

The Community Reinvestment Act (CRA)



OVERVIEW: VITAL FOR NEIGHBORHOODS, THE COUNTRY, AND THE ECONOMY

CRA is one of the most important laws for building wealth and revitalizing neighborhoods. CRA has leveraged trillions of dollars for low- and moderate-income communities since its enactment in 1977, and has had a broader impact on the overall economy by creating jobs, expanding affordable housing opportunities, and promoting small business development.

CRA requires banks to meet the credit needs of all communities, including in low- and moderate-income areas, consistent with safety and soundness. Congress enacted CRA in response to “redlining” (denial of loans and services) by lending institutions in low- and moderate-income communities. The practice of redlining had been documented with the passage of the *Home Mortgage Disclosure Act* (HMDA) in 1975, which is commonly referred to as a “companion law” to CRA.

The National Community Reinvestment Coalition (NCRC)

The National Community Reinvestment Coalition (NCRC) is an association of more than 600 community-based organizations that promotes access to basic banking services, including credit and savings, to create and sustain affordable housing, job development, and vibrant communities for America’s working families. Our members include community reinvestment organizations, community development corporations, local and state government agencies, faith-based institutions, community organizing groups, civil rights organizations, minority- and women-owned business associations, and local and social service providers from across the nation.

NCRC and CRA

NCRC was founded in 1990 to mobilize widespread support from community groups across the nation in response to pending legislation that threatened to significantly undercut the effectiveness of CRA. Since then, NCRC has worked with its national membership to preserve, strengthen, and modernize CRA.

At the invitation of President Clinton, NCRC played the lead role in rewriting CRA regulations to make CRA exams more rigorous and performance-based. NCRC was successful in ensuring that HMDA data were reported in a way that was easily accessible to community groups, the media, and the public. NCRC also organized a successful call-to-action campaign with community groups, in which they contacted federal banking agencies to encourage them to alter how banks were evaluated under CRA. This campaign resulted in greater transparency among banks, and also secured federal mandates that banks would be evaluated for their performance in lending, services, and investments under CRA. From these efforts, CRA lending and investments in low- and moderate-income communities grew significantly.

From 2004 through 2007, NCRC defended CRA against a series of attempts to weaken it. Three federal agencies (the Federal Reserve Board, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation) parted ways with the Office of Thrift Supervision (OTS) over OTS’ weakening of CRA exams, citing NCRC’s findings that the changes in exams would decrease access to credit. The OTS reversed this decision in 2007, however, and adopted the approach of the three banking regulatory agencies that supported CRA requirements.

CRA Is Essential to the Sustainability of Working Families and Communities

Federal agencies rate banks’ performance in serving low- and moderate-income communities and must consider banks’ community reinvestment records when banks apply for permission to merge with other banks. The public has the right to comment on banks’ CRA exams and merger applications, and as a result, CRA has increased bank lending, investing, and services in low- and moderate-income neighborhoods by holding banks publicly accountable.

- Since the passage of CRA in 1977, lenders and community organizations have signed CRA agreements totaling more than \$6 trillion in reinvestment dollars.¹
- These agreements include loans and investments for affordable housing, small businesses, economic development, and community service facilities in minority and low- and moderate-income neighborhoods.
- NCRC's members have been responsible for generating this level of community investment through CRA challenges and the resulting CRA-agreements.
- Since 1996, banks and thrifts (depository institutions) have made 373,404 community development loans totaling more than \$407 billion.
- The annual dollar amount of community development loans more than tripled—from \$17.7 billion in 1996 to \$63.8 billion in 2007.
- Depository institutions made 14.8 million small business loans totaling more than \$581 billion in low- and moderate-income neighborhoods from 1996 through 2007.
- An NCRC report "Access to Capital and Credit for Small Businesses in Appalachia," shows that every two years banks issued \$5.4 billion in community development lending and investing in Appalachia.² Small business lending was higher in Appalachian counties with higher numbers of bank branches, and this demonstrates that bank branches had a positive impact on community lending (rather than only receiving deposits).

