from their own.

Communities & Banking welcomes Rebecca Carter as its new editor. She replaces Joel Werkema, who has new responsibilities at the Boston Fed after two years with Communities & Banking.

Community Reinvestment: Banking on the Future

Richard E. Driscoll, President, Massachusetts Bankers Association
Providence, Rhode Island, June 20, 1995

A lifetime resident of Boston, Richard E. Driscoll earned an undergraduate degree from Boston College and his MBA from Harvard Business School. Entering the banking industry following a stint in the U.S. Marine Corps, Mr. Driscoll held increasingly responsible positions, rising to senior and executive vice president, then to president and director, and finally to chairman and chief executive officer of the Bank of New England, N.A.

The Massachusetts Bankers Association, which currently represents 185 Massachusetts-based banking institutions, is unusual among bank trade groups in that it includes commercial, savings, co-operative, and other banking institutions, which in other states and regions remain separate from one another. Mr. Driscoll has led the industry in working with regulatory bodies, in addressing highly sensitive and challenging community investment issues, and in progressing on such industry goals as bank tax reform, equal obligations for competing financial entities, and expanded bank powers.

Banking on the Future

A few bankers still reject the concept of CRA, complying with it as minimally and grudgingly as possible. However, these individuals are few. I have attended many meetings related to CRA and its emerging twin, fair lending, and can say that CRA has now been accepted and incorporated into our professional lives. Moreover, a good number of bankers not only have accepted CRA but have endorsed it and have committed themselves to making it work. The great majority of bankers, whether warm or cool toward the Community Reinvestment Act, have one thing in common: They want to be able to integrate this law and regulation into their operations in an effective manner. Many bankers have recognized that they cannot go wrong if periodically they sit down and review the most fundamental aspects of what CRA requires, by: identifying the bank's market area; identifying the area's unmet bankable credit needs; responding to those credit needs; and finally, monitoring the bank's success in meeting those needs.

> Many bankers have recognized that they cannot go wrong if periodically they . . . review the most fundamental aspects of what CRA requires.

CRA's Origins

Some historical awareness of the Community Reinvestment Act and some guiding sense of what it can and should achieve form an important part of working with the law. Boston was one of the early battlegrounds that led to the CRA. The mother city, of course, was Chicago, but Boston's experience was early enough, representative enough, and influential enough to be included in the historical record. CRA arose out of a feeling among long-time residents of older urban neighborhoods that local government, various agencies and authorities, and traditional community institutions either were abusing urban neighborhoods through highway and airport building, urban renewal, and institutional expansion, or were deserting them, as chain stores, churches, and banks were accused of doing. Race was not the key factor in the dynamic that led to the original CRA. Instead, the key factor was the urban side of an increasingly sharp divide between urban and suburban America.

One example occurred in the semi-suburban Boston neighborhood of Hyde Park, where a home was rejected as collateral for a mortgage loan because it was an 1870s farm house on the edge of a new tract development. The appraisers judged the house to be "incompatible" with its suburban-style neighbors, even though it had been there for 90 years. Even more significantly, banks refused to lend on urban homes in Boston located along the route of a planned highway — a highway that in fact was never built. Residents of this area believed that by the action of government and the inaction of banks, an entire neighborhood was effectively destroyed.

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CRA and Fair Lending

Success with CRA in Boston hinged largely on close working relationships among bankers and community leaders. These associations fostered understanding among them and respect for each other's work. When studies revealing mortgage lending discrimination were released, most bankers were startled. The study of 1990 Home Mortgage Disclosure Act data by the Federal Reserve Bank of Boston revealed unequal rates of rejection of mortgage applications among races which, after taking into account all legitimate reasons for disparities in rejection rates, could only be explained by race. The banking community learned quickly that the situation was serious and that the best policy would be one of cooperation rather than confrontation. The established relationships among bankers and community leaders provided the foundation for a collaborative approach to the problem.

