

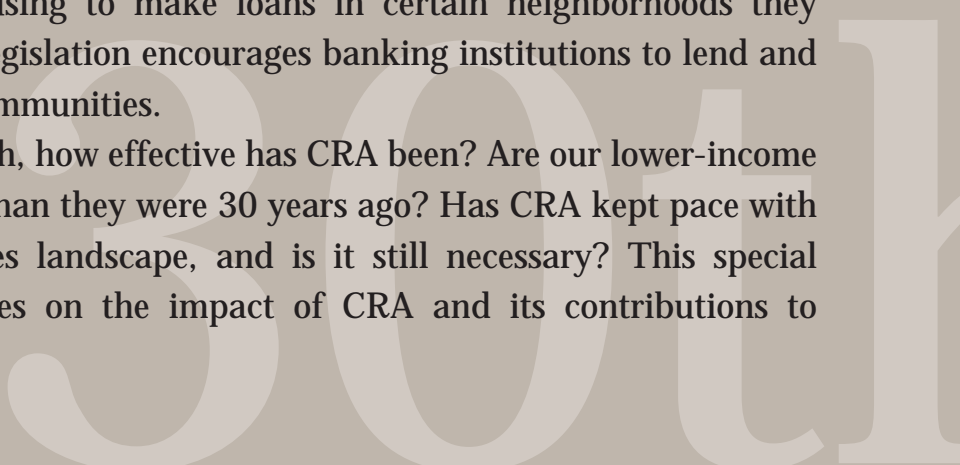


## 30th Anniversary of the Community Reinvestment Act

Buckeye Area Development Corporation "Summer in the City" mural (Cleveland, Ohio)

**T**hree decades have passed since the Community Reinvestment Act (CRA) was enacted to address the lack of access to credit in low- and moderate-income neighborhoods. CRA was designed to combat redlining, the practice among some depository institutions of refusing to make loans in certain neighborhoods they designated as high-risk. The legislation encourages banking institutions to lend and invest in these underserved communities.

In actual practice, though, how effective has CRA been? Are our lower-income communities better off today than they were 30 years ago? Has CRA kept pace with the changing financial services landscape, and is it still necessary? This special report offers some perspectives on the impact of CRA and its contributions to community development.



**O**riginally rooted in concern about the availability of credit and capital in low- and moderate-income neighborhoods, the Community Reinvestment Act (CRA) was passed 30 years ago to encourage federally insured depository institutions to meet the credit needs of all of the communities in which they are chartered, consistent with the institutions' safe and sound operations.

Senator William Proxmire, CRA's main author and chair of the Senate Committee on Banking, Housing, and Urban Affairs in 1977, touted the legislation as a *quid pro quo* to the benefits enjoyed by chartered depositories, such as access to federal deposit insurance, the payments system, and low-cost credit through the Federal Reserve Banks or the Federal Home Loan Banks.<sup>1</sup> While CRA does not impose specific lending guidelines, it does mandate a certain level of activity on the part of banks, inducing them to enter underserved markets they may have otherwise ignored.

CRA-covered institutions undergo regular examinations for compliance, and results are used in consideration of those institutions' applications for mergers, acquisitions, and deposit facilities. The federal agencies responsible for supervising depository institutions—the Board of Governors of the Federal Reserve System (FRS), the Federal Deposit Insurance Corporation (FDIC), the Office of the Comptroller of the Currency (OCC), and the Office of Thrift Supervision (OTS)—conduct the exams.

The financial services industry has undergone significant transformation since the passage of CRA in 1977. While bank mergers and acquisitions reduced the number of commercial banks and savings institutions by more than 40 percent from 1975 to 1997, the consolidated institutions expanded their lending to areas well beyond their traditional brick-and-mortar networks.<sup>2</sup> Most of the largest institutions now have dedicated community development lending groups that specialize in a range of credit, capital, and investment activities.

A number of factors have driven financial innovation and the expansion of credit and capital: a generally favorable interest-rate environment, expansion of underwriting criteria, the growth of the secondary market, technological advances, legislative and regulatory reform ... and CRA. Still, some question whether the benefits of CRA outweigh its costs. This special report presents a range of perspectives on CRA and a timeline of related events that have influenced community reinvestment.

## Regulation Revisions Aim to Strengthen the Community Reinvestment Act

Since the enactment of CRA, its regulations have been substantially amended three times:

### 1989

Congress enacted the Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA), amending CRA by establishing a new examination rating system (outstanding, satisfactory, needs to improve, and substantial noncompliance). This new system replaced the previous numeric (1-12) scale. In addition, regulators are required to disclose publicly an institution's CRA rating as well as prepare a public, written evaluation of the exam. Prior to these changes, the financial institution's exam and rating were confidential.

