SECTION 9

THE EFFECT OF CRA ON COMMUNITY ORGANIZATIONS

As noted throughout the report, non-profit groups have played a central role in this history of CRA. The movement that culminated with the passage of HMDA in 1975 and CRA in 1977 began in the 1960s with community advocacy against 'redlining,' or the systematic denial of mortgage credit to neighborhoods and groups in less prosperous sections of U.S. metropolitan areas. Anti-redlining activism gave rise to a number of politically powerful and savvy grassroots advocacy organizations that succeeded in attracting the attention of decision-makers in places like Chicago, where legislation similar in spirit to CRA was passed as early as 1975.

Critical to the success of these early efforts, and eventually to the passage of CRA itself, was the leverage community groups obtained through their ability to identify local targets for their campaigns. Since local thrifts and banks dominated mortgage lending at the time, community-based organizations targeted these institutions in their fight to expand credit access in lower-income communities. Though this local focus endured through the first decade after CRA's passage, and into the 1988-1993 period referred to by some advocates as the "Golden Age of CRA," recent changes in the mortgage industry have effectively shifted the ground under advocates' feet. As the mortgage industry has increasingly adopted automated systems and consolidated into national networks, the relationship between community advocacy organizations and mortgage lenders has evolved as well.

This section briefly describes the history of CRA and community advocacy, and discusses how community organizations and the nature of their advocacy is changing in face of the dramatic changes in the structure of the mortgage industry and the growing sophistication of mortgage products. As the regulatory reach of CRA declines in an era of major national lending companies and independent mortgage lenders, there are fewer opportunities for individual community organizations to mount CRA challenges, just as it is increasingly difficult for community organizations to assess the market implications of the growing array of new loan products. These shifts also may threaten the fundraising capacity of smaller, locally-based community groups, as larger banking organizations look to partner with a smaller number of larger and more sophisticated non-profit organizations.

Recognizing these challenges, this section describes how advocates are forging new, and broader, coalitions that have the capacity to prompt regulatory change at the state or local level. Other community leaders are seeking to expand advocacy beyond mortgage lending, and focus instead on issues relating to access to financial services. In any event, community organizations are adapting, as they must, and learning how to advocate effectively for the lower-income people and communities they represent.

CONFRONTATION: THE RISE OF COMMUNITY ADVOCACY

The ability of community groups to pressure banks emerged as a powerful factor contributing to the growth of lending in lower-income and/or minority communities. In 1977, led by Gale Cincotta and the Chicago-based National Training and Information Center, community activists helped win passage of the Community Reinvestment Act. This legislation established for the first time formal lending criteria for banks taking deposits in specific neighborhoods (Bradford and Cincotta, 1992). This was followed in 1989 with legislation that enhanced CRA regulation and

provided community groups with direct access to loan-level Home Mortgage Disclosure Act (HMDA) data on mortgage lending, including borrower and neighborhood characteristics.

What emerged from the combination of community-based activism and legislative efforts was a period in the late 1980s and early 1990s dubbed by one community group leader in Chicago as the "Golden Age of CRA activism" – a period when community-based organizations put significant pressure on banks to expand the reach of their lending and banking activities. Dubbed "regulation from below," community groups armed with HMDA data could pressure lenders into increasing the number of loans made to minority and/or lower-income borrowers (Fishbein, 1992).

The relationship that evolved between community groups and banks involved both 'collaboration' and 'confrontation' (Schwartz, 1998, 1999). Negotiations between community groups and local banks focused on mortgage or small business lending, provision of banking services in particular lower-income areas, or the weak record of particular institutions in servicing minority communities. To the extent that lower-income and/or minority borrowers presented unique banking challenges, banks and local community groups working together could create products better tailored to community needs and expand access to credit in many underserved markets.

Arrangements between community groups and lenders were often codified into formal commitments or 'CRA agreements,' where banks pledged to meet specific lending or service delivery targets. Some agreements specified monitoring arrangements allowing community groups to review and publicly critique bank performance. In addition, many banks, including some of the nation's largest, announced voluntary community reinvestment commitments, often designed to pre-empt opposition to a proposed or recently completed merger. To further enforce these agreements - both negotiated and voluntary - community activists could always turn to the 'regulators from above,' namely federal bank regulators. Regulators are careful to state that they have no role in enforcing agreements between banks and community groups. Even so, these disputes over CRA agreements often come to the attention of regulators when a community group challenges a bank's CRA rating, or a bank's decision to merge, open new branches or engage in new lines of business.

If the bank failed to engage in constructive dialogue, or failed to honor an existing agreement, these relationships often turned confrontational, as community groups protested or otherwise attempted to draw public attention and gain support for their cause by disrupting the operations of bankers and regulators alike. While community groups claimed to focus on banks with poor lending records, even banks with solid records of lending to lower-income and/or minority communities nevertheless were concerned that they would be the target of a community demonstration. Regulators were not immune from confrontational tactics, as community groups angrily testified at public hearings or otherwise charged that regulators were derelict in their duty to hold lenders accountable to CRA obligations.

