

# CRA for Community-Based Organizations

An Introduction to  
the Community  
Reinvestment Act



# CRA: History and Context

# CRA: What It Is

- A U.S. law that encourages regulated, insured depository institutions to meet the credit needs of low- and moderate-income (LMI) individuals and communities
- Passed to address discrimination in access to loans and credit
- Requires bank examiners to evaluate the performance of banks in complying with CRA
- There are incentives for banks to comply
- Passed in 1977—has been revised since then

# What Gave Rise to CRA?

- A result of community struggle and activism
- Part of neighborhood movement of 1970s–1980s
- Led by a national grassroots organization—  
National Peoples Action—based in Chicago
- A campaign against deteriorating conditions in  
urban, lower-income neighborhoods, related to:
  - Redlining, disinvestment, housing discrimination

# Campaign Against Redlining

- Redlining: the practice of denying or limiting loans in neighborhoods or areas that are deemed too risky (*disinvesting*)
- On a map, drew a line around targeted neighborhoods with a red pen
- Denied loans to creditworthy applicants, even those who had savings within the banks that were denying them credit

# A Brief History Lesson

## Historical aspects of discrimination in housing and lending:

- Discriminatory policies and practices went beyond housing and lending and pre-date the Civil War
- Focus on post-Civil War period:
  - Segregation
  - Jim Crow laws
  - “Separate but Equal”
  - Plessy v. Ferguson (1896 Supreme Court decision)

# A Brief History Lesson *(continued)*

- Housing segregation and discrimination: practiced in both the South *and* the North
- Policies in real estate and lending industries reinforced segregation and discrimination:
  - Real estate brokerage houses
  - Lending institutions
  - Appraisal societies

# Discriminatory Practices: Examples

- Race was included as a negative factor in underwriting
- Real estate appraisal manuals: contained a “ranking of races and nationalities with respect to their beneficial effect on land values.”  
(McMichael’s Appraising Manual)
- National Housing Act of 1934: Led to creation of Federal Housing Administration (FHA)
  - Developed the current mortgage financing system, which resulted in insured home mortgages and entrenched redlining



# FHA: Function & Past Practices

- Has insured millions of home mortgages since the agency's creation
- FHA's *Underwriting Handbook* endorsed the practice of redlining, which marked African American neighborhoods as ineligible for FHA mortgages.
- Created tools to redline neighborhoods: e.g., "residential security maps"

# CRA: Part of the Civil Rights Legislative Umbrella

- Part of the heightened civil rights activity of the 1960s and 1970s
- A response to decades of discriminatory housing and lending policies and practices
- Followed on the heels of:
  - Fair Housing Act of 1968
  - Equal Credit Opportunity Act of 1974
  - Home Mortgage Disclosure Act of 1975

# Evolution of CRA Through the Years

- **Until late 1980s:** Banks were evaluated on 12 process-oriented factors
- **1988:** Impact of “The Color of Money,” published in the *Atlanta Journal-Constitution*
- **1989:** *Joint Policy Statement* issued by banking regulators
- **1989:** Passage of Federal Institutions Reform, Recovery, and Enforcement Act (FIRREA): required public disclosure of CRA ratings

# Evolution of CRA *(continued)*

- **1989:** Regulator denied a bank's application for a merger, on CRA grounds
- **Early 1990s:** CRA again criticized for process orientation
- **1995:** New regulations passed requiring **performance measures** rather than process factors
- **2005:** New regulations released:
  - Include distressed and underserved nonmetropolitan middle-income geographies

# CRA: Myth vs. Reality

- **Myth:** CRA caused the recent financial crisis.
- **Reality:** “Let me start off by assuring you, unequivocally, that CRA is not the culprit behind the abuses in subprime mortgage lending nor the broader credit quality issues in the marketplace, as some have suggested. CRA lending and investment has been responsibly underwritten and conducted in a safe and sound manner.”

*(Barry Wides—Deputy Comptroller of the Currency,  
March 20, 2009)*

# CRA: Myth vs. Reality *(continued)*

- **Myth:** “CRA ... has been [blamed for fueling] the toxic lending that led to the market disruptions.”
- **Reality:** “I’ve said this before, but it bears repeating: it’s just not true. CRA was not a cause of the crisis. To the contrary, the track record of CRA lending by depository institutions indicates that those loans have performed notably better than loans made by lenders that are not subject to CRA.”

*(Quotes from John Dugan—Comptroller of the Currency, Aug. 26, 2009)*