### 1995

Regulatory agencies implemented a new CRA regulation to further standardize examinations. The new regulation included the Lending Test, Investment Test, and Service Test, which were designed to measure a covered institution's performance. These new tests were imposed differently depending on the type and size of the business (large retail, small retail, and wholesale limited-purpose). Also, the institutions could now decide whether to include the activities of affiliates or holding companies for examination consideration within certain assessment areas.

### 2006

Revisions to CRA regulations addressed the regulatory burden for "intermediate small banks" (banks with assets of \$250 million to \$1 billion) by exempting them from CRA loan collection and reporting obligations. These institutions are now eligible for examination under the Small Bank Lending Test and a new Community Development Test. In addition, the definition of community development was expanded to include activities that revitalize or stabilize designated disaster areas and distressed or underserved rural areas.

<sup>1</sup> Eric S. Belsky, Susan White Haag, Robert E. Litan, and Nicolas P. Retsinas. 2000. "The Community Reinvestment Act After Financial Modernization: A Baseline Report." Washington: The United States Department of the Treasury (April).

<sup>2</sup> Robert B. Avery, Raphael W. Bostic, Paul S. Calem, and Glenn B. Canner. 1999. "Trends in Home Purchase Lending: Consolidation and the Community Reinvestment Act," *Federal Reserve Bulletin* (February) pp. 81–102.

# Perspectives on Assessing CRA's Impact, Effectiveness, and Applicability for the Future

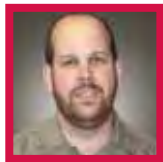
On the 30th anniversary of CRA, the Community Affairs Office of the Federal Reserve Bank of Cleveland invited six thought leaders with extensive experience in community development to offer their insights into the Community Reinvestment Act. Our panel includes:



David Fynn

## David Fynn

Senior vice president and regulatory risk manager for National City Corporation, David Fynn is a 31-year banking veteran who has managed all regulatory compliance matters for National City since 1989. He is a member of the Community Reinvestment Committee of the Consumer Bankers Association and serves as the corporation's representative on the Bankers Community Collaborative Council of the National Community Reinvestment Committee. In addition, Fynn served on the Federal Reserve Board's Consumer Advisory Council from 1995 through 1997.



Dan Immergluck

## Dan Immergluck, PhD

Dan Immergluck, associate professor, Georgia Institute of Technology, teaches courses in real estate finance, housing policy, research methods, and other areas. He has published a variety of papers and articles on community reinvestment and development issues, and he formerly served as a senior vice president of the Woodstock Institute. His book, *Credit to the Community* (M.E. Sharpe, 2004), focuses on the history and consequences of community reinvestment and fair lending policy in the United States.



India Pierce Lee

## India Pierce Lee

India Pierce Lee is the program director for Neighborhoods, Housing, and Community Development at The Cleveland Foundation, where she has overall responsibility for the foundation's grant making in each of those areas. Lee's 20-year career in housing and community development has included positions with Neighborhood Progress Inc., where she led initiatives such as the Cleveland Neighborhood Partnership Program, Northeast Ohio Local Initiatives Support Corporation, Cleveland Empowerment Zone, and Mt. Pleasant NOW Development Corporation.



Patricia McCoy

## Patricia McCoy

Patricia McCoy's expertise includes banking and securities regulation and consumer protection in the banking, securities, insurance, and pension industries. This George J. and Helen M. England Professor of Law at the University of Connecticut School of Law has authored books on banking law and financial modernization as well as articles on predatory lending, bank director liability, post-socialist business law reforms, corporate governance, and global convergence in banking. McCoy served on the Federal Reserve Board's Consumer Advisory Council from 2002 through 2004.



Cathy Niederberger

## Cathy Niederberger

As senior vice president and managing director of Community Development Banking for PNC Bank, Cathy Niederberger supervises PNC's community development work in eight states and the District of Columbia. Her expertise in this area spans two decades, with responsibilities ranging from ensuring compliance with CRA to overseeing the delivery of loans, investments, and community services focused on affordable housing, economic development, and neighborhood revitalization.



John Taylor

## John Taylor

National Community Reinvestment Coalition (NCRC) President and CEO John Taylor is well-known for his unwavering commitment to community reinvestment and economic justice. During his 25-year career, he has earned a myriad of local, state, and national awards, including the Martin Luther King Jr. Peace Award, the State of Massachusetts Award for Excellence in Community Economic Development, and a presidential appointment to the Community Development Financial Institutions Fund. Taylor served on the Federal Reserve Board's Consumer Advisory Council from 1994 through 1996.

# Has the Community Reinvestment Act met its intended goal? Has it led to any unintended consequences?

“Partnerships of financial institutions, local CDCs, intermediaries, and local governments have been most successful where all parties are focused on common goals such as new housing, small business credit, and job creation.”

