The Community Reinvestment Act Can Encourage Lending to Low-Income Communities and Latinos

The Community Reinvestment Act (CRA) was enacted in 1977 in response to racial and ethnic discrimination in the banking and credit systems, and as a protective measure against the pervasive practice of redlining. The CRA plays a critical role in the growing Latino community's access to credit, financial products, and home loans.[1]

At the heart of the CRA's original legislation is the promotion of fair and equal access to banking services in all neighborhoods, regardless of the racial, ethnic, or income composition of the residents. Over the years, the CRA helped to revitalize neighborhoods and to encourage banks to be innovative with their investments, so that low- and moderate-income (LMI) borrowers, who are historically underserved by banks, can benefit directly from large bank investments that might otherwise not reach their neighborhoods. The law also has helped to curb some of the discrimination and unequal treatment that Latinos, immigrants, and other communities of color face when they interact with the financial marketplace.[2]

But financial inequities persist. For example, a recent analysis highlighted lending disparities found that:[3]

- Loans to majority-minority neighborhoods fell from 19.1% of all loans in 2018, to 18.5% in 2020.
- Loans in LMI neighborhoods declined from 16.5% in 2018 to 13.7% in 2020.
- Black and Hispanic borrowers bought less valuable homes than did white (and some Asian) borrowers, and they paid more to do so.
- Black, Hispanic, and LMI borrowers have significantly higher loan denial rates than White borrowers.

Since enactment, the CRA has led to $1.7 trillion in lending to economically distressed areas and has partially been responsible for the gains in credit in LMI communities and communities of color.[4] A 2017 study found that CRA increased credit activity by 9% from 2004 to 2012 and the number of credit visible, meaning their credit score is recorded with the credit bureaus, individuals in Latino communities increased by 7%.[5] Our own research has found that the CRA has bolstered home lending for Latinos and facilitated between 15% and 35% of home loans to Latinos in LMI communities. This was about two to three times the share of loans facilitated to whites in LMI Census tracts.[6]

Despite the positive intent and impact of the CRA, it contains critical flaws that prevent it from fulfilling its purpose of making the banking system more inclusive. For instance, about 98% of banks pass their CRA exams on an annual basis with less than 10% receiving an "Outstanding" rating and almost 90% of receiving a rating of "Satisfactory." These ratings outcomes are a reflection of the relatively low standards that banks must meet to pass a their CRA exam and make it difficult to compare performance across banks.

Furthermore, CRA exams do not include race and ethnicity data in bank examinations despite its original intent to combat redlining, which was an overtly racist practice. Rather it focuses on income levels, yielding a useful but incomplete picture of equitable access to banking.

Finally, the CRA is focused on ensuring that the credit needs of a community are met but excludes other banking needs such as deposit products, or the needs of communities that don't have a bank branch nearby.

The CRA remains a unique tool to spur community-based investments, as it places an affirmative obligation on financial institutions and banks to meet the credit needs of the communities where they do business.

And this year, we have a historic opportunity to make improvements to the CRA. Federal bank regulators recently proposed comprehensive changes to the CRA and are accepting comments from the public to make further suggestions or changes. UnidosUS plans to submit comments advocating for improvements that provide low-income people and Latinos access to good-quality bank products. We will also develop model comments for our Affiliate Network to use to engage with this excellent opportunity to be heard about the financial needs of communities.

[1] UnidosUS, "Comments in response to the ANPRM on the Community Reinvestment Act [Docket No. R-1723, RIN 7100-AF94]," February 10, 2021, https://www.unidosus.org/wp-content/uploads/2021/08/unidosus_cracomment_federalreserveboarddocketnor1723_221.pdf (accessed June 30, 2022).

[2] Ibid.

[3] Jason Richardson, Joshua Devine, and Jamie Buell, *NCRC 2020 Home Mortgage Report: Examining Shifts During COVID* (Washington, DC: National Community Reinvestment Coalition, January 18, 2022), https://www.ncrc.org/ncrc-2020-home-mortgage-report-examining-shifts-during-covid/.

[4] "Banking on Local Communities." New York Times, April 15, 2004. https://www.nytimes.com/2004/04/15/opinion/banking-on-local-communities.html.

[5] Federal Reserve Bank of Boston. "Using Credit Reporting Agency Data to Assess the Link between the Community Reinvestment Act and Consumer Credit Outcomes." Federal Reserve Bank of Boston. March 04, 2014. https://www.bostonfed.org/publications/community-development-discussion-paper/2013/using-credit-reporting-agency-data-to-assess-the-link-between-the-community-reinvestment-act-and-consumer-credit-outcomes.aspx.

[6] UnidosUS, Latino Homeownership 2007–2017: A Decade of Decline for Latinos (Washington, DC: UnidosUS, 2019), https://www.unidosus.org/publications/1963-latino-homeownership-2007-2017-a-decade-of-decline-for-latinos/?s.