Any institution that does not incorporate CRA into the core of its operation will reduce its chances to make this type of lending profitable, to benefit from the positive public image CRA fosters, and to earn positive ratings from regulators.

In 1990 these cooperative efforts resulted in the Massachusetts Bankers Association's creating three corporations designed to address community needs. A series of public forums co-sponsored by the Massachusetts Bankers Association and the Federal Reserve Bank of Boston elicited community involvement in identifying community credit needs. One of these corporations was dedicated to providing funds for low-income housing development; a second focused on lending to minority-owned small businesses; a third emphasized opening more lines of communication and implementing product and service programs in the community.

Each of these corporations has community as well as bank representatives on its board, and each accepts as a basic operating principle that the community must be involved to achieve solid progress. A five-year report on the Massachusetts Bankers Community Investment Program will soon be released, and it will confirm our success in making measurable progress over the last several years. (See related article, page 11.) The report will illustrate one of the most important lessons from all of our CRA-related ventures and adventures: that CRA contains within it the germs of both confrontation and cooperation and, of the two, cooperation produces far more positive and lasting results.

Fair Lending

Over the past few years the issues surrounding CRA and fair lending have converged. A bank should not think of them as synonymous, but it would be foolish not to consider the two issues together. The Massachusetts Bankers Association has taken a proactive role in fair lending. Recognizing that cultural and systemic elements had resulted in unequal treatment, we broke the problem down into its major components: the shortage of minority lending personnel; inadequate financial knowledge among many low-income borrowers; the absence of a "second look" procedure in many lending institutions; and compensation arrangements that might, unconsciously, create a bias toward higher-income communities and borrowers.

Several important lessons emerged from addressing this very difficult issue: First, it is critical to identify practical, actionable steps that can be taken to broaden credit opportunities for those who have been left out; second, lenders must be encouraged to undertake remedial programs on a voluntary basis, since coercion is apt to create exactly the negative attitude that the CRA/fair lending effort is designed to overcome; and third, lending institutions must have in place a mechanism to measure progress in order to establish data that can counteract the perceived wisdom that has dominated the community investment debate over the past 20 years.

CRA for the Future

The overriding concern for most of us is not so much where we have been but where we are going. What will CRA mean to banks, to their trade associations, and to other affected financial services firms in the years ahead? I think we can lay out a CRA scenario that will be useful to senior management for long-range planning and to compliance officers in their daily work.

First, CRA is here to stay. While the law's exact shape may vary slightly during the coming years, its essentials are now a permanent part of the "rules of the game." Any institution that does not incorporate CRA into the core of its operation will reduce its chances to make this type of lending profitable, to benefit from the positive public image CRA fosters, and to earn positive ratings from regulators.

Second, while CRA and fair lending have distinct histories and are distinct in the law, they are now converging. A race/class/geography nexus is emerging that does not refute CRA but rather highlights certain aspects of it. Senior management must take into account this sometimes subtle shift. However, bankers must also be very careful not to substitute race for geography. To do so could open a bank up to regulatory criticism from other directions.

Third, while activists may sincerely believe that CRA needs are uniform across the spectrum of bank and community size, in reality CRA was, is, and will continue to be primarily an urban issue. It will also primarily concern larger banks. It is the large and, even more so, the large and consolidating institutions that must take CRA most seriously. These institutions have both conspicuous strengths and weaknesses in CRA compliance. Consider their strengths. Bigger institutions can make CRA a specialty. They can assign staff specifically to it. They can commit significant resources to it. They have a wide reach and can therefore affect many communities simultaneously with CRA programs. In the related area of fair lending, a large bank can establish a highly professional training program, where a small bank may find it difficult to train workers on the job. However, the consolidation of the industry will make it harder for senior management to establish and maintain the kind of person-to-person contact that has served us well in Boston's diverse communities.

