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Fact Sheet: Community Reinvestment Act Reform

In May 2022, Federal regulators (including the Office of the Comptroller of the Currency, the FDIC and Federal Reserve Board) proposed an overhaul of the Community Reinvestment Act rules and requested public comment. This is a rare opportunity to modernize and strengthen the CRA, and an especially important opportunity to increase reinvestment in communities of color that were historically redlined and continue to experience economic inequities and disparate climate impacts.

WHAT IS THE COMMUNITY REINVESTMENT ACT?

Redlining was the deliberate effort by government, banks, realtors, and insurers to work together to draw red lines on maps around communities of color, deeming them "hazardous" for investment. The CRA was originally passed in 1977 to prohibit redlining and address fairness and financial inclusion in access to housing and credit. The CRA encourages banks to help meet the credit needs of the local communities in which they are chartered, by requiring the Federal banking regulatory agencies to examine banks' records of meeting the credit needs of low- and moderate-income neighborhoods. The last time the CRA was substantially updated was in 1995. Since then, the financial system has changed, with expanded online banking and interstate lending, while racial disparities in lending and wealth creation have persisted or worsened.

WE NEED STRONGER PROTECTIONS TO COMBAT THE NEW FRONTIERS OF REDLINING

The CRA, while not perfect, was pivotal to broaden access to financial opportunities in low-income communities and communities of color where they were previously denied. However, the CRA doesn't explicitly address racial disparities, nor does it compel financial institutions to track data on racial wealth gaps. Without this data, it's impossible to know if our financial institutions, including mortgage lenders, are perpetuating algorithmic bias. We do know, however, that inequities persist:

- The wealth gap and the homeownership gap between Black and White Americans in modern times is roughly the same as it was before the passage of the Civil Rights Act of 1964
- Black and Hispanic households are around 5x more likely to be unbanked as White households
- The legacy of redlining has resulted in neighborhoods lacking adequate investment by banks while *also* commonly bearing disproportionate environmental burdens, leading to increased vulnerability to climate change and negative health outcomes
- Black-owned businesses are more likely to be denied credit even after controlling for differences in creditworthiness

Regulators must update the rules to reflect new technological developments and more explicitly address racial inequities, while also preserving beneficial aspects of the CRA.

CURRENT CRA SHORTCOMINGS

No explicit consideration of race: Although the CRA was a direct response to redlining and housing discrimination, the law doesn't take race into account and instead is concerned with income. Explicit race-based criteria that hold banks accountable to serving communities of color is necessary to genuinely address decades of race-based disinvestment and discrimination.

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Non-bank lenders are not subject to CRA Assessment: Non-bank lenders often fill the lending gap in neighborhoods where traditional banks have closed branches. And while five of the 10 largest home lenders in California are non-banks, they are not legally accountable to fair lending practices among communities of color. We expect a loss of $52 billion to $105 billion in loans to LMI census tracts nationally in the next five years due to lack of CRA requirements for nonbanks. The result:

- Communities of color are at risk of predatory lending from underregulated non-bank lenders.
- Communities of color lose out on billions of dollars in CRA investments.

GREENLINING'S ANALYSIS & RECOMMENDATIONS

Racial Equity: Racist public policies led to a need for CRA, so explicitly race-based criteria that hold banks accountable to serving communities of color is necessary to genuinely address decades of race-based disinvestment. *Right now, the proposed rule lacks a proper consideration of race.*

Greenlining proposes that regulators explicitly include race by: assessing bank performance through percentage of home lending to Black, Indigenous, and people of color borrowers, using race to determine additional assessment areas, analyzing lending by race and ethnicity in underserved neighborhoods in all CRA exams (including community development financing and retail lending), and considering a bank's creation and deployment of Special Purpose Credit Programs. These recommendations should both increase transparency of the context in which banks are doing business, and reward or penalize banks for failing to meet the needs of BIPOC communities.

Climate Resilience: While banks currently receive CRA credit on their examinations for investing in disaster recovery efforts, more could be done to support the resilience of communities especially vulnerable to climate change and climate disasters due to decades of disinvestment. The Notice of Proposed Rulemaking includes a new definition of "disaster preparedness and climate resiliency" and lists eligible investments that would provide meaningful support to communities. Greenlining supports this change, and will provide additional climate resilience strategies for consideration. Greenlining will also recommend strategies for scrutinizing investments in fossil fuels, as well as potential approaches for incorporating climate vulnerable communities into Assessment Areas.

Assessment Areas: Currently, a bank's CRA obligations are only within assessment areas where a bank's main office, branches and/or ATMs are located. However, increasingly, banks make a significant number of loans outside of those areas. The NPR proposes to create assessment areas where a large bank does not have branches, but has made a significant number of loans. Greenlining supports this change and also proposes that the regulators require additional assessment areas, especially rural areas, Native American reservations, and counties with high percentages of people of color.

TAKE ACTION

REGISTER HERE for our Webinar: *Reimagining the Community Reinvestment Act: Combatting the New Frontiers of Redlining*
When: Tuesday, June 21st; 1:00 - 2:00 pm PST
Where: via Zoom