CRA Is Good Business

- CRA lending has proven to be safe, sound, and profitable. A Congressionally-mandated Federal Reserve survey from July 2000 found that the great majority of banks (more than 80 percent) reported that CRA-related home purchase and refinance lending is profitable.³
- CRA does not mandate that a certain amount of loans be made to low- and moderate-income borrowers. This means that the increase in lending to such borrowers would not have been as great during the 1990s if such lending did not create opportunities for banks to profit and keep their obligations to communities.

- Mr. Michael Middleton, President and CEO of Community Bank of Tri-County, Maryland, testifying on behalf of the American Bankers

Association cited CRA's positive impact during before the Financial Institutions and Consumer Credit Subcommittee of the House Committee on Financial Services on March 11, 2009. He stated, "We really find the CRA as a tool, not an obstacle, and I mention also that all of our affordable housing loans are current, none of them are in default."

- The US Department of the Treasury, the Brookings Institution, and Harvard University's Joint Center for Housing Studies have all studied and affirmed the benefits of CRA.
- The Harvard study "The 25th Anniversary of the Community Reinvestment Act: Access to Capital in an Evolving Financial Services System" demonstrates that without CRA, home-purchase lending to low- and moderate-income borrowers and communities would have decreased by 336,000 loans from 1993 through 2000. The study also reveals that bank lending to such borrowers is higher in geographical areas where federal agencies grade banks on CRA exams than in localities where banks lend but are not subject to CRA exams. (Banks generally are not subject to CRA in locations in which they do not have branches but still engage in lending through brokers.)⁴
- CRA-covered banks and thrifts make a greater percentage of their loans to low- and moderate-income borrowers than mortgage companies and mainstream credit unions.
- NCRC's Credit Unions: True to Their Mission finds that banks outperformed credit unions in reaching low- and moderate-income, minority, and women borrowers with home purchase loans in 40 states or 80 percent of the states from 2001 through 2003.
- In 2005, CRA-covered banks and thrifts (depository institutions) and non-covered CRA lenders made 25.1 percent and 23.8 percent of their home purchase loans respectively to low- and moderate-income borrowers.
- CRA-covered institutions issued 566,620 prime home purchase loans to low- and moderate-income borrowers, while non-CRA covered independent mortgage companies and credit unions made 281,622 loans to these borrowers in 2006.

CRA Builds Healthy, Diverse Communities

- Using NCRC's records of CRA agreements, Federal Reserve economist Raphael Bostic and his colleague Breck Robinson found that CRA agreements increased bank lending to minorities and low- and moderate-income borrowers by up to 20 percent.⁵



- CRA has leveraged a significant increase in home mortgage lending to minority and low- and moderate-income borrowers.
- From 1993 through 2002, home mortgage lending increased 79.5 percent to African Americans, 185.8 percent to Hispanics, and 90.6 percent to low- and moderate-income borrowers. In contrast, lending increased just 51.4 percent to middle-income borrowers. The surge in lending to underserved borrowers (minorities and low- and moderate-income) occurred in a time period preceding the substantial increase in high-cost and exotic lending.
- CRA has contributed to a much greater increase in lending to minority and low- and moderate-income borrowers than to whites and middle-income borrowers.
- Low- and moderate-income borrowers received 1.27 million home loans in 2002, which was an increase of 604,000 loans over the number of loans they received in 1993. Part of this increase is attributable to CRA, as documented by the research cited above.
- A Treasury Department study finds that CRA-covered lenders increased their home mortgage loans to low- and moderate-income areas and borrowers by 39 percent from 1993 to 1998, which is more than twice the increase (of 17 percent) to middle- and upper-income borrowers and areas.⁶

Sound Lending Practices Are Essential to Sustainable Economies and Communities

CRA contributes to safe and sound lending that is affordable for borrowers. CRA-covered depository institutions made substantially fewer high-cost loans and piggyback⁷ loans than lenders not covered by CRA. High-cost and/or piggyback loans have been found to be riskier and have higher default rates than the traditional prime loans of CRA-covered depository institutions.

