The Community Reinvestment Act:

Vital for Neighborhoods, the Country, and the Economy

OPENING DOORS TO ECONOMIC OPPORTUNITY

About NCRC

NCRC and its grassroots member organizations create opportunities for people to build wealth. We work with community leaders, policymakers and financial institutions to champion fairness in banking, housing and business development.

Our members include community reinvestment organizations, community development corporations, local and state government agencies, faith-based institutions, community organizing and civil rights groups, minority and women-owned business associations, and social service providers from across the nation.

For more information about NCRC's work, please contact:

John Taylor
President and CEO
johntaylor@ncrc.org
(202) 688-8866

Jesse Van Tol
Chief of Membership and Policy
jvantol@ncrc.org
(202) 464-2709

Josh Silver
Senior Advisor
jsilver@ncrc.org
(202) 464-2733

Eric Hersey
Director of Communications
ehersey@ncrc.org
(202) 524-4880

Josh Silver, Senior Advisor, was the author of this report.
June 2016

Contents

The Community Reinvestment Act:
Vital for Neighborhoods, the Country, and the Economy

The Community Reinvestment Act (CRA) is one of the most important laws for revitalizing and building wealth in low- and moderate-income 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.

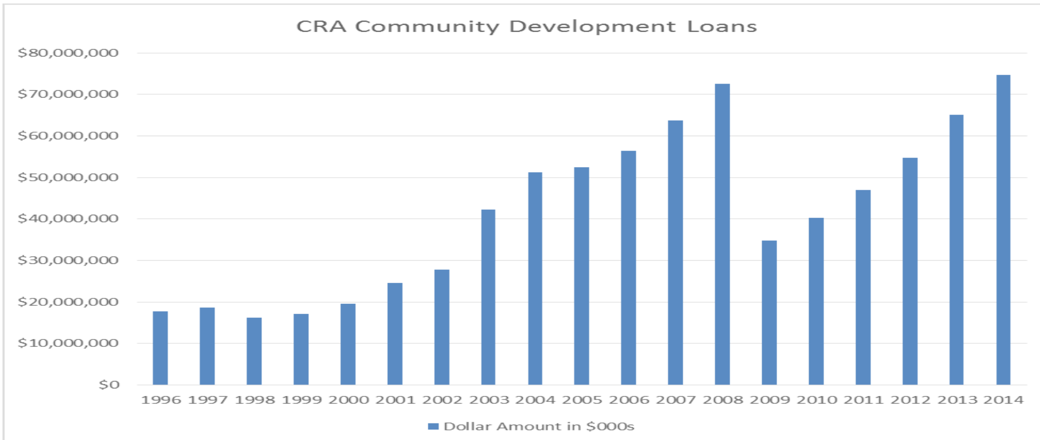
CRA requires banks to meet the credit needs of all communities, including in low- and moderate-income areas, consistent with the safety and soundness of the banks' operations. Congress enacted CRA in response to "redlining" (denial of loans and services) by lending institutions in low- and moderate-income 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.

CRA is Essential to the Sustainability of Working Families and Communities

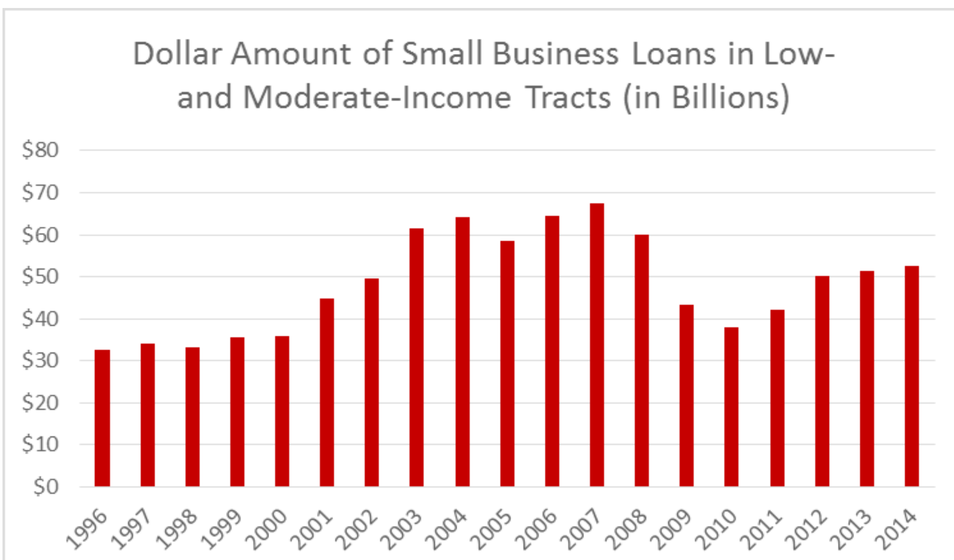
Federal agencies rate banks' performance in lending and investing in low- and moderate-income communities and must consider banks' community reinvestment records when banks apply for permission to merge with other banks. The public has the right to comment on banks' CRA exams and merger applications.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