As might be expected, many lenders reacted negatively to what they argued was "CRA-led extortion." Lenders expressed concern that under the CRA-banner, community groups were pressuring banks to make "bad loans" to people that had limited capacity to repay.[1] Others pointed to community protests relating to proposed mergers. Here, protests could prove costly as well. Even if a request to merge was eventually approved, as most in due course were, these community protests could delay the merger and force banks to make a substantial investment of

[1] For a fuller discussion of this point of view see Husock (2000).

senior management time to shepherd an application through the regulatory process (Johnson and Sarkar, 1996).

Faced with potentially costly delays and damage to their reputation if they resisted addressing community concerns, many bankers reluctantly entered into negotiations with community groups. "I understand the frustration of many community advocates," lamented one large lender interviewed for this study. "But it is not the responsibility of banks to address the poverty and deterioration of urban neighborhoods. Sure I want to help, but it is not my money that I am lending here. My first responsibility has to be my investors and depositors. If I neglect that responsibility, I won't have any money to lend – to low-income people or to anyone. At the same time, I can't run a business with protestors camped out in my offices. I couldn't ignore them either."

COLLABORATION: HELPING LENDERS FIND NEW MARKET OPPORTUNITIES

To meet their CRA obligations, many lenders aggressively expanded outreach to lower-income neighborhoods, and to minority borrowers. Forced to take a closer look, banks found that in some instances these markets held potential borrowers that could be served through existing loan products. Of course, many CRA-eligible customers presented additional lending risks such as flawed credit, low incomes, and limited capacity to make a downpayment. In combination, these characteristics made it difficult for banks to serve residents of target areas with existing products and services. In these instances, banks needed to improve their information about potential new customers in order to design new products and services.

As banks expanded their lower-income outreach, marketing and product development, they also improved their relationships with community organizations. One focus group participant claimed that CRA helped "refine bank relations" with community groups. "Community groups have taught bankers a whole new way of business," another focus group participant observed. Of course this was not always the case, but many lenders discovered that there are many profitable loans to be made in previously underserved neighborhoods. As a result, working in partnership with local community groups not only generated public relations advantages for being a good corporate citizen, it could also be done without harming the bottom line.

A recent report by the Federal Reserve Board lent support to the observation that CRA pushed lenders to expand into what ultimately turned out to be profitable markets. The Board surveyed over 100 large banking organizations concerning the profitability of their CRA-related lending (Federal Reserve Board, 2000). Banks reported that CRA home purchase and refinance lending was profitable or marginally profitable 82 percent of the time. Similarly, the vast majority of banks noted that other CRA-related business lines (small business lending, home improvement lending, and community development lending) were also either profitable or marginally profitable. While conceding that CRA-related lending was not always the most profitable activity a bank could undertake, the Federal Reserve Board study largely confirmed community activists' contention that "CRA-related lending can lead to new, profitable business opportunities for banking institutions."

Through the CRA process, many community groups also established a productive relationship with banking regulators. Focus group participants noted several examples of how community groups have worked with banking regulators to help them better understand CRA opportunities and to enhance the effectiveness of regulatory oversight. Regulators from San Francisco, for example, said that community groups now approach them on a regular basis, seeking input into

the regulation process. Community advocates in Atlanta reported that regulators often contacted them to learn more about best practices in community lending.

WORKING TOGETHER: HOMEBUYING COUNSELLING AND EDUCATION

Local groups work with lenders in many ways. One common approach is for community groups and banks to join forces to promote homebuyer education and counseling. Homeownership counseling, along with related efforts to promote financial literacy, are particularly important for lower-income and minority homeseekers, groups that in the past lenders have had difficulty serving. Over time the efforts of counseling networks operated by the Neighborhood Reinvestment Corporation, the National Community Reinvestment Coalition, ACORN, and others have enabled thousands of potential buyers to realize their dreams of homeownership.

Consider, for example, ACORN, a national grassroots organization with one of the nation's largest homebuyer counseling operations. Working in partnership with local lending institutions, ACORN affiliates around the country identify potential homebuyers, work with them to establish clear financial and homebuying goals, and provide information on how to overcome obstacles to purchasing a first home, including detailed guidance on how best to 'repair' a spotty credit history. In Chicago, for example, working in partnership with small community banks, ACORN counseled 180 borrowers, including 120 lower-income African American borrowers. The ACORN-counseled borrowers accounted for some 75 percent of all CRA-eligible loans made during this period by these banks.

