

Guest Editor's Introduction

The Community Reinvestment Act at 40

Carolina Reid

University of California, Berkeley

In 1977, Congress enacted the Community Reinvestment Act¹ (CRA) in an effort to expand access to credit and to encourage private capital to return to formerly redlined neighborhoods. CRA established that federally insured banks and thrifts have a “continuing and affirmative obligation” to meet the credit needs of the communities that they serve, including low- and moderate-income neighborhoods, consistent with safe and sound banking practices. Since its enactment, CRA has been subject to significant debate, reflecting differing ideological views of the role of government in overcoming market failures (Barr, 2005; Chakrabarti et al., 2009). Forty years after the law’s passage, the question of whether banks have an obligation to serve low-income communities—and what form that obligation should take—is no less salient. This symposium seeks to inform that debate by bringing together new research and commentaries on CRA in an effort to better understand the impact of the law and to provide insights into how it could be improved to better serve the credit needs of low- and moderate-income communities.

Three themes emerge from the contributions in this symposium. The first is that CRA has a measurable impact on access to credit but that larger market forces often mute its effect. Bostic and Lee (2017) examine an important, underappreciated aspect of CRA—its role in expanding access to credit for small businesses. Analyzing data from nearly two decades of small business lending, they find that CRA increases access to small business loans but that the impact is influenced by macroeconomic market conditions and varies over time. Butcher and Munoz (2017) use newly accessible credit bureau data to examine the impact of CRA on a broad set of consumer credit outcomes. They find that CRA leads to increased credit market activity, including increases in the total number of loans, the number of people covered by the credit bureau data, and the fraction of individuals with a valid risk score. Importantly, they find no effect of CRA on increased delinquencies or foreclosures, adding to a growing body of evidence that CRA did not play a role in the subprime crisis (Avery and Brevoort, 2011; Canner and Bhutta, 2008; FCIC, 2011; Reid and Laderman, 2011; Reid et al., 2013).

Two other contributions to this symposium look at CRA’s impact from a different angle, asking, “what can we learn from CRA to inform future housing policy”? In their article, Quercia and Riley (2017) reflect on the lessons learned from an innovative effort to scale CRA mortgage lending using

¹ Pub. L. 95–128, 91 Stat. 1147, Title VIII.

the secondary market: the Community Advantage Program (CAP) run by Self-Help. Building on their extensive research on the impacts of CAP, Quercia and Riley explore how policymakers can balance risk management with efforts to expand the scale of CRA lending to low-income families. In his commentary, Immergluck (2017) examines the strengths and weaknesses of CRA against those of another key piece of legislation designed to increase housing equity: the Affirmatively Furthering Fair Housing (AFFH) rules. His analysis reveals limitations in the AFFH regulatory structure, including the lack of consistency and specificity of the quantitative measures. It also highlights that, despite uneven implementation over the years, CRA's approach to regulatory compliance has worked relatively well.

A second key theme in this symposium is the importance of public participation and advocacy in the implementation of CRA. The "stick" of CRA is relatively weak; ratings largely come into play only during mergers and acquisitions or branching activities, and most banks receive "satisfactory" or "outstanding" ratings (Avery, Courchane, and Zorn, 2009). As a result, the role of community-based coalitions has been critical to holding banks accountable for their CRA activities. Casey, Farhat, and Cartwright (2017) provide empirical evidence for this important aspect of CRA, illustrating how community mobilization in St. Louis, Missouri, was associated with positive lending outcomes in CRA-eligible tracts. However, the pieces by Bull (2017) and Silver (2017) point out critical challenges to the public accountability aspects of CRA. Bull highlights how the data collected as part of a CRA exam are often hard to access, and the reporting of CRA activities is at a geographic scale that does not allow for community development corporations to engage effectively with local banks about the credit needs in their communities. In his commentary, Silver shines light on the regulators and the processes by which public comments are considered as part of CRA exams and bank merger applications, and he offers tangible suggestions for how these processes could be strengthened.

The third theme relates to the question of how CRA could be improved, particularly given the changes in the banking sector that make parts of CRA seem anachronistic. Gaughan (2017) looks specifically at the rise of financial technology (FinTech) companies. He argues that FinTech provides an opportunity to broaden CRA coverage and leverage technological innovation to more equitably distribute CRA investments to the communities most in need. Yezer (2017) takes a different view, suggesting that the changes in banking have made CRA obsolete. He argues that, over the years, political interests have held sway over economic analysis in the development of housing and mortgage market policy, to the detriment of households and neighborhoods. Willis (2017) asks one of the most enduring questions confronting CRA: how do we actually know if a bank has done an adequate job of meeting the credit needs of the community it serves? He proposes that examiners develop new metrics that account for local housing market conditions and provides one example of how such a metric could work in New York City.

