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Big drop-off in NY banks' community lending

Advocates' study cites "stunning" decline in local Community Reinvestment Act lending and investment—even before the popping of the housing bubble.

Despite a 10% jump in deposits, New York's largest banks substantially cut the amount of loans and services targeted to low- and moderate-income communities between 2007 and 2008, according to a report released Thursday by a local advocacy group.

Among the 17 largest commercial, savings and wholesale banks in the five boroughs, there was a 20.2%, or $560 million, drop-off in community development lending; a 24.2%, or $1.3 billion, cut in multi-family lending; and a decrease in the share of branches located in low-income communities to 8.8% from 9.3%.

The report argues that structural changes in the banking industry over the last decade—including growth and consolidation—have led to the "stunning" decline in banks' Community Reinvestment Act lending and investment. There are fewer banks serving New York City, with smaller institutions being replaced by "mega banks" that have begun to incorporate their CRA programs into mainstream business units.

The 1977 act, which was a response to banks' redlining and disinvestment in urban areas, requires financial institutions to meet the credit needs of residents of low- and middle-income communities. Spurred by the act, more than 294,000 units of low- and moderate-income housing have been produced in the city in the past 20 years.

But the "quantity and quality" of CRA-related activity at the city's biggest banks is on the decline, the report argues. Nowhere is this more the case than at Citibank, said Dave Hanzel, policy director of the Association for Neighborhood and Housing Development, an umbrella group of community development organizations, which produced the 65-page report.

Total deposits at Citibank rose by 14.5%, or $6.2 billion between 2007 and 2008, but according to the report its percentage of branches in low-income neighborhoods those same years dropped by 10.8%; the number of community development loans fell by 85.5%; the value of those loans declined by 74.5%; and the number of multi-family loans in low-income neighborhoods fell by 43.9%.

"At one point, Citi was a leader in developing innovative products that helped community development organizations build and preserve affordable housing," Mr. Hanzel said. "But now we're talking about hundreds of millions of dollars less in a single year."
Mr. Hanzel said the drop off for Citibank was likely the result of a 50% reduction in staff dedicated to community development loans and a shift of the bank's community capital program at the end of 2007 from its commercial bank to its investment bank, where larger returns were expected.

"While lending volumes, including lending to [low- and middle-income] communities in New York, across financial institutions decreased as a result of the economic downturn in 2007 and 2008, we have seen a rebound in activity," Citibank said in a statement. According to the statement, the bank lent or invested approximately $1 billion in New York in the first half of the year, and has made "substantial hires" in its community lending business this year.

J.P. Morgan Chase, TD Bank North and M&T were among other banks that reduced some of their community development investment or lending between 2007 and 2008, despite larger deposit bases. Bank of America, on the other hand, was at the top of the list for its CRA-related activity.

Banking industry officials have argued that the subprime mortgage and credit crisis are responsible for the reduction in the volume of community reinvestment and the types of financial services being offered, but the report calls that notion into question.

"While volatility in the larger economy and a weaker balance sheet surely affected banks' ability to lend and invest, these factors do not fully explain or justify the significant reduction in core CRA-relative activities as these reductions were already well under way by the time the housing bubble popped in mid-2008," the report argues. "Many of these deals take years to work their way through the development and underwriting process, so it is unlikely that activity would drop off so quickly after the credit crunch began."

The report also argues that community development is counter-cyclical because the private market's interest in projects that have access to public subsidies increases when the overall economy weakens. And the study contends banks' obligations under the CRA to help meet credit needs are not tied to their profitability. Also, bank deposits in the city actually grew 10.2% between 2007 and 2008 to $450.8 billion, a sign that banks had more deployable capital to serve numerous markets, including the low- and middle-income markets.

The overall fall-off across the five boroughs has caught the eye of City Council Speaker Christine Quinn, who is working with the council to develop ways to hold banks' feet to the fire on community investment.

"The findings of the ANHD report reflect a moment of juncture for banks and the way they interact with our community," she said. "It is of the utmost importance to our city's financial health that banks, especially the big ones, follow through on their responsibilities to the community."

Cities like Cleveland, Los Angeles and Philadelphia have either introduced or passed ordinances that require banks to submit annual reports that detail the programs and products on offer to help meet the cities' credit needs. The cities then reward the best-performing institutions with deposits, city contracts and pension funds. The report calls for a similar "Responsible Banking" ordinance here in New York that would require banks wishing to do business with the city to prepare a local CRA plan and submit annual reports detailing progress.