Finally, CRA planning should contain an economic adjustment component. CRA does not exist in an economic vacuum. It may be relatively easy in some situations to provide lendable funds, while in others, it may be quite difficult. When government housing funds were flowing freely and the local economy was growing, for example, CRA seemed to become a minor compliance matter. When government housing funds diminished and the economy soured, suddenly CRA was back in the news. No one has tried seriously to set CRA in an evolving economic matrix — neither we as an industry, government officials, nor community activists. There should be a mechanism to assess economic and demographic factors — both on the planning side and on the compliance side — in order to forecast where potential problems and opportunities may lie. For example, although there has been a sharp focus on home ownership, in certain markets banks could probably serve their communities better by assisting in the development of new or renovated rental housing, particularly rental housing provided by small, entrepreneurial landlords. Such an evaluative tool would give us a means to explore these important questions.

> Urban communities, all communities, are like human tissue in the sense that they must have constant nourishment; credit is part of that nourishment. Bankers . . . have a critical role to play in sustaining these communities.

The Social Obligation of Banking

As someone who can claim "veteran status" in the CRA arena, I would like to address the issue of the banking community's social obligation. There are those who believe that banking is overregulated and simultaneously saddled with social responsibilities because we are so regulated. But we must recognize that there are unfairnesses in our society that can show up dramatically from one community to another. We must remember that a successful relationship with a bank is one of the crucial steps on the ladder to a middle class life, that we are on the frontier between those who are making it and those who are not. Even if the politicians and the press had been easier on us, I think reflective bankers would, of their own accord, have begun to wonder what they could do to close the gap, and whether new markets might develop in the process. CRA and fair lending have addressed the question of banks doing more simply by turning it into a mandate.

Urban communities, all communities, are like human tissue in the sense that they must have constant nourishment; credit is part of that nourishment. Bankers must not only accept but should in many ways be grateful that we have a critical role to play in sustaining these communities. Yes, banks sometimes feel unduly burdened and wonder why nonbank financial firms don't have to shoulder part of the responsibility. Even so, it is a great thing to be needed, and being needed also suggests that there are markets to be served. I believe the industry in Massachusetts has taken the right course: to be patient in the face of understandable frustration, to be firm in the face of coercion, but at the same time to recognize the reality of societal inequities and to work cooperatively to produce results that are meaningful to the community and sound from a business point of view, and that can expand market opportunities for the industry. CB

Partnerships for Progress: Banks and Community Development Corporations

Ronald L. Phillips, President, Coastal Enterprises, Inc.
Portsmouth, New Hampshire, November 8, 1994

After graduating from Boston University and Union Theological Seminary, Ronald L. Phillips worked with the National Council of Churches on domestic and international economic development. Mr. Phillips is now President and principal founder of Coastal Enterprises, Inc. He also devotes considerable energy to several state and local organizations.

Organized in 1977, Coastal Enterprises, Inc.'s (CEI) mission is to create social and economic opportunities for Maine people, businesses and communities. Under Mr. Phillips' leadership, the organization has evolved into one of the country's leading community development corporations, mobilizing over $100 million for financing of small businesses, technical assistance, social services, and housing; industries have included natural resources, small manufacturers, women in business, microenterprises, and child care services. CEI leverages traditional bank financing with its own grant- and loan-generated funds to achieve maximum economic impact. CEI has directly and indirectly benefited over 6,000 business and 20,000 Maine workers.

Partnerships for Progress

Community development banking, implemented through partnerships or more formal mechanisms, targets resources to communities and sectors in need, creates understanding, reduces risk, links the mainstream of our credit institutions to local interests, reduces transaction costs, and creates customers. Banking institutions represent the mainstream of the capital markets, while community development corporations and other locally based groups represent the cutting edge for the credit needs of communities, families, and emerging sectors. The community development movement is not marginal; it is integral and essential to the objective of developing strong communities, local economies, and opportunities. A relationship between proactive development and traditional banking comprises the concept of community development banking. Through it, an opportunity is provided to advance the relationship between banking and this type of local development. The examples outlined below suggest ways to accomplish these objectives; each represents a distinct model for addressing community needs.