Another example of effective partnering between non-profits and the private sector is Baltimore's St. Ambrose Housing Center. As a HUD-designated counseling agency, St. Ambrose receives referrals from banks, mortgage lenders and other community groups, and directly from individuals who are having difficulty qualifying for a mortgage. In addition, responding to the recent wave of foreclosures resulting from the rapid rise of predatory lending practices in Baltimore, the St. Ambrose Housing Center has also substantially expanded its pre-foreclosure counseling operations. Based on this strong track record, Freddie Mac recently extended the St. Ambrose Center a $5 million dollar line of credit to expand the borrowing options for neighborhoods hit hard by predatory lending scams. St. Ambrose has emerged as a leader for their work to join Baltimore-area lenders and community groups in an effort to rid the city of predatory lending activities.

For community groups, homebuyer education and counseling programs have emerged as an important revenue source. For example, HUD funding, for both national organizations such as ACORN, and local groups such as the St. Ambrose Center, was $20 million in FY2001. Homebuyer education and counseling programs also received significant funding from many of the banking organizations interviewed for this study, while local organizations noted that their homebuying education and counseling work was broadly supported by national and local area foundations and state and local governments.

Homebuyer education and counseling efforts in Chicago and Los Angeles have also focused in recent months on predatory lending issues. In addition to providing general information on how to avoid becoming a victim of a subprime lending scam, neighborhood-based organizations, including Chicago Neighborhood Housing Services and the Legal Assistance Foundation of Chicago, joined with 20 financial institutions to launch an innovative mortgage product called NORMAL (Neighborhood Ownership Recovery Mortgage Assistance Loan). The loan is designed to help families at risk of foreclosure transition back to financial stability and repair the

damage to their credit by refinancing them out of a predatory loan. The design of this innovative product was the joint effort of civic-minded local banking officials working in cooperation with leading Chicago-area non-profit organizations.

In Los Angeles, a similar group that combined community-based non-profit advocacy organizations and local legal services groups recently launched the local version of Freddie Mac's broad-based educational campaign, labeled 'Don't Borrow Trouble.' Part of a national effort, this campaign reaffirms the unique contribution that community organizations - working in partnership with banking organizations - can make to homebuyer education and outreach.

In short, what started out as small-scale opportunities for lenders and community groups to work together, has grown to a nationwide network of community-based homebuying counseling and education groups, and has become good business for both banks and community groups. Homebuyer education and counseling efforts may help reduce the lending costs by providing banks with loan-ready lower-income borrowers, and they have emerged as an important line of business and revenue source for community organizations. Increasingly the focus is on how best to make borrowers 'loan-ready,' or package their application within the standards embedded in the now dominant automated underwriting systems. With today's focus on credit scoring as a key component of loan approval and pricing decisions, programs on credit counseling and financial literacy are now the centerpieces of most homebuyer education and counseling efforts and a permanent fixture in the national affordable housing finance system.

CRA COMMITMENTS

In addition to work on marketing, outreach, counseling and product development, over the past two decades banks have negotiated with community-based organizations to forge community reinvestment agreements or commitments that set specific bank goals for lending and the provision of banking services to lower-income people and neighborhoods. CRA commitments include agreements negotiated between community groups and/or local governments and CRA-regulated entities, as well as lenders' unilateral statements of community reinvestment plans and lending targets. They range from national and statewide agreements and commitments to smaller commitments made by smaller institutions at the local level.

A. Background – Chicago Leads the Way

According to the National Community Reinvestment Coalition, an association representing nearly 700 community organizations, since 1977 banks and community-based organizations have entered into nearly 400 commitments to provide over $1 trillion in loans, investments and services to minority and lower-income households. While most early commitments were limited in scope, following enactment of the Financial Institutions Reform, Recovery and Enforcement Act (FIRREA) in 1989, the number and scale of CRA commitments increased dramatically. Indeed, one analyst estimated that almost 99 percent of the over $1 trillion dollars committed by banks for CRA activities has happened since 1992 (NCRA, 2000).

Chicago provides a useful look at the evolution of CRA agreements. In 1974, three years before the enactment of national legislation, neighborhood organizations there pressured three local banks to sign CRA-style agreements. A few years later in 1980, another local lender, Austin Federal Savings and Loan, under pressure from advocates, signed an agreement with the Northeast Austin Organization and the Northeast Austin Council. These early commitments were

followed by more extensive agreements with larger banking organizations seeking to get out in front of the wave of CRA protests sweeping Chicago.

In 1984, the Chicago Reinvestment Alliance, an *ad hoc* coalition of community organizations and advocacy groups, negotiated agreements with three of the city's most prominent banks: First Chicago, Northern Trust, and Harris Trust and Savings Bank. At the core of these agreements was something called the Neighborhood Lending Program, which established a set of measurable lending goals for home mortgages, multi-family housing development, and small business lending. Further, to ensure that these agreements were carried out, the Alliance organized separate community development advisory committees to monitor each agreement. All three banks renewed these agreements five years later in 1989. Then, in 1995, the agreements were renegotiated once again. This time they included a new arrangement with the National Bank of Detroit (NBD), which was merging with First Chicago. This agreement and monitoring system survived yet another merger three years later, as it was expanded in anticipation of NBD's impending merger with BancOne in 1998.

