Fed's Duke Praises Bank Community Reinvestment Rules

By Alan Zibel, Wall Street Journal, March 27, 2012

WASHINGTON (Dow Jones)--Federal Reserve Gov. Elizabeth Duke on Tuesday praised a federal law that prods banks to invest in low-income neighborhoods, but said that cities around the U.S. are having to rethink their development strategies after the housing market's bust.

In a speech at a community investment conference in Seattle, Duke outlined the impact of the Community Reinvestment Act, which Congress passed in 1977 in an effort to reduce discriminatory credit practices in poor neighborhoods, a practice known as red-lining.

Since the law's enactment, "financial institutions have become partners in community development, bringing with them an important source of capital and financial expertise," she said. "Bankers, community development practitioners, state and local governments, and other community stakeholders have learned a great deal, and the community development field has matured significantly."

In the aftermath of a severe housing market downturn that has been made worse by high levels of unemployment, Duke highlighted the need for community-development programs that provide work and educational opportunities.

"In order to be successful, any effort to stabilize and revitalize lower-income neighborhoods will need to consider housing through the lens of access to jobs and educational opportunities," she said.

A first step to reviving housing is to "deal with the overhang of properties on the market," said Duke in response to a question.

Vacant homes harm neighborhoods and slow the housing recovery, she said. Land banks created by public agencies or partnerships offer one way to acquire, restore and eventually resell low-value properties that would sit vacant if left to the private market.

"A lot of work is being done in that way around the country, and a lot of work is still to do," she said.

Community-reinvestment programs in place around the country are up to the challenge, she said, if they address the problem broadly.

"It's a mistake to think of this merely as a building and housing issue," she said. "It takes a full community approach."

The central bank, she said, is currently studying the relationship between community development and workforce development programs. "We anticipate that this research will provide valuable information for bankers and their community partners as they address the needs of their communities," she said.

Led by Duke, fellow governor Sarah Bloom Raskin and Federal Reserve Bank of New York President William Dudley, the central bank's staff have spent more time studying housing policy recently because huge losses in household wealth over the last few years are weighing on the broader economy.

Many cities around the country are coping with a glut of vacant and foreclosed properties as a result of the housing crisis. As a result, Duke noted, community groups have needed to shift their focus from building new housing to preserving or disposing of it.

"Using this kind of mechanism, a community can gain control of vacant properties and keep them from causing problems for the surrounding neighborhood until market conditions are more conducive to redevelopment or sale," she said.