- Since 1996, CRA-covered banks and thrifts made more than 551,000 community development loans worth $796 billion. Community development loans support affordable housing and economic development projects benefiting low- and moderate-income communities.[1]
- The annual dollar amount of community development loans more than quadrupled between 1996 and 2014, from $17.7 billion to $74.6 billion, respectively.

1 NCRC calculations of data from the Federal Financial Institutions Examination Council (FFEIC) web page; see http://www.ffiec.gov/craadweb/aggregate.aspx for data on community development lending by year.



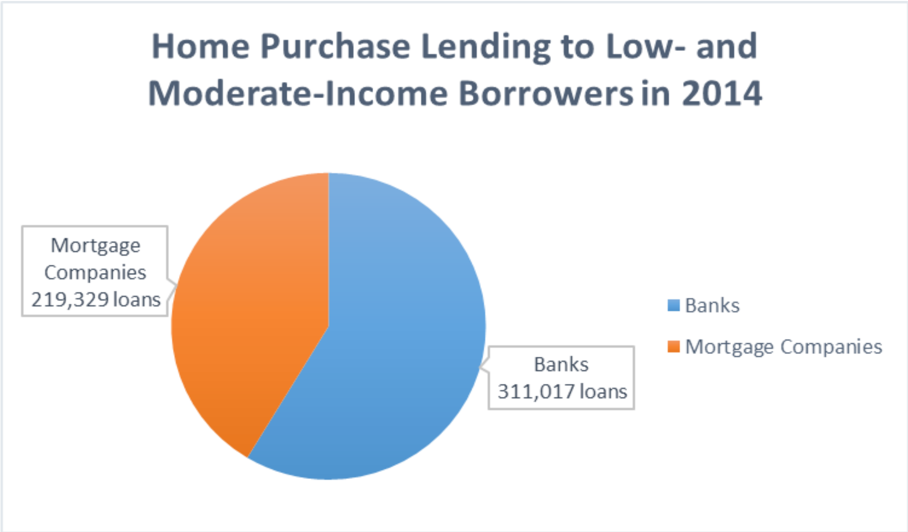
- CRA-covered institutions made 22.9 million small business loans totaling more than $918 billion in low- and moderate-income neighborhoods from 1996 through 2014.[2]



- According to NCRC's analysis of HMDA data, during 2007 and 2008 CRA-covered banks and thrifts issued more than 1.8 million prime home loans worth about $300 billion to low- and moderate-income borrowers. CRA was an important source of responsible home lending during a difficult period for the housing market.

2 NCRC calculations of data from the FFIEC webpage; see http://www.ffiec.gov/craadweb/aggregate.aspx for data on small business lending by year.

- Banks and their affiliated mortgage companies remain the primary lenders to low- and moderate-income borrowers buying homes. Banks and their affiliates made 311,017 home purchase loans to low- and moderate-income borrowers during 2014 in contrast to the 219,329 home purchase loans made by independent mortgage companies to these borrowers, according to NCRC's analysis of HMDA data.



- An NCRC report, "Access to Capital and Credit for Small Businesses in Appalachia," showed that every two years banks issued $5.8 billion in community development lending and investing in Appalachia.[3] Small business lending was higher in Appalachian counties with higher numbers of bank branches, demonstrating that bank branches had a positive impact on community lending.

- 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.[4]

---

3 See http://www.ncrc.org/images/accesstocapitalandcreditInappalachia.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.

