

California's Greenlining Institute: Arm-Twisting for Financial Affirmative Action

By John Gizzi

Summary: The Greenlining Institute goes where the money is. Last month's Foundation Watch described its role in promoting a philanthropy disclosure bill that prompted large private foundations in California to promise more grants for minority group nonprofits. A master at shaking down deep-pocketed institutions, Greenlining ordinarily takes on banks and other financial institutions, pushing them to make more credit available to higher-risk, low-income homeowners and businesses, and its efforts may very well have contributed to the nation's current economic problems.

The Greenlining Institute has been a left-wing lobbying and litigating group for 16 years, but it's little known among conservatives. The advocacy group had 2006 revenues of over \$3.7 million and a staff of 18. At its Berkeley, California headquarters it hosts a consortium of 40 California-based associations, churches and civic groups, most of them representing minorities. Greenlining's principal aim is to push state and local politicians and the California business community to facilitate "community reinvestment" in low-income and minority neighborhoods. In reality, the Greenlining Institute uses carrot-and-stick tactics to force public agencies, banks and donors to fund its allied advocacy groups. Yet outside the Golden State's financial circles there is little recognition of its immense influence over banks.

Even though it flies below the radar, the Greenlining Institute has had great success in persuading the business community to see things its way. Its most potent tool of



Hostage-taking at Rabobank: Rabobank vice president Joyce Keane (holding microphone) negotiates with activists outside the bank in Fresno, California, on February 26, 2007. Behind her holding the bullhorn is Robert Gnaizda, a co-founder of the Greenlining Institute. Later, the bank caved in to Greenlining's demands. (screen grab from video at greenlining.org)

persuasion is the Community Reinvestment Act (CRA), which is a kind of financial affirmative action law. CRA is a federal law that requires banks to make loans in the communities from which they draw deposits, ostensibly ensuring that they extend credit to low-income areas. The American Banker, the industry's daily newspaper, politely observes, "Greenlining uses the potential profitability of investing in lower income communities as an argument for banks to sign community reinvestment deals. To date, the group has negotiated commitments of more than \$2.4 trillion under the Community Reinvestment Act of 1977."

The Greenlining name is a play on the

discriminatory and now illegal practice of "redlining" neighborhoods. That's when financial institutions mark out areas, typically with a high concentration of racial minorities, that they consider bad risks for making home and commercial loans. The Institute

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wants banks to put money into these areas instead.

This year Greenlining helped craft and promote AB 624, a measure passed by the lower house of the California State Legislature that would have required foundations with more than \$250 million in assets to disclose the race and gender of their trustees and staff. In addition, the bill would have required disclosure of the number of grants and percentage of dollars going to specific minority groups. The bill's sponsors said they were motivated by the worry that big foundations had grown indifferent to poverty and were not giving enough money to particular nonprofit groups. The bill named as "specific" groups those led by or catering to African-Americans, Asian-Americans, Pacific Islanders, Latinos, Native Americans, Alaskan Natives, gay, lesbian, bisexual and transgender people "and other underrepresented communities."

The measure passed the California State Assembly on a party line vote, with every Democrat voting for it and every Republican opposing it. But in June, Democratic Assemblyman Joe Coto, the bill's sponsor, abruptly withdrew it just as it was about to be considered by a State Senate committee. His reason: 10 major foundations announced

their agreement "to spend millions of dollars to strengthen organizations that serve minority and lower-income people," according to the Chronicle of Philanthropy.

Adam Briones, a program manager at Greenlining, told the San Jose (California) Mercury News, that while the foundations' dollar commitment "is a little vague, we believe it's a great starting place."

It was a classic shakedown. The Greenlining Institute used its friends in the state legislature to pressure California's largest foundations to make more grants to the sorts of advocacy groups close to Greenlining. The bill's excessive demands for the disclosure of information on the gender, race, ethnicity and, at one point, sexual orientation of foundation trustees, staff and grantees put foundations on notice, suggesting that their grantmaking priorities were insensitive to minorities. Coto called off his attack as soon as the foundations decided it was wiser to promise to shower more money on organizations *simpatico* to Greenlining.

When banks and foundations accede to Greenlining demands they are always careful to deny that they are victims of a "shakedown." Tim Hanlon, a senior vice president at Wells Fargo and the company's head of community development for the western United States, described Greenlining and its ties to the California business community with the greatest deference. He told American Banker: "They're crystal clear about what they want, what they need, and what their position is. They do their research. They do their homework. It's a very solid and respectful relationship."