Remarkably, the advisory committees created in 1984 and comprised of banking officials, local community leaders, representatives of regional non-profit advocacy organizations, and state and local officials, continue to meet quarterly to monitor performance under these agreements. Today, these meetings are forums, not only for monitoring the performance under existing agreements, but for information exchange between the groups. As such, they have been an opportunity for lenders to educate community leaders about bank policies and market trends. Similarly, they have recently provided an opportunity to discuss how best to collaboratively address the recent wave of foreclosures that have resulted from predatory lending practices in many of Chicago's lower-income neighborhoods.

B. The Diversity of CRA Commitments

While by no means unique, few other metropolitan areas can match the Chicago experience in making, meeting, and monitoring CRA commitments. In large part this reflects the weaker capacity of community-based organization in other places, as well as the reluctance of lending institutions to enter into detailed lending agreements. By way of illustration, Birmingham, which does not have a strong network of community organizations, has had no CRA agreements.[2] This is in spite of the fact that one Birmingham regional lender observed that they would be willing to discuss and potentially enter into such an agreement if they could identify a stable neighborhood partner with whom to work. This willingness to enter CRA-type agreements reflects the fact that these agreements can minimize the public relations risks faced by large lending institutions. In the lender's words, such an agreement would minimize the chances that "some wacko would come out of the woodwork, mount a media campaign, or otherwise disrupt our efforts to expand in this market area."

Community advocacy in Los Angeles benefited to some extent from several statewide agreements. (These state-scale agreements reflect the fact that a number of large Californian banking organizations with extensive branch networks operate statewide). These agreements - negotiated most recently by the Greenlining Institute and the California Reinvestment Coalition - garnered significant concessions from major financial services organizations such as Washington

[2] While Birmingham was technically under various multi-state agreements - including the unilateral commitment by AmSouth Bancorporation covering Florida, Tennessee and Alabama announced in 1999 – few community leaders interviewed for this study knew that such a commitment was in place, understood its details, or engaged with lenders on the basis of the agreement being in place.

Mutual, Wells Fargo, and U.S. Bancorp. However, the impact of these agreements was less visible to community leaders working in Los Angeles who lamented the lack of opportunities to engage with decision-makers. One commentator stated the concern most harshly: "These big agreements are simply public relations stunts. At best these banks focus on the Bay Area. Here in Los Angeles, predatory lending runs rampant, but the big banks don't care and the high profile agreements do little to help."

The strength of the Chicago agreements' also lies in their provisions for systematic monitoring. By contrast, Baltimore banks have entered into a number of CRA agreements that have eroded over time. Because of the lack of clear enforcement mechanisms, regular monitoring meetings and ongoing communication among the parties, there was little understanding as to whether the commitments had been honored. This came out most directly in a meeting with leading Baltimore advocates who expressed confusion as to the exact status of existing regulatory agreements. This confusion resulted from the fact that several of the banks that had negotiated Baltimore-area agreements had vanished in the wave of consolidation that left Baltimore with few locally-based banking organizations. These mergers presented locally-based Baltimore advocates with the daunting task of developing relationships with lenders headquartered across the country.

C. The Rise of Unilateral Commitments

Over the past decade, larger banking organizations have increasingly issued unilateral commitments to expand access to credit in low-income communities. Some community leaders hail the recent multi-million dollar unilateral commitments as a sign that lenders are now coming to more fully understand the potential of CRA markets as a source of good business opportunity. Others are more skeptical. In Baltimore, one advocate claimed that a lender was meeting its unilateral CRA commitment in part by counting lending in the most prosperous portions of the city. Yet, this participant acknowledged that lacking a detailed understanding of bank operations and the time and resources to carefully examine lending patterns through HMDA data, his conclusion was speculative and based on "what I read in the newspapers." Said one veteran activist who was particularly frustrated by his lack of understanding about a major multi-state agreement that covered Maryland, "It's hard to get even basic information about the activities of lenders headquartered out of state. Heck, I am not even sure who I would call to find out."

In Chicago, an activist familiar with the collaborative agreement oversight process complained that without a formal monitoring arrangement mega-commitments are meaningless, calling them "a public relations gimmick on the part of banks designed to impress regulators and less knowledgeable public officials." Another noted the need to carefully analyze HMDA data to understand whether newly announced commitments reflect an expansion of lender effort, or simply represented an attempt "to take credit for lending that was already happening."

