The Community Reinvestment Act:
Separating Truth from Myths

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.

In 1970, a new house cost $23,400

20-year Vietnam conflict ends; Gates & Allen create Microsoft

1975

1st Apple computers go on sale

1976

Carter takes office as President, following terms by Nixon and LBJ

1977

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.
The asset securitization market was immature.

U.S. Residential Mortgage-Backed Securities Outstanding

Source: SIFMA.org
Redlining was rampant as maps were used as a proxy for credit risk.

The St. Louis map from 1937


Areas by Grade

<table>
<thead>
<tr>
<th>Area</th>
<th>Grade</th>
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<tbody>
<tr>
<td>15%</td>
<td>A &quot;Best&quot;</td>
</tr>
<tr>
<td>38%</td>
<td>B &quot;Still Desirable&quot;</td>
</tr>
<tr>
<td>32%</td>
<td>C &quot;Definitely Declining&quot;</td>
</tr>
<tr>
<td>16%</td>
<td>D &quot;Hazardous&quot;</td>
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Around that time, many laws were passed to combat discrimination and unfair lending.

The CRA was one of those.
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.

<table>
<thead>
<tr>
<th>Period</th>
<th>Reforms Details</th>
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<tbody>
<tr>
<td>1980s</td>
<td>Sought reforms to make the legislation more transparent by requiring CRA ratings and performance evaluations be public.</td>
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<td>1990s</td>
<td>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.</td>
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<td>Early 2000s</td>
<td>Created the Intermediate Small Bank (ISB) thresholds and added the community development category of “distressed and underserved” in non-metro areas.</td>
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Today, CRA performance is monitored through regulatory examinations of banks using the following tests:

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

**Intermediate Small Bank**
- Lending Test
- Community Development Test
  - CD Loans
  - CD Investments
  - CD Services
- Response to CRA complaints

**Large Bank**
- 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.

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.

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**
  - **Millennial**: 93% (2011), 90% ('18 '19)
  - **Gen X**: 90% (2011), 86% ('18 '19)
  - **Boomer**: 68% (2011), 55% ('18 '19)
  - **Silent**: 40% (2011), 33% ('18 '19)

- **Own a tablet computer**
  - **Millennial**: 55% (2010), 53% ('18 '19)
  - **Gen X**: 53% (2010), 76% ('18 '19)
  - **Boomer**: 33% (2010), 59% ('18 '19)
  - **Silent**: 28% (2010), 28% ('18 '19)

- **Use social media**
  - **Millennial**: 86% (2005), 86% ('18 '19)
  - **Gen X**: 76% (2005), 76% ('18 '19)
  - **Boomer**: 59% (2005), 59% ('18 '19)
  - **Silent**: 28% (2005), 28% ('18 '19)

Icons: Getty Images / Eichinger Julien
Online deposit alternatives are rapidly growing, making the physical branch less relevant for many consumers.
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.
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.

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