

Introduction

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The Community Reinvestment Act (CRA), enacted in 1977 and the subject of this special issue of *Housing Policy Debate*, was part of a trilogy of laws in the late 1970s including the Equal Credit Opportunity Act and Home Mortgage Disclosure Act designed to overcome longstanding discrimination in mortgage markets. There have been major shifts in the urban landscape as well as in the structure of the banking industry since the initial legislation. Given these changes, the Office of the Comptroller of the Currency (OCC) this past year issued a notice of proposed rulemaking seeking comments on how CRA regulations should be modernized to more effectively serve community needs.¹

The papers in this volume consider the impact and efficacy of the CRA and new regulatory approaches. The CRA's original and continuing mandate is to ensure that banks meet the lending needs of people and places where they take deposits. To encourage this, the CRA requires banks to designate assessment areas (without excluding underserved areas) in which regulators evaluate the activity of the banks.² Bank regulators consider this in the approval process for bank mergers and acquisitions as well as for bank branching requests. Banks are encouraged to engage with community stakeholders to fulfill their credit needs in order to strengthen the links between bank activity, profitability, and community development.³

Subsequent to the original legislation, reforms in 1995 shifted the focus from process-oriented evaluation to performance-based metrics.⁴ This together with newly required data disclosure (and consequent share-price and reputational effects) and an increase in acquisition and merger requests (and denials to several) led to a surge in lending in the latter half of the decade to low- and moderate-income borrowers and underserved neighborhoods. This lending surge occurred in major US cities, 2/3 of which had lost population from 1970 to 2000. Along with the reinvestment, urban revitalization took hold. Banks' engagement with community

¹ Office of the Comptroller of the Currency, "Advance Notice of Proposed Rulemaking," Bulletin 2018-24.

² Large banks are evaluated through separate lending, service, and investment tests. Small banks have only a lending test and community development test.

³ This does not, however, undermine the safety and soundness of the banking system.

⁴ 12 C.F.R. § 25.42.

groups to reinvest overcame collective action market failures, which had undermined community redevelopment in historically disinvested and declining neighborhoods.⁵ Urban revitalization took off after 2000, alongside the surge in community reinvestment.⁶ Many large cities that had experienced decades of population losses began to grow again. In coastal cities such as San Francisco, Boston, Miami, and NYC, and others such as Atlanta and Washington DC, gentrification accompanied the turn-around. Rising rents and housing prices, particularly in large cities with strong job growth, have resulted in a new urban crisis marked by a lack of access to affordable housing. This raises new issues and potential conflicts in the CRA's dual mandate to serve people and places.⁷

The banking industry has also undergone significant changes in the decades since the CRA was first legislated. The rise of national banking, nonbanks, and the Internet poses new challenges for implementing CRA regulations. The growth of national banks (with branches across the country), nonbanks (which are not covered by CRA and account for an increasingly large share of mortgage lending), and Fintech companies (which may have only one office, often in the Salt Lake City cluster) raise questions about the continued relevance of the CRA and, in particular, about the continued salience of the bank branch-oriented tests for whether banks are serving the entire community. The OCC Chairman has called for comments on strategies to modernize the CRA in response to these changes.

The peer reviewed papers in this special volume of *Housing Policy Debate* address issues surrounding the modernization of the CRA. The first paper, "The Community Reinvestment Act and the Legacy of Redlining," by Quercia and Park, takes on the central question of the CRA's continued relevance. Despite the new prosperity of cities, the paper demonstrates the persistency of discrimination and disinvestment that continue to afflict communities that were "redlined"

⁵ See Susan M. Wachter and David C. Ling, "Information Externalities in Home Mortgage Underwriting," 44 *Journal of Urban Economics* (1998): 317-332 and Susan M. Wachter and Jack M. Guttentag, "Redlining and Public Policy," in Salomon Brothers Center for the Study of Financial Institutions Monograph Series in Finance and Economics, ed. Edwin Elton and Martin J. Gruber (1980): 1-50.

⁶ Two thirds of the thirty largest cities reversed three decades of population losses with population gains. See "The Affordability Challenge: Inclusionary Housing and Community Land Trusts in a Federalist System," in *Land Value Capture*, eds. Gregory K. Ingram and Yu-Hung Hong (2012): 261-281.

⁷ Rebecca Diamond, "The Determinants and Welfare Implications of US Workers' Diverging Location Choices by Skill: 1980-2000," 106 *American Economic Review* 3 (2016): 479-524.

nearly a century earlier. The following two papers address whether the CRA, given recent changes in the structure of the banking industry, continues to affect banking activity. In “The Community Reinvestment Act (CRA) and Bank Branching Patterns” Ding and Reid find that CRA protections do effectively limit the negative impacts of bank branch closures in low-income areas. In “The Changed Landscape for CRA Lending,” Calem, Lambie-Hanson, and Wachter find that although the nonbank share of mortgage lending has indeed increased, the CRA generates significantly greater lending for low- and moderate-income borrowers in assessment areas than would have occurred in its absence.

The three papers that follow specifically address the data issues raised by the OCC call. In “Quantitative Performance Metrics for CRA: The Challenge of Defining How Much Reinvestment is ‘Satisfactory,’” Reid shows how benchmarks for community reinvestment are shifting and how data collection procedures and the CRA exams themselves need to be modernized accordingly. In “CRA: What Do We Know? What Do We Need to Know?” Goodman identifies avenues for more transparent and holistic data reporting on CRA lending. In “Re-assessing the Role of Assessment Areas,” Willis advocates for a broader interpretation of community development and recommends a new way to define assessment areas for Fintech banks.

We conclude the special symposium/issue with two papers that address the overarching question of the continued relevance of the underlying mechanism of the CRA for achieving legislative goals. White lays out these objectives, including overcoming discrimination in mortgage lending (which he argues is better addressed by anti-discrimination enforcement) and collective action problems of local community development. Barr posits that it is particularly this local need that underscores the CRA’s continued relevance.

Findings of the papers in this special issue were presented in a symposium convened by the Philadelphia Federal Reserve on February 1, 2019. We are grateful to Eric Belsky, Lael Brainard, and Raphael Bostic, whose comments helped frame the issues, to Theresa Singleton, James Gastner, Amanda Roberts, and Matthew Lambert, who helped organize, as well as to the paper discussants and participants, whose comments were very useful to paper authors. We also thank anonymous paper referees for their help in the review process.