

**Assessing Boston's Progress in Community Reinvestment:
Statistics that Tell a Story**

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Thank you, David, for your kind introduction.

As President of the Federal Reserve Bank of Boston, I am especially pleased to acknowledge MHIC's accomplishments and challenges that lie ahead. The Bank has always been committed to the belief that equity in the availability of credit not only is good for the community, it is also good for business. We also believe that the health of the banking industry is linked to the economic prosperity of our neighborhoods.

The success of the Massachusetts Housing Investment Corporation (MHIC) shows just how right we've been. What your accomplishments have meant is that an increasing proportion of Massachusetts' creditworthy residents -- whether they are black or white, of modest or middle income -- are now able to enjoy the economic advantages that access to credit can provide. Your accomplishments mean more decent affordable housing for people of modest incomes. What they also mean is that Massachusetts bankers are laying the groundwork for their own future prosperity.

The same phenomenon is occurring around the country. Although there has not been a lot of press coverage on a national level, several reports have been released that contain national statistics about increased credit availability for lower-income individuals. The numbers are encouraging, and they tell us that what seems to be occurring around the country is the democratization of credit. It is a trend that began with an increased availability of credit cards, and that has now expanded to include home loans. This is not just a one-year event, either; it is part of trend that has been occurring over the past several years.

All around the country, more and more creditworthy low- and moderate-income individuals are applying for and receiving home loans. The numbers reflect this phenomenon: Nationally in 1990, only 14 percent of conventional home purchase mortgages went to individuals earning less than 80 percent of the area's median income. In 1994, this proportion rose to 24 percent. The same trend is occurring among minority residents -- Conventional home purchase loans granted to blacks rose 54.7 percent between 1993 and 1994. The comparable rate for Hispanics was 42 percent. And this increase followed successive increases that occurred in each of the two prior years. Among both blacks and Hispanics, the rates of increase were significantly more than for the population as a whole. I'm sure that everyone here understands well what these numbers mean in the lives of the people receiving financing -- that the benefits of home ownership are now attainable for increasing numbers of creditworthy individuals of modest means. And along with home ownership comes increased stability in our communities.

Across the country we are also learning that partnerships between banks and neighborhood organizations are some of the most effective ways to accomplish local development. In disadvantaged neighborhoods, there is a need for a broader effort that involves all parts of the community, and that casts a wider net than just one institution or sector otherwise could. Individual financial institutions often have little incentive to enter such low-income markets because the value of a single investment is adversely affected by the absence of investment by others. This is why locally-based partnerships between multiple financial institutions, nonprofit organizations, and local governments have been so successful.

In Boston, the statistics reflect what has occurred in the credit arena since 1989, when the Federal Reserve released the first of two reports on credit availability. Both studies revealed a disparity in meeting the credit needs among various populations of

Boston. The numbers told bankers what they may not have previously realized -- that as an unintended result of bank practices, many creditworthy low-income and minority residents lacked access to conventional financing. And the numbers also told bankers that they were missing out on important business opportunities. The challenges were clear: Banks needed to devise methods for reaching out to all members of their communities, and once these new customers were in the door, needed to treat them fairly and equitably. The incentive was also clear: that these communities represented potentially profitable business for the banking industry.

Numbers can tell us about our successes and shortcomings; they can even suggest which direction we should proceed. But they can't devise solutions for us. In Boston, these numbers enlightened many bankers about the challenges they faced, but they could not tell them how to overcome them.

Innovative solutions always require the ingenuity and commitment of individuals. And in the case of the challenges facing Massachusetts bankers, more than just individual commitment was required; new relationships had to be forged in order to formulate answers to difficult problems. Bankers and community organizers approached the issue from different perspectives, but they all had the same goal -- a strong and stable economic base that would ultimately yield opportunity for individuals as well as for the banking industry. Everyone soon recognized the need to work together to establish a framework that would link financial institutions with low-income and minority communities.

