# Modernizing the Community Reinvestment Act

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# Key Takeaways

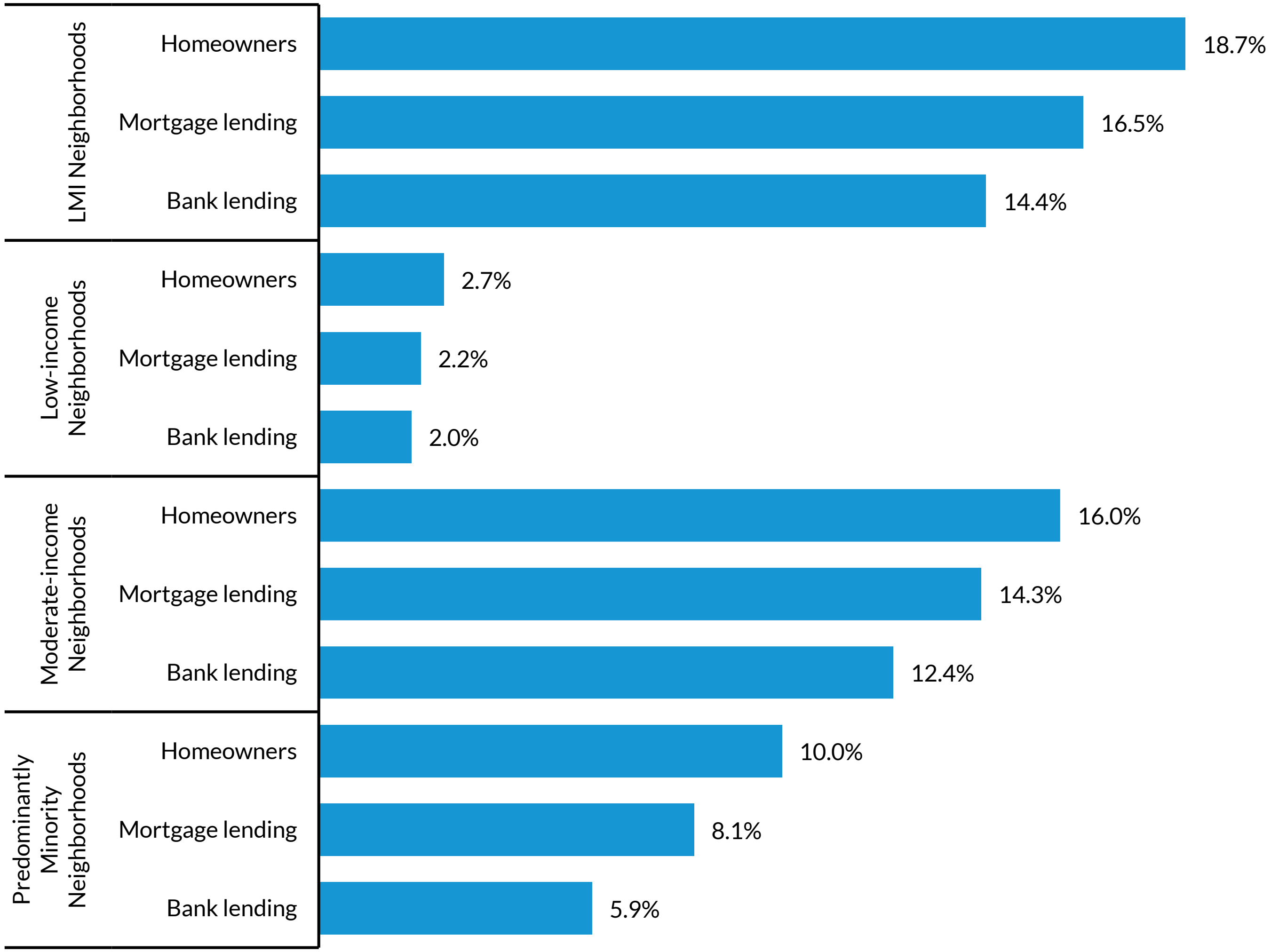
- CRA reform is long overdue, and the agencies are close to making critically needed changes. It's important to finish the job.
- We support the separation of low-income and moderate-income communities and borrowers in the retail lending test for mortgages.
- The benchmarks and evaluation framework of the retail lending test for closed-end mortgages is promising but needs revision. We are particularly concerned about the household benchmark with respect to low-income borrowers.
- Multi-family lending should be included only in the community development test; it should be eliminated from the retail lending test.
- The retail-based assessment area test can be made less burdensome, while still being effective, by adding loan count thresholds and an MSA market share test.
- The community development portions of the proposal are strong but it is critical that community development be given a weight that incents good performance on the test.
- Significant improvements are needed in the amount and quality of data to be released to the public.

