What is the Community Reinvestment Act?

The Community Reinvestment Act (CRA) was passed in 1979 after years of organizing against redlining and other discriminatory banking practices.

The law is designed to give community groups a handle by which to hold banks accountable for lending in low-income communities and communities of color. Since 1979, according to the National Training and Information Center in Chicago, community-based organizations have gained over $8 billion in reinvestment from banks as a result of the law.

Community groups can demand that banks live up to the standards of the law, but to effectively challenge a bank's compliance with the law communities have to wait until the bank applies for some kind of change in legal status (outlined below).

$750 Million in Loans

According to the business press, successful challenges to the law that result in an application being denied are rare, but banks will often simply choose not to apply when they realize they are not in compliance with the law, rather than go through a lengthy and embarrassing CRA review. Community organizations can use this as a way to pressure banks to increase their lending.

For example, on November 21 the *New York Times* reported that the Association of Community Organizations for Reform Now (ACORN) in New York had extracted a promise from Chemical Bank and Manufacturers Hanover to dramatically increase lending in low-income neighborhoods in the city. The banks promised to provide $750 million in new loans for home mortgages for low and moderate-income families, and also for small business and multi-family housing.

The banks also agreed to lift restrictive requirements for home loans, to waive the $250 application fee and to hold the loans themselves instead of selling them to investors, who often demand tougher credit standards.

In return, ACORN promised not to file a CRA challenge to the two banks' proposed merger. That a small community group can force one of the biggest banks in the U.S. to negotiate shows the potential power of the CRA.

What Must Lenders Do?

There are four very specific things that the lenders must do to abide by the law. They must:

1. Develop a map showing exactly how they define their entire lending area. In developing this map, they cannot exclude any low- and moderate-income neighborhoods. This map must be available to the public;

2. Make a public Community Reinvestment Act Statement that lists the kinds of credit [loans] available;

3. Make public and post an official CRA "public notice;" and

4. Keep a CRA "public file." Any letters or comments received from the public on CRA and/or redlining issues are to be kept in this file and made available to the public upon request. The file must be kept at the head office of each lender and at least one designated office in each community where the lender does business.

Applications and Challenges

The Act requires each regulatory agency to review the CRA compliance of each institution each time the lending institution files an application for a change that is covered by the Act.

These applications include:

1. New charters for national banks, federal savings banks or savings and loan associations.

2. Deposit insurance from the FDIC for a commercial bank, savings and loan association or savings bank.

3. Domestic branches or other facilities with the ability to accept deposits (including electronic facilities).

4. Relocations of a home office or branch office (no application is required to close a branch — though the pattern of closings is to be taken into account when regulators perform a CRA examination).

5. Mergers or consolidations by national banks, savings banks and savings and loans which need agency approval.

6. Acquisitions by multi-bank and one-bank holding companies and savings and loan service corporations.

When a lender files for an application, the applicant must publish a public notice of the filing. Any individual or organization can file comments on an application during a prescribed comment period. Comments that ask the regulatory agency to deny or condition the approval of the application are termed "challenges." In addition, any individual or organization can request a public hearing by the regulatory agency on the issues raised in a challenge. Each agency has different requirements for final comments and requesting a hearing.

The regulatory agency is not required to grant the request for the hearing, but it does have to consider all the issues raised in any comments and challenges. Regulators can extend the period for comments. They can hold informal meetings rather than hearings to obtain more information or to clarify issues or matters of contention. The regulatory agencies note in their CRA policy statement that the main purpose of a hearing is to provide information that was not, or could not be, provided in the comments and responses from the lender.

Exerpted from the Community Reinvestment Act Handbook, *available for $5.00 from the National Training and Information Center, 810 N. Milwaukee Ave., Chicago, IL 60622.*

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Act (CRA — see sidebar on facing page). It was also the first time that a Native American community had appealed to the Fed on the basis of that law.

"The combined deposits of these two banks is $792.3 million," said Native Action director Gail Small. "That a small non-profit Indian organization effectively stopped this merger on CRA grounds has the banking industry reeling."