Serving new populations required adjustments to bank practices. Bankers had to devise new ways to do business that required practical changes to their approach: They examined their branching patterns and their hiring and training practices. They developed innovative product offerings that took advantage of

programs such as the Low Income Housing Tax Credit program. They developed and instituted more flexible underwriting criteria and second review processes. And what each of these initiatives reflects, and indeed requires, is an attitudinal change. Rather than regard low-income communities or communities of color as problems or obligations, they began to think of them as attractive market prospects.

The economic challenges in these communities are admittedly difficult and complex to solve -- they are bigger than any single institution. They are problems that require the joint efforts of many organizations. MHIC in particular illustrates how so much more can be accomplished when multiple organizations band together in pursuit of the same goal. With its pooled resources, MHIC has worked closely with community organizations and for-profit developers to bring affordable housing to many low-income neighborhoods.

The numbers bear out the progress that has resulted from everyone's diligence. Mortgage lending patterns throughout the city reflect the changes in the way banks approach lending in moderate-income and minority communities. As Professor Campen of U Mass. Boston has noted in his recent report for the Massachusetts Community and Banking Council (MCBC), the share of loans to low-income borrowers grew from 4.3% in 1990 to 10.3% in 1993. Lending to minority residents has also improved - black applicants in Boston now receive close to their proportional share of home purchase loans. And at a time when national loan denial rates for minorities have increased, Boston's figures are significantly lower. I believe this performance is a testament to the affirmative efforts that many of the city's banks have made to address credit needs in these communities.

The numbers also bear out the progress that has been made in affordable housing development. MHIC is perhaps the best example of what can be accomplished when banks and community

organizations work in concert toward a common goal. The need for affordable housing has received considerable attention in Massachusetts, particularly in the wake of the rash of condominium conversions. Putting together affordable housing projects is notoriously complex, and often is too risky for a single bank to undertake on its own. It also requires knowledge that many banks have not had -- knowledge of the maze of tax credits and the intricacies of affordable housing financing. This is why establishment of an institution such as MHIC has been so fruitful: It has allowed banks to both pool and target their resources in such a way that makes best use of them. It also has provided community organizations with an institutional framework and the resources to accomplish their goals.

As a result, lower-income residents have improved access to decent affordable housing. And banks have access to markets they never before recognized could be profitable.

The Federal Reserve's own study not only initiated the dialogue about what was occurring in Boston's communities, but also told us that we were not completely fulfilling our own responsibilities. The Federal Reserve always seeks to understand and report trends in credit markets. But we also have a duty to ensure those trends are moving in directions contemplated by laws and regulations. The numbers told us that we, too, needed to do better -- better at bringing the community together, better at supporting bankers in meeting unaddressed credit needs, better at informing bankers about their responsibilities under the Community Reinvestment Act, and better at educating bankers about how they could ensure equitable treatment of all potential borrowers.

The Federal Reserve learned that it, too, needed to make changes to better support the banking community in improving those numbers. Following the release of the Federal Reserve's first report in August of 1989, we participated with the Mass. Bankers Association in initiating a number of public forums and

task forces to help identify community needs. The Community Investment Program was a direct result of these efforts. The Federal Reserve also examined ways in which it could expand education and training programs to bank loan officers by offering a course in Community Development Finance. We published *Closing the Gap*, a guide to fair lending policies; we developed a CRA seminar for bank board members. And we helped to establish the New England Council of Consumer Examiners to better address issues in fair lending and CRA compliance. All of these programs have been undertaken ultimately to help support improved results like those we are acknowledging today.

It is perhaps apt that we are discussing results in community development -- actual lending and investment activity -- just as the new CRA regulation is going into effect. This regulation will examine for exactly the kinds of results that this organization has produced. By focusing on performance in lending, investment, and service activities, the new regulation reflects the law's original intent -- that banks take affirmative steps to meet the credit needs of their entire communities.