Given the continuing disparities in access to credit and the importance of credit for economic mobility, the goal of CRA is as critical and relevant today as it was 40 years ago. The contributions in this symposium provide welcome additions to the interdisciplinary literature on CRA and will hopefully help to inform ongoing policy efforts to expand access to opportunity for low- and moderate-income households.

Acknowledgments

The guest editor thanks all the authors for their dedication and contributions to this symposium and thanks the reviewers who provided critical feedback on draft articles and commentaries.

Author

Carolina Reid is an assistant professor in the Department of City and Regional Planning at the University of California, Berkeley.

References

- Avery, Robert B., and Kenneth P. Brevoort. 2011. *The Subprime Crisis: Is Government Housing Policy to Blame?* Finance and economics discussion paper. Washington, DC: Board of Governors of the Federal Reserve System. <https://www.federalreserve.gov/pubs/feds/2011/201136/201136pap.pdf>.
- Avery, Robert B., Marsha J. Courchane, and Peter M. Zorn. 2009. "The CRA Within a Changing Financial Landscape." In *Revisiting the CRA: Perspectives on the Future of the Community Reinvestment Act*, edited by Prabal Chakrabarti, David Erickson, Ren S. Essene, Ian Galloway, and John Olson. Boston; San Francisco: Federal Reserve Banks of Boston and San Francisco: 30–46.
- Barr, Michael. 2005. "Credit Where It Counts: The Community Reinvestment Act and Its Critics," *New York University Law Review* 80 (2): 513–652.
- Bostic, Raphael W., and Hyojung Lee. 2017. "Small Business Lending Under the Community Reinvestment Act," *Cityscape* 19 (2): 63–84.
- Bull, Marijoan. 2017. "Data, Accountability, and the Public: Using Community Reinvestment Act Data for Local Community Development," *Cityscape* 19 (2): 161–175.
- Butcher, Kristin E, and Ana Patricia Muñoz. 2017. "Using Credit Reporting Agency Data To Assess the Link Between the Community Reinvestment Act and Consumer Credit Outcomes," *Cityscape* 19 (2): 85–108.
- Canner, Glenn, and Neil Bhutta. 2008. *Staff Analysis of the Relationship Between the CRA and the Subprime Crisis*. Washington, DC: Board of Governors of the Federal Reserve System.
- Casey, Colleen, Joseph Farhat, and Gregory Cartwright. 2017. "Community Reinvestment Act and Local Governance Contexts: Advancing the Future of Community Reinvestment?" *Cityscape* 19 (2): 137–160.
- Chakrabarti, Prabal, David Erickson, Ren S. Essene, Ian Galloway, and John Olson, eds. 2009. *Revisiting the CRA: Perspectives on the Future of the Community Reinvestment Act*. Boston; San Francisco: Federal Reserve Banks of Boston and San Francisco.

Financial Crisis Inquiry Commission (FCIC). 2011. *The Financial Crisis Inquiry Report*. Washington, DC: Government Printing Office. http://fcic-static.law.stanford.edu/cdn_media/fcic-reports/fcic_final_report_full.pdf.

Gaughan, Michael. 2017. "Commentary: FinTech and the Liberation of the Community Reinvestment Act Marketplace," *Cityscape* 19 (2): 187–198.

Immergluck, Dan. 2017. "Commentary: Encouraging Housing Equity," *Cityscape* 19 (2): 129–136.

Quercia, Roberto G., and Sarah Riley. 2017. "Bridging the Gap to Scalable Community Reinvestment Lending Programs," *Cityscape* 19 (2): 109–128.

Reid, Carolina K., and Elizabeth Laderman. 2011. "Constructive Credit: Revisiting the Performance of Community Reinvestment Act Lending During the Subprime Crisis." In *The American Mortgage System: Rethink, Recover, Rebuild*, edited by Marvin M. Smith and Susan M. Wachter. Philadelphia: University of Pennsylvania Press: 159–186.

Reid, Carolina K., Ellen Seidman, Mark Willis, Lei Ding, Josh Silver, and Janneke Ratcliffe. 2013. *Debunking the CRA Myth—Again*. Raleigh, NC: UNC Center for Community Capital. <http://ccc.unc.edu/contentitems/debunking-the-cra-myth-again/>.

Silver, Josh. 2017. "Commentary: The Community Reinvestment Act Must Be All About Public Participation, but It Still Doesn't Feel That Way," *Cityscape* 19 (2): 187–198.

Willis, Mark. 2017. "Commentary: Filling a Gap in the Community Reinvestment Act Examiner Toolkit," *Cityscape* 19 (2): 207–212.

Yezer, Anthony. 2017. "Commentary: What Can We Learn From Government Attempts To Modify the Allocation of Mortgage and Consumer Credit in the United States?" *Cityscape* 19 (2): 199–205.