- David Fynn, National City Corporation



*Respondents agree that CRA has made meaningful strides and measurable impacts on low- and moderate-income communities and households. They also feel, however, that it faces continuing challenges.*

**India Pierce Lee:** CRA was intended to provide a vehicle by which lending institutions would invest in underserved communities that had historically declined due to the onset of community disinvestment in the early 1950s. This was when the more affluent residents and businesses began to abandon the city and take flight to the suburbs. In Cleveland, CRA became a valuable tool for helping spur resurgence in the housing market. The challenges the legislation presented to our financial lending institutions contributed to significant investment and revitalization in the city of Cleveland.

**Cathy Niederberger:** CRA has been a powerful tool for demonstrating that low- and moderate-income communities—communities that at the time of its enactment in the mid-1970s were largely overlooked and underserved by the banking industry—represent significant potential for good business. Thanks to CRA and its public evaluations, banks are now comfortable looking at these markets for business opportunities.

## 1933

The Home Owners' Loan Corporation (HOLC) is established to refinance mortgage debt against urban property that depreciated during the Depression. Over the following three years, almost 1 million homeowners utilize these loans.

## 1934

The Federal Housing Administration (FHA) is created to protect private lenders who provide expanded debt-to-income underwriting ratios and low-down-payment mortgages to finance single and multifamily manufactured homes and hospitals.

## 1935

At the request of the Federal Home Loan Bank Board, the HOLC creates maps indicating the relative security for real estate investments in 239 cities. Areas considered high-risk are color-coded red.



**David Fynn:** CRA has eliminated overt redlining, and it has significantly expanded access to credit. Encouraged by this legislation, the banking industry responded by challenging the assumptions that governed mortgage lending 30 years ago. Multiple generations of borrowers and lenders today do not remember that in 1977 mortgage loans were fixed-rate loans extended only to borrowers with “good” credit who had at least 20 percent down.

**John Taylor:** CRA has indeed leveraged a substantial number of loans and investments for low- and moderate-income communities. Here are some of its notable achievements:

- Since 1996, banks and thrifts have made nearly 310,000 community development loans totaling more than \$287 billion.
- From 1996 through 2005, depository institutions made 10 million small business loans (\$449 billion) and outperformed non-CRA lenders in terms of home-purchase loans in low- and moderate-income neighborhoods.
- Since the passage of CRA in 1977, lenders and community organizations have signed CRA agreements totaling more than \$4 trillion in reinvestment dollars.
- A study conducted by the Harvard Joint Center for Housing Studies in 2002 demonstrated 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 revealed a higher level of bank lending to low- and moderate-income borrowers in geographic areas where federal agencies grade banks through CRA exams.
- Likewise, the Treasury Department found that CRA-covered lenders increased their home mortgage loans to low- and

## “Investing in urban centers is critical to the overall economic health of our regions and states.”

- India Pierce Lee, Program Director, The Cleveland Foundation

moderate-income areas and borrowers by 39 percent from 1993 to 1998, more than twice the increase to middle- and upper-income borrowers and areas.

**Dan Immergluck:** CRA has made a quantifiable, positive impact on lower-income communities and households. The research literature—including studies done by the Federal Reserve and the Department of the Treasury—make this clear, especially in the arena of increased prime mortgage lending to communities covered by the law. While a few perennial critics have condemned the law—often relying on theoretical arguments—the bulk of the more sophisticated *empirical* research, especially in the past 10 years, increasingly points to the law’s having a significant impact on lending flows to lower-income and minority communities.

Less work has been done concerning impacts on small business lending, community development investments, and basic financial services. The scarcity of research in these areas has been due in large part to the paucity of quality data, such as that provided by HMDA, and has led many to give short shrift to some important impacts of CRA. These include the building and strengthening of partnerships between banks and community development organizations, and the development of a host of new institutions (such as CDFIs) that, but for CRA, would not exist—at least not at anywhere near the scale they exist today.

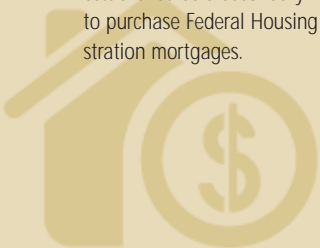
**Patricia McCoy:** CRA can boast of tremendous success in the battle for hearts and minds. It revolutionized how financial institutions thought about lending opportunities in distressed communities.

Before CRA, mainstream businesses turned their backs on economically distressed neighborhoods, assuming those neighborhoods were poor investments. Redlining was the norm and loan denials the rule, even when applicants were creditworthy. Tragically, as disinvestment progressed, urban decline became a self-fulfilling prophecy.

CRA shook banks and thrifts out of that old defeatist mindset by rewarding them for reinvestment and for figuring out *how* to make

# 1938

The Federal National Mortgage Association Administration (Fannie Mae), then a government agency, is established as a secondary market to purchase Federal Housing Administration mortgages.



“CRA’s challenge is to reclaim the market for low- and moderate-income home mortgages and, in the process, establish the gold standard for responsible, carefully underwritten loans.”