- The Federal Reserve Board in their study “Higher Priced Home Lending and the 2005 HMDA Data” found that 34.3 percent of the home purchase loans issued by non-CRA covered lenders were high cost loans in 2005. By contrast, only 5.1 percent of the home purchase loans issued by depository institutions and closely scrutinized on CRA exams were high cost.⁸
- These findings were also supported by Traiger & Hinckley LLP, a fair lending compliance law firm, which observed that 84.3 percent of the high-cost home purchase loans in the 15 most populous metropolitan areas were issued by non-

CRA covered lenders while the remaining 15.7 percent were issued by banks and their affiliates.⁹

- Independent mortgage companies were a significant source of piggyback credit according to the Federal Reserve. From 2004 to 2006, independent mortgage companies extended between 55 percent and 63 percent of the high-cost piggyback loans. During the same time, depository institutions accounted for about one-fifth to more than one-fourth of the high-cost piggyback loans.¹⁰
- New research by Elizabeth Laderman and Carolina Reid of the San Francisco Federal Reserve Bank documents that loans made by banks in their CRA assessment areas are about half as likely to end up in foreclosure as loans issued by independent mortgage companies. The researchers conclude that “we believe that this research should help to quell if not fully lay to rest arguments that the CRA helped caused the current subprime lending boom...” They continue, “Proposals to ‘modernize’ the CRA, either by expanding the scope of the CRA assessment area and/or by extending regulatory oversight to IMCs (independent mortgage companies) and other nonbank lenders, certainly deserve further consideration.”¹¹
- Testifying on March 11, 2009, before the Financial Institutions and Consumer Credit Subcommittee of the House Committee on Financial Services, Sandra Braunstein, Director of the Division of Consumer and Community Affairs of the Federal Reserve System affirmed, “I can state very definitively from the research we have done, that the Community Reinvestment Act is not one of the causes of the current crisis.” Braunstein continued, “We have run data on CRA lending and where loans are located, and we found that only six percent of all higher cost loans were made by CRA covered institutions in neighborhoods targeted, which would be low to moderate income neighborhoods targeted by CRA. So I can tell you if that’s where you’re going, that CRA was not the cause of this loan crisis.”¹²
- NCRC’s study “Broken Credit System,” documents that there is currently an imbalance in high-cost lending with a disproportionate amount of these loans reaching borrowers in minority neighborhoods even after controlling for creditworthiness. CRA counteracts this by bolstering product choice, increasing prime lending, and discouraging banks from making unfair loans.¹³



- CRA encourages foreclosure prevention by awarding points on CRA exams for counseling and modifying high-cost loans into affordable loans.¹⁴ CRA penalizes banks and thrifts for making illegal and abusive loans.

CRA's Further Expansion

CRA continues to be the primary mechanism for investment in community development in low- and moderate-income areas. Underserved communities would benefit from the expansion of CRA throughout the financial services industry.

- NCRC recommends enhancements in data disclosure. The HMDA data should have pricing information on all loans, not just high-cost loans. The HMDA data should have additional information on loan terms and conditions and should have underwriting variables such as creditworthiness, loan-to-value ratios, and debt-to-income ratios. CRA small business loan data needs information on the race and gender of the small business borrower.
- NCRC recommends that CRA should cover the great majority of bank lending, including the lending made through brokers in addition to the loans issued through bank branches. Currently, CRA does not cover all loans made by depository institutions since CRA generally applies to lending through bank branches but does not usually cover bank lending through brokers. As a result, a significant amount of bank lending does not receive as much scrutiny as it should.
- NCRC recommends that CRA apply to independent mortgage companies and mainstream credit unions in order to encourage them to increase product choice and prime lending to low- and moderate-income borrowers and communities.
- NCRC recommends that CRA consider lending to minority borrowers and communities to increase its effectiveness in reducing lending disparities for minorities (as it has for low- and moderate-income) borrowers. NCRC's report "Are Banks on the Map," concluded that minority neighborhoods in 25 large metropolitan areas experienced fewer branches per capita than low- and moderate-income neighborhoods.¹⁵ These disparities would be narrowed if CRA explicitly considered bank performance in serving minority communities.
- NCRC recommends that CRA be expanded to other non-bank institutions including insurance companies, securities firms, and investment banks in order to increase access to credit and capital for working communities.