Native Action filed the formal protest with the Fed after negotiations with First Interstate failed to produce any commitment on the part of the bank to increase its lending on the reservation. Tom Scott, the president of the bank, said in a news release that "we think we've done a good job in lending on the reservation, and we are committed to continuing to do our best to address the credit needs of the reservation residents." The Fed noted in its decision, however, that First Interstate had twice received unsatisfactory evaluations for meeting its CRA obligations from the Federal Insurance Deposit Corporation (FDIC), and that actions to improve its polices were only taken after the CRA protest was filed.

Isolated & Remote

Like many Native American reservations, the Northern Cheyenne Reservation in Montana is isolated and remote. Over 50% percent of the 6,000 residents are unemployed, and most people earn $12,000 a year or less. Ironically, the reservation (like many Native lands) sits on vast mineral wealth, and its 440,000 acres could be turned into productive agricultural and ranching land.

But one of the key ingredients necessary to develop that potential is missing. A healthy local economy needs credit — loans for businesses and homes — in order to grow. Economists call credit the "oil that lubricates the economic machine." Without it, businesses cannot get started or expand, which means jobs are scarce, homes do not get built or are built by outsiders and rented to local residents, and the whole economy grinds to a halt.

Northern Cheyenne, like most reservations, does not have a bank or credit union of its own. It relies on a local bank — the First Interstate BancSystem of Montana in nearby Colstrip — to provide credit and other banking services. But when the question of the merger came up, explained Gail Small in an interview, there was a strong response by community members because "everyone on the reservation knows that the bank had not been making loans to us. There was a feeling that we were being shut out, that the bank people just did not want us to get ahead."

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> ***After a while, we began to realize that we were never going to get anything from the bank by just asking, that the only thing they were going to understand was a formal protest.***

"When we called our first meeting, it was 50 degrees below zero," Small recalls. "We didn't think anyone would come, especially because people live so dispersed, but 60 people showed up from all over the reservation, and 80% of them volunteered to be on a committee to do something about this."

"The bottom line," according to Small, "was that we wanted an agreement with real substance in it and a definite lending target." Native Action noted the successes of Montana People's Action (MPA), a mostly white low-income group that had pressured First Interstate and other banks to agree to a $50 million lending goal, and wanted to negotiate a similar agreement. Organizers figured that they should be able to duplicate that victory, especially if they could get help from local allies with whom they had worked on fights over coal strip-mining. As the Northern Cheyenne activists soon discovered, however, neither the allies or the loans were going to be forthcoming.

Looking for Allies

Before deciding to file the formal CRA protest to the Federal Reserve Bank, Native Action first tried to get First Interstate to commit to increasing its lending on the reservation. "At first we thought we could just call up some of our allies, the progressive ranchers in the area," said Small. "We figured maybe we could work something out, especially since Wally McRea (a progressive rancher and well-known local poet) is president of the local branch of the bank. We wrote him letters, and we realized pretty soon that we were not going to be able to work anything out."

Native Action organizers decided that they were going to try to get the bank to commit to a certain "target" for lending to the reservation. They believed that if they received only a vague commitment to "do better," that there would be no way to hold the bank accountable for its actions, and no way to really make sure that the bank officials were not continuing to "redline" the reservation. (Redlining is when a lending institution draws a figurative red line around an area, and refuses to make loans to that community based on the race or income of the residents.)

Money & Water

At the same time that Native Action was pressuring First Interstate to improve its lending on the reservation, the Tribal Council was locked in a battle with local ranchers over rights to the water flowing through reservation land (the reservation is upstream from many of the big ranches in that part of Montana). Many reservation members think the real reason the banks were so unwilling to lend to the reservation is that the ranchers who sit on local bank boards of directors were not interested in seeing the Northern Cheyenne Reservation develop.

In fact, Native Action members believe the ranchers see development on the reservation as a direct threat to their own livelihoods, since it would increase competition for water and markets.

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