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ST. LOUIS

# The Community Reinvestment Act:

## Separating Truth from Myths

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Julie L. Stackhouse  
Executive Vice President

# CRA was passed in 1977.

## Do you remember the 1970s?



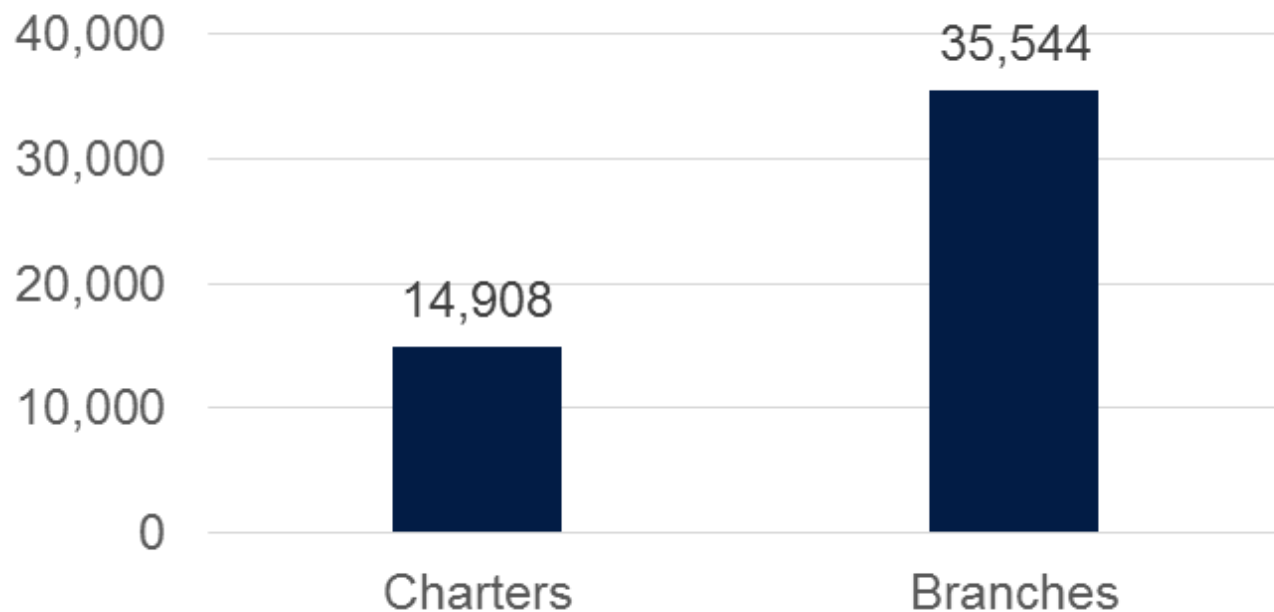
The decade sees **massive inflation** worldwide, much of it caused by the **oil crisis** in the Middle East. **Gas shortages** cause long lines at the pump as rationing is imposed.

1970	—	In 1970, a new house cost \$23,400
1971		
1972		
1973		
1974		
1975	—	20-year Vietnam conflict ends; Gates & Allen create Microsoft
1976	—	1 <sup>st</sup> Apple computers go on sale
1977	—	Carter takes office as President, following terms by Nixon and LBJ
1978		
1979	—	By 1979, a new house cost \$58,500 and 30-yr mortgage rates were close to 9%