CRA is Good Business and Encourages Banks to Focus on Low- and Moderate-Income Communities

- CRA lending has proven to be safe, sound, and profitable. A Congressionally mandated Federal Reserve survey from July 2000 found that more than 80 percent of banks reported that CRA-related home purchase and refinance lending is profitable.[5]

- Mr. Michael Middleton, President and CEO of Community Bank of Tri-County, Maryland, testifying on behalf of the American Bankers Association before the Financial Institutions and Consumer Credit Subcommittee of the House Committee on Financial Services on March 11, 2009, cited CRA's positive impact. 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."

- 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]

- Jonathan Zinman of MIT found that the reforms that strengthened the CRA regulations in 1995 increased bank small business lending, and that lending increased to a greater extent in regions of the country with more rigorous CRA exams. Moreover, the CRA-related lending was just as profitable as non-CRA lending and did not "crowd out" or reduce the banks' other non-CRA lending.[7] In a study released in the spring of 2010, NCRC found that in counties where CRA-related small business lending was higher, employment levels were higher.[8]

- CRA-covered banks and thrifts make a greater percentage of their loans to low- and moderate-income borrowers than mainstream credit unions and independent mortgage companies. CRA-covered banks and thrifts issued 16.9 percent of their home purchase, refinance, and home improvement loans to low- and moderate-income borrowers during 2014, in contrast to 14.4 percent for independent mortgage companies and 16 percent for credit unions. When considering just home purchase loans, the figures are 18 percent for banks and thrifts compared to 16 percent each for independent mortgage companies and credit unions, according to NCRC's analysis of HMDA data.

---

5 See http://www.federalreserve.gov/boarddocs/surveys/craloansurvey/cratext.pdf

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 Jonathan Zinman, *The Efficacy and Efficiency of Credit Market Interventions: Evidence from the Community Reinvestment Act*, July 2002 (CRA02-2), published by the Joint Center for Housing Studies of Harvard University.

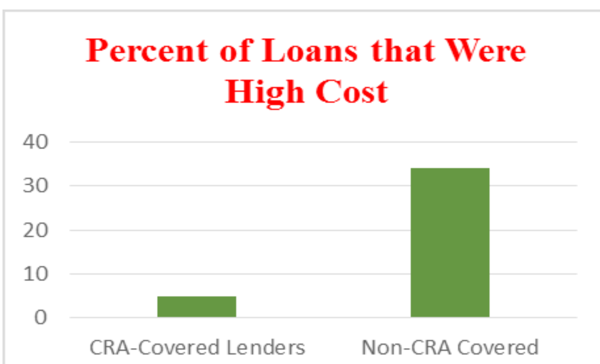
8 See http://www.ncrc.org/images/stories/mediaCenter_reports/small%20business%20lending%20report%20final.pdf

- NCRC's study *Credit Unions: True to Their Mission?* found 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 a follow-up study, *Credit Unions: True to Their Mission? (Part II)*, national analysis for the years 2005 through 2007 reveals that banks performed better than credit unions on 65 percent of fair lending indicators in home purchase, refinance, and home improvement lending.

Sound Lending Practices Are Essential to Sustainable Economies and Communities

CRA contributes to safe and sound lending that is affordable for borrowers.

- 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 in 2005 were high-cost loans. By contrast, only 5.1 percent of the home purchase loans issued by depository institutions and closely scrutinized on CRA exams were high cost.[9]



- Using data provided by the Joint Center for Housing Studies at Harvard University, NCRC found that as CRA assessment area lending (lending by banks scrutinized by CRA exams) increased, subprime lending decreased during the years 2005 through 2007. When the share of all loans in a metropolitan area issued by banks in their CRA assessment area was less than 25 percent, the share of loans that was subprime was 23 percent. In contrast, when the share of loans in a metropolitan area issued by banks in their CRA assessment areas was greater than 42 percent, the share of subprime loans declined to 16 percent.

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

- 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 one-fourth of the high-cost piggyback loans.[10]

- 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 concluded 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 Subcomittee 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]

- CRA encourages foreclosure prevention by awarding points on CRA exams for counseling and modifying high-cost loans into affordable loans.[13] Banks and thrifts are penalized on their CRA exams for making illegal and abusive loans.