# Retail Lending Test

- We support the separation of low-income and moderate-income communities and borrowers in the retail lending test for mortgages.
    - There are fundamental differences between low-income and moderate-income neighborhoods and low-income and moderate-income borrowers with respect to their capacity to borrow, how well they are served by the banking industry and their racial composition.
    - Mortgage lending is especially scarce in low-income neighborhoods and for low-income borrowers.
    - Low-income and moderate-income neighborhoods, and low-income borrowers receive less than their proportionate share of mortgage lending, especially bank lending.
    - Conflating low-income and moderate-income into LMI significantly reduces the transparency and utility of both data and evaluation.

# Compared to the current share of homeowners in low-income and moderate-income neighborhoods, mortgage lending, especially by banks, lags substantially

**Homeowner Share, Mortgage Lending, and Bank Mortgage Lending, by Neighborhood Income and Race**



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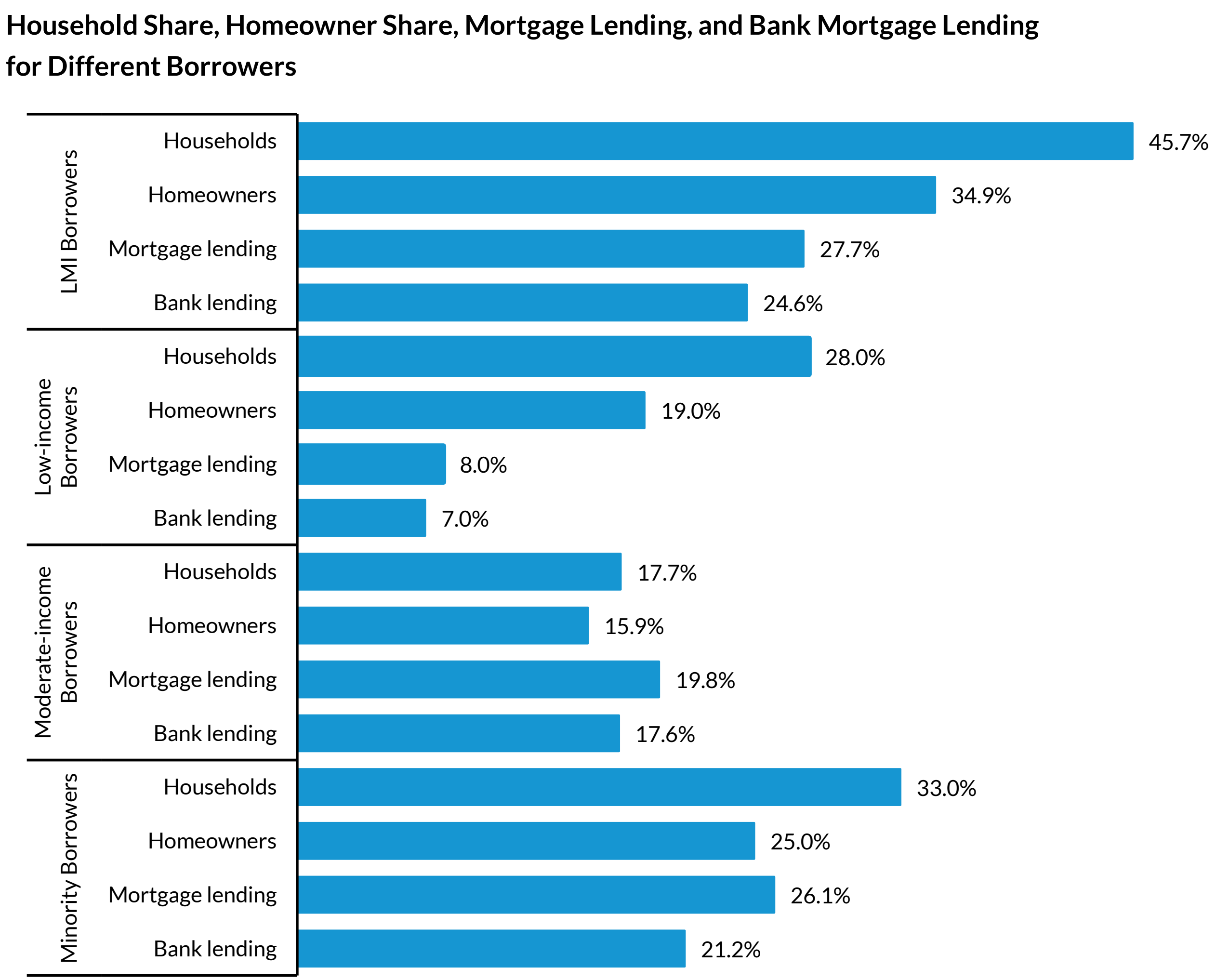