Currently, NCRC is working with Congress to modernize CRA. Rep. Eddie Bernice Johnson introduced H.R. 1479, the *CRA Modernization Act of 2009*, during a press event at NCRC's national conference on March 12, 2009. This proposed legislation would strengthen CRA as applied to banks and would expand CRA coverage to independent mortgage companies, insurance firms, mainstream credit unions, and other non-bank institutions. NCRC will engage its member organizations and colleagues in a campaign to promote CRA modernization and seek Congressional passage of laws updating and expanding CRA.

¹ NCRC's "CRA Commitments," which includes \$4.6 trillion in commitments. See http://www.ncrc.org/images/stories/whatWeDo_promote/cra_commitments_07.pdf. More recently, Bank of America pledged \$1.5 trillion when it was acquiring Countrywide, see http://newsroom.bankofamerica.com/index.php?s=press_releases&item=8152

² See http://www.ncrc.org/images/stories/mediaCenter_reports/ncrc%20study%20for%20arc.pdf.

³ See <http://www.federalreserve.gov/boarddocs/surveys/craloansurvey/cratext.pdf>

⁴ The Joint Center for Housing Studies at Harvard University, "The 25th Anniversary of the Community Reinvestment Act: Access to Capitol in an Evolving Financial Services System." March 2002.

⁵ Raphael Bostic and Breck Robinson "Do CRA Agreements Influence Lending Patterns?" July 2002, available via bostic@usc.edu

⁶ Robert Litan, Nicolas Retsinas, Eric Belsky and Susan White Haag, "The Community Reinvestment Act After Financial Modernization: A Baseline Report," produced for the United States Department of the Treasury, April 2000.

⁷ Piggyback loans are those with a simultaneous first and second mortgage.

⁸ Robert Avery, Kenneth Brevoort, and Glenn B. Canner, "Higher Priced Home Lending and the 2005 HMDA Data," Federal Reserve Bulletin, September 2006.

⁹ Traiger and Hinckley, LLP, "The Community Reinvestment Act: A Welcome Anomaly to the Foreclosure Crisis," January 7, 2008, and the addendum to the report, January 14, 2008.

¹⁰ Avery, Brevoort, and Canner, "The 2007 HMDA Data," draft article. See <http://www.federalreserve.gov/pubs/bulletin/2008/pdf/hmda07draft.pdf>

¹¹ Elizabeth Laderman and Carolina Reid, Federal Reserve Bank of San Francisco, "CRA Lending during the Subprime Meltdown in Revisiting the CRA: Perspectives on the Future of the Community Reinvestment Act," a Joint Publication of the Federal Reserve Banks of Boston and San Francisco, February 2009, http://www.frbsf.org/publications/community/cra/cra_lending_during_subprime_meltdown.pdf

¹² Also see, Governor Elizabeth A. Duke At the Revisiting the CRA Policy Discussion, Washington, D.C., February 24, 2009, CRA: A Framework for the Future, <http://www.federalreserve.gov/newsevents/speech/duke20090224a.htm> and Federal Reserve Staff Analysis of the Relationship between the CRA and the Subprime Crisis <http://www.federalreserve.gov/newsevents/speech/duke20090224a.htm>

¹³ See <http://www.ncrc.org/images/stories/pdf/research/ncrcdiscrimstudy.pdf>

¹⁴ "Community Reinvestment Act: Interagency Questions and Answers Regarding Community Reinvestment," January 6, 2009, Federal Register, Vol. 74, No. 3..

¹⁵ See http://www.ncrc.org/images/stories/mediaCenter_reports/ncrc%20bank%20branch%20study.pdf