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/20081203_analysis.pdf

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

- CRA-covered bank home purchase loans remain more affordable than non-CRA-covered independent mortgage company loans. About 28.1 percent of independent mortgage company home purchase loans to low- and moderate-income borrowers during 2014 were high cost, as opposed to 16.8 percent for banks. Independent mortgage companies were 1.67 times more likely (28.1 percent divided by 16.8 percent) to issue a high-cost loan to a low- and moderate-income borrower than a bank.

- Economists Robert Avery and Kenneth Brevoort also found that CRA-covered lending is safer and sounder than non-CRA-covered lending. They report that when a larger share of lending was issued by CRA-covered banks than by independent mortgage companies, a neighborhood experiences lower delinquency rates and less risky lending.[14]

Recommendations

Rep. Eddie Bernice Johnson introduced H.R. 1479, the "Community Reinvestment Modernization Act of 2009," during a press event at NCRC's annual conference on March 12, 2009. This proposed legislation was a comprehensive modernization of the Community Reinvestment Act. It strengthened CRA as applied to banks and would expand CRA coverage to independent mortgage companies, insurance firms, mainstream credit unions, and other non-bank institutions.

H.R. 1479 was not adopted by Congress, but many of its provisions are needed today. NCRC's legislative and regulatory recommendations for updating CRA include:

Expand CRA to Non-Bank Lenders:

Massachusetts has applied CRA to mainstream credit unions for several years. Massachusetts also extended CRA to independent mortgage companies. This experience demonstrates that it is feasible and desirable to expand CRA to credit unions and mortgage companies. Despite the rhetoric extolling the community virtues of credit unions, the performance of mainstream credit unions has been mixed. On their part, lightly regulated independent mortgage companies like Countrywide and Ameriquest were among the most abusive lenders during the subprime lending era. In order to ensure responsible lending serving low- and moderate-income and minority borrowers, CRA must be expanded to credit unions and mortgage companies.

14 http://www.researchgate.net/publication/228126331_The_Subprime_Crisis_Is_Government_Housing_Policy_to_Blame

Expand CRA to Investment Banks and Insurance Companies:

Investment banks such as Bear Stearns and Lehman Brothers were outside of the CRA regulatory framework and were not required to consider the safety and soundness of their investment activity. Their complex financial activities greatly facilitated predatory lending in the years before the financial crisis and ultimately caused their own collapse as well as wreaked havoc on vulnerable communities. CRA must be expanded to investment banks to ensure that they are financing responsible investments and are contributing to affordable housing and economic development in modest-income communities. Insurance companies likewise have substantial sums to invest and must be guided by CRA requirements to finance community development initiatives. In addition, insurance companies must be subject to CRA-like exams that scrutinize whether they are offering reasonably priced homeowners insurance and other types of insurance to traditionally underserved communities. Mortgage insurance companies voluntarily submit data on the demographics of their customers.[15] Similarly, all insurance companies must be required to collect and publicly disseminate data on the demographics of their customers.

Bolster the Affirmative Obligations of Fannie Mae and Freddie Mac and/or Their Successors:

Currently, Fannie Mae and Freddie Mac comply with affordable housing goals, or a mandate to purchase a certain percentage of loans for low- and moderate-income borrowers and underserved communities. These goals have been instrumental in promoting access to home loans for communities, but the goals need to be strengthened. For example, these are national goals and do not assess performance on a metropolitan level and rural counties. Fannie Mae and Freddie Mac should be directed to increase their attention to areas of the country where their performance lags. In future financial reform efforts, the goals for Fannie Mae and Freddie Mac or their successors must be strengthened by more scrutiny of metropolitan and rural performance as well as more formal opportunities for public input on performance.

Include Lending to Communities of Color in CRA Exams:

CRA is an income-based law and requires examination of bank performance to low- and moderate-income borrowers and neighborhoods. It does not require examination of bank performance to communities of color. This must change. Minority borrowers and communities have experienced glaring disparities in lending, either receiving too few prime loans or an excess of high cost and abusive loans. If CRA's affirmative obligation to serve were expanded to communities of color, racial disparities in lending would narrow.

Extend the Geographical Reach of CRA:

CRA was enacted in 1977, when banks issued virtually all their loans through branches. Since that time, several banks now issue loans beyond branch networks through brokers, loan officers, or via the internet. Yet, CRA exams still focus mainly on geographical areas containing bank branches.