# Compared to the borrower distribution community benchmark, the banking industry performs exceptionally badly with respect to low-income borrowers; the proposed benchmark is unattainably high.

**MSA-Level Results on the Closed-End Mortgage Retail Lending Test**

| | Geographic Distribution Metric | | Borrower Distribution Metric | |
|---|---|---|---|---|
| | Low-income neighborhoods | Moderate-income neighborhoods | Low-income borrowers | Moderate-income borrowers |
| **Share of MSAs** | | | | |
| Needs to improve | 11% | 2% | 36% | 4% |
| Low satisfactory | 39% | 65% | 63% | 28% |
| High satisfactory | 19% | 20% | 1% | 17% |
| Outstanding | 31% | 12% | 1% | 51% |
| Total share | 100% | 100% | 100% | 100% |
| **Number of MSAs** | | | | |
| Needs to improve | 34 | 8 | 126 | 13 |
| Low satisfactory | 116 | 233 | 222 | 99 |
| High satisfactory | 56 | 72 | 4 | 60 |
| Outstanding | 93 | 44 | 2 | 182 |
| Total count | 299 | 357 | 354 | 354 |

**Source:** Authors' calculations based on 2015–19 American Community Survey data and 2018–19 Home Mortgage Disclosure Act data.

**Note:** MSA = metropolitan statistical area. The data refer to closed-end loans for one-to-four-unit single-family homes. The performance rating is determined by the lower of the calibrated market benchmark and the calibrated community benchmark.

# Eliminate Multifamily from the Retail Lending test

- Multifamily loans are included in both the community development test and the retail lending test
  - In the CD test, banks are measured on the amount of affordable housing they finance
  - In the retail lending test, banks are measured on the number of loans (not the number of units) in LMI communities. The test does not consider whether the units are affordable to LMI households.
- We considered including the number of affordable units in the retail lending test. We rejected it because:
  - the benchmark is not available; HDMA measures only the number of income-restricted units, not the number of affordable units
  - this would be duplicative of the community development tests
- When “counting” multifamily in the CD tests, we would suggest raising the threshold from 60 to 80 AMI for all properties. We would consider going even higher for new construction, which adds to the supply.

# The Retail-Based Assessment Area Test Can Be Improved by Adding Loan and Market Share Thresholds

- The retail-based assessment area tests are designed to ensure that banks are evaluated on retail lending done outside their assessment areas.
- The tests provide useful information only when a bank both makes a reasonable number of loans of a given type in a geographic area and when that bank's market share of that type of lending is more than trivial.
- A 100 loan threshold for mortgage loans and a 250 loan threshold for small business loans provides a reasonable statistical basis for analysis, but would still include many banks whose market share  for that type of lending in a given MSA is trivial.
- By adding a market share threshold, the tests are made more meaningful, and far fewer banks would be required to be evaluated.
- Banks should be evaluated only with respect to the line(s) of business in which they meet the loan count and market share thresholds.

# Retail-Based Assessment Areas: Add an MSA Market Share Test

**RLAAs, by Thresholds for Mortgage Lending**

| | Thresholds | Banks | RLLAs | Min. | Max. | Median |
|---|---|---|---|---|---|---|
| Threshold 1 | 100 loans | 92 | 654 | 1 | 121 | 2 |
| Thresholds 1 and 2 | 100 loans + 1% MSO | 42 | 214 | 1 | 70 | 1 |
| | 100 loans + 2% MSO | 22 | 77 | 1 | 24 | 1 |
| | 100 loans + 5% MSO | 12 | 18 | 1 | 4 | 1 |

