

The Color of Money

Follow-ups and reaction

Congressman urges federal probe of racial lending gap; Banking panel chief seeks investigation of S&Ls

By Bill Dedman, The Atlanta Journal-Constitution

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WASHINGTON -- The chairman of the U.S. House Banking Committee called Monday for a Justice Department investigation into reports of racial disparities in loan rejections at America's savings and loans.

Rep. Henry B. Gonzalez (D-Texas) accused the Justice Department of dragging its feet on cases of credit discrimination and accused the Federal Home Loan Bank Board, which regulates savings institutions, of "hiding statistics in their computer."

Those statistics, analyzed and reported Sunday by The Atlanta Journal-Constitution, showed that blacks were rejected twice as often as whites when they applied for home loans at 3,100 savings and loans from 1983 to 1988. Hispanics were rejected 64 percent more often than whites. Homebuyers of any race in upper-income integrated and minority neighborhoods were rejected at the same rate as homebuyers in poor white neighborhoods.

"Discrimination is reprehensible in any form. It is doubly so when the discrimination is aided and abetted by federally regulated financial institutions. It is unbelievable that federal agencies look the other way," Mr. Gonzalez said.

A Justice Department spokesman responded to the statements from Capitol Hill by saying the department continues the investigation it began last May after the Journal-Constitution published articles on discriminatory lending practices in Atlanta. Congressional leaders from both houses called Monday for greater scrutiny of fair-lending issues by federal regulators.

The chairman of the Senate Banking Committee, Donald W. Riegle Jr. (D-Mich), called the newspaper's findings "extremely disturbing" and said he wanted to know why federal regulators had not analyzed and reported on the data earlier.

Also Monday, Rep. Joseph P. Kennedy II, a Massachusetts Democrat and Banking Committee member, introduced legislation requiring all four bank regulatory agencies to collect more information on approval and rejection rates by race. The Fair Lending Oversight and Enforcement Act would expand reporting to banks, mortgage companies and other lenders for both home loans and small-business loans.

"Those who have nothing to hide have nothing to fear from this legislation," Mr. Kennedy said. "But those who deny credit on the basis of race or national origin had better watch out."

Sorting through records the Bank Board had collected for 10 years but never analyzed, the Journal-Constitution found that 11.1 percent of white applicants nationally were rejected, 12.2 percent of Asians, 16.5 percent of American Indians, 18.2 percent of Hispanics and 23.7 percent of blacks. The black-white

and Hispanic-white gaps were wider in many major cities, including Atlanta, Gonzalez's hometown of San Antonio, and Kennedy's Boston.

Rep. John Lewis (D-Atlanta) released a statement saying, "We need to consider penalizing financial institutions for not doing more to make loans and financial services available to minorities."

Stronger language was used by Jesse L. Jackson, the former presidential candidate, who said, "We read daily about how many tens of billions of dollars it will take to bail out the savings and loan industry. Racist lending practices must end before any aid goes forward. S&Ls that discriminate should go bankrupt, and their managers should go to jail."

The chairman of the Federal Home Loan Bank Board, M. Danny Wall, responded to the article at a press conference Monday afternoon. He said the agency has taken steps in the past year to "pick up the pace" in enforcement, creating a separate unit to enforce fair-lending laws, publishing a handbook for examiners and hiring specialists in anti-discrimination laws.

But Mr. Wall said financial problems in the thrift industry have drained manpower away from fair-lending issues.

"We have not paid the attention we should have paid," he said. "We are not using that as an excuse. We have been collecting the data, and we now have the capability within the bank system to address any problems we find."

The congressmen acknowledged that the Bank Board was at least collecting data on loan rejections, while other bank regulatory agencies were not. Calling for greater attention to fair-lending issues, Mr. Gonzalez noted the Federal Reserve Board, the Federal Deposit Insurance Corp. and the Office of the Comptroller of the Currency joined the banks last year in opposing expansion of fair-lending laws.

"They told the committee that the improvements were not needed, that all was well in the lending patterns and that discrimination was a thing of the past. These agencies, as a result, will have less credibility with members of the committee next time around," Mr. Gonzalez said.

The congressmen said lenders should not have to be prodded into lending equitably.

"It is unfair to tar all banks and bankers with the sticky brush of discrimination," Mr. Kennedy said. "I urge progressive and responsible members of the banking community to join with us to erase the stain of discrimination from the banking industry."

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