

## NYC Needs a Responsible Banking Act

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Over Thanksgiving weekend, I had the chance to see *Inside Job* - Charles Ferguson's stinging indictment of the financial sector surrounding the global financial crisis of 2008. It left me angry once again about how the explosion of predatory lending, combined with all the wrong incentives in the financial sector, stripped millions of families of their life savings, led to the financial meltdown, and cost millions of jobs around the world. And also disappointed about how little real financial reform there has been since then, and how bleak the outlook for meaningful change in Washington is right now.

At a local level, though, we do have an opportunity for an important step forward. In the City Council's Finance Committee last week, we had a hearing on the "New York City Banking Commission" - a somewhat obscure body that decides on the banks where the City of New York will deposit its funds. Smart activists from the [Association for Neighborhood and Housing Development \(ANHD\)](#) and the [Neighborhood Economic Development Advocacy Project \(NEDAP\)](#) pointed the way toward something that could make a real difference in New York's low-income and working-class communities: A **New York City Responsible Banking Act**, that would require banks who want to make money by holding on to our City's cash to put forward a new generation of strategic plans for meeting the credit needs of New York's communities.

A little background: In 1977, led by legendary community organizer Gail Cincotta, community activists - responding to decades of "redlining," in which banks refused to lend in communities of color - won passage of the Community Reinvestment Act, or CRA. The law requires that banks make an effort to address the credit needs of communities where they accept deposits. In some ways, it wasn't much. It doesn't mandate an amount of lending or a set of products. It simply says that if banks want to merge, or open a new branch, regulators will take a look at their track record. The vast majority of banks (over 95%) have received a "satisfactory" or "outstanding" rating, and only a small handful were ever block from merging by the CRA.

Nonetheless, it made a big difference ... at least for a while. Community groups used the new law to organize and shine a spotlight on the performance of local banks. Many banks decided to step up and put together community reinvestment plans. They started lending for homes and apartments in long-neglected neighborhoods. New lending and investment products sprung up, including low-income housing tax credits, and responsible mortgages for first-time homebuyers.

A new community development movement sprung up, financed in large part by bank lending and philanthropy sparked by CRA. Through a combination of community organizing, local grit and determination, public policy and investment, and partnerships with banks, many communities that had been abandoned through redlining saw a remarkable resurgence in the 1980s and 90s, with affordable housing, small businesses, and community institutions at its core.

Unfortunately, the seeds were already in place for regulatory changes that undermined this progress. Beginning in the Reagan years, the financial industry lobbied successfully for deregulation of the financial sector, culminating in 1999 with passage by Congress of the Gramm-Leach-Bliley Act. The law brought down the wall that had separated commercial banks from investment banks for decades.

The catastrophic consequences for the global financial system - through unregulated derivatives, executive compensation with perverse incentives, loan originators with little stake in their loan performance, and collateralized debt obligations - are well-documented in *Inside Job*.

The consequences in low and moderate income communities have also been disastrous. Gramm-Leach-Bliley led to a wave of bank mergers that have dramatically reduced the number of depository institutions in U.S. cities. But it failed to modernize CRA, so that community reinvestment could keep up with changes in the financial sector. As a result, overall CRA investments have declined precipitously in recent years, in New York City and around the country. As [documented](#) by the Association for Neighborhood and Housing Development in NYC, despite a 10% increase in bank deposits between 2007 and 2008, community development lending fell 29%. The consequences have been severe:

- Bank branches and services remain scarce in communities of color, and more than 825,000 New Yorkers don't have a bank account.
- Multifamily lending has declined - even before the crash - despite continued overall strength in the rental market.
- Banks have failed to make mortgage modifications for the vast majority of eligible homeowners facing foreclosure, with devastating consequences in many communities.

A NYC Responsible Banking Act would begin to address some of these problems. It can't reform derivatives trading, or executive compensation, or predatory lending laws. But it might get a few new bank branches open, build pressure on banks to modify mortgages and help homeowners keep their homes, and promote responsible lending to preserve affordable housing and help entrepreneurs start small businesses.

Here's how it would work: Banks seeking to serve as depository institutions for the City of New York - to hold the City's cash after it is collected as taxes, but before it has been spent - they would be required to put forward a strategic plan for how they plan to meet community credit needs, and then provide a detailed annual report on their record of community investment and service (including branches, loans, grants, community development and affordable housing products, and mortgage modifications). There would be a public hearing on their plan and track

record. And poor results would be grounds for the NYC Banking Commission to deny their application.

They already have laws like this in Philadelphia and Cleveland, and are considering it in Los Angeles and other cities around the country. We need one in New York City. The Community Reinvestment Act once helped us leverage the concentration of financial firms here to promote community reinvestment and confront some of our city's deep inequalities. Unfortunately, that progress has been undermined in recent years. The NYC Responsible Banking Act can help us get back on track.

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