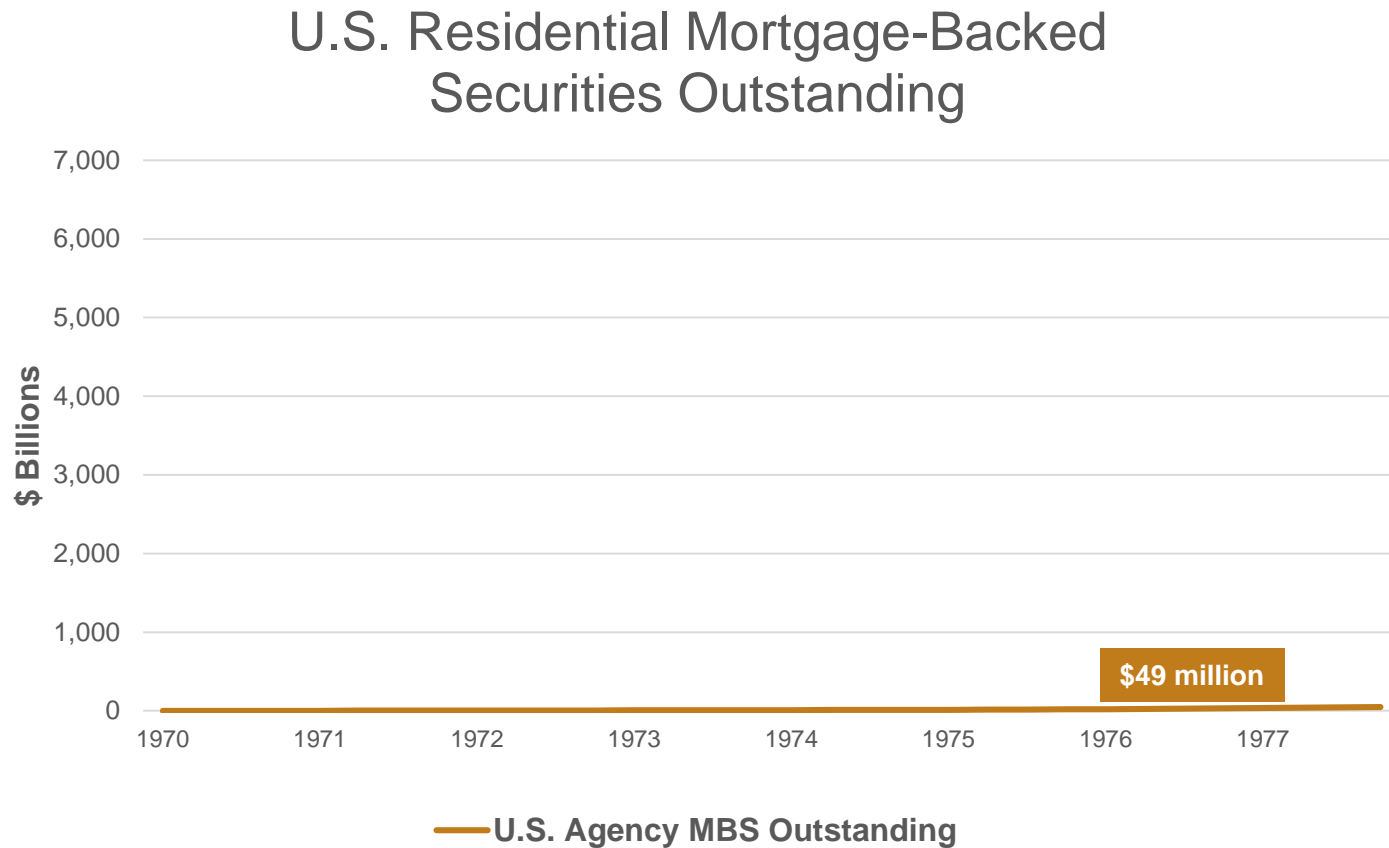
# The financial environment in 1977

In 1977, nearly 15,000 separately chartered banks covered the country.

