



# Community Outlook Series

## The CRA at 40: Law Remains a Cornerstone of Community Development

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Launched in 2016, the Community Outlook Series features analysis on a rotating set of community development topics. The series uses surveys and qualitative interviews paired with secondary data to assess the needs, successes and challenges of low- and moderate-income families across Texas as well as the organizations that serve them. The topic of this report is the Community Reinvestment Act and perceptions of it among CRA officers working for financial institutions.

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# The Community Reinvestment Act

What monetary benefit does the Community Reinvestment Act bring to Texas? The Dallas Fed analyzed the performance evaluations of Texas banks and polled bankers to assess how much the 40-year-old law is contributing to communities in need and whether it should be modified.

## Introduction

This year marks the 40th anniversary of what many consider an essential community development tool: the Community Reinvestment Act (CRA). The CRA, passed in 1977, is a federal law encouraging banks to help meet the credit needs of all borrowers in the communities they serve.

Prior to the CRA, credit access was often unavailable for residents of low- and moderate-income (LMI) communities, and the discriminatory practice of redlining was common. Redlining refers to the practice of denying or severely restricting credit to residents based on where they live or their race/ethnicity, regardless of their qualifications.<sup>1</sup> This restricted access to capital contributed to the decay of these communities and to urban blight.

The CRA was enacted to combat this discrimination and encourage banks to lend to all segments of a community. Three regulators—the Federal Reserve System,

Federal Deposit Insurance Corp. (FDIC) and Office of the Comptroller of the Currency (OCC)—currently examine banks on an ongoing basis to enforce this law.

The CRA has faced its share of criticism. Detractors have charged that the act pushes risky lending and was even responsible for the Great Recession's housing crisis (*Box 1*).

Even ardent supporters question the contributions of the CRA in a modern era and whether some of its regulations are burdensome. Furthermore, community-based organizations are often uncertain how much community development money is available from banks and what qualifies as an eligible investment.

In light of these questions and the CRA's 40-year history, the Dallas Fed launched a study into the community impact of the CRA in 2017. Focused exclusively on Texas, the following analysis consists of two parts: 1) a quantitative dive into estimates of the CRA's financial impact, and 2) a qualitative analysis of successes and challenges from the perspective of bankers.

## BOX 1: CRA MYTH BUSTER

The Community Reinvestment Act of 1977, known as the CRA, was enacted by Congress to ensure fairness in lending. But it has run up against its share of criticism over its 40-year history, giving rise to a number of myths.

### **Myth 1: The CRA incentivized banks to make the high-risk loans that caused the 2007 housing crisis.**

This is the most common criticism of the CRA, but evidence suggests it is inaccurate.

First, only depository institutions are subject to the CRA. In 1977, most lending was performed by banks and thrifts. By 2006, however, an estimated 77 percent to 84 percent of mortgage lenders were non-bank lenders.<sup>2</sup> Moreover, analysis of Federal Reserve Board data indicates that only one of the 25 top

subprime lenders in 2006 was subject to CRA regulations.<sup>3</sup> Additionally, Home Mortgage Disclosure Act (HMDA) data show only 6 percent of higher-priced loans were made by CRA-covered lenders inside CRA assessment areas in 2005–06.<sup>4</sup> Therefore, the majority of loans that defaulted were not originated by financial institutions covered by the CRA.

According to a 2009 Dallas Fed report, “data ... suggest that the CRA prevented the subprime situation from being more severe.”<sup>5</sup> For instance, an analysis of HMDA data indicated that banks covered by the CRA were twice as likely to keep their loans on their books, reducing some risks associated with securitization.<sup>6</sup> Other research has indicated that during the crisis, mortgages that CRA banks originated in their assessment areas saw lower foreclosure rates compared to lenders not covered by the CRA.<sup>7</sup>

### **Myth 2: The CRA coerces banks to provide loans to individuals and businesses who often cannot pay back the loan.**

When enacting the CRA, Congress specifically stated that its purpose was to encourage financial institutions to “help meet the credit needs of their communities ... in a manner consistent with safe and sound banking practices.”<sup>8</sup>

Loans in LMI communities or to LMI people perform just as well as other loans in bank portfolios. A 2000 Federal Reserve report found that mortgage loans subject to the CRA were profitable for most institutions; many banks saw equal performance between CRA and non-CRA loans.<sup>9</sup> Moreover, the CRA has provided an incentive for banks to pursue those lending opportunities. A joint study by the Brookings Institution and Harvard University released in 2005 found that, by 2000, the CRA could be credited with around \$620 billion in home mortgage, small business and community development loans to LMI borrowers and communities.<sup>10</sup>

Finally, the CRA does not seem to have an impact on delinquencies. Federal Reserve Board data find almost identical subprime delinquency rates in ZIP codes above and below the CRA threshold.<sup>11</sup>

### **Myth 3: Banks have CRA lending and investment quotas waiting for nonprofits to take advantage of.**

The CRA does not direct banks to designate “CRA funds” from which nonprofit organizations can draw. Rather, it recognizes that banks have an obligation to serve LMI neighborhoods as well as higher-income areas with its loans, investments (including grants) and financial services.<sup>12</sup>

**See Notes on Page 15 for additional information.**



## The Financial Impact of the CRA

Following the methods of a 2015 Federal Reserve Bank of Atlanta report,<sup>13</sup> the Federal Reserve Bank of Dallas conducted a quantitative analysis to attempt to answer the following question: How much money flows into Texas communities because of the CRA?