For many community group leaders, the growing number of unilateral agreements and the apparent declining significance of CRA commitments reflects what they fear is a shift in the balance of power toward large lending institutions. Several bankers agreed that as they have grown in scale and their lending operations became increasingly sophisticated, there was less reason to work with community groups. While once community groups could help banks identify 'good borrowers' with opaque credit histories or living in distressed neighborhoods, advocates and lenders alike acknowledged that with today's automated systems, banks now possess so much data about potential borrowers that their need for community group assistance in marketing and outreach was steadily eroding.

As a result, several advocates interviewed for this study expressed concern about how automated underwriting and computer-based loan processing was making it more difficult to establish programs tailored to meet local needs, as was done with Chicago's Neighborhood Loan Program, or more recently with its NORMAL program. One neighborhood advocate from Chicago observed that many banks no longer had the time or interest to sit down with community group representatives and go through specific loan files. "To be profitable, loan decisions have to be made in a matter of minutes, not days," said one. "There is just too little room to discuss how to serve those borrowers who don't conform with standard underwriting guidelines."

This is not to say that banks are ignoring community groups or that community groups have stopped advocating for expanded lending. ACORN and other national non-profit counseling organizations and networks still reach out to identify (or with the help of counseling to produce) loan-ready applicants. These organizations also continue to refer thousands of borrowers to banks. However, Chicago area advocates acknowledged that even banks with a long history of working in partnership with local community groups are pulling back. "Chicago is a special case, and banks have more reason to deal with us, given the high visibility role that Chicago area advocates play in the national arena. But even the same banks that are renewing CRA commitments here in Chicago are refusing to sign comparable agreements in other cities."

Baltimore study participants echoed these comments, noting that with the increasingly competitive lending environment, one bank that had once been an active participant in a locally-crafted lending initiative had abandoned its mortgage lending operations and now refers customers to an independent mortgage company. Even banks with a strong commitment to CRA activities confirmed that the increasing competition among banks for CRA-eligible loans made it difficult to deal with 'special cases.' "We continue to work with local groups to identify new potential borrowers and work on individual case files, but we lose money on this part of our business. Today, you have to be an automated, high-volume lender to make money in the residential mortgage business."

CHANGES IN FUNDING AND PARTNERING ARRANGEMENTS

As noted previously, the numerous partnerships formed between lenders and community groups not only were an important element in the ability of banks to meet their CRA obligations, but also represented a major source of both funding and guidance for community-based organizations. Just as homeownership counseling and education were gathering new momentum – especially in light of the new focus on addressing predatory lending issues – many community representatives expressed concerns about how difficult it was to raise money to support their ongoing efforts. In particular, several respondents expressed concern that the rise of big national banking organizations threatened the funding base of community organizations, particularly smaller organizations operating outside of the growing national networks.

The limited role in mortgage lending for smaller locally based banks is well illustrated in Baltimore. First and foremost, community representatives lamented the decline of locally based lending organizations. Of the four cities examined in detail for this study, Baltimore has the smallest share of home purchase loans made by banks operating within CRA-designated assessment areas (20 percent in 2000). Further, nearly half of this 20 percent was made by three large banks headquartered elsewhere. By 2000, as a result of a decade of mergers and acquisitions, in combination with the large number of smaller Baltimore-based banks that were no longer active in home purchase lending, banks headquartered in Baltimore accounted for only about one in ten home purchase loans.

These shifts not only substantially reduced the leverage local community groups once enjoyed and had used to gain concessions from lending organizations based in their community, they also disrupted personal relationships between lenders and advocates, and threatened the core funding of several Baltimore based advocacy organizations. One experienced community operative described how a major source of support for his organization had disappeared when it was purchased by a national bank that in turn merged to become part of an even larger organization. For twenty years before this consolidation, the locally-based bank not only was a major financial supporter of this community organization, but also "walked the neighborhood with us and helped us craft some innovative programs." While funding from the new national organization continued (at reduced levels), the community advocate perceived that his area also suffered from the loss of the close personal relationship, and the various forms of technical assistance, support and guidance exchanged between the locally-based lending organization and the group.

While similar stories were repeated in each of the cities visited as part of this study, it is difficult to interpret precisely the extent to which shifts in banking industry structure are changing the aggregate amount of funding banking institutions are providing to local community groups. What does seem clear is that the characteristics of this financial support are changing.

Again, Baltimore provides a series of examples. First, in Baltimore as elsewhere, new national-level funding sources offset, at least somewhat, funding once provided by locally-based banking organizations. Fannie Mae and Freddie Mac represent two of the most prominent examples of this trend. As the two GSEs grew along with the overall shifts in the mortgage industry, they have increased both their charitable giving to local groups, as well as their work with local community groups to develop innovative loan programs and expand counseling efforts. But just as was the case with large banking operations, for many Baltimore-area advocates, these national organizations are "too big and bureaucratic to walk the streets of Baltimore." While local groups were generally appreciative of the GSEs' efforts, they expressed concern that most of the assistance was designed to help "fit our people into their underwriting boxes."