> The community development movement is not marginal; it is integral and essential to the objective of developing strong communities, local economies, and opportunities.

Affordable Housing Bank Pooling: Lincoln County, headquarters of Coastal Enterprises, Inc. (CEI), has the worst affordable housing index in the state of Maine. With a population of 30,357, the county's median family income, according to the U.S. Department of Housing and Urban Development, is $33,500; the median home purchase price is over $100,000. Less than one-third of the population of the county can afford a house in this price range. Very little low-income rental housing is available, and there is even less opportunity for home ownership.

Through its partnerships with private developers and banks, CEI has begun to address these low-income housing needs. In concert with private developers or through its own affiliate, CEI develops affordable rental and homeowner housing. During the development process, CEI participates in bank meetings to review each project and provides input at nearly every juncture: analyzing the project's technical merits, its site plan, market prospects and financial structure, and monitoring its progress.

CEI's partnerships with banks go further. Bank representatives participate in our affordable housing coalition through which the needs of the community are continually assessed and addressed. The coalition's programs have included an affordable housing design competition and a first-time homebuyer's certification class. The competition's winning unit is now being built, and the homebuyer's certification now qualifies families for a reduction in the down payment on a Maine State Housing Authority mortgage.

Gap Financing Bank Pool: CEI's anchor finance product is gap financing, which provides a second opportunity for partnership with banks. We provide subordinated debt capital that plugs the finance gap in a deal to allow it to proceed. Capital may be used for almost any purpose. Gap financing programs consist of the Development, Enterprise, Venture, Housing, and SBA 504 Funds, with loans and investments ranging in size from those for the self-employed and microenterprises (less than $5,000) to fixed-asset financing under the SBA 504 program (up to $750,000).

Partnerships in finance policy development allow banking institutions and nonprofit organizations to identify underserved credit markets, understand sectoral development, and form long-term local, regional, and state development strategies.

Over 15 years, we have directed gap financing capital to help starting or expanding businesses. Enterprises benefiting from these programs have included Tom's of Maine Natural Personal Care Products in Kennebunk, and Delorme Mapping in Freeport; others are microenterprises and women's businesses such Dyna-Mac's, an Auburn redemption center owned by a former recipient of Aid to Families with Dependent Children, and Oyster Creek Farm in Damariscotta, a producer of shitaki mushrooms. Other ventures represent a tested strategy at CEI to target specific industry sectors, such as investment in The Fish Exchange on Maine's Portland Fish Pier, or environmental technology companies, such as Intelligent Controls in Saco.

Together with Key Bank, our largest partner with over $20 million in loans, we have jointly financed 60 business projects and have created over 1,000 jobs, 223 targeted for employment and training of low-income people. Island Aquaculture, a pen-culture salmon venture, is one such example. The community and fishermen came together to take over this venture. Working together with Key and other finance partners, they restructured the project to enhance its chances of success.

CEI has established similar partnerships with some 17 banks to finance small businesses; gap financing could not have occurred without these alliances. In some cases, bank representatives serve on an advisory committee related to a specific sector or population. In this way, the bank can educate itself about markets that have been underserved, are maturing, or are emerging.

Finance Policy Development: Partnerships in finance policy development allow banking institutions and nonprofit organizations to identify underserved credit markets, understand sectoral development, and form long-term local, regional, and state development strategies. More work is needed in this area, although a number of successful examples already exist. Banks, with help from publicly-oriented groups, have responded to an emerging market or have designed products and services that go beyond conventional bank lending. Fleet Bank, for example, developed a "job generator" program offering an interest rate reduction to businesses that created a job as a result of a Fleet loan. Key Bank developed a variety of lending and technical services for women business owners. Camden National Bank took a strong interest in child care lending, participating from the beginning in development of a Rockland Head Start and child care center. Bethel Savings has been particularly resourceful in its work with the secondary wood products industry in western Maine.