- Patricia McCoy, Professor of Law, University of Connecticut School of Law

it happen. That alone was a sea change. Financial institutions learned new ways of assessing credit risk and rewarding customers for repaying loans on time. Banks and thrifts learned to partner with community organizations to develop good loan prospects. Financial literacy and homeownership counseling programs took root. New types of specialized financial institutions began to spring up, including CDFIs and venture capital funds. Banks hired more minority bankers to respond to community needs. In the process, CRA sparked a vibrant corporate culture, one that values reinvestment and actively seeks it out.

6 New homes, shopping centers, and community centers in inner-city neighborhoods throughout the country stand testament to CRA’s success in channeling capital to underserved communities. But during our lifetimes, the need to reinvest in underserved communities and revitalize those communities will never go away. Like mothers of yore, CRA’s work is never done.

What about unintended consequences?

**Taylor:** CRA has been indispensable and has not led to unintended consequences. A Federal Reserve survey mandated by the Gramm-Leach-Bliley Act of 1999 suggests that CRA lending is safe and profitable. Moreover, some may say that CRA is encouraging banks to make more subprime loans to reach low- and moderate-income borrowers. In fact, Federal Reserve research has found that banks make fewer subprime loans in geographic areas covered on CRA exams.

**Fynn:** Tying CRA to FDIC insurance has created an unlevel playing field. Nonbank lenders and credit unions have no obligation to meet the low-income credit needs in their communities. The entire burden of this regulation falls on regulated deposit-taking financial institutions in ways that are not always consistent with shareholder value or with regulatory requirements for safety and soundness. The fact that CRA-qualified loans trade at a premium in the secondary market should be of concern. This premium cannot be reflective of the underlying credit risks and must, therefore, represent a limited supply of qualified loans.

Long-term sustainability is critical. Subsidies for borrowers with minimal down payments and weak credit are not sustainable over the long term. Borrowers with limited resources can be significantly challenged by unexpected expenses, interest-rate adjustments, insurance, and tax increases. In communities where tax abatement has been used as a development tool, some borrowers have found that these increases can cause real hardship.

**Niederberger:** Another unintended consequence of CRA is that institutions find themselves focusing on carrying out reportable activities with short-term outcomes to pass the CRA exam. As we strive to ensure that we have a sufficient level of initiatives, the deeper issues tend not to get adequately addressed and, if they do, this effort is undervalued.

# 1949

The National Housing Act takes form, promising every American family a respectable home and authorizing urban renewal through the elimination of slum neighborhoods and redevelopment of central cities.

# 1956

The Bank Holding Company Act requires the Federal Reserve Board, in its evaluation of proposed acquisitions by banks and bank holding companies, to take into account how well an institution meets the needs of its communities.

# 1962

Equal Opportunity in Housing (Presidential Executive Order 11063) issues the first federal action to combine civil rights with housing.

# 1968

- Fannie Mae is privatized, removing it as a secondary market for government-insured loans. Its role now is to increase the availability of private capital for mortgages.
- The Fair Housing Act prohibits discrimination in the sale, rental, and financing of housing based on race, color, national origin, religion, gender, or familial status.





Along those same lines, financial institutions sometimes purchase mortgage-backed securities to achieve a certain volume of lending. This type of “lending” doesn’t require much effort and is usually a pure compliance play. It “counts” in the bank’s Lending Test results but goes against the grain of demonstrating leadership through the type of flexible or innovative lending practices encouraged under the 1995 revisions to CRA. The reality is that there is very little net benefit to the community through this type of transaction, yet it is recognized as an acceptable way of meeting the Lending Test requirements.

- The Government National Mortgage Corporation (Ginnie Mae) is created within HUD to ensure liquidity for government-insured mortgages.



**McCoy:** And the “innovation” focus has brought about a consequence as well. One of CRA’s unintended effects was to put innovation on a pedestal, at the expense of tried-and-true techniques of community reinvestment. In emphasizing innovation, regulators unintentionally discouraged simple, repetitive injections of capital that form the building blocks of reinvestment. Just as in public health, where washing one’s hands works wonders in the fight against infectious disease, so federal regulators should reward traditional community reinvestment techniques that have been proven to work to the same extent as more innovative techniques.

**Immergluck:** The unintended consequences of CRA have been largely positive ones. Some of the most important of these include harder-to-measure impacts on partnerships between community organizations and banks and on the overall social responsibility of depository financial institutions. CRA has made banks and thrifts much more concerned with the social benefits of good community banking and the social costs of irresponsible banking. Especially after CRA ratings became public due to enactment of the 1989 Financial Institutions Reform, Recovery, and Enforcement Act, CRA increased the reputational risk pressures that can push banks to do the right thing. For example, in the late 1990s, a large national bank owned one of the largest wholesale subprime mortgage lenders in the country—a lender with a very poor reputation in urban areas around the country. The bank exited the subprime origination market, in large part due to the reputational risks the lender posed. I don’t believe that this bank would have reacted this way in the absence of the climate created and supported by CRA.