Charters and branches,  
year-end 1977

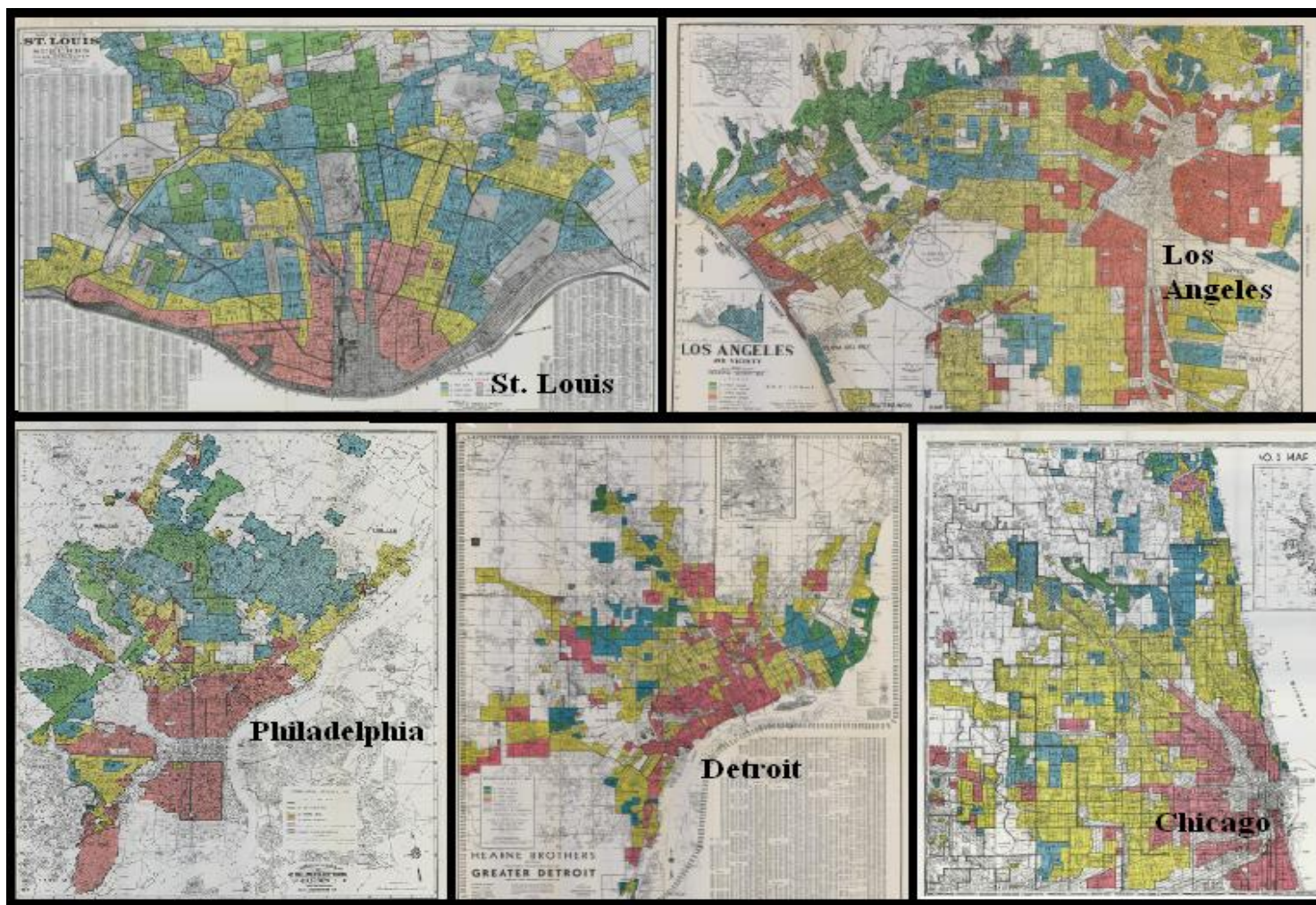


# The asset securitization market was immature.



Source: SIFMA.org

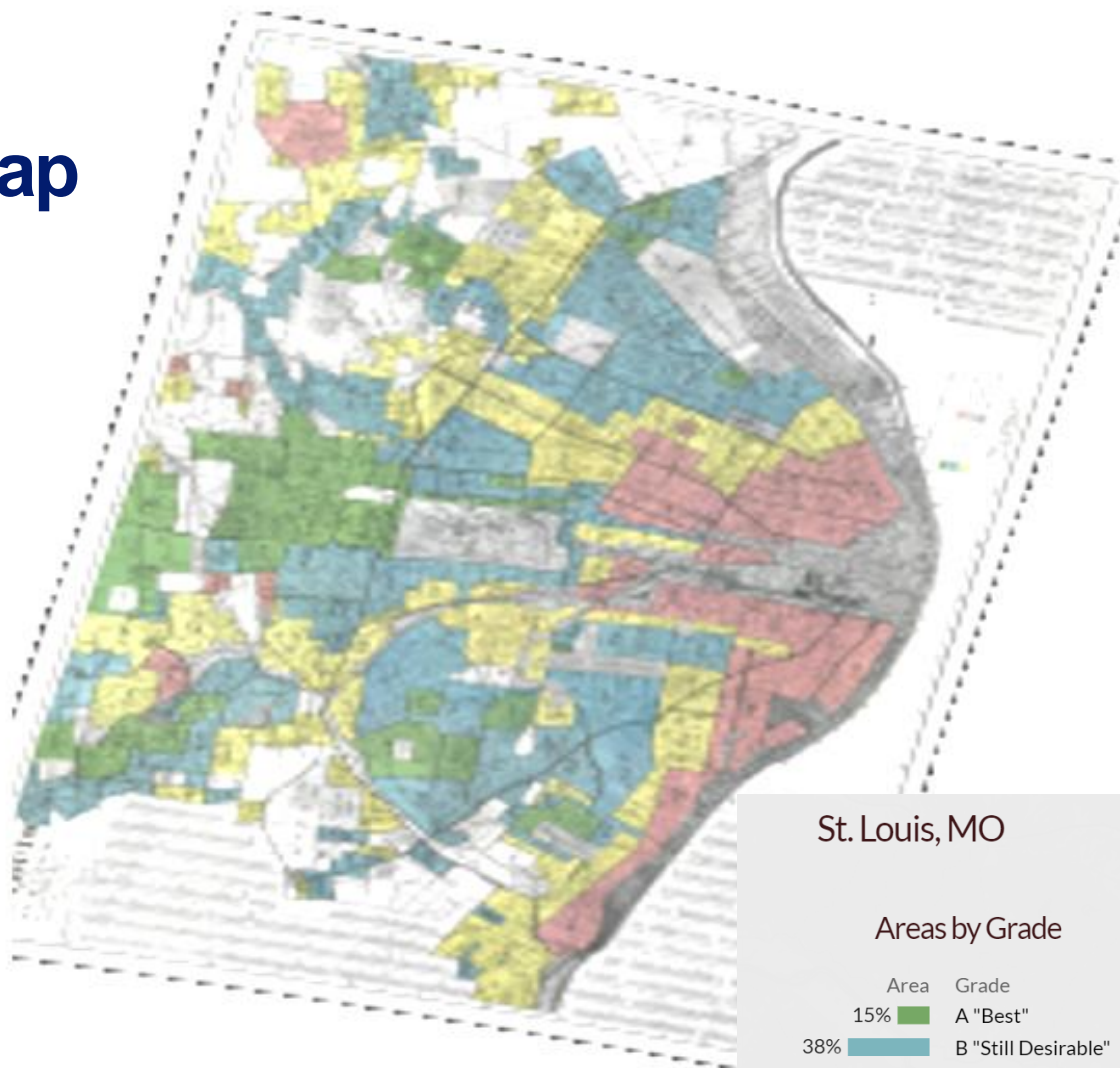
# Redlining was rampant as maps were used as a proxy for credit risk.