Finally, with much of New England's work force dependent on defense dollars, economic conversion is especially important. CEI has worked with banks in Maine — Key, Fleet, and others — to participate in an economic conversion loan pool. CEI designed an intervention strategy for job creation and economic diversification in defense-dependent regions. CEI and other community development corporations welcome partnerships with the banking community in this planning effort, in the belief that proactively planning for economic conversion is critical for banks as well as for community residents. This kind of participation in finance policy development is one of the more strategic ways banks can collaborate with community organizations to better grasp and serve the market.

CRA: Discovering New Markets

A lot has been accomplished through the CRA. Although the public policy and regulatory debate on CRA continues, we still need to remind ourselves of proactive ways to pursue partnerships, meet needs, and discover market opportunities. Banks and community organizations need to more deliberately integrate our respective plans, analyses, lending procedures, and projected roles in the credit markets. The time has come for banks to reach out to nonprofits to ask them to join them on their boards of directors, invite them into their strategic planning

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CRA Notes

More Information on the New CRA and Community Economic Development

Affordable Housing

Housing Guidebook for Massachusetts: A Comprehensive Guide to State and Federal Housing Programs and Resources. This guide provides information on affordable housing programs in Massachusetts, including current resources, needs, and policy issues. From the Citizens' Housing and Planning Association, Boston, MA. To order, call 617-742-0820. $30 for members, $45 for non-members.

Discover Gold through Homeownership Education is a two-part guide that was developed to help lenders reach more potential borrowers. It covers the keys to successful programs, core curriculum topics, and other general program considerations. There is also an inspection kit for lenders and housing counselors to distribute to consumers, giving them step-by-step guidance to conduct their own home inspection during their home search. To obtain a copy, contact Freddie Mac at 1-800-FREDDIE, select Option 2.

Community Development

Initiatives by Massachusetts Bankers and Neighborhood Leaders to Meet Community Credit Needs, 1990-1995: A Progress Report, issued by the Massachusetts Community and Banking Council. This study, a joint project of Boston bankers and community leaders, evaluates the progress of the banking community in assessing and addressing credit needs in Boston's low- and moderate-income neighborhoods. To receive a copy, call 617-556-6537.

Linked Deposit Banking Program: Report to the Mayor, August 1995. The City of Boston Linked Deposit Banking Program was created to allow the City to link the policy goals set by the administration with decisions on deposits and banking contracts. A bank's performance in meeting the City's policy goals is considered by the Collector-Treasurer as a factor in making investment decisions. This report evaluates the performance of participating banks in meeting the City's policy goals. To order a copy of the report, call Joe McGrail at 617-635-4138.

Fair Lending

Side by Side: A Guide to Fair Lending, published by the Federal Deposit Insurance Corporation. This manual provides alternative means an institution may use to discover uneven customer service or inconsistent lending practices that may be discriminatory, and describes tools for lenders to compare treatment of loan applicants, identify differences, and correct potential problems. To receive a copy, contact the Consumer Affairs Department, Federal Deposit Insurance Corporation, 1-800-934-3342.

Closing the Gap: A Guide to Equal Opportunity Lending, produced by the Federal Reserve Bank of Boston. The brochure outlines a comprehensive set of practices to ensure fair lending at financial institutions. To receive a copy, contact Sheryl Snowden, Federal Reserve Bank of Boston, Community Affairs Department, P.O. Box 2076, Boston, MA 02076, 617-973-3097.

Changing Patterns: Mortgage Lending in Boston, 1990-1993, issued for the Massachusetts Community and Banking Council by Jim Campen, University of Massachusetts/Boston. This study examines the ways in which mortgage lending patterns have changed in Boston since 1990, especially with respect to race and income. To receive a copy, call 617-556-6537.