# Is CRA still useful to low- and moderate-income communities and borrowers?

*Unanimously, the panel answers “yes,” but with varying levels of enthusiasm. Many add that CRA is needed more today than ever before.*

**Lee:** CRA is still a useful tool for low- and moderate-income communities and borrowers, especially in a slow economy, to ensure that investment into our communities continues. Oversight is essential to ensuring that borrowers are treated fairly. Research continues to reflect numerous disparities in mortgage lending along racial and ethnic lines, and CRA can help improve access to credit for mortgages and small businesses by African-Americans and Hispanics.

**McCoy:** In cities such as Cleveland where significant reinvestment took place under the auspices of CRA, once-blighted landscapes were transformed as banks financed renovation and new construction. This was exhilarating, and rightly so.

At the same time, however, CRA's success in revitalizing neighborhoods spawned two related, unintended consequences that threatened, and continue to threaten, the fragile progress in distressed neighborhoods. First, CRA spurred competition from a new breed of nonbank subprime lenders, who learned from CRA that profits could be made in inner cities. Second, CRA created equity in properties in distressed neighborhoods and communities that could be targeted for equity stripping.

The 1990s witnessed the rise of the subprime home mortgage market, which was designed for borrowers with poor credit and charges higher interest rates and fees. Although CRA did not apply to independent, nonbank lenders, they were not blind to the lessons of CRA. Subprime lenders mastered—and outdid—CRA lending and outreach techniques. In particular, they targeted vulnerable consumers with aggressive marketing techniques that enabled them to capture credit markets in minority and lower-income neighborhoods. Portions of the burgeoning subprime market charged exploitative rates or became rife with fraud. Unscrupulous subprime lenders targeted equity in properties originally financed with affordable CRA loans for exorbitant refinance schemes designed to strip equity from homes. This year, subprime defaults and foreclosures soared to unprecedented levels, decimating swaths of land in inner-city neighborhoods.

What does this all mean in terms of CRA? Some argue that subprime lending has eclipsed CRA. I disagree. To the contrary, CRA is more important than ever before, now that subprime foreclosures are mounting and the subprime market has imploded. Research by the Board of Governors has confirmed that CRA loans are good loans and profitable loans, carefully underwritten on affordable terms. Unlike the subprime market, the CRA market has been virtually free from fraud and abusive loan terms. Now that interest rates on high-cost adjustable rate loans are starting

## 1969

Community activist Gale Cincotta organizes the West Side Coalition to combat redlining in the Austin neighborhood in Chicago. The coalition includes local residents who approach individual financial institutions with agreements to expand lending in their communities.

## 1970

Freddie Mac is chartered as a privately held shareholder company to purchase mortgages providing efficiency and liquidity to the mortgage market.

## 1971

The Fair Credit Reporting Act is enacted to regulate the consumer credit reporting industry. This act was substantially amended by the Consumer Credit Reporting Act of 1996.



# Freddie Mac Fair Credit Reporting Act



to reset, borrowers need good CRA loans to refinance out of unaffordable products. CRA's challenge is to reclaim the market for low- and moderate-income home mortgages and, in the process, establish the gold standard for responsible, carefully underwritten loans.

**Immergluck:** Despite its limitations, CRA is needed now more than ever before. Over the past 15 years, a new form of dual financial system has developed in the United States, with conventional, prime lenders serving one segment of the larger, overall market and subprime and fringe lenders serving the other. In the meantime, a deregulationist paradigm at the federal level—and a strong predisposition of federal regulators to preempt state consumer protections—has left borrowers increasingly unprotected. In fact, the United States effectively has a dual regulatory system. Prime and mainstream lenders, especially banks and thrifts, are subject to much greater levels of supervision and regulation



Photo courtesy of Mark Greenlee

than many of the mortgage and finance companies that are so dominant in minority and lower-income communities.

CRA can be used to help reduce the hypersegmentation of financial markets by encouraging responsible lenders to provide credit and services in areas where subprime and fringe lenders are dominant. CRA can also be used to help mitigate the devastating impacts of high-risk and abusive financial services on lower-wealth communities.

**Taylor:** When neighborhoods receive a disproportionate number of high-cost loans, substantial amounts of equity are drained from these neighborhoods. Even one borrower steered into a high-cost loan when she qualifies for a prime loan stands to lose tens or hundreds of thousands of dollars in higher loan costs over the term of the loan. When several residents of a working-class neighborhood are steered into high-cost loans, the neighborhood stands to lose hundreds of millions of dollars in equity, which could have supported small business startups or college educations. CRA counteracts equity drains by bolstering product choice, increasing prime lending, and curbing the number of high-cost loans made by banks in traditionally underserved communities.

CRA has been and will continue to be the lifeblood of our working-class communities. Many banks now realize that CRA lending is profitable and that there are tremendous business opportunities in these communities. Other lenders need to be reminded of their obligation in this area. Discrimination is still an unpleasant reality in America. Hence, CRA is still imperative as it reminds all lending institutions that they have an affirmative and continuing obligation to serve all communities.