Source: Robert K. Nelson, LaDale Winling, Richard Marciano, Nathan Connolly, et al., "Mapping Inequality," American Panorama, ed. Robert K. Nelson and Edward L. Ayers, accessed December 20, 2019, <https://dsl.richmond.edu/panorama/redlining>

# The St. Louis map from 1937

## East St. Louis



## St. Louis

St. Louis, MO

### Areas by Grade

Area	Grade
15%	A "Best"
38%	B "Still Desirable"
32%	C "Definitely Declining"
16%	D "Hazardous"

Source: Robert K. Nelson, LaDale Winling, Richard Marciano, Nathan Connolly, et al., "Mapping Inequality," American Panorama, ed. Robert K. Nelson and Edward L. Ayers, accessed December 20, 2019, <https://dsl.richmond.edu/panorama/redlining>

1964:  
Civil Rights Act

1968:  
Fair Housing Act

1974:  
Equal Credit  
Opportunity Act

1975:  
Home Mortgage  
Disclosure Act

1977:  
Community  
Reinvestment  
Act

1989: Financial  
Institution  
Reform and  
Recovery Act

Around that time, many laws were passed to combat discrimination and unfair lending.

**The CRA was one of those.**

# The legislative purpose of the CRA:

The CRA affirmed the obligation of federally insured depository institutions to help meet the credit needs of communities in which they are chartered, consistent with **safe and sound banking practices** and in return for the privilege of deposit insurance protection and access to the Federal Reserve's discount window.

***Credit unions were not brought into the legislation, and shadow banking firms largely did not exist.***



# Since passage of the CRA, there has been a series of reform waves.

## 1980s

Sought reforms to make the legislation more transparent by requiring CRA ratings and performance evaluations be public.

## 1990s

Clarification/consistency reforms, plus creation of a three-pronged performance test. This era included passage of the Gramm-Leach-Bliley Act (1999,) making a “Satisfactory” rating a condition for expansion activities.

## Early 2000s

Created the Intermediate Small Bank (ISB) thresholds and added the community development category of “distressed and underserved” in non-metro areas.

# Today, CRA performance is monitored through regulatory examinations of banks using the following tests:

## Small Bank

<\$326 million

- Lending Test
  - Loans/Deposits ratio
  - In and Out
  - Borrower Distribution
  - Geographic Distribution
- Response to CRA Complaints

## Intermediate Small Bank

>\$326 million

- Lending Test
  - Response to CRA complaints
- Community Development Test
  - CD Loans
  - CD Investments
  - CD Services