15 See http://www.ffiec.gov/infosystem.htm for examples of data disclosures by mortgage insurance companies.

In order to bolster CRA's effectiveness, CRA exams must scrutinize the great majority of a bank's loans and must include evaluations in geographical areas where a bank has issued a substantial number of loans, regardless of whether a bank's branches are located in these areas.

Extend CRA Coverage to All Affiliates and Subsidiaries of Banks:

Currently, a bank has the option to choose whether its subsidiary or affiliate such as a mortgage company will be included on its CRA exam. This option is ripe for abuse and gaming. Banks will choose to include their affiliates and subsidiaries only if they lend in a responsible fashion but will exclude them if they do not serve lower-income communities or are engaged in abusive lending practices. It is not sufficient to ensure that only part of a bank is complying with its obligation to serve communities. The entire bank, including all its various affiliates and subsidiaries, must be required to serve communities in a safe and sound manner.

End CRA Grade Inflation:

More than 98 percent of banks have passed their CRA exams for several years running. Despite this high pass rate, CRA still holds banks accountable because most of them do not earn the highest rating, and ratings on a state and metropolitan level vary and include failed ratings. Yet, accountability for CRA performance would increase significantly if ratings were more nuanced. NCRC has called upon Congress and the regulatory agencies to add a fifth rating. Also, CRA exams have a point scale of 1 to 24 which is not publicly released and also is not related to how component tests are weighted. A more intuitive point scale of 1 to 100 must be developed and publicly released to more accurately measure variations among bank performance. A scale of 1 to 100 can be readily compared to exam weights such as those on the large bank test. For example, the lending test is weighted at 50 percent so that 50 points can be allocated to the lending test.

Improve Publicly Available Data on Community Development Financing:

Publicly available data is available for banks' home and small business lending, but not for their community development lending and investing. Community development loans include loans for construction of rental and homeowner developments, and community development investments include investments in Low Income Housing Tax Credits and Small Business Investment Companies. Community development lending and investing information is available on CRA exams but it is not possible to determine the county or census tract receiving the community development financing. A publicly available database would better enable regulators, banks, and community groups to determine geographical areas served well by community development financing and those in further need of this type of financing.

Improve CRA Exam Scrutiny of Smaller Cities and Rural Areas:

Usually, large metropolitan areas and states receive the most attention and weight on CRA exams. Bank performance in smaller cities and rural areas count for little, if anything, on CRA exams. These areas remain among the most underserved in the country. Their importance on

CRA exams must be bolstered. At the very least, all rural areas and smaller cities served by a bank in a given state must be considered together and count as a full scope assessment area which receives more weight on CRA exams.

Require Specific Description of Public Benefits of Mergers:

When banks seek to acquire other banks, they are required to submit an application to federal regulatory agencies and describe how their proposed mergers would benefit the general public. These descriptions are usually vague and do not provide assurances of public benefits. The federal regulatory agencies must require specific descriptions with verifiable performance measures of how future CRA and fair lending performance will improve. The public must have an opportunity to comment on these public benefit plans during the merger application process.

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, in the early 1990s NCRC played the lead role in rewriting CRA regulations to make CRA exams more rigorous and performance-based. NCRC ensured that HMDA data were reported in a way that was easily accessible to community groups, the media, and the public. NCRC also organized hundreds of community groups to contact federal banking agencies to encourage them to alter how banks are 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) disagreed with the Office of Thrift Supervision's (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, and adopted the approach of the three banking regulatory agencies that supported CRA requirements.

NCRC worked with members of Congress such as Reps. Luis Gutierrez and Eddie Bernice Johnson to introduce CRA modernization bills during the mid-2000s. The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 incorporated provisions from the CRA modernization bills to enhance the publicly available small business and home loan data.

Section 1071 of the Dodd-Frank Act requires the public dissemination of the race and gender of the small business owner as well as the revenue size and location of the business. The HMDA improvements of the Dodd-Frank Act require the disclosure of loan terms and conditions.

NCRC and our members regularly comment on CRA exams and merger applications to hold banks publicly accountable for serving minority and low- and moderate-income communities in a responsible manner.

NCRC
OPENING DOORS TO
ECONOMIC OPPORTUNITY

727 15th Street, Suite 900 • Washington, DC 20005

www.ncrc.org