And the Federal Reserve will continue to support the banking community in realizing the goal of CRA. Over the next several months the Boston Fed will conduct a series of separate seminars for bank CRA officers and for community organizations. The goal of the seminars -- for bankers and community organizations alike -- is to provide guidance about how best to work within the regulation's framework. We are also co-sponsoring a program directed toward philanthropy that addresses how the funding community can best work with other sectors to maximize the impact of their funding programs. The Federal Reserve is also considering other new initiatives that would bring together all those working in the various aspects of community development to examine new ways to foster economic growth. For example, we will bring together developers, retailers and local communities to pursue commercial development.

The future is what I'd like to focus on now. This organization has built a durable foundation from which to launch further efforts. I believe that MHIC's last five years of experience has taught everyone about how to develop successful affordable housing programs. Joe Flatley will talk to you about MHIC's plans for future initiatives next, and I'm sure that those plans reflect the mastery that experience teaches. But first, let me mention several issues that I see in banking, particularly as they relate to community reinvestment efforts.

First, I am encouraged by bankers' commitment to addressing the credit needs of modest-income communities. Many banks have now incorporated this goal into their organizational missions. For them, fulfilling the vision of the Community Reinvestment Act is no longer just a regulatory requirement, it is a business opportunity.

Second, bankers and community residents alike must also remember that all neighborhoods -- whether they are low-, middle-, or upper-income -- represent potential market opportunities. But with the market's opportunity comes its discipline. Lending in moderate-income communities must hold up when subject to the bright light of scrutiny as to their safety, soundness, and profitability. Although financial institutions may approach lower-income communities somewhat differently than they do middle-income communities, they must do so with the expectation of making money. This goes back to what I said earlier about the health of financial institutions being necessarily tied to the health of the communities they serve. For the community ultimately to prosper, banks must earn a fair return for their services. If lending is not profitable in these communities, then at some time down the road they will no longer be able to serve them. Bankers must not, in their zeal to provide credit in these communities and to fulfill their obligations under the Community Reinvestment Act, sacrifice safety, soundness or profitability. Bankers and community organizers alike must not be short-sighted in efforts to

rebuild Boston's communities. Both parties have a common responsibility to pursue community development that is sustainable -- for banks and for neighborhoods alike.

Third, the banking industry itself is undergoing a monumental shift. Not only is the industry consolidating, it also has technological tools that are increasing its reach. Everything from ATMs to on-line banking are changing the nature of the delivery of the industry's services.

I certainly cannot predict how banking services will be delivered in twenty or even ten years, but I am quite sure that every one of us will use technology more, and that traditional bank branching will become increasingly scarce. What this means for bankers and communities alike is that banks will serve all of their markets -- low-income as well as upper-income residents -- in new ways. Advancing technology will mean that banks will be able to reach all populations more quickly and in more ways than ever before. But with changes in technology must come changes in long-standing habits. It is up to the banking industry to work with community organizations to ensure that these changes mean that residents of lower-income neighborhoods have continued -- and even improved -- access to their services.

Finally, the recent and continuing consolidation in the banking industry foreshadows significant changes in the delivery of financial services. Larger institutions will have substantial resources to develop effective community reinvestment programs - - through staffing, training, and branching. At the same time, however, these institutions must be careful to keep their ears to the ground in the community. Senior management of regional and super-regional banks must recommit themselves to understanding the diverse credit needs of all of the communities they serve. And they must not allow their increased size to breed homogeneity in their approach to different markets. Bankers, like any other marketers of consumer services, regardless of size must

continually strive to understand and address local customer needs.

In sum, this group has proven that when banks commit themselves to understanding and addressing the credit needs of all of a community's residents, good results can follow. These results are borne out in the fact that we're all sitting in this room, acknowledging your accomplishments. It is borne out in the statistics and in the reports. And most important, it is borne out in the real economic impact these efforts are having on individual lives and in Boston's communities. Through the years, the Boston Fed has maintained that the banking industry should not be called upon to subsidize low-income borrowers. Rather, we have urged lenders to pursue profitable lending opportunities in minority and low-income neighborhoods by breaking down obstacles that may have hindered their ability to identify and serve those profitable opportunities. The numbers are encouraging -- they are telling us that community reinvestment is indeed good business, and that with the right combination of ingenuity, business sense and patience, it can sustain itself.

Thank you.