



5 Things to Know About the Community Reinvestment Act and Fair Lending Laws

Community Reinvestment Act

Fair Lending Laws

What is it?

The Community Reinvestment Act (CRA) was passed by Congress in 1977 to encourage regulated financial institutions to help meet the credit needs of the communities in which they operate, particularly low- and moderate-income (LMI) individuals and areas.¹

Fair lending laws originated from two pieces of legislation — the Equal Credit Opportunity Act and the Fair Housing Act — which collectively make it unlawful to discriminate against protected classes² in housing transactions.

What's covered?

The CRA requires that financial institutions make credit available to LMI individuals and areas, small businesses, and small farms.

Fair lending laws consider race, religion, and sex, among other factors, to prevent discrimination against protected classes.

What do examiners look for?

CRA evaluations analyze a financial institution's lending performance, including the volume and type of lending provided to all income levels and businesses and farms of all sizes.

Fair lending evaluations analyze a financial institution's lending to protected classes, including lending to minorities and in majority-minority areas — areas with populations of at least 50 percent minority.

What enforcement measures exist?

Less than satisfactory CRA ratings may affect a financial institution's ability to participate in mergers and acquisitions or to open new branches. Additionally, CRA ratings are publicly available, which can impact a financial institution's reputation and provide incentive to comply with the CRA.

Evidence of discrimination against protected classes can lead to referrals to the U.S. Department of Justice and/or the U.S. Department of Housing and Urban Development. Although resulting enforcement actions may be publically available, fair lending evaluation ratings are not.

How do they overlap? The CRA and fair lending laws often overlap because certain LMI areas also contain significant minority populations. Additionally, CRA and fair lending are linked because CRA ratings may be downgraded by the presence of illegal credit practices which may include violations of fair lending laws.

Footnote 1: Regulators align definitions of LMI areas with the U.S. Department of Housing and Urban Development's defined standards of area median income (AMI).

Footnote 2: The Equal Credit Opportunity Act, enacted in 1974, makes it unlawful for creditors to discriminate based on race, color, religion, national origin, sex, marital status, age, receipt of public assistance, or the exercise of any rights under the Consumer Credit Protection Act. The Fair Housing Act, enacted in 1968, makes it unlawful to discriminate in housing transactions based on race, color, religion, sex, handicap, familial status, or national origin.