Most major lenders have sophisticated Community Development operations and active foundations, and the large national banking organizations operating in Baltimore were no exception. Yet there is a sense among community groups that the nature of financial support flowing from these larger organizations is changing. Previously, smaller organizations had relatively simple strategic objectives to guide their funding – be a good corporate citizen, promote the health and vitality of the neighborhoods where their branches were located, and avoid the potentially adverse publicity that a 'bad' CRA rating could produce. With limited grant money to dispense, and without staff to carefully review and monitor proposals, the institutions tended to identify a handful of seemingly strong organizations, and then "spread their dollars around."

Philanthropy today is somewhat more sophisticated. Banking institutions still are mindful of their need to generate goodwill to protect their reputation in the marketplace, as well as their need to meet their CRA obligations. In addition, as is the case with foundations and charitable organizations in general, large banks seem to be increasingly concerned about holding their community-based partners accountable for the funds they receive. There also seems to be a tendency toward supporting a smaller number of larger organizations, organizations that both have greater capacity to effectively utilize funds, but also organizations that are likely to be going concerns over the longer run.

As a result, several community advocates noted that grants once "done with a handshake with a local banker," now require a formal grant proposal at the front end, and detailed monitoring

reports during the period of the grant. For smaller organizations, this is burdensome. Indeed, one banker in Birmingham worries that most of the money they provide some smaller organizations is spent simply filling out the grant performance report or writing the coming year's grant application.

Alternatively, larger, more stable organizations may actually benefit from these trends, in that they have the capacity to be the recipient of larger individual grants, or be designated as the main local community partner of a major institution. These forces are also at work in Baltimore. Just as some smaller organizations were scrambling for funds, other, more established players had the opposite problem of having more opportunities for funding or partnerships than they could handle. One local community group leader noted that his organization was approached by a national banking organization offering a multi-million dollar funding package. "I understood why they wanted to make a big splash in Baltimore, given all the controversy about predatory lending here. Yet I had to ask myself, could I really manage a program of this magnitude. And how will I be able to face all those other community groups in the city that are struggling to make ends meet."

These shifts have led many local community leaders to take a hard look at their fundraising operations. One approach is to join together to form local networks that unite several local groups into one targeted campaign. Several of the efforts to respond to predatory lending followed that pattern, as banks joined forces to fund an education or counseling effort managed by a single community partner that served as a conduit for numerous smaller participating groups. Such arrangements can be particularly important in areas lacking a significant community-based capacity. For example, as an outgrowth of a region-wide planning effort, Region 2020, a Birmingham based non-profit, is working to form a CDFI that could serve as a conduit for the charitable contributions and CRA-related investments of locally-based institutions.

Recognizing that bank support for their efforts may be declining and certainly is changing, some community organizations have mounted campaigns to diversify their funding base. "CRA gave community groups access to bank resources, but times are changing. We have to convince other major corporate players that the health of our communities is not just important to the mortgage and banking sector – it affects all businesses." To accomplish these ends, this group is turning to some tried and true techniques, and trying to get corporate leaders in health care, manufacturing, services, and other sectors "to walk the neighborhoods with us," and learn first hand what effective community-based development can accomplish.

THE RISE OF NATIONAL ADVOCACY ORGANIZATIONS

As noted above, in a move that parallels the growth of large banking organizations, many local groups are now forming national networks to access or pool resources and technical assistance. These national network organizations are increasingly assuming the role of challenging large lenders to expand their lower-income borrower and neighborhood lending. If local groups are now often overmatched in their efforts to win concessions and advocate for resources from national lenders, national-scale advocacy groups and networks are not. These organizations have, in fact, been quite successful in their dealings with major financial services companies.

ACORN's agreement with Ameriquest, a national-scale subprime lending specialist headquartered in California, illustrates the leverage an advocacy organization with broad scope can bring to bear. Ameriquest had steadfastly maintained that they provided a useful set of loan products that addressed the needs of an underserved class of borrowers. ACORN countered by

bringing forth a series of Ameriquest customers who claimed that they were victimized by high pressure sales tactics, tricked into signing up for high priced loans they did not need, and defrauded by home repair contractors who pocketed the proceeds of the loan without completing the required repairs.

Had these stories related only individual borrowers in a particular neighborhood, Ameriquest could have argued that the cases were not representative of the thousands of satisfied customers across the nation. But as a national organization, with the capacity to generate adverse publicity for Ameriquest in markets across the country, ACORN's accusations were not easily dismissed. Instead, Ameriquest decided to reach out to ACORN to find a way to quell the local protests that had the potential to seriously harm their reputation in the national capital markets and undermine their competitive position in the mortgage market. They were therefore looking to make a pre-emptive agreement to demonstrate goodwill and responsiveness to advocates' concerns. In assessing its options for such a partnership, however, Ameriquest felt that many local ACORN chapters lacked the capacity to discuss technical issues surrounding how best to structure new loan products. Moreover, given Ameriquest's reliance on automated credit scoring and underwriting tools, and secondary market funding, the company did not want to develop loan products for each MSA in collaboration with multiple local ACORN units.