It's debatable whether a group that demands money as the price for calling off its attacks can enjoy a "solid and respectful" relationship with its target. But one aspect of Greenlining's work is inarguable: the nonprofit has unusual access to political, corporate, and foundation decision makers. It exercises influence over some of America's largest corporations, biggest foundation grantmakers, and even the Federal Reserve Board.

Gamboa and Gnaizda, Inc.

To understand what the Greenlining Institute has accomplished, one has to know

a bit about its co-founders: John Gamboa, Greenlining's president, and Robert Gnaizda, its policy director and general counsel. As young men in the 1960s, they were exponents of the "social justice" ideas of the Catholic activist Dorothy Day and the community organizing tactics of the radical activist Saul Alinsky.

In the mid-1960s, Gamboa was organizing Hispanic managers at Pacific Bell to demand that telephone service be provided in Spanish. Phone companies at the time were almost universally opposed to providing non-English services. Gnaizda, who started out as a civil rights activist in Mississippi, would at age 30 in 1966 help found California Rural Legal Assistance, a nonprofit thorn in Governor Ronald Reagan's side. It represented union leaders like Cesar Chavez who organized migrant workers to make demands on state agencies and farmers. Gnaizda subsequently was a health and welfare official for Reagan's successor, Jerry Brown.

In 1971, Gamboa and Gnaizda launched an informal coalition of churches, ethnic organizations, and civic groups among California's African-American, Asian-American, and Latino communities. Its mission was "to combat employment, lending and service discrimination by financial institutions and regulated utilities in California."

In those days, the coalition was confrontational. It played rough, fighting what it considered the discriminatory practices of utilities and banks. "The early informal history of the Greenlining Coalition began with successful actions against the state's eleven largest utilities in employment and service discrimination," the Greenlining website recalls, "and against the five largest banks and nine largest savings and loans for lack of promotional opportunities to minorities."

However, in 1977 Congress passed the Community Reinvestment Act, which mandated that banks and S&Ls had to show that they provided home mortgages and small business loans to low-income and minority persons in areas where they did business. CRA outlawed neighborhood "redlining," and it set up extensive government procedures for evaluating how well banks serviced lenders by providing credit. CRA encouraged Greenlining groups to become

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less confrontational and more legalistic in pushing banks to follow the law and pushing regulators to apply it stringently. In 1979 the group established its Greenlining Coalition of activists.

In 1992 the coalition became the Greenlining Institute. Gamboa and Gnaizda put up their homes as collateral to secure a \$100,000 loan from the Bank of America to formally establish their nonprofit institution. That was the year Los Angeles was ravaged by riots sparked by the acquittal of police accused of beating motorist Rodney King the year before. The riots left 53 persons dead and caused \$1 billion in damage, particularly in inner city neighborhoods. When these neighborhoods were slow to recover, community activists complained that Los Angeles-area banks had cut back on lending to them.

The activists also complained that the Community Reinvestment Act lacked teeth. As the Los Angeles Business Journal noted at the time, “[I]nterpretation of the CRA and how to comply with it is often left up to banks and savings and loan institutions rather than the regulators. Community groups as well as small business leaders say that this discretion has allowed financial institutions to do very little lending in low-income areas.”

As frustration with the pace of recovery mounted, Gamboa protested that “less than one percent of all business loans made in California, in total dollar amount, go to Hispanic-owned businesses. African-American businesses, meanwhile, are getting an even smaller chunk of the California business-loan pie.” He estimated that “African-American businesses receive less than one-half of one percent of all business loans in California.”

From that point on, the Greenlining Institute took off. It began to announce what it wanted from the business community—and it got it. When a 1994 Greenlining report concluded that Japanese-owned banks in California were making insufficient loans to African-Americans and Latinos, Gnaizda went to Tokyo. He warned bank executives there that Greenlining was a watchdog group keeping track of their California loan activity and that they had better comply with the CRA. Greenlining also fought to a standstill an attempt by the new majority of

congressional Republicans to roll back CRA regulations in 1995.

Greenlining increasingly struck a positive note with financial institutions. It argued that a bank’s failure to make loans in poor areas amounted to a lost opportunity. Greenlining promised that banks would profit from doing the right thing. In April 2003, for example, Merrill Lynch and Greenlining announced the launch of a California Partnership for Economic Achievement, a half-billion dollar initiative to expand small business lending



Greenlining's co-founders John Gamboa (left) and Robert Gnaizda (right)

and promote opportunities in Asian-Pacific, African-American, and Latino communities throughout California. A Merrill Lynch press release hailed the initiative as “the first of its kind by a Wall Street investment firm” that committed to providing \$490 million in small business loans and \$10 million for community development programs promoting financial literacy, “supplier diversity” (i.e. minority contracts), and “affordable homeownership” (i.e. public housing subsidies).

