Modernizing the CRA

Opportunities to improve the community investment responsibility of the financial services industry

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The History of the Community Reinvestment Act (CRA)

- 1975: Home Mortgage Disclosure Act (HMDA)
- 1977: Community Reinvestment Act (CRA)
- 1977–87: Limited adherence to CRA requirements
- 1989: CRA Exams made public for the first time
- 1990: New data added to HMDA
- 1995: Lending, investments, services test added
- 2005: Regulators weaken exams
Participating in the Federal Reserve CRA Modernization Public Hearings

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Space is limited
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August 12, 2010
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Expanding the scope of the CRA

Figure 1. Shares of Households’ Financial Assets

Issues
Percent of household financial assets deposited in CRA-regulated financial institutions continues to decline

Increasing role and market share of non-CRA regulated mortgage lenders

Mainstream credit unions, which have a mission to serve people of “modest means,” in many cases do not do so.

Insurance companies, online bankers have few locations but sell financial products across the country

Recommendations
Apply the CRA to mortgage companies, mortgage brokers, mainstream credit unions, insurance companies, securities companies and others

Figure 2. Mortgages Originated by Institution Type

Modernizing assessment areas

Issues
Assessment areas are defined by the location of bank branches, not where financial institutions actually lend.

Mortgage lending is far more likely to occur through large mortgage banking affiliates or mortgage brokers than through banks.

Insurance companies selling financial products currently only have a community commitment where they are headquartered.

Large online banks gather deposits and make mortgage loans across the country, but only have a physical presence where their headquarters are located.

Recommendation
Define assessment areas as any state, metropolitan area or rural county where that institution maintains retail office or is represented by an agent, or has at least a 0.5 percent market share.

Preventing grade inflation and increasing transparency of CRA ratings

Issues

92 percent of all banks receive a satisfactory score

Recommendations

Require public improvement plan for low ratings

Rate banks on a numerical scale of 1 to 100, and define ratings based on those scores to improve ratings transparency

Improve criteria for Satisfactory and Outstanding ratings. For example reward diversified grant-making strategy, special consideration for financial institutions that develop local or regional CRA agreements
Developing new mechanisms to encourage CRA compliance

Issues

- Fewer CRA exams conducted by regulators
  - The consolidation of the banking and thrift industry means fewer opportunities for actionable public scrutiny of a bank’s CRA performance.
  - Fewer mergers of healthy institutions. Many recent mergers happened on an emergency basis with no opportunity for public comment.

Recommendations

- If a bank receives a low satisfactory or lower, require a public improvement plan.
- For financial institutions that still do not improve, prohibit sale of mortgages to the GSEs or contracts with federal agencies, and/or pay any applicable fines to a national reinvestment fund.
- Favorable consideration should be given to banks that enter into local or regional CRA agreements with community organizations.

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**Figure 4. Number of CRA Exams conducted 1990 to 2009**

- Source: Woodstock Institute Analysis of FDIC data

**Figure 5. Bank mergers 1994-2003**

Modernizing small business data disclosure

Our recent work

Issues

Expanding data disclosure for small business loans is also critical to ensuring that financial institutions are working to build the economy and create jobs in the communities where they do business.

The current disclosure requirements do not include important demographic information.

Only applies to the largest financial institutions, leaving out many community banks, niche lenders, and small de novos.

Data are not available at the loan level, making analysis difficult.

As far back as 1999, Woodstock Institute has called for the collection of race and gender data for small business loans, but, to date, the Federal Reserve has not adopted these recommendations.

Recommendation

Expand disclosure requirements to include the race and ethnicity, and gender, of borrowers.

Lower reporting requirements to include financial institutions with more than $250 million in assets, not just the largest banks.

Include loans made in non-metropolitan areas.

Collect information on the type and purpose of financing being provided.

Make data available at the loan level.
# Modernizing the CRA Services Test

<table>
<thead>
<tr>
<th>Name</th>
<th>Regulator</th>
<th>CRA Rating</th>
<th>Service Test Score</th>
<th>Provided No Information About Community Development Services</th>
<th>Provided General Information About Community Development Services</th>
<th>Provided Detailed Information About Community Development Services</th>
<th>Percent of Assessment Area in LMI Census Tract</th>
<th>Branch Distribution (% in LMI Census Tract)</th>
<th>LMI Branch Distribution - Assessment Area</th>
<th>LMI Branch Distribution Compared to Assessment Area</th>
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| Total                                          |           | 12         | 23                 | 6                                                             | 29.27                                         | 56.10                                         | 14.63                                         |                                              |                                             |                                             |                                             |
Modernizing the CRA Services Test

Our recent work

Issues

Simply because a branch is located in a lower-income community does not automatically mean that the bank is offering retail products appropriate for low-wealth consumers or effectively reaching those consumers with its existing products.

Recommendations

Disclose, collect, and consider information on account holders, accounts, and transactions including such critical variables as census tract location, account holder, number of new accounts opened, age of account, and percent of bank income generated by fees.
# Key reforms necessary to modernize the Community Reinvestment Act

<table>
<thead>
<tr>
<th>Legislation is necessary to modernize the Community Reinvestment Act</th>
<th>Expand the scope of the CRA to include financial institutions such as:</th>
</tr>
</thead>
</table>
| Regulatory changes are not enough to expand investment requirements to all financial institutions | 1. Mortgage companies and brokers  
2. Insurance companies  
3. Securities companies  
4. Mainstream credit unions |
| Ensure investment obligations are applied consistently | Expand small business data disclosure requirements |
| Require public improvement plan for low ratings. Limit activities of failing banks. Improve criteria for Satisfactory and Outstanding ratings. For example, reward diversified grant-making strategy, special consideration for financial institutions that develop local or regional CRA agreements | Disclosure requirements should be expanded to include the race and ethnicity, and gender, of borrowers. Data should be provided by financial institutions with assets of $250 million or more, not just the largest banks |
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