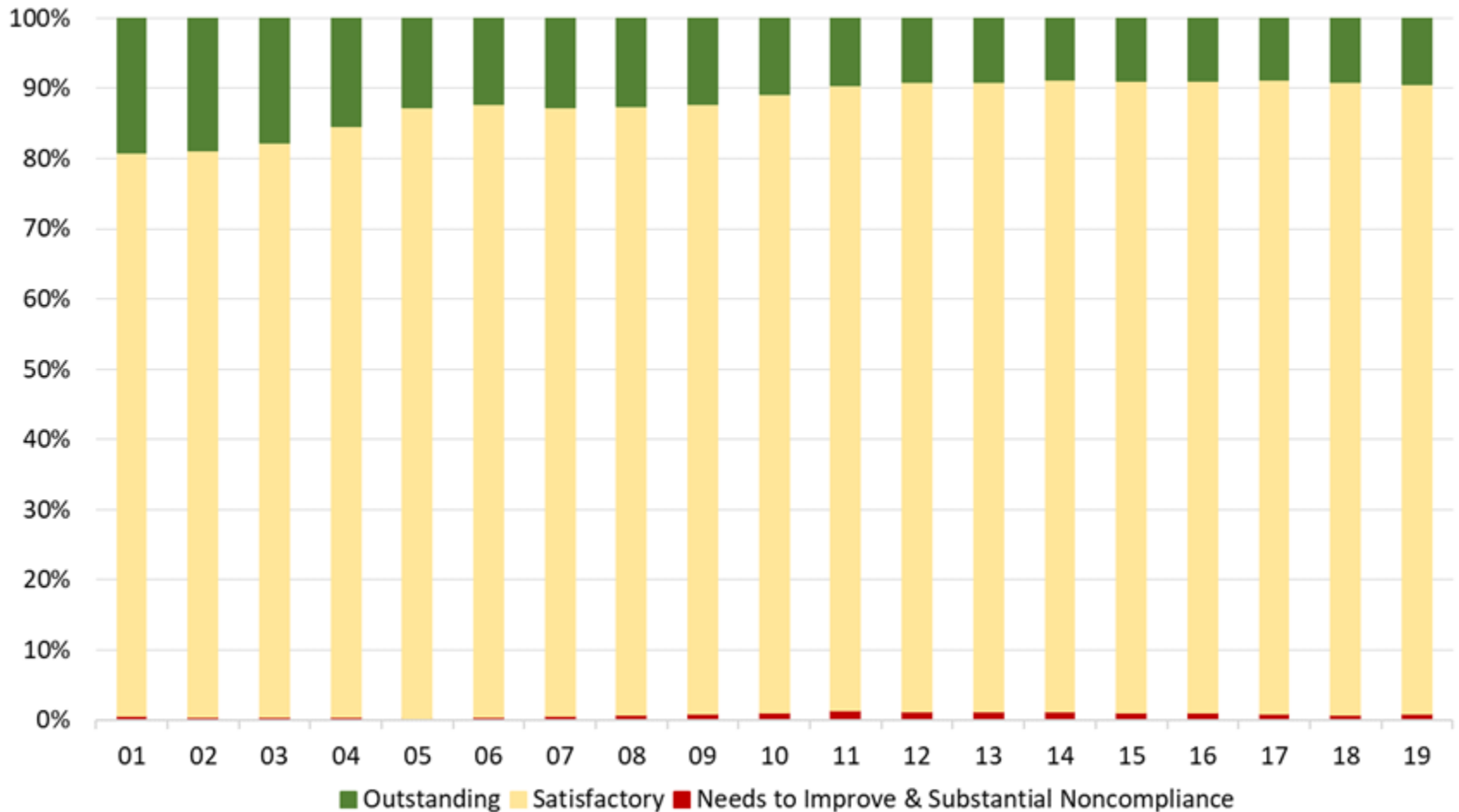
## Large Bank

>\$1.305 billion

- Lending Test
  - Includes CD Loans
- Investment Test
- Service Test
  - Services
  - Delivery Systems
  - Location Changes
  - Hours of Operation

# Historically, examinations show that banks meet their obligations under CRA.

Aggregate Community Reinvestment Act Ratings



Source: Supervisory Exam Ratings; Ratings as of 9/30 each year.

# The CRA has promoted healthy partnerships between banks, communities and governments.



## **CRA contains incentives:**

transparency; statutory factor in merger and acquisition applications; opportunity for public input.



It has prompted partnerships between banks and community groups to **promote access to credit for low- to moderate-income** communities and foster development in these areas.  
Strong communities result in strong banks.