New CRA Regulation

Community Reinvestment Act Regulations, Joint Final Rule, issued by the Office of the Comptroller of the Currency, U.S. Department of the Treasury; Board of Governors of the Federal Reserve System; Federal Deposit Insurance Corporation; Office of Thrift Supervision. Revisions provide guidance to financial institutions on the assessment of their CRA-related activities. Data collection requirements become effective January 1, 1996, and data reporting requirements become effective January 1, 1997. To receive a copy, contact Sheryl Snowden, Federal Reserve Bank of Boston, Community Affairs Department, P.O. Box 2076, Boston, MA 02106-2076; 617-973-3097.

Today's CRA: Realizing the Vision of Community Reinvestment

John Taylor, President and Chief Executive Officer, National Community Reinvestment Coalition
Burlington, Vermont, October 19, 1994

Trained as an attorney, John Taylor has received numerous awards and citations for his success in promoting affordable housing and community development and in fighting discrimination. Mr. Taylor has participated in several successful CRA challenges and has developed numerous working partnerships with local financial institutions. He now serves as President and Chief Executive Officer of the National Community Reinvestment Coalition.

The National Community Reinvestment Coalition is this country's largest CRA coalition, with over 400 national, regional, and local organizations involved in increasing access to credit for low-income and minority people.

Today's CRA

Dramatic and rapid changes are now occurring in the CRA arena. Lenders who do not today plan strategically to engage in community reinvestment lending will fall behind the curve, and quite possibly find themselves in conflict with the regulatory agencies. The days of thinking CRA was to be satisfied by displaying the CRA sign in the bank's lobby, maintaining a CRA file, and conducting occasional meetings with community leaders are over. The regulators know this; community-based organizations know this; the lending industry knows this. Most important, banks are recognizing that proactively complying with CRA is good for their own business.

In 1990, the Financial Institutions Reform, Recovery and Enforcement Act made public the CRA examinations process, lifting the veil of secrecy surrounding CRA examinations. The S&L bailout taught Congress and the bank regulatory agencies that depositor insurance was more than a hollow public guarantee. President Bush's Attorney General's office filed the first civil rights case based on unfair lending practices. Decatur Federal Savings and Loan paid a million dollars in damages and was required to take proactive steps to remedy discriminatory lending practices. Even more important, the case alerted the industry that lending discrimination would no longer be tolerated.

> The overarching change is that the new regulations have removed the ambiguous nature of the regulatory process.

Attorney General Janet Reno has already filed five cases and is investigating twenty other institutions. The latest filing, against Chevy Chase Savings Bank, signalled the depth of commitment this Justice Department has to ending lending discrimination. In the Chevy Chase case, the Justice Department did not accuse the bank of discrimination in its lending decisions, but rather charged it with discrimination in determining where it opened and closed branches. In this case, given the branching network of the bank, members of minority communities were discouraged from applying for loans.

These cases indicate that the CRA has entered a new era. In fact, in responding to lenders' laments that the CRA was too vague and a paperwork burden, and community group complaints that the law was toothless and not well enforced, President Clinton called for bank regulatory agencies to reform the process for grading bank CRA performance. The new regulations have now been issued; examinations under the revised regulations will begin in January 1997.

Performance Emphasis

The changes in CRA regulations reflect the original intent of the legislation — that banks make an affirmative commitment to the communities they serve by lending and investing in those communities. The overarching change is that the new regulations have removed the ambiguous nature of the regulatory process. Where once the CRA was essentially administrative (holding meetings, recording those meetings, marketing, outreach, and other process-related actions), the CRA now emphasizes performance. The evaluative system focuses on results: Are loans hitting the street, to whom and for what purposes? Is the lending being done fairly and equitably?

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process, and in a routine and regular way, meet with their lending staffs.

Community as Market

Community can be a place, a people, or an industry network that shares common concerns. Over the years in my work in community development, it has struck me that the true definition and meaning of community development is a process of empowerment. Training on CRA ought to deepen this understanding of community. Daley and Cobb, in their popular book on sustainable development, *For the Common Good,* devote considerable attention not just to quantitative measures to restore a balanced ecology and a sustainable economy, but also to consideration of how we exist in a community and its importance in the development and preservation of our social fabric. How we relate to a community is thought of too frequently in strictly quantitative terms — the number of jobs created or housing units built.

