

## Regulators Paved Way for Loan Abuses, Congress Hears

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U.S. lawmakers heard testimony today that federal banking regulators opened the door to subprime- mortgage lenders in low-income neighborhoods through lax enforcement of community-investment rules.

Banks, required by a 1977 law to provide credit in areas where they take deposits, often concentrated on making loans to the most creditworthy borrowers; that left homebuyers with lower credit scores to lightly regulated finance companies, according to government data on lending patterns.

Since 1990, the Federal Reserve, Federal Deposit Insurance Corp. and other regulators gave failing grades in just 225 of 60,194 compliance reviews conducted under the law, the Community Reinvestment Act.

Democratic lawmakers at a House Domestic Policy Subcommittee hearing today are likely to use such figures to strengthen their calls for the Fed to tighten mortgage regulation. "We haven't seen aggressive enforcement, it just hasn't happened," said Calvin Bradford, president of Calvin Bradford & Associates, a Williamsburg, Virginia-based consulting firm on fair lending. "It is deja vu all over again." Bradford advised the Senate on the neighborhood-lending law three decades ago, and is testifying today.

Banks in 2006 had about 71 percent of the market for lower- cost, mostly prime loans in "low-to-moderate income" city districts, according to an analysis of Fed data compiled by the Center for Responsible Lending, a research group in Durham, North Carolina. They had just a 52 percent share of high-cost or subprime loans, the data show.

### Surging Foreclosures

Subprime borrowers, those with little or poor credit history, were vulnerable to mortgage brokers and finance companies that operate outside of federal oversight, analysts say. RealtyTrac Inc., which compiles statistics on home ownership, said foreclosures last month totaled 223,538, double a year ago, as the low introductory rates on subprime home loans reset higher.

Non-bank lenders had "people operating from the back of their cars that made promises they knew they couldn't keep," said Robert Cooper, senior counsel in Boston for OneUnited Bank, whose Web site says it is the largest black-owned bank in the country. "We couldn't lower our underwriting standards."

Sandra Braunstein, the Fed's director of consumer and community affairs, said in an interview that "banks can always do more."

## Reaching Further

“We have always urged financial institutions to try and reach further into low-income markets,” said Braunstein. She told lawmakers at the hearing that: “There is certainly always room for us to improve.”

Rising delinquencies and foreclosures reduced risk-taking in credit markets, causing the housing recession to deepen. Sales of previously owned homes fell in September to the lowest level since record keeping began in 1999, an industry report showed today.

Regulators have the power to hold up mergers and the expansion of branches for banks that are deficient in their CRA obligations. In the past six years, they approved lending practices in lower-income districts by at least two banks that the Justice Department separately investigated for “redlining,” or failing to lend in certain neighborhoods. Bradford said he will present the episodes in his testimony to the House panel today.

In September 2002, FDIC examiners gave Centier Bank of Merrillville, Indiana, a “satisfactory” CRA grade. A year ago, after a review of data from 2000 to 2004, Justice attorneys filed a complaint alleging the bank had “avoided serving” the credit needs of districts made up mostly of minority residents.

## Declining Comment

FDIC spokesman Andrew Gray acknowledged the discrepancy with the Justice finding and declined further comment. The banking agency last week lowered Centier's CRA rating to one step above failing. Centier agreed to step up efforts in minority neighborhoods and spend \$3.5 million in financial assistance to borrowers, according to a consent order filed in the U.S. District Court in the Northern District of Indiana.

“We hit all our targets,” said Centier President Michael Schrage, whose family has owned the bank for 112 years. “With the DOJ, we are right in line with where they would like us to be.”

In March, 2001, Fed governors, including then-Chairman Alan Greenspan cleared the acquisition of Old Kent Financial of Grand Rapids, Michigan, by Fifth Third Bancorp of Cincinnati. Old Kent's main bank had won a “satisfactory” rating from the Fed in August, 1999, and examiners found no evidence of illegal credit practices.

## 'Unlawful Redlining'

The year before the approval, Justice began probing whether Old Kent Bank disproportionately served white neighborhoods in Detroit. According to the May 2004 settlement of the case, the department alleged the bank's practices constituted “unlawful redlining of the city of Detroit because of its racial composition.”

Old Kent denied the allegations and maintained it complied with fair-lending laws, according to the settlement. Fifth Third responded with an outreach program and \$3 million in credit subsidies and aid, according to the settlement. Fifth Third spokeswoman Debra DeCourcy said in an e-mail that the bank had no additional comment.

## Improving Records

“The Board denies few applications because most applicants, in the process of conferring with Board staff, learn of any potential problems that could pose a barrier to the

application," the Fed's Braunstein said. "In some cases, it can be helpful to have a bank with a problematic record acquired by an institution with a stronger record."

The CRA has helped channel more than \$4 trillion to moderate- and low-income neighborhoods, according to an estimate by the National Community Reinvestment Coalition in Washington.

Regulators' enforcement "hasn't been sufficient to prevent modern-day redlining," said Democratic Representative Dennis Kucinich of Ohio, who chairs the Domestic Policy Subcommittee and is running for his party's presidential nomination. "This has allowed federal banks to expand even though they have discriminated against the communities they were supposed to serve."

Fed Governor Randall Kroszner told lawmakers at a separate hearing today that the Fed plans to write new rules for mortgage lenders by year-end and is seeking guidance on how to improve disclosures to borrowers. The Fed holds a meeting of its Consumer Advisory Council tomorrow.

"We have always seen the subprime issue as directly related to red-lining," says Sarah Ludwig, co-director of the Neighborhood Economic Development Advocacy Project and a member of the council meeting tomorrow in Washington "If banks were beating the pavement, and doing the good business in these neighborhoods, you wouldn't have the fertile terrain that existed when subprime lenders came in and wreaked havoc."

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