“Our past efforts have succeeded because of our partnership with the Greenlining Institute and the community organizations that work every day to expand opportunities in these underserved markets,” said Stan O’Neal, the CEO of Merrill Lynch, at

a Greenlining conference in Los Angeles. “This new financial commitment dramatically increases our efforts to put innovative financial expertise to work in these underserved areas. What’s more, these are excellent markets where we expect to see significant wealth creation.”

Greenlining reached similar agreements with other banks by urging them to out-do one another in committing money to low-income and minority economic development loans—or face the consequences of a CRA review. After Charlotte, North Carolina-based Wachovia purchased Golden West Financial for \$25.5 billion in 2006, two members of the Greenlining board of directors wrote an op-ed in *American Banker* [June 2, 2006] indicating what they expected from the new owners. They warned Wachovia that it had better “set a leadership standard” in community reinvestment, small business lending and philanthropy. Wachovia, they said, must maintain Golden West’s headquarters in Oakland, dedicate as much as the Bank of America to inner-city lending, and commit a minimum of 2% of its pre-tax profits for philanthropy to the underserved. Wachovia reacted to Greenlining’s prompting by making a \$150 billion ten-year commitment to help minority entrepreneurs in California. Greenlining’s Elaine Braithwaite said, “They showed they are attentive to our needs. We are looking forward to working with Wachovia on the follow-through.”

In 2007, the much-smaller East-West Bank made an \$11.5 billion 10-year commitment to community reinvestment—the annual amount constitutes 10% of the bank’s assets—after Greenlining complained that the bank’s CRA ratings were unacceptable. Ironically, East-West is a Chinese-American owned bank. Greenlining’s Gnaizda revealed the strategy behind targeting East-West: “This puts tremendous pressure on other midsize banks to also develop long-term CRA plans, because they’ll now be at a competitive disadvantage,” he said.

J.P. Morgan Chase set a record for community reinvestment under CRA with a pledge of \$800 billion over 10 years. Greenlining played a role in that deal too, as it did with similar pledges by Bank of America, Wells Fargo, Bank of Tokyo, Home Savings of America, and Washington Mutual. Bank

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after bank has made loan commitments to Greenlining, and each one is more sweeping than the last.

“As part of Greenlining’s efforts to maximize minority opportunities, while enhancing bank profits, and to ensure that CRA agreements are met,” goes a Greenlining press release, “Greenlining meets semi-annually with the senior management and the CEOs of all banks it has CRA agreements with.”

Greenlining alters its tactics to fit its circumstances. Lately it’s been sitting down with corporate CEOs in their boardrooms; but at other times it challenges them in court or brandishes picket signs outside their headquarters.

On the record, virtually all the banks as well as other businesses that deal with Greenlining praise its work. There is no mention of arm-twisting even when bank commitments and contributions reached 12 figures. A review in American Banker of Greenlining’s bank dealings is full of undiluted praise. There’s not a scintilla of criticism.

Greenlining is “forward-looking, thoughtful, and challenging,” says Rexa Aghamirzadeh, a senior vice president for community and external affairs at Washington Mutual, Inc. The firm, he says, has a “trustful relationship” with the Institute.

“We’re Not a Dutch Colony!”

But Greenlining can still play rough. Consider its dealings with Rabobank, an international Netherlands-based “megabank” (assets: \$740 billion) that in early 2006 acquired Salinas-based Community Bank of Central California for \$371 million.

“*Rabobank’s latest CRA Performance Evaluation (‘PE’), dated February 2, 2003, and issued by the Federal Reserve Bank of San Francisco, assigned ‘Outstanding’ rating,*” was the finding in a January 15 letter from James A. Bundy, senior licensing analyst at the Office of the Comptroller of the Currency, which had approved its acquisition of Community Bank of Central California. The letter continues, “*The PE noted an excellent level of qualified community development activities under the lending, investment, and services tests, and the responsiveness of these*

activities to community needs. The PE also noted an excellent distribution of lending among assessment area geographies, with a strong record of serving moderate-income areas. In addition, the PE indicated that the bank’s overall record of lending to small businesses and small farms was good. No evidence of discriminatory lending practices was found.”

But that wasn’t good enough. Bundy’s letter noted that two community organizations filed critical comments. “Neither of the commenters protested the merger, but both

“[Greenlining] points out that they could be invested over a period of ten years, not requiring an immediate commitment of assets,” American Banker reporter Ben Jackson wrote at the time, “However, Rabobank is concerned that the amount involved is too much, given its comparatively small market share in California...In addition, the bank points out that it already invests in some community-development programs for non-profits and small farms.”