Community is generally not thought of as a place that can be fulfilling at many levels of our lives. The origins of our community development movement lie in the recognition of the need to preserve and restore community as the place of hope, fulfillment, and happiness. The strength of the movement rests on the premise that local, grassroots organizations know their respective communities, live in them, work with them, and that social change — whether in addressing education, drugs, housing, jobs, or the quality of life — is best fostered by building on the assets, gifts, and skills of a community. CB

Regulatory agencies will measure performance according to the size of the bank. Any bank larger than $250 million in assets will be evaluated under the assessment criteria for large banks; a bank smaller than $250 million in assets will be assessed under the criteria for small banks.

Large Bank Evaluation: A Three Tiered System

For large banks, regulators will measure lending, servicing (branching) and investment using a three-tiered system. The lending test will evaluate a bank's performance in helping to meet the credit needs of its service area through its lending activities, as measured by home mortgage originations and purchases, small business and small farm loans outstanding, and community development loans outstanding. Assessment factors similar to those for the lending test will apply to the service and investment tests. The regulators will assess bank lending as follows: 1) the geographic distribution of the bank's lending, including the proportion of total lending in the bank's service area, the dispersion of lending throughout the service area, and the number of loans to low-, moderate-, middle-, and upper-income areas of the bank's total service area; 2) the number and amount of home mortgage loans to low-, middle-, and upper-income persons; 3) the number and amount of loans to small farms and businesses with gross annual revenues of less than $1 million; and 4) the number and amount of small farm and small business loans according to the size of loans.

A Streamlined Small Bank Evaluation

Small bank CRA performance will be assessed using the following criteria: 1) the bank's loan-to-deposit ratio; 2) the percentage of loans located in the bank's service area; 3) the bank's record of lending to borrowers of different income levels and businesses and farms of different sizes; 4) the geographic distribution of the bank's loans given its service area; and 5) the bank's record of taking action in response to written complaints about its performance in meeting the credit needs of its service area.

Safety and Soundness

To a neophyte CRA lender, these requirements could seem daunting. It is true that banks will need to be more mindful of how loan officers treat different people. Banks should consider carefully how marketing dollars are spent, in what markets, and whom they are designed to attract. What none of this means, however, is that banks need to make unsafe or unsound lending decisions. In fact, banks can and should make a profit on CRA lending. Community development organizations have a wealth of information and expertise in profitably structuring CRA lending, and can supply numerous successful examples of such programs. Moreover, secondary markets are loosening underwriting criteria to allow more opportunities to sell many of these CRA loans.

Like the lending industry, the community reinvestment movement has matured in the past several years. Community organizations no longer look for bank targets, but for lending partners. Community groups have moved from viewing lenders as part of the problem to viewing them as part of the solution to economic challenges. Increasingly, they regard banks as the ultimate purveyors of the American Dream. Without bank presence and commitment, individuals would never be able to own a home, start a business, or operate a farm. Today's CRA movement is about partnerships, with lenders and communities sharing the role of leadership and bringing great promise to many traditionally underserved people.

Massachusetts Bankers and Community Leaders Report on Progress in Community Reinvestment

Rebecca Carter, Federal Reserve Bank of Boston

A community meeting held on August 9, 1995, at Morgan Memorial Goodwill Industries in Boston was the forum for the release of two reports that examine the results of the Massachusetts Bankers Association Community Investment Program. The reports are entitled *A Progress Report: Initiatives by Massachusetts Bankers and Neighborhood Leaders to Meet Community Credit Needs, 1990-1995* and *Changing Patterns: Mortgage Lending in Boston, 1990-1993*. The program was initiated in January 1990 in response to a Federal Reserve Bank of Boston report on mortgage lending patterns which revealed a significantly higher mortgage loan denial rate in Boston's black neighborhoods than in its white neighborhoods. The Community Investment Coalition, a union of community groups, demanded changes in banks' lending policies.