A series of meetings and negotiations between ACORN's national leadership and senior Ameriquest management ensued that resulted in a major national agreement detailing the terms of a partnership. Through the agreement Ameriquest pledged to fund a set of specialized loan products, while ACORN agreed to use its counseling network to help Ameriquest identify 'loan-ready' borrowers.

The commitment of Fleet Mortgage to fund $7 billion in mortgages over a ten-year period, through the Neighborhood Assistance Corporation of America (NACA), a national consortium of local community-based organizations, is another example. Building on protests in Boston and elsewhere, NACA's head, Bruce Marks, was able to extract a major funding commitment that now supports NACA's extensive program of homebuyer education and counseling, which in turn is designed to generate a pool of 'loan-ready borrowers' eligible for the special loan program funded by Fleet.

These are just two examples of many new commitments and partnerships now being forged between national mortgage banking and financial services companies and national non-profit advocacy organizations, including the National Community Reinvestment Coalition, the National Urban League, and national civil rights groups. They represent interesting examples about how the inherent tension between 'cooperation versus collaboration' is playing out today. Done well, both advocacy organizations and lending organizations benefit from these mega-partnerships, as do many thousands of homeowners who participate in the programs that are being funded today.

These examples also imply that, to be successful, CRA advocacy must continually evolve in response to changing mortgage markets. In the NACA example, advocates carefully assessed Fleet's strategic weaknesses, focusing on the company's vulnerability to negative publicity based on several earlier missteps. Combining this understanding with the leverage supplied by CRA, NACA was able to win major concessions. ACORN had a similar strategic vision, but understood that they need not limit their advocacy to CRA-regulated entities. As an independent mortgage company Ameriquest was not covered by CRA but as a major player in the increasingly competitive subprime marketplace Ameriquest was rightfully concerned that the company be viewed as a leader in protecting consumer interests.

These examples also hint, however, at what appears to be a growing tension between locally-based organizations and these national umbrella advocacy organizations. In part, this may reflect the jealousy that under-funded local organizations have toward better-funded members of these networks. For example, several Baltimore respondents were openly critical of NACA's local affiliate. While NACA was able to provide resources and access to Fleet mortgages, some questioned whether the local NACA group truly represented the best interests of the communities it serves. One advocate lamented, “If I had even a small piece of the Fleet deal, I could make mortgages work in low-income areas in Baltimore. But the real question is whether NACA knows how to build a viable grassroots organization. When the money is gone, NACA will leave, and there will be nothing left behind to show that it was there.”

Others criticized some national network organizations for “selling out.” “Hey, I understand that these national groups have to meet their payroll just like I do,” observed one Chicago-based advocate. “But they are too easily bought off with a major grant. What about us folks working down in the trenches. All this does is make our job harder.” Commenting on the Ameriquest deal, one legal services attorney observed that ACORN let the company off lightly. “ACORN didn’t know what they were agreeing to. Subprime lenders are ruining our communities, at least they should have bargained harder for a more meaningful set of concessions.”

NEW STRATEGIES FOR A NEW ERA

While expressed in different ways, advocates from organizations of all sizes expressed an overriding sense that the ‘Golden Age’ was over and that a time for new advocacy strategies has arrived. As one community group focus group participant put it, “It seems like banks simply are managing us, not partnering with us. Unless we turn up the heat from time to time, they will forget that we are here.” But the question remains as to how community organizations, facing their own capacity and funding challenges, can continue to play an important role. Further, because HMDA data do not include pricing information, one of advocates’ most useful tools in their negotiations with lenders and in efforts to publicize their causes has been substantially weakened as the market has embraced subprime lending.

While community groups and their ‘regulation from below’ helped encourage lenders to extend lending to lower-income borrowers and areas in the past, new approaches are needed if they are to continue to play the role of effective intermediaries in the community reinvestment process. First and foremost, community advocates must understand that the mortgage industry has changed dramatically over CRA’s quarter-century long history. As the regulatory reach of CRA declines in an era of major national lending companies and independent mortgage lenders, there are fewer opportunities for individual community organizations to mount CRA challenges and win.

Another way is to change the focus of CRA advocacy. One Chicago-area non-profit has become much more proficient in commenting on CRA exams. “Typically, examiners ask community groups to comment on CRA exams, but the community group is not prepared. We try to do research ahead of time, so when the examiner contacts us, we are ready.” This can be particularly important as community groups seek to have bank examiners pay more attention to emerging forms of lending that, in the minds of advocates, are problematic. “We were concerned about banks funding pay day lenders,” noted one Chicago respondent. “Our research helped us get out in front of this issue and force the regulator to pay more attention to this issue.”