Greenlining’s reply was a shot fired across the Dutch institution’s bow: “If Rabobank



Banking expert Bert Ely

expressed concerns with the need for fairly priced financial products and services for California’s low-income, rural population, including farm workers.” Bundy did point out that “Rabobank has met with community organizations and is exploring the development of products that would meet these needs.”

The letter did not identify the “commenters,” but it was obvious that Greenlining was one of them. Earlier, in November 2005, Rabobank had agreed to pay \$851 million for another California bank, Mid-State Bancshares. At that time, Greenlining publicly demanded that Rabobank commit \$7.5 billion for loan programs to help farmworkers buy their own farms. With only 40-some California branches, Rabobank balked.

cannot reach an agreement to commit funding to CRA programs, the institute will oppose any further acquisitions it tries to make in California.” Greenlining then asked the Comptroller of the Currency to hold hearings into Rabobank’s acquisition of Mid-State and to require Rabobank to issue quarterly reports on its compliance with the CRA.

It also announced a protest demonstration. In February 2007, Latino and Southeast Asian farmers and farmworkers joined Greenlining organizers in a demonstration outside Rabobank’s Fresno, California offices. Backed by Mariachi and Hmong bands, the demonstrators waved placards and chanted slogans in English, Dutch, Spanish, and Hmong: “We’re Not a Dutch Colony!”, “Help de armen (Dutch for ‘Help the Poor’)” and

“Geen immigranten schoppen (Dutch for ‘Don’t kick the immigrants’).”

“Congratulations to everyone,” Greenlining’s Robert Gnaizda told demonstrators through a bullhorn, “Rabobank is totally afraid of you.” Apparently it is. This year, Greenlining proudly announced what it called a “unique agreement” with Rabobank “to turn San Joaquin farmworkers into farmowners.”

Who Will Call It “Shakedown?”

It is nearly impossible to get anyone in the banking industry to talk about Greenlining and whether its dealings with the group constitute a shakedown. When I called Rabobank’s headquarters in Fresno to discuss the Greenlining-run demonstrations, spokesman Andy Froker said he would contact someone who was involved directly in the controversy. At press time, no one had called me back.

“I can’t speak for Rabobank, but no bank is going to go on the record and talk about a shakedown by Greenlining,” said Alexandria, Virginia, banking consultant Bert Ely, “but there is certainly a feeling among major banks about all these groups. There are a variety of groups involved in shakedowns and Greenlining is certainly not unique. Groups like these don’t worry about smaller banks. They leave them alone. The major banks, particularly when they are going to acquire new banks, feel threatened if groups like Greenlining put out the word that they are not doing enough in lower-income communities. So they minimize the amount of possible damage by making these big loans.”

“It’s a shakedown, all right, but no one [in the banking industry] will call it that.”

Ely went on to say that the CRA “gave Greenlining and other groups leverage” in their dealings with financial institutions. He also believes there is “some linkage” between the 1977 law (which was strengthened in Bill Clinton’s first term) and the present subprime mortgage crisis because “banks were leaned on to do lending that wasn’t sound.”

Sacramento attorney Thomas McMorrow, once a staffer with the Senate Banking Committee, is also critical of Greenlining and its tactics. In his words, “What John

McCain once said about ‘a cause becoming a business’ could easily apply to Greenlining these days. The original mission of the CRA was to ensure access to loans by lower income communities and, by the 1990s, it was essentially accomplished. John Gamboa said as much. Today, the American financial community is giving more money to lower-income people than any major industrial nation in the world. So Greenlining, one has to ask, is expanding its activities but for what purpose? Why is it now pursuing a different agenda such as fighting predatory lending or trying to empower farmworkers?”

A Force to Be Reckoned With

American banks and homeowners are currently undergoing a devastating credit and foreclosure crisis and, in the words of University of Texas economist Stanley Liebowitz, it’s a scandal. The mortgage crisis, he believes, is “a direct result of an intentional loosening of underwriting standards - done in the name of ending discrimination, despite warnings that it could lead to wide-scale defaults.” (New York Post, February 5, 2008)

The Greenlining Institute proudly proclaims that it has threatened and cajoled banks into making \$2 trillion dollars in loans to low-income communities. Was that a good idea? During the good times community organizers at groups like ACORN and the Greenlining Institute attacked banks for racial discrimination if they dared to reject risky loan applications. They pushed regulators to require banks to “invest” in high-risk areas. And they praised banks for nondiscriminatory lending when they made enormous sums available to minority and low-income borrowers. But now hundreds of thousands of homes are in foreclosure and lenders are in default. What now?