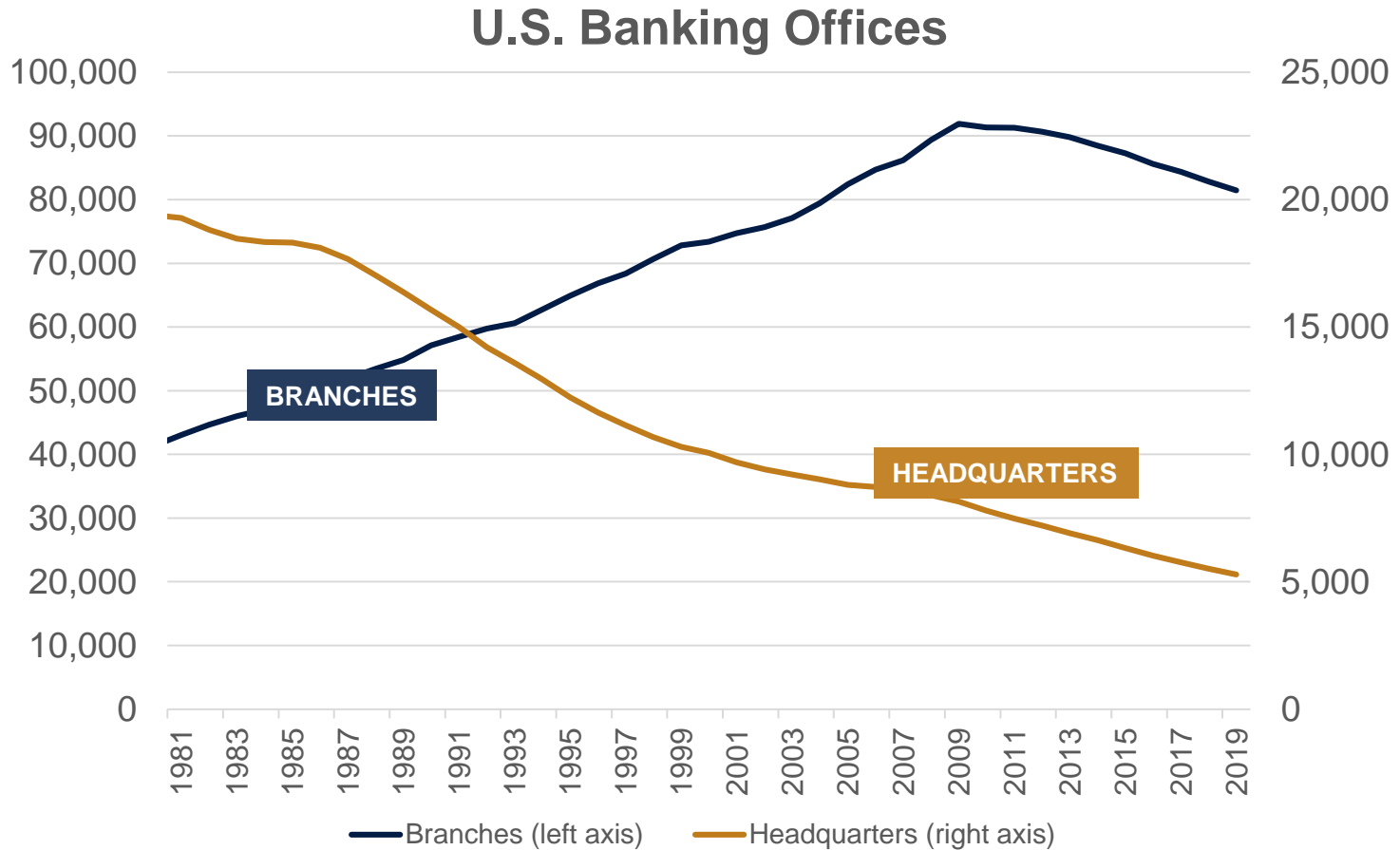


It has provided an **opportunity for participation by government**, such as through the Community Development Financial Institution (CDFI) Program, the Low Income Housing Tax Credit Program, and the New Markets Tax Credit Program.

*Icons: Getty Images / Eichinger Julien*

# But times are changing.

Bank charters are far fewer in number today than they were when CRA was passed.



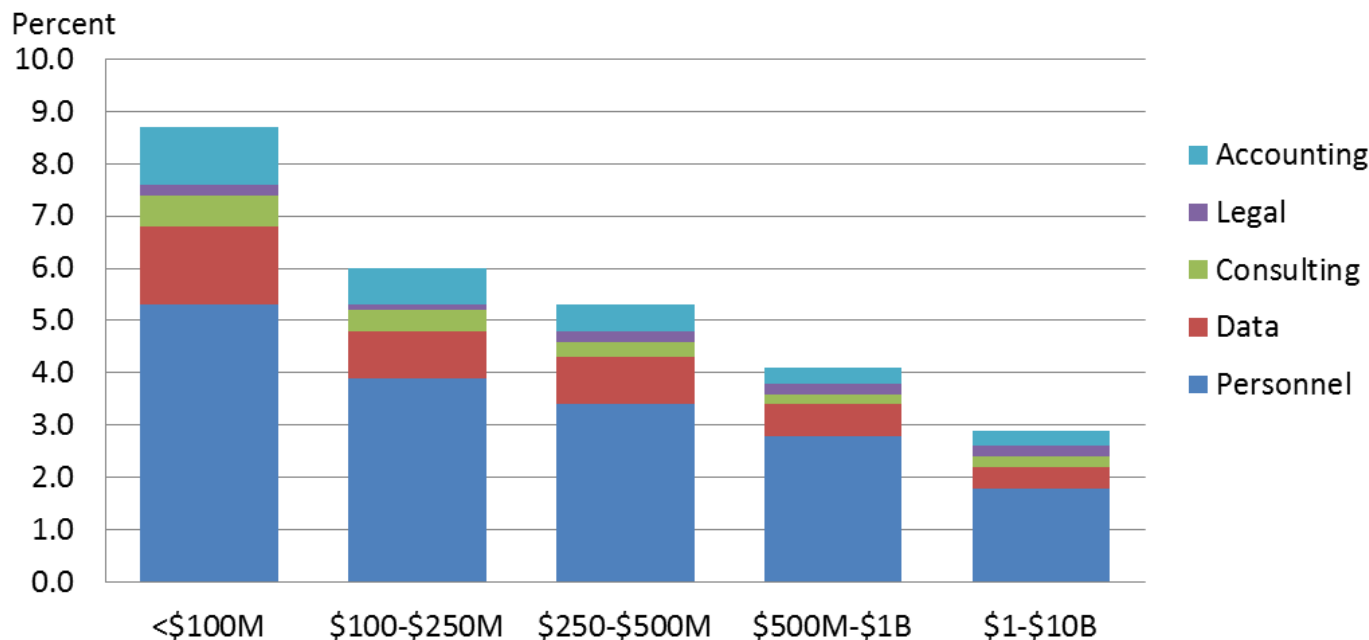
Source: National Information Center (NIC)

# Of note, the smallest banks are struggling with the cost of regulation.

This includes the cost to execute regulations that protect the consumer.