Other efforts attempt to more directly reflect the changing nature of the mortgage industry. Recognizing the fact that much of the growth in lending is coming through the 'out of area' activities of CRA-regulated lenders, some advocates are encouraging regulators to examine carefully the assessment area definitions that they will apply following completion of a merger. And in Massachusetts, community leaders are working to extend a state 'CRA-like' regulation to include lenders headquartered out of state. In other places, groups are working to extend CRA-type legislation to insurance companies, reflecting both the importance of insurance as a financial service for lower-income people and areas, and the fact that several large insurers have moved into banking in recent years.

Advocacy efforts, however, continue to be hampered by limited data on new mortgage products. Historically the mainstay of community activism in the mortgage lending arena has been HMDA. Today, HMDA has severe limitations when it comes to assessing the efficacy of alternative loan products or the activities of specific lenders that have only recently begun to be addressed. As lenders increasingly turn to risk-based pricing the focus for efforts to unearth potentially discriminatory treatment is no longer the relative likelihood of loan approvals to various groups or areas since virtually everyone everywhere can in fact qualify for a loan. Potentially discriminatory practices now occur in the more subtle area of pricing, with advocates consistently voicing concerns that certain groups or areas do not receive loans on the best terms for which they might qualify. Until HMDA reporting changes take effect, the lack of price information will continue to limit the value of HMDA data in assessing the potential discriminatory effect of particular loan products, or the potential discriminatory actions of particular lenders.

Meanwhile, advocates have to become more skilled at analyzing existing data. To accomplish this will require a level of sophistication of analysis not commonly present among many non-profit organizations, suggesting the utility of establishing a national-level technical support unit dedicated to assisting community groups confront the complexities of automated technology and massive national lending organizations.

Local community groups may also need to shift their focus away from individual local lenders, who either may not be around in a few years, or who are consumed with the struggle to stay viable in the increasingly competitive banking world, and focus instead on the larger national-scale players and the secondary market. In any event, working in conjunction with national non-profit intermediaries, local groups need to develop strategies that are part of coordinated national efforts to encourage national lenders to expand access to capital to lower-income communities and borrowers. In this regard, advocates must understand that lenders are also seeking new ways to operate in the changing world of mortgage banking, and therefore there may be room for new cooperative approaches that involve advocates and lenders working together to expand the number of families able to make use of new loan products.

Recognizing these challenges, advocates are forging coalitions that have the capacity to prompt regulatory change at the state or local level. Mindful of statewide efforts to develop anti-predatory lending legislation in the Illinois legislature, advocates in Chicago are forming alliances with grassroots groups 'downstate.' In Los Angeles, a broad coalition of grassroots organizations and lenders were successful in convincing local elected officials to commit to funding a major new housing trust fund. Even in Alabama, with a relatively weak non-profit infrastructure, there is an emerging effort for local CDCs to join forces on a statewide basis to share experiences and to advocate about issues of common concern.

Others are seeking to expand advocacy beyond mortgage lending, and shift the focus of the debate to larger issues relating to access to financial services. For example, one welfare rights

organization challenged a major national banking operation to offer direct deposit accounts for people participating in a welfare-to-work program. In Birmingham, a church-based group was working with local banks to fund a financial literacy campaign in a local housing development, that included efforts to teach young adults how to manage credit card debt and to start to save for future needs.

These initiatives show not only how advocacy efforts are moving beyond mortgage lending and housing, but the potential for forging new coalitions of groups concerned with the well being of lower-income communities. These examples also illustrate that even as mortgage lending is becoming more and more detached from local banking operations, banks still have significant local presence. But today that local presence comes in the form of an ATM machine on the corner, or the millions of letters banks and financial services organizations send out each day to sign up people for home equity loans, auto loans, credit cards or other financial services. Adapting to the dramatic shifts that are transforming the financial services industry is clearly the central challenge facing CRA advocacy organizations today.

SUMMARY

As the mortgage banking industry has changed, the relationship between community advocacy organizations and mortgage lenders has evolved as well. As the regulatory reach of CRA declines in an era of major national lending companies and independent mortgage lenders, there are fewer opportunities for individual community organizations to mount CRA challenges and win, just as it is increasingly difficult for community organizations to assess the market implications of the growing array of new loan products.

Community groups are responding, as they must, to this changing environment. Some have developed special skills to work cooperatively with mortgage lenders to provide homebuyer education and counseling services. Other advocates are forging new, and broader coalitions that have the capacity to confront large-scale banking organizations, or the sophistication to assess the characteristics of new mortgage products. Others seek to expand their advocacy beyond mortgage lending, and shift the focus of the debate to larger issues relating to access to financial services. In any event, community organizations are adapting as they continue their efforts to advocate for and serve the needs of the lower-income people and communities they represent.