A Perspective on the Community Reinvestment Act*

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This year marks the 40th anniversary of the passage of the Community Reinvestment Act (CRA). The CRA placed an affirmative obligation on banks and thrifts to provide credit in the communities in which they serve, particularly in low- and moderate-income (LMI) neighborhoods. Indeed, there is evidence that the CRA has made important contributions in bringing capital into these communities.

Background Behind the Impetus of the CRA

The CRA was enacted in 1977 against a backdrop of redlining — literally outlining neighborhoods in red ink on maps to denote areas where lending was perceived as too risky. In fact, federal lending agencies used such maps when deciding whether they would guarantee mortgage loans.¹ Not surprisingly, redlining stifled opportunities for people living in these areas, leading Congress to enact the CRA. The CRA requires regulators to encourage depository institutions (banks and thrifts) to help meet the credit needs of the communities they are chartered to serve, including LMI neighborhoods, consistent with safe and sound banking practices. It also requires regulators such as the Federal Reserve to evaluate how well institutions help to meet credit needs and assign ratings to their performances.²

Current CRA regulations were promulgated in 1995 and revised in 2005 to be more responsive to the needs of distressed and underserved communities and to create a new evaluation method for intermediate small banks.³ Bank agencies also issue guidance periodically, most recently to address issues regarding how community and economic development activities will be evaluated for CRA purposes. The federal bank regulatory agencies have also added more details on the factors that examiners should consider when determining whether credit and deposit services are designed to meet the needs of LMI individuals.⁴ The most recent CRA revisions detail the criteria regulators must use in determining whether alternatives for delivering banking services, such as

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¹ See Greg Miller, “Newly Released Maps Show How Housing Discrimination Happened,” National Geographic, October 17, 2016, available at news.nationalgeographic.com/2016/10/housing-discrimination-redlining-maps. This article details how maps created by the Home Owners’ Loan Corporation in the 1930s were used to designate areas considered hazardous for mortgage lending and influenced whether mortgage loans qualified for government guarantees from the Federal Housing Administration. To view interactive historical maps, see https://dsl.richmond.edu/panorama/redlining/#loc=10/44.1788/-84.8433&opacity=0.8.


³ The thresholds for small banks, intermediate small banks, and large banks are indexed to inflation. At present, the threshold for intermediate small banks is at least $307 million and not more than $1.226 million in assets in each of the prior calendar years.

online and mobile banking, meet the needs of LMI as well as other bank customers. Through guidance, regulators are able to clarify expectations and address questions from CRA stakeholders as financial markets evolve.

The Impact of the CRA on LMI Neighborhoods

Over the past four decades, the CRA has provided an incentive for collaboration among banks and community stakeholders. The growth of community organizations since its enactment, both in number and sophistication, has helped enable financial institutions to identify community credit needs and deploy capital effectively. Public–private partnerships have also blossomed since the CRA’s enactment, allowing banks to work with local governments to address some of the more difficult community and economic development problems in their communities. These partnerships have successfully leveraged bank capital by offering credit enhancements that help make private investment possible. Studies by the Federal Reserve and other agencies have demonstrated that the CRA has had positive effects on LMI neighborhoods and that lending practices have been implemented in a safe and sound manner. One Federal Reserve study demonstrates that CRA-related mortgage loans had delinquency rates lower than average across all 2006-vintage mortgages and sharply lower than those of subprime loans. In addition, a study of mortgage loans originated between 2003 and 2006 as part of a CRA-targeted LMI homebuyer program found that these loans performed nearly as well as prime mortgage loans and much better than subprime mortgage loans throughout the financial crisis.

While measuring the impact of the CRA on credit is challenging, several studies by Federal Reserve economists have suggested a positive impact. One study found that between 2003 and 2004, when the number of banks covered by the CRA increased in an area because of the redefinition of metropolitan statistical areas, refinances of mortgage loans increased substantially in these tracts relative to others. Another study found a moderate impact on mortgage originations from 1997 to 2002 by modeling credit flows in areas that were just under and just over the cutoff for CRA-eligibility consideration. These studies support the notion that banks are attentive to CRA obligations in the communities they serve.

Data reported under the CRA for small business, small farm, and community development lending (which is a substantial majority but not the totality of all such lending by banks because some are exempt from reporting requirements) show considerable activity. In 2015, CRA-reported lending to small businesses totaled $228 billion and to small farms $13.5 billion. CRA-reported community development lending totaled $87 billion in 2016, up more than fourfold from 1998, which was the first full year the new regulatory framework was in effect. This rate of increase greatly outpaced general price inflation of just 50 percent over the same period. Furthermore, CRA-regulated banks are important investors in Low-Income Housing Tax Credit programs and New Markets Tax Credit programs, likely resulting in more competitive pricing that stretches these federal tax incentives further.

To ensure the continued effectiveness of the CRA, the Federal Reserve and other banking agencies are committed to making continued improvements to policies and processes for implementing CRA regulations. Periodic revisions to CRA guidance help promote effective and consistent implementation of the CRA. Other ways in which the agencies can promote

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the continued flow of bank capital into LMI communities include making improvements to the procedures, tools, and training available to bank examiners.

These initiatives are all designed to recognize the importance of the CRA in bringing private capital to local markets. The CRA is an important incentive to promoting economic growth through sustainable rental and homeownership opportunities in LMI communities. Financial institutions are key participants in providing capital and are primary beneficiaries of the improved economic conditions that result from investments in local infrastructure, technical assistance to small businesses, educational and job opportunities, and quality neighborhood health-care and child-care options.

The Federal Reserve, through its bank oversight and community development functions, is committed to ensuring that all neighborhoods are well served by banks now and for years to come.

**Eric S. Belsky** has served as director of the Division of Consumer and Community Affairs at the Board of Governors of the Federal Reserve System since August 2014. A specialist in housing finance, economics, and policy, Belsky brings 20 years of experience to the division. He oversees the Federal Reserve’s work in consumer-focused supervision, research, and policy analysis, with the aim of promoting a fair and transparent consumer financial services marketplace and effective community development. Before joining the Federal Reserve Board, he served as managing director of the Joint Center for Housing Studies of Harvard University. Belsky also was director of Housing Finance Research at Fannie Mae and senior economist at the National Association of Home Builders, and he taught at Harvard University and the University of Massachusetts at Amherst. In addition, in 2001 and 2002, Belsky served as research director for the bipartisan Millennial Housing Commission established by the Congress of the United States. He has a Ph.D., M.A., and B.A. from Clark University.

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