Banks and Community Reinvestment

- Overview of Community Reinvestment Act
- CRA Advocacy Practice
  - Pittsburgh Community Reinvestment Group
- Research on CRA impact
- Bank CDCs
- New CRA environment
- Bank of America Case

CRA History

- Emerged from civil rights movement
  - 1968 Fair Housing Act prohibited discrimination in the sale and rental of housing
  - Courts ruled that it applies to housing credit
- Home Mortgage Disclosure Act (HMDA) passed to address lack of enforcement
  - Requires annual disclosure of home mortgage lending by census tract in every metro area for banks and credit unions
  - 1989 law extended HMDA to mortgage banks and required disclosure of mortgage applications
- HMDA allowed activists to document lending in neighborhoods to demonstrate the need for the Community Reinvestment Act, which congress enacted in 1977

How CRA Law Works

- Requires banks to serve the banking and credit needs of their entire service area—including LMI households, small farms and small businesses
- Banks define an assessment area that corresponds to their service area
- Regulators examine and rate banks on CRA performance which is a public record: Outstanding, High Satisfactory, Low Satisfactory, Needs to Improve, Substantial Noncompliance
- CRA performance is one criterion for regulators in approving applications for various actions:
  - application for FDIC insurance
  - establishing a new domestic branch
  - New bank charters and changes in charter
  - mergers, consolidations, and acquisitions

How CRA Law Works

- CRA reviews changed in 1995 from process- to outcome-based via score for three tests:
  - **A lending test** - based on home mortgage, small business, small farm and community development lending
  - **A service test -** retail banking and community development services
  - **An investment test** - other investments, grants donations, etc. for community development purposes
  - Disclosure of small business and small farm lending
- Frequency of CRA review based on bank size and past ratings
- Vast majority of banks receive outstanding or satisfactory ratings
- Tests do not consider race or denial rates

CRA Advocacy Practice

- Community-based coalitions in cities and states advocate for expanded bank lending and services in low-income and minority neighborhoods
- Coalitions research lending & service patterns, intervene in regulatory hearings, negotiate formal CRA agreements and monitor implementation
- Banks sign CRA agreements in response to bad publicity over past practices and to forestall opposition to mergers/expansions
- NCRC reports 428 CRA agreements for $4.2 trillion since 1977—some “double counting” as new agreements superseded old ones.

CRA Advocacy Practice

- Research, monitoring, publicizing information on bank performance
- Organizing campaigns, pressuring, negotiating to desired CRA agreements
- Collaboration with banks to implement agreements, offer new products & services and improve community reinvestment activities
- Marketing & “demand side” services need to fully utilize expanded financing
- Bank, coalition and community development partner capacity all important

CRA Best Practices and Challenges: Pittsburgh CRG

- Long-stranding citywide CRA coalition
- Early successful campaign & CRA agreement with UNB/Integra merger
- Worked with many other banks and city to expand investment & home mortgages
- What did PCRG accomplish?
- Which approaches and practices struck you most effective or innovative?
- What were the most critical challenges to its impact?

Impact of CRA on Bank Lending

- CRA altered bank lending to LMI & minority communities:
  - Banks rediscovered these markets and their profit potential
  - New collaborations between banks, CBOs and local governments expanded commitment and capacity to serve these markets
  - Institutionalizing special CD lending units
- Bank report that CRA changed their lending
- Banks with CRA agreements are more active home mortgage lenders to low-income and minority borrowers
- CRA loans are profitable & perform well
  - Most banks report CRA small business and housing loans are profitable with equal or higher returns than conventional loans
  - Small business CRA loan returns on equity, delinquency and charge-off rates are very close to conventional loans for the vast majority of banks

Bank CDCs: When a Bank is not a Bank

- A federal regulation allows banks to make investments and undertake activities to benefit LMI areas or advance the public welfare that they cannot outside do
- Flexible and non-bureaucratic vehicle through which banks can undertake unusual or high-risk activities:
  - High risk loans
  - Equity investments in firms, real estate projects, financing entities or organizations
  - Direct real estate development activities
  - Direct consulting and technical assistance activities
  - Providing grants
- Limits on bank resources committed to Bank CDC:
  - OCC: 5% of bank capital and surplus (can be 10%)
  - Fed: 5% of bank capital and surplus for state banks
- Mellon bank example

New CRA Environment

- Bank consolidation has created super-regional and national banks less tied to a single a city or region
- Banks establish their own CRA plans
  - Set their CRA agenda
  - Pre-exempt negotiation with coalitions
- Increasing non-bank lending, esp. home mortgages
- Adverse regulatory and legislative posture
  - New trend toward pre-emption of state laws