NATIONAL COMMUNITY REINVESTMENT COALITION NCRC

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# Community Reinvestment Act Mitigates Damage to Communities Caused by Financial Crisis

Areas served by banks regulated under CRA less likely to experience credit restriction

Washington, DC – A new study finds that Community Reinvestment Act (CRA) regulated lenders avoided significant decreases in lending accompanied by the current foreclosure crisis and severe recession. The study, conducted by the National Community Reinvestment Coalition, compared home and small businesses lending and bank branching in two major metropolitan areas (Washington DC and Houston) over the volatile time period of 2006 through 2009. The Community Reinvestment Act (CRA) requires banks to serve communities, particularly low- and moderate-income communities, and by statute requires the lending be safe and sound.

"The Community Reinvestment Act puts capital to work creating jobs, housing and opportunity for communities who otherwise might have been left behind," said John Taylor, president & CEO of the National Community Reinvestment Coalition, and a leading CRA expert. "CRA promotes lending to creditworthy people, ensuring that banks can make a profit while doing good in their community."

The primary findings of the study include:

- Consistent with Federal Reserve research, NCRC reveals that CRA-covered lenders in geographical areas where they are examined issued a small percentage of high-cost loans. CRA-covered lenders undergoing CRA exams in Washington, DC and Houston made only 4.3 percent and 12.5 percent, respectively, of the high-cost loans in 2006, a year of heavy subprime volumes.

- Financial institutions decreased their lending but lenders not covered by CRA decreased their lending to a much greater extent. In Washington, DC, for example, CRA-covered banks issued 97,216 prime home loans in 2006 and 61,178 loans in 2008 (a drop of 37 percent over the time period). Non-covered CRA institutions issued 52,960 prime loans in 2006 and 30,973 in 2008 (a drop of 41.5 percent).

- Many large mortgage companies went out of business due to non-performing and risky loans during this time period. For example, of the 169 lending institutions that went out of business in 2007, 167 were independent mortgage companies. In contrast, banks with a greater degree of regulatory oversight were more successful in surviving adverse economic conditions and maintaining loan volumes. Regulatory oversight of CRA lenders thus helped mitigate the destabilizing effects of declines in credit.

The study also found that CRA's impact on a neighborhood level has been uneven. CRA-covered lenders in the Washington, DC metropolitan area generally reached a larger percentage of homeowners with prime home loans in modest income neighborhoods and communities of color than predominantly white communities and upper-income neighborhoods. In the Houston area, however, this was not the case. Moreover, in both Washington, DC and in Houston, disparities in small business lending and bank branching were evident by the race and income level of neighborhood.

To obtain a copy of the full report, visit www.ncrc.org, or email communications@ncrc.org.

**Policy recommendations**

- *Stronger CRA Enforcement:* Uneven effects by neighborhoods suggests that bolstering the rigor of the CRA ratings is needed, particularly since 98 percent of banks and thrifts pass their CRA exams. In addition, more emphasis needs to be placed on small business lending and branching since bank performance in these activities was weaker than bank performance in home lending.

- *Expand CRA Assessment Areas:* Consistent with other research, this study reveals that CRA-covered lenders issued a lower percentage of high-cost and risky loans in assessment areas (geographical areas on CRA exams) than in areas not on CRA exams. Assessment areas need to be expanded to include geographical areas encompassing the great majority of banks' loans.

- *Apply CRA to Non-Bank Financial Institutions:* This study shows that banks were more successful in maintaining their lending volumes than non-CRA covered institutions, in part, because their lending was less likely to be risky and high-cost than non-CRA covered institutions. In order to create a vibrant financial industry that is able to resume healthy lending volumes, CRA must be expanded to non-bank institutions including independent mortgage companies, mainstream credit unions, and investment banks.

**About NCRC**

The National Community Reinvestment Coalition is an association of more than 600 community-based organizations that promote access to basic banking services, including credit and savings, to create and sustain affordable housing, job development and vibrant communities for America's working families.

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