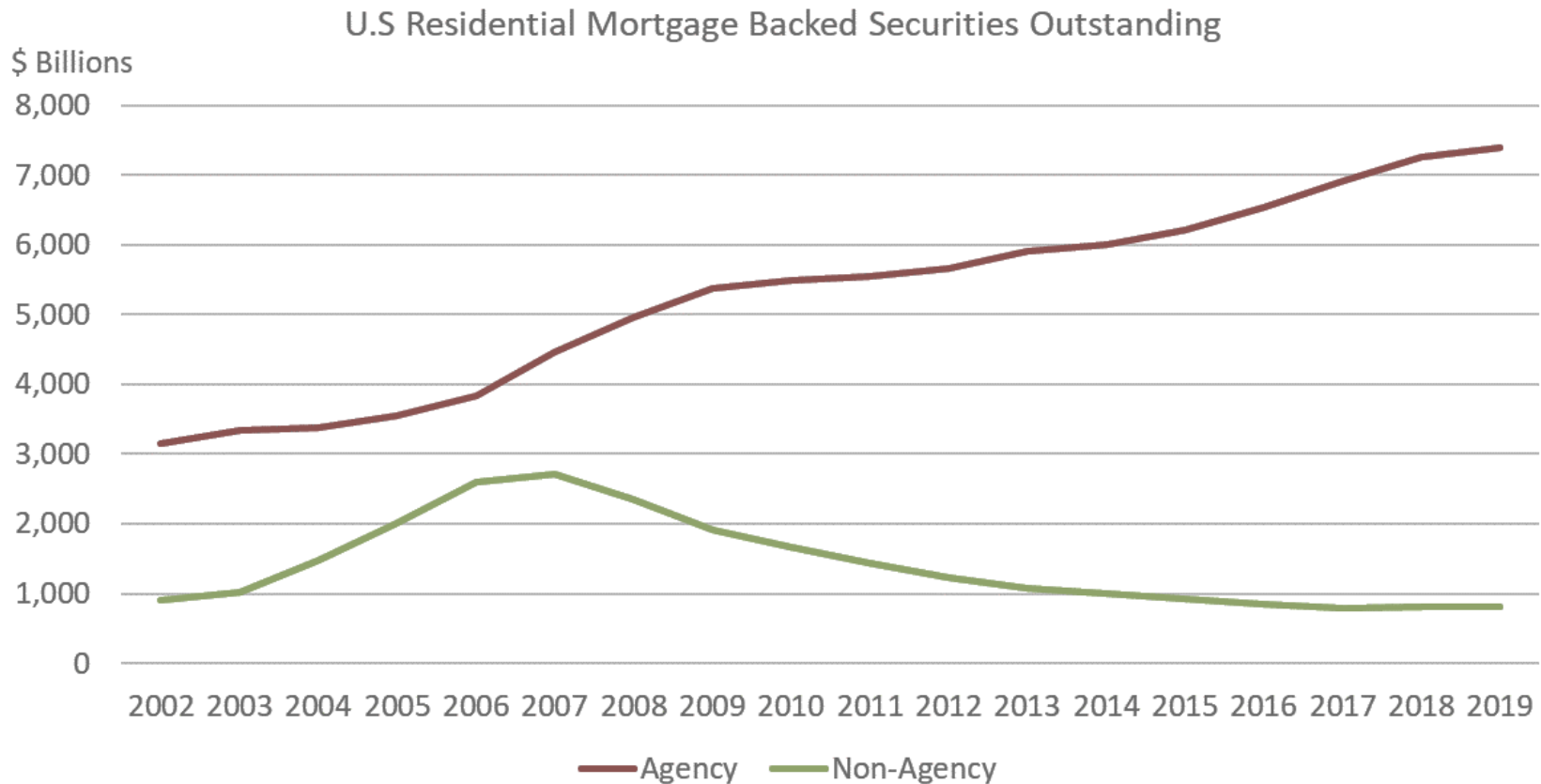
## Mean Compliance Expenses/Noninterest Expenses (2014)

CSBS Surveyed Banks



Source: Bank Size, Compliance Costs and Compliance Performance in Community Banking, Drew Dahl, Andy Meyer and Michelle Neely

**Moreover, over the decades, the asset securitization market has matured, allowing for risk segregation of assets.**



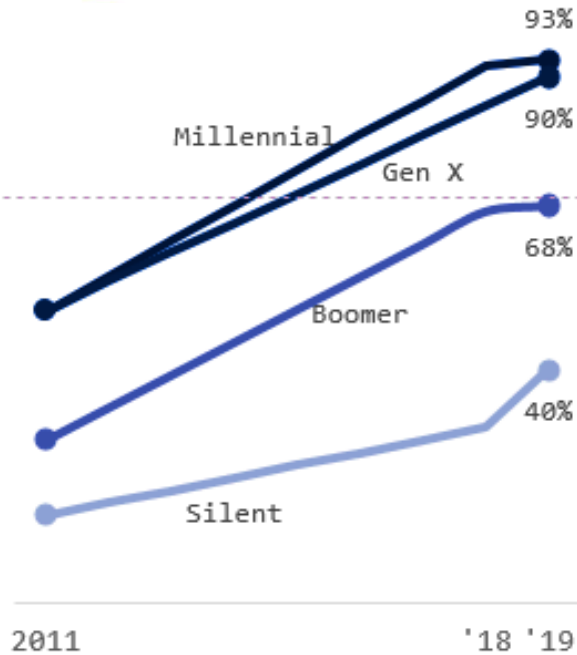
Source: SIFMA.org

# Consumer adoption of user-friendly technology has changed the demand for physical banking facilities and traditional bank services.

