

Legislation Text

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Authorizing the Committee on Legislative Oversight to hold hearings examining racial disparities in home lending, also known as modern-day redlining, in the City of Philadelphia.

WHEREAS, "Redlining" was a financial-lending practice, sanctioned by the Federal Housing Authority from the 1930s through 1960s, which designated neighborhoods as financially risky based on the racial composition of the neighborhood. The policy was deemed unconstitutional by the U.S. Supreme Court in *Shelley v. Kraemer* (334 U.S. 1); and

WHEREAS, This practice led to *de jure* segregation of American cities and neighborhoods, i.e., legally enforced segregation. The practice also contributed to racial disparities in wealth, as people of color were disproportionately unable to purchase homes, an impactful wealth asset; and

WHEREAS, In 1977, the government passed the Community Reinvestment Act (CRA) in order to remediate damage caused by prior lending practices, especially in low- and moderate-income communities. Banks are reviewed and rated on their performance in service their communities. There are four ratings, which range from "substantial non-compliance" to "outstanding". Penalties for not meeting those needs can affect a bank's application to open a new branch, relocate a branch, or other corporate activities; and

WHEREAS, A recent report by the Center for Investigative Reporting (CIR) using public data from the Home Mortgage Disclosure Act found racial disparities in 61 metro areas, including Philadelphia, in three major conventional loan areas: home purchase, home improvement, and refinance loans. Researchers controlled for nine economic and social indicators, including income and the amount of the loan, and found race as a statistically significant factor. Additionally, the report found that the CRA's purpose are subverted because CRA loans in low- and moderate-income communities are disproportionately made to white applicants; and

WHEREAS, Intermediate small banks (ISBs) and large banks are reviewed every three years under the CRA. Reviews include opportunities for communities to comment on a bank's performance. Ninety-nine percent of lenders were deemed "satisfactory" or "outstanding" despite the documented modern-day redlining; and

WHEREAS, The CIR report singled out the Philadelphia metro area as one of the worst large metro areas, where Black applicants were denied at 2.7 times the rate of White counterparts overall, 2.1 times as likely for home purchase loans, 1.6 times as likely for home improvement loans, and 2 times as likely for refinance loans. Additionally, while no disparity could be conclusively found for Latino applicants in home purchase loans, it was found at almost two times the rate for home improvement loans and two times the rate for refinance loans. By denying home loans disproportionately, lenders exacerbate the negative effects of gentrification and blight in communities of color; and

WHEREAS, The extent that this practice has affected the City of Philadelphia's neighborhoods merits further investigation. Furthermore, due to the complexity of the issue, subject matter expertise will be needed from regulators, housing experts, community members, as well as various sectors to determine how Philadelphia can remain an inclusive, vibrant community providing opportunity to people of all races and incomes; now,

therefore, be it

RESOLVED, BY THE CITY COUNCIL OF PHILADELPHIA, That the Committee on Legislative Oversight is authorized to hold hearings examining racial disparities in home lending, also known as modern-day redlining, in the City of Philadelphia.