In their defense Gnaizda and Gamboa report that at various times they unsuccessfully pressed former Federal Reserve chairman Alan Greenspan to support a voluntary code of conduct for subprime lenders. Gnaizda told the New York Times (December 18, 2007), “He never gave us a good reason, but he didn’t want to do it. He just wasn’t interested.”

However, when the FBI recently announced an investigation into the conduct

of unscrupulous mortgage brokers who arranged loans for persons who shouldn’t have had them, Greenlining’s Robert Gnaizda defended the brokers and blamed the banks. “Mortgage brokers only did what financial institutions allowed them to do,” he told the Los Angeles Times (June 20, 2008). He did not mention that the banks are acting under the influence of groups like the Greenlining Institute.

Whether it operates in boardrooms or on the streets, it seems a safe bet to say that the Greenlining Institute has a direct influence on California business and politics. And that means it has an impact on us all.

John Gizzi is the political editor for Human Events, a weekly Washington news journal.

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Terrence Scanlon
President

Briefly Noted

With gas costing more than \$4 a gallon, President **George W. Bush** lifted the executive order banning offshore oil drilling last month and now environmentalists are terrified that the 27-year-old congressional moratorium on offshore drilling could be next. “The risk (to the moratorium) is elevated beyond belief,” said **Richard Charter**, a lobbyist for the **Defenders of Wildlife Action Fund**. Senator **Barbara Boxer** (D-California) claimed the public supports the ban “but when the president of the United States makes it sound like this will solve the gas price problem, you’ve got to worry.”

Dale Rathke, brother of **ACORN** founder **Wade Rathke**, embezzled nearly \$1 million from ACORN and affiliated groups in 1999 and 2000, the New York Times reported July 9. Amazingly, Dale Rathke remained a paid employee of ACORN until June when word of the scandal broke in ACORN circles.

Meanwhile, the vote fraud specialists at ACORN have already gotten their fall vote fraud campaign underway. ACORN National President **Maude Hurd** said she did not believe a former employee in Dauphin County, Pennsylvania, who collected up to 150 questionable voter registrations, deliberately sought to register ineligible people. The excuse always seems to be that the worker was “temporary.”

After the Supreme Court repudiated the “collective rights” interpretation of the Second Amendment in *District of Columbia v. Heller* (June 26) thereby eliminating the **Brady Center to Prevent Gun Violence’s** reason for existing, the gun control group was defiant. The decision “will most likely embolden criminal defendants, and ideological extremists, to file new legal attacks on existing gun laws,” said **Paul Helmke**, the group’s president. “Those attacks can, and must, be successfully resisted in the interest of public safety.”

We’ve been saying for some time that climate change alarmists are deluded, but now science backs us up – well, sort of. Writing in the Australian and New Zealand Journal of Psychiatry, **Joshua Wolf** and **Robert Salo** identify a new psychiatric disorder they call Climate Change Delusion. A patient believed because the climate was changing his own water consumption could exhaust water supplies and kill millions of people.

Environmental fanatic **James Hansen** proposes that oil company CEOs be tried for high crimes against humanity and nature for spreading doubt about global warming just as tobacco companies supposedly blurred the links between smoking and cancer. Hansen, the director of NASA’s Goddard Institute for Space Studies, previously said President Bush’s White House was a “propaganda office,” and that “it seems more like Nazi Germany or the Soviet Union than the United States.”

We already knew that Venezuela’s leftist strongman **Hugo Chavez** provides safe haven to Islamist terrorist groups **Hezbollah** and **Hamas** in his country, but now we know he actually funds Iran-aligned Hezbollah too. Venezuelan diplomat **Ghazi Nasr al Din** and Venezuelan-Arab businessman **Fawzi Kanan** were identified in a funding scheme by the U.S. Treasury Department, reports the Washington Times. Chavez has also provided aid to **FARC**, the Marxist insurgency in Colombia that is trying to overthrow that country’s democratically elected government.

Arthur C. Brooks will succeed **Christopher DeMuth** as president of the **American Enterprise Institute** (AEI) on January 1, 2009, the think tank announced. Brooks is Louis A. Bantle Professor of Business and Government Policy at **Syracuse University** and a visiting scholar at AEI. He is also author of *Who Really Cares: The Surprising Truth About Compassionate Conservatism*. (Basic Books, 2006) DeMuth, who has been president since 1986, will remain at AEI as a senior fellow.