**Fynn:** While it is by no means perfect, CRA continues to benefit low- and moderate-income communities and borrowers. We have

## 1973

The Federal Home Loan Bank of Chicago requests that local financial institutions volunteer records detailing the number and dollar amount of residential loans by ZIP code.

## 1974

- Chicago City Council passes an ordinance mandating that savings and loan associations or banks disclose loan information by ZIP code and census tract when applying to hold city deposits.
- Congress enacts the Equal Credit Opportunity Act (ECOA), prohibiting discrimination in providing bank services on the basis of age, gender, national origin, religious affiliation, or public welfare assistance.

## 1975

The Home Mortgage Disclosure Act (HMDA) requires covered banks to keep records of mortgage and home-improvement mortgage activity by geographic location. HMDA was designed in part to help determine whether financial institutions are adequately serving the housing credit needs of their communities.



“As we take one step forward toward strengthening the economic conditions in our neighborhoods, the unregulated lenders with their unregulated and sometimes predatory practices are setting our vulnerable populations two steps back. It is frustrating to see many institutions perform responsibly under CRA while other, high-risk, nonregulated lenders cause extensive damage to people’s lives and the physical well-being of neighborhoods.”

- Cathy Niederberger, Managing Director of Community Development Banking, PNC Bank

learned from CRA that most borrowers with limited down payments do, in fact, pay their mortgages. The availability of product and pricing options in today’s market is clearly beneficial for the vast majority of borrowers, communities, and lenders. Investments in community development through bank-owned community development corporations (CDCs) have been the catalyst for neighborhood development projects that would not have existed without CRA. Financial institutions also know that this activity can be structured to provide a positive return.

Without the participation of regulated lenders, the challenges of urban revitalization would be infinitely more difficult. CRA is, however, a regulation that mostly affects urban markets. There are rural markets and concerns related to affordability in many markets that are not well accommodated within the current set of rules.

CRA was written primarily to address credit issues. Growing evidence suggests that community and personal financial stability requires far more than access to credit for low- and moderate-income markets. Financial education and a comprehensive savings strategy that includes emergency short-term funds are critical in

establishing a sound foundation for wealth creation. However, financial stability and long-term wealth creation are not goals stated in CRA.

**Niederberger:** CRA remains a powerful tool, and its periodic revisions reflect the changing landscape in which we operate. For example, the original regulation was process-driven; it did not focus on results but said that credit must be made available. The 1995 revisions made the regulation more substantive and were a call to action in terms of loans, investments, and services. As our experience grows and our understanding of community needs deepens, we must tap into the most current thinking of our community leaders and their business partners about what revisions are most appropriate.

## 1977

Congress enacts the Community Reinvestment Act (CRA), affirming the obligation of federally insured depository institutions to help meet the credit needs of communities in which they are chartered, including those of low and moderate income, consistent with safe and sound operations.

## 1980s

The three largest credit bureaus—TransUnion, Experian, and Equifax—compile a nearly complete collection of consumer credit histories.

## 1986

The Tax Reform Act of 1986 establishes Low Income Housing Tax Credits to assist in the funding of federal housing production programs.

## 1988

The Pulitzer Prize-winning *The Color of Money* series of articles, which highlights lending disparities, is published in the *Atlanta Journal-Constitution*.

## 1985

The U.S. Supreme Court rules that interstate banking is constitutional.



# As you reflect on 30 years of CRA influence, what are the key lessons learned by community development practitioners (bankers, public sector, not-for-profits, etc.)?

*Those who have followed CRA from its start have seen it all: from redlining to revitalization, disinvestment to reinvestment, predatory lending to fair lending, and everything in between. Lessons learned along the way are too numerous to count. Respondents share several that stand out to them.*

**Niederberger:** A key lesson is that nothing in community development works in a vacuum. Our neighborhoods include people, businesses, social issues, and physical real estate, each with their own set of challenges. The most successful initiatives address several or all of these challenges. Other lessons:

- Banks entered the community development world with little expectation for the upside of these markets. Now, after 30 years and trillions of dollars reinvested, the financial services industry has found good business and profitable new business segments.
- Bricks and mortar alone do not make good community development. The social fabric of the community is arguably more important to ensuring success.
- Place-based investing (the new term for focused investing) offers great opportunities as we target each neighborhood in a holistic way and work with community partners toward success.

- Private capital is an important ingredient in successful community development.
- Mixed-income communities have a better chance of succeeding in the long run. Low-income housing alone will not improve the neighborhood. Most communities that were severely distressed in the 1980s remain severely distressed today.

**Lee:** Community development practitioners have learned these important lessons:

- Investing in urban centers is critical to the overall economic health of our regions and states.
- Equity and access to credit must be monitored continually.
- Urban neighborhoods are viable markets, with individuals and families willing to live and invest in these communities when partnerships develop sound housing and neighborhood retail markets.
- Transparency is critical in evaluating how all of the related systems work together.


