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OPINION

HOUSING MATTERS

Defending the Community Reinvestment Act

Legislation Must be Strengthened to Address Wealth Disparity

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SPECIAL TO BANKER & TRADESMAN

Not too long ago, the insidious practice known as redlining was the norm and many urban neighborhoods were deemed off limits for access to credit and insurance. In traditionally low-income neighborhoods, often home to people of color, local residents had no access to capital to purchase a home regardless of their credit worthiness.

One response was the 1977 Community Reinvestment Act, or CRA. It mandates that regulated financial institutions, mostly banks, offer loans to low-income families in communities where the institutions conduct business. In return, these banks are given benefits, including access to FDIC insurance. A good CRA rating is a critical element if banks wanted to secure approvals to expand.

CRA has been on the books for over 40 years and it has indisputably had positive results. An FDIC official speaking to a Congressional committee in 2008 said that "studies have pointed to increases in lending to low- and moderate-income customers and minorities in the decades since the CRA's passage." Last year, Cityscape, a research publication of HUD, said 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."

On the rental housing side, thousands of additional new housing units are produced because CRA-motivated investors, seeking both investment returns and CRA credit, pay higher prices for housing tax credits than other investors. And on the homeownership side it has been a factor in stabilizing neighborhoods and in enabling millions of people to build equity in their homes.

Today the law is under scrutiny. Although initial concerns of a wholesale repeal by the Trump administration have subsided, recent comments made by officials suggest that there will be regulatory changes. Some of these changes respond to today's banking environment but others strike at the heart of CRA's mission.

Once banks were anchored in neighborhoods, and if they took deposits from their neighbors they were required to offer credit, too. Regulators then rated banks on their lending records – outstanding, satisfactory, needs to improve or substantial noncompliance – and those grades could affect banks' futures.

But traditional banks have undergone massive consolidation, increased their branches, and emphasized remote lending. The sector has been disrupted by the introduction of fintech – online financial institutions with essentially no "home" office or territory – which has made many CRA rules obsolete. There is also a lack of transparency in the rating process, which bankers say has meant enormous compliance costs and uncertainty.

It is vital to ensure that the founding principle of the CRA law is maintained – namely ensuring increased access to credit for low- and moderate-income people.

As a society we are facing a growing wealth divide, and a major culprit is the fact that too often low-income people, and particularly persons of color, are shut out of the opportunity to purchase homes and build equity.

In our own city, consider the recent Boston Globe Spotlight series, which highlights the Federal Reserve Bank of Boston's 2015 study, "The Color of Wealth in Boston." It notes that in Boston the household median net worth was $247,500 for whites but $8 for multigenerational African Americans. This is directly attributable to access to homeownership and equity in one's home.

This is a nationwide problem. Implicit bias in lending continues to exist, as was recently reported in a Center for Investigative Reporting review of 31 million federal homeowner mortgage records in 61 metro areas. In the case of Philadelphia, for example, the study noted that "when you combine home purchase loans, refinancing and home equity lines of credit, banks were more likely to deny a conventional loan application than grant it in more than 40 percent of Philadelphia. People of color were the majority in nearly all those neighborhoods."

Housing advocates are concerned about any reform that does not address directly the outcome of enhancing access to credit for low and moderate-income people. For example, allowing banks to get CRA credit for investing in major infrastructure projects dilutes the purpose of CRA.

The CRA has been a critical tool for increasing access to credit – and homes – to low-income Americans, including people of color. Defending and enhancing its focus on the credit needs of low and moderate-income people is essential now more than ever for all of us to prosper.

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