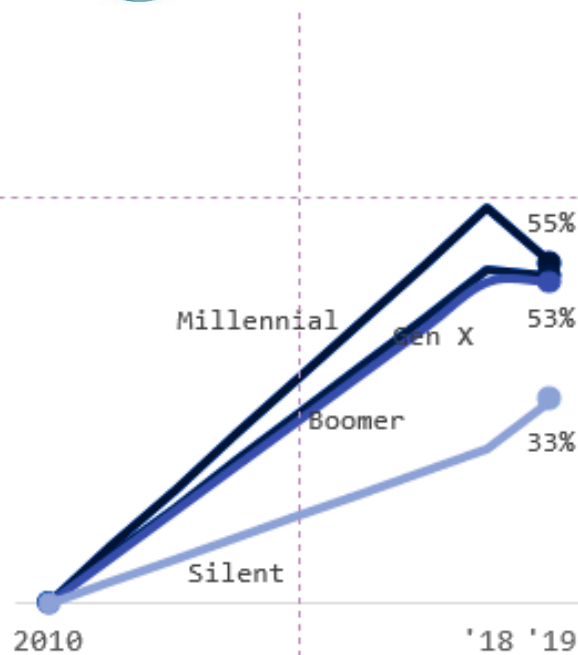
% OF U.S. ADULTS IN EACH GENERATION WHO SAY THEY ...



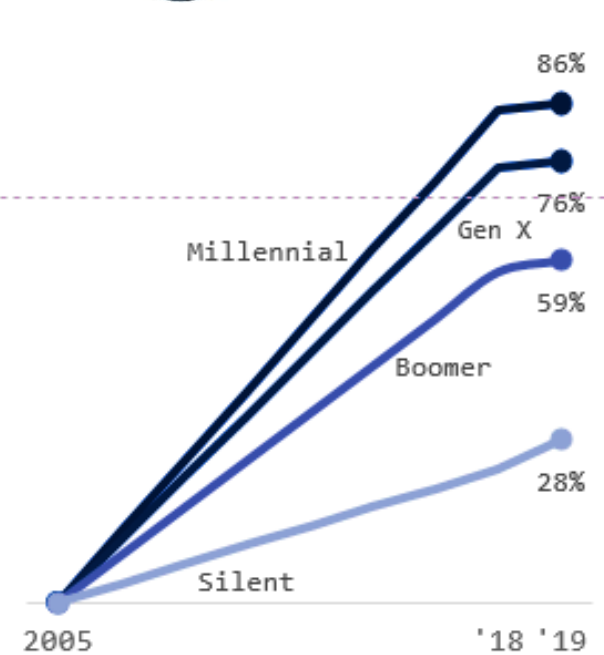
**OWN A SMARTPHONE**



**OWN A TABLET COMPUTER**



**USE SOCIAL MEDIA**



Source: Pew Research Center, September 2019

Icons: Getty Images / Eichinger Julien



**Online deposit alternatives are rapidly growing, making the physical branch less relevant for many consumers.**

**Marcus:**  
BY GOLDMAN SACHS



**LIVE OAK BANK®**



**RISING BANK**



# For those reasons, the current regulation implementing the CRA has many challenges.



## **Assessment Area**

### **Definitions:**

“Where” activities count for CRA credit



## **Qualifying Activities:**

“What” lending and investment count for CRA credit



## **Quantitative Measures:**

“How much” activity is needed for various regulatory ratings

Icons: Getty Images / Eichinger Julien

# Both nonprofit groups and the financial services industry see the need for modernization of the CRA.

## The Washington Post

### Financial regulators propose overhaul of anti-redlining law

The proposal is another big win for the banking industry. Advocates say it could lead to fewer loans for low- and moderate-income borrowers.

## The New York Times

### *Bank Regulators Disagree on Changes to Rules for Poor Communities*

Two regulators proposed an update to rules about how banks lend in poor areas. But the Federal Reserve doesn't agree with the plan.

## AMERICAN BANKER

### House Democrats implore regulators to get in sync on CRA

# The Office of the Comptroller of the Currency (OCC) and the Federal Deposit Insurance Corporation (FDIC) have proposed a modernized regulation.

The current OCC and FDIC proposal:

- Expands, clarifies, and gives examples of **which activities qualify for credit**, including the creation of a pre-approval process;
- Expands **where activities count** by creating facility-based, deposit-based, and bank-level assessment areas;
- Provides an **objective method for evaluation** by creating performance metrics;
- Requires **additional data collection** to implement.

# The Fed has a difference in view.



## **Fed Governor Lael Brainard**

*January speech at the Urban Institute*

- “Any successful reform must be grounded in the origins of CRA and its ongoing importance to low- to moderate-income neighborhoods.”
- “After analyzing ways to use metrics across the board, we concluded that the value of retail services and community development services to a local community do not lend themselves easily to a monetary value metric comparable to the monetary value of loans and investments.”

# The Fed's Approach – Key Differences



- Retains separate **Retail and Community Development** Tests.
- Continues **emphasis on low-to moderate-income** communities and individuals.
- Focuses on **number and not dollar values**, where appropriate.
- Calls for **metrics and thresholds** to be based on extensive and available data.
- Focuses on **local markets served by the bank** while allowing for activities to count in a larger territory or state.
- Additional **data collection** will be required.

# Closing thoughts ...

As noted earlier,  
**CRA has encouraged partnerships**  
that have provided benefit to low- and moderate-income communities.



Partnerships among banks, sustainable community groups, and government-sponsored programs **have brought hope** to many communities.

However, CRA, and the banking system itself, is just one of many tools needed to address the **magnitude of challenges faced** by low- and moderate-income communities.



*Icons: Getty Images / Eichinger Julien*

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