**Taylor:** Some of the most important lessons relate to CRA exams and merger applications.

- CRA depends on public participation; banks and regulatory agencies take CRA more seriously when the community is

## 1989

- For the first time, the Federal Reserve Board denies an application—that of Continental Bank Corporation—on CRA grounds.
- Fair Isaac and Company releases the FICO score, a tool for summarizing consumer credit histories.
- Congress enacts the Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA), amending both HMDA and CRA.



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actively engaged in the process. CRA is a democratic law: It requires banks and federal regulatory agencies to listen to communities as they articulate their credit needs. When a federal agency receives hundreds of well-reasoned comments on a merger application of large banks, the agency and banks involved are more likely to implement a specific CRA-related goal, program, or requirement than when a merger receives scant attention from the general public.

- CRA enforcement must be done in conjunction with the application of related laws. If the fair lending laws, including the Equal Credit Opportunity Act, Home Ownership and Equity Protection Act (HOEPA), Truth in Lending Act, and the Fair Housing Act are not enforced, then CRA's intended benefits could be undermined. Also, increased regulatory oversight in the area of basic banking services and the opening and closing of bank branches in low- and moderate-income areas is needed to ensure CRA's maximum impact.

**12 Fynn:** CRA has fostered productive partnerships of financial institutions, local CDCs, a variety of intermediaries, and local governments in many markets across the country. These partnerships have been most successful where all parties are focused on common goals such as new housing, small business credit, and job creation. In many situations, such partnerships have also provided the forums in which solutions to more divisive issues can be discussed and sometimes resolved.

**Immergluck:** Banks have learned a great deal about community development since CRA's adoption, particularly because the law

**“CRA counteracts equity drains by bolstering product choice, increasing prime lending, and curbing the number of high-cost loans made by banks in traditionally underserved communities.”**

- John Taylor, President and CEO,  
National Community Reinvestment Coalition

stimulated the formation of bank-community partnerships. These partnerships have played a major role in redevelopment, as evidenced by successes such as the revitalization of central Chicago neighborhoods in the late 1980s and early 1990s. Today, these lessons figure prominently:

- For nonprofit and public-sector community developers, an important lesson is that it is extremely helpful to have relationships with advocates for reinvestment and fair lending and with strong, independent researchers who can provide critical analysis that shines a light on bad practices and disparities in credit access, investment, and services.
- More action needs to focus on changing and enforcing the policies banks operate within. Effective community reinvestment activism is as much about advocating for policy change as it is about negotiating reinvestment agreements or new programs with specific banks. With banks becoming ever larger and more geographically dispersed, policy advocacy will continue to grow in importance.



## 1990

The Federal Financial Institutions Examination Council (FFIEC) announces the release of guidelines for state certification and licensing of real estate appraisers by the Appraisal Subcommittee.

# With the evolving financial services industry and expanded access to credit, how should policymakers think about CRA and its applicability for the future?

*Respondents wholeheartedly agree that CRA should apply to all lenders, expanding its reach beyond the realm of banking institutions. Taylor points out that NCRC is working with Congress to introduce a CRA modernization act that would expand the coverage of its exams and apply it to independent mortgage companies, insurance firms, and other nonbank institutions.*

**Immergluck:** The most obvious way to extend CRA would be through a form of “functional” regulation. Any financial institution that makes housing or small business loans should be subject to the act. Functional CRA regulation would mean that mortgage lenders would be evaluated for their lending performance in housing markets, while industrial finance companies would be regulated for their small business lending. Securities firms would be evaluated under something like the current CRA Investment Test. The obvious first step is to extend CRA to mortgage and finance companies and to credit unions.

**McCoy:** Extending CRA to nonbank lenders would inculcate a culture of responsible lending among those entities, something to which banks and thrifts already generally subscribe. CRA places strong reputational constraints on depository institutions that



nonbank lenders do not face. At the same time, subprime lenders have shown a blithe lack of interest in adopting industry best practices standards with bite. Extending CRA to all such lenders would reward them for making constructive loans and penalize them for making abusive loans.

CRA is broad and flexible enough to make meaningful headway in promoting responsible lending and curbing lending abuses. In addition to expanding to include nonbank institutions, CRA can confront the problem of abusive credit by

- addressing the immediate need for workouts of delinquent subprime loans by offering appropriate refinancing products and rewarding constructive efforts by banks and thrifts to negotiate workouts

## 1992

- The Federal Housing Enterprises Financial Safety and Soundness Act of 1992 creates regulatory oversight for Government Sponsored Enterprises (GSEs) such as Fannie Mae and Freddie Mac. HUD is responsible for establishing the GSEs' affordable housing goals, and the Office of Federal Housing Enterprise Oversight (OFHEO) is responsible for maintaining safety and soundness regulation.
- The Federal Reserve Bank of Boston publishes *Mortgage Lending in Boston: Interpreting HMDA Data*, which indicates the possibility of discrimination in mortgage lending.