Though relations initially were contentious, the Massachusetts Bankers Association and the Community Investment Coalition ultimately were able to identify common goals and establish the Massachusetts Bankers Association Community Investment Program. Through this program, commitments totaling nearly $400 million were made for development of affordable housing, mortgages, banking services, and economic development. The commitments were less than the $1 billion originally sought by community groups, but nevertheless, together with additional sums that some banks have contributed to the program, have resulted in a significant investment. (See table at right.)

Richard F. Pollard, Chairman (left), and Willie Jones, Vice President (right) Massachusetts Community and Banking Council (MCBC)

The Community Investment Program created three corporations: the Massachusetts Community and Banking Council (MCBC), the Massachusetts Housing Investment Corporation (MHIC), and the Massachusetts Minority Enterprise Investment Corporation (MEIC). All include both community and bank representatives on their boards.

MCBC and MHIC have been particularly successful, exceeding their 1990 funding commitments for affordable housing, mortgage programs, and banking services. MEIC has been less successful, investing only about one fourth of the funds committed to it in 1990. MEIC's slow start-up is cited as a factor in

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Results of the Massachusetts Bankers Association Community Investment Program.
(all figures in millions of dollars)

	Committed June 1990	Implemented May 1995
Measurable Mortgage Programs (banks)	35.0	101.9
Other Individual Mortgage Commitments (banks)	211.7	244.0
Affordable Housing Development (MHIC)	109.5	147.7
Economic Development (MEIC)	19.8	4.8
Investments in Branches and ATMs (banks)	10.4	15.2
Totals	386.4	519.0

the corporation's investment shortfall, as is the development in the early 1990s of a more favorable credit environment in which the overall availability of funding for low- and moderate-income entrepreneurs increased considerably. Moreover, says Willie Jones, Director of The Community Builders and Vice Chairman of MCBC, the shortfall in performance of MEIC revealed a structural problem in providing commercial loans in minority communities: These entrepreneurs often cannot qualify for the loans based on traditional underwriting criteria. It became apparent to MEIC that the first need of many of these small businesses was for equity, not credit. MEIC responded by developing its Micro-Equity Program. This program offers "patient capital," which minority entrepreneurs can use to augment bank financing.

All three corporations continually reassess and adjust their programs, according to Kathleen Tullberg, Senior Vice President for Community Reinvestment at Shawmut Bank and a member of the Board of Directors of MCBC. For example, MHIC, which exceeded its goals, reevaluates its program on an ongoing basis to ensure it serves its core purpose of providing a bridge between community needs and banking services. The Corporation's original plan called for the establishment of loan and equity pools. However, with reductions in affordable housing rent subsidies, MHIC restructured its program to emphasize equity assistance, which in turn reduced loan burdens, making affordable housing development feasible.

In the coming years the three corporations plan to direct their attention to addressing other emerging needs of low- and moderate-income communities. The *Initiatives* report outlines several areas for future action. First, with the changing federal funding environment, groups like MHIC will need to revise their programs to continue to fund development of affordable rental housing. Second, to reduce the need for foreclosure, MHIC will develop a foreclosure prevention program that includes post-purchase follow-up and an early warning system. Third, MEIC will emphasize lending and technical assistance to help educate current and potential entrepreneurs about the opportunities and responsibilities of small business ownership. According to Mr. Jones, however, fostering small business development in low-income and minority communities is an aspect of economic development that has yet to mature. MEIC — along with much of the economic development community — is in the process of exploring alternatives to determine how best to reach and assist these entrepreneurs. Finally, as Ms. Tullberg states, MCBC recognizes that its effectiveness rests on its ability to understand and address the economic needs of low- and moderate-income communities in the Greater Boston area. To accomplish these objectives, MCBC will monitor the area's changing demographics and will continually assess the effectiveness of its programs in meeting the credit needs of these communities.

Copies of both reports may be obtained by calling 617-556-6537.

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