**RLLAs, by Thresholds for Small Business Lending**

| | Thresholds | Banks | RLLAs | Min. | Max. | Median |
|---|---|---|---|---|---|---|
| Threshold 1 | 250 loans | 23 | 826 | 1 | 233 | 11 |
| Thresholds 1 and 2 | 250 loans+ 1% MSO | 13 | 717 | 1 | 232 | 16 |
| | 250 loans+ 2% MSO | 11 | 622 | 1 | 231 | 8 |
| | 250 loans+ 5% MSO | 5 | 440 | 8 | 209 | 32 |

# The Proposal Makes Major Improvements With Respect To Community Development

- Creating a separate community development test recognizes both the importance of this element of CRA and its different nature.
- However, with the proposed weights, there is no incentive to perform well on CD, e.g., getting an Outstanding CD rating will not bring even a High Satisfactory Retail Lending Test rating to an overall Outstanding. The separate CD services test should be eliminated and the total weight for CD increased to 50%.
- Removing the distinction between loans and investments will both create better products and encourage longer-term commitments.
- Increasing ex-ante certainty that an investment will "count" should generate more impactful investments, especially if regulators respond quickly and clearly to requests.
- Recognizing the special economic development needs of and strategies appropriate for rural areas, as well as the importance of non-income restricted affordable housing, will encourage investment in both these critical needs.

# Public Data to Be Released: More Data and More Clarity Are Needed

- Given the importance of the retail lending tests, information about specific benchmarks used and bank performance against those benchmarks should be disclosed.
- FFIEC data on small business and small farm lending, as they are currently released, are barely adequate. We understand that small business lending will improve with the implementation of section 1071, but small farm data will not. Further improvements in that category are necessary.
- The public FFIEC data about community development financing are both incomplete and too highly aggregated. The FFIEC public data provide only the number and amount of community development lending nationwide for each bank. Moreover, there is no information available on community development investments. To make the data more complete, CD financing (loans and investments) should be disclosed for each bank at the assessment area, state and national level.
- Deposit data should be disclosed at the county level for each bank; currently only branch office data is disclosed.
- Bank regulators should work with the CFPB to release additional information collected pursuant to HMDA, such as the precise number of units financed by a multifamily loan, as we have previously recommended.

# Appendix 1

**Share of Mortgage Loans and Tracts, by Neighborhood Income and Race**

| | Low-income neighborhoods | Moderate-income neighborhoods | LMI neighborhoods | All neighborhoods |
|---|---|---|---|---|
| **Share of total mortgage loans** | | | | |
| Predominantly minority neighborhoods | 1.1% | 3.2% | 4.3% | 8.1% |
| Mixed neighborhoods | 0.9% | 5.7% | 6.5% | 25.6% |
| Predominantly white neighborhoods | 0.2% | 5.4% | 5.7% | 66.3% |
| All neighborhoods | 2.2% | 14.3% | 16.5% | 100.0% |
| **Share of census tracts** | | | | |
| Predominantly minority neighborhoods | 4.9% | 7.3% | 12.1% | 16.5% |
| Mixed neighborhoods | 2.3% | 8.1% | 10.4% | 26.5% |
| Predominantly white neighborhoods | 0.7% | 7.0% | 7.7% | 57.0% |
| All neighborhoods | 7.9% | 22.4% | 30.3% | 100.0% |

**Source:** Authors' calculations based on 2015–19 American Community Survey data and 2018–19 Home Mortgage Disclosure Act data.

**Notes:** LMI = low- and moderate-income. The data refer to closed-end loans for one-to-four-unit single-family homes. These are national-level data. A predominantly minority neighborhood is a census tract in which the nonwhite share of households is greater than 70 percent, a mixed neighborhood is one in which the nonwhite share is 30 to 70 percent, and a predominantly white neighborhood is one in which the nonwhite share is less than or equal to 30 percent.

# Appendix 2

## Share of Mortgage Loans and Households, by Income and Race

| | Low-income borrowers | Moderate-income borrowers | LMI borrowers | All borrowers |
|---|---|---|---|---|
| **Share of total mortgage lending** | | | | |
| Minority borrowers | 2.5% | 5.8% | 8.2% | 26.1% |
| White borrowers | 5.5% | 14.0% | 19.5% | 73.9% |
| All borrowers | 8.0% | 19.8% | 27.7% | 100.0% |
| **Share of households** | | | | |
| Minority households | 11.6% | 6.2% | 17.8% | 33.0% |
| White households | 16.5% | 11.4% | 27.9% | 67.0% |
| All households | 28.0% | 17.7% | 45.7% | 100.0% |