## 1994

- Congress enacts the Riegle Community Development Banking and Regulatory Improvement Act, creating the National Fund for Community Development Banking at the Department of the Treasury.
- The Riegle-Neal Interstate Banking and Branching Efficiency Act removes barriers to banks that open branches across state lines.



“CRA regulators have made some progress recently in recognizing the damage that dual financial markets and abusive credit impose on borrowers and communities, but there is a long way to go.”

- Dan Immergluck, PhD, Associate Professor, Georgia Institute of Technology

- tackling the challenge of driving bad credit out with good. Abusive subprime lending is baffling because it is a market in which price competition rarely works. CRA needs to reward initiatives by banks and thrifts to bring robust price competition to the subprime market
- holding banks and thrifts accountable for their role in financing abusive subprime loans. CRA can play an important role in turning off the money spigot for abusive loans by rewarding banks and thrifts for doing meaningful loan-level due diligence on securitized loan pools.



**Lee:** Policymakers should look at the research that has been done through many organizations, along with HMDA and other data, to examine the lessons learned over the past 30 years and to set guidelines for CRA to cover both prime and subprime lenders. Until mortgage companies are regulated under CRA, there is too much room for unscrupulous lending and continued discrimination against the low- to moderate-income populations we serve.

**Taylor:** NCRC is a strong supporter of the CRA Modernization Act of 2007 (HR 1289), which would apply CRA to nonbank financial institutions, including mortgage companies. We believe that the investments and loans for working-class and minority communities leveraged by this bill would total in the trillions of dollars.

Additionally, CRA needs to be updated in the following manner:

- CRA assessment areas on CRA exams must cover the great majority of loans, including those made through brokers.
- CRA must explicitly consider lending and branching out to minority borrowers and communities so it can be as effective in reducing differences in access to, and price of, credit for minorities as it has been for low- and moderate-income borrowers.

## 1995

- Freddie Mac releases Loan Prospector, an automated mortgage underwriting system.
- Supervisory regulatory agencies begin implementing a new CRA examination that uses three performance-based measures: the Lending Test, Investment Test, and Service Test.

## 1997

FFIEC announces a new geo-coding Web site to provide information about HMDA and CRA reporting.

## 1999

As reported in *The Community Reinvestment Act After Financial Modernization: A Baseline Report*, prepared for the U.S. Department of the Treasury, from January 1997 to November 1999, approximately 20 percent of all banks receive an “outstanding” CRA rating, 79 percent “satisfactory,” and about 1 percent “needs to improve” or “unsatisfactory.”

- The availability of detailed small business data, including race and gender information similar to HMDA data, must be mandated for all banks, including intermediate small banks. Eliminating the prohibition on the collection of race and gender data under Regulation B would enhance CRA's impact.
- The Fair Lending Tests associated with CRA must be bolstered. Unfortunately, the vast majority of CRA exams contain only one or two sentences on the fair lending review. The reviews should discuss what types of tests were conducted: Did the exam probe for steering, evidence of loan flipping, and other possible abuses? In addition, the regulatory agencies should state in their proposed guidance on subprime lending that abusive subprime adjustable rate mortgage loans will result in downgrades of CRA ratings.

**Fynn:** As we enter the next decade, the resolution of many of the social ills that trouble our urban areas cannot be carried on the back of the banking industry alone. Budgets are strained at every level of government, the nation is challenged with funding its education system, and long-term strategies are needed to address geographies with high unemployment. Rebuilding urban areas and accommodating the needs of lower-income citizens becomes a responsibility for every employer, industry, governmental entity, and citizen.



Please note that the comments provided reflect the viewpoints of the panel participants and not necessarily those of their affiliated organizations.

## 2000

The Community Renewal Tax Relief Act of 2000 establishes the New Markets Tax Credit, attracting private resources to impoverished communities.

## 2005

Federal banking supervisory agencies announce guidance amending CRA regulations. Changes include a reduction in regulatory burden for small community banks (assets of \$250 million to \$1 billion) and an expansion of the community development definition.



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# Thank you!

The Community Affairs Office of the Federal Reserve Bank of Cleveland is committed to supporting community reinvestment, fair lending, and economic development activities throughout the Fourth District\*, particularly in low- to moderate-income communities. Thank you to the CRA experts who generously shared their thoughts through this publication:

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**Cathy Niederberger** of PNC Bank, and  
**John Taylor** of the National Community Reinvestment Coalition.

*\*The Fourth Federal Reserve District includes Ohio, Western Pennsylvania, Eastern Kentucky, and the northern panhandle of West Virginia.*

“During our lifetimes, the need to reinvest in underserved communities and revitalize those communities will never go away. CRA’s work is never done.”

- Patricia McCoy, Professor of Law,  
University of Connecticut School of Law

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