Although the CRA touches on an array of activities, including residential mortgages, small-business loans and farm loans, the following analysis focuses on community development dollars—both investments and loans. Data on other aspects of the CRA are more widely available, particularly through the CRA and Home Mortgage Disclosure Act (HMDA) tools on the Federal Financial Institutions Examination Council’s website. For community development lending or investment activities, available data are limited. Yet it is critical for community organizations, bankers, regulators and those in government to understand the monetary benefit the CRA brings under community development. To address this issue, the Dallas Fed reviewed and analyzed the performance evaluations (PEs) that regulating agencies are required to make public.

Large banks are evaluated on their lending, qualified investment (grants, shares and deposits) and financial service activities in their assessment areas.<sup>14</sup>

To qualify as a community development loan, investment or service, the activity’s primary purpose must be community development, and it must fit into one of the following categories:

- **Affordable housing for LMI people:** E.g., loans to developers of affordable housing; investments in city bonds that support LMI housing
- **Community services for LMI people:** E.g., grants to nonprofits providing education or child care to LMI families; loans to health care facilities targeting LMI needs
- **Economic development for LMI people, small businesses or small farms:** E.g., loans to small businesses in amounts over \$1 million as part of the SBA’s 504 loan program
- **Revitalization or stabilization of LMI communities, underserved rural neighborhoods or disaster areas:** E.g., grants for the renovation of a public school in a distressed area that includes LMI children; loans for rebuilding community infrastructure in a designated disaster area

For more examples and explanation, please see the OCC’s Fact Sheet on CRA.

Before beginning this analysis of PEs, we first gathered a list of banks with a deposit market share of at least 1 percent in Texas. Eleven met that criterion (*Table 1*).

The top 11 range from about \$22 billion to more than \$2 trillion in assets and from 5.6 percent to 100 percent in share of deposits in Texas. Together, these banks make up 69 percent of all deposits in Texas. From this list, we created a convenience sample of eight of the banks. The sample is based on the availability and recentness of the institution’s latest PE. The eight in our Texas sample are: Bank of America, Wells Fargo, Compass, Frost, Prosperity, Capital One, ZB (under Amegy in Texas) and Comerica. The range of PE community development investing and lending data is roughly 2009 to 2015.

The data extracted from each PE show a dollar amount for both loans and investments made in Texas LMI communities, and those amounts were then annualized. Although each bank reported different levels of lending versus investing, the totals for our sample are similar (*Table 2*). Forty-nine percent of the money

flowing to communities comes in the form of loans, while the remaining 51 percent is in qualified investments. In aggregate, these eight banks provide an estimated \$1.79 billion of community development lending and investments every year.

**Table 2:** Texas Community Development Lending and Investment Dollars

Texas sample	
Texas deposit market share	38.4%
Lending*	\$879,616,380
Investment*	\$913,223,052
Total community development dollars*	\$1,792,839,432

\*Data are annualized estimates.

**Table 1:** Top Banks by Deposit Market Share in Texas

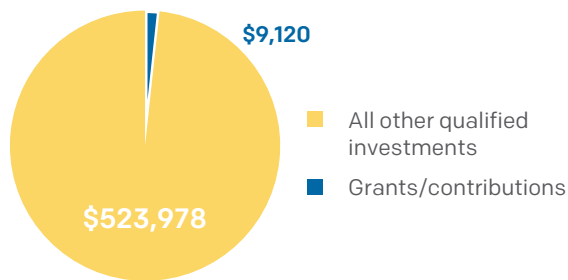
	State headquarters	All markets	Texas		Share of deposits in Texas (%)
		Total deposits (in thousands)	Deposits (in thousands)	Market share (%)	
JPMorgan Chase	OH	\$1,155,185,018	\$151,393,753	19.7	13.1
Bank of America	NC	\$1,204,485,508	\$113,458,123	14.8	9.4
Wells Fargo	SD	\$1,145,337,000	\$71,855,467	9.3	6.3
USAA Federal Savings Bank	TX	\$67,612,238	\$67,612,238	8.8	100.0
Compass Bank	AL	\$67,930,826	\$38,233,316	5.0	56.3
Frost Bank	TX	\$24,337,633	\$24,337,633	3.2	100.0
Texas Capital Bank	TX	\$16,757,578	\$16,757,578	2.2	100.0
Prosperity Bank	TX	\$17,246,580	\$15,419,923	2.0	89.4
Capital One	VA	\$207,791,098	\$11,585,389	1.5	5.6
ZB/Amegy	UT	\$50,819,470	\$10,754,721	1.4	21.2
Comerica	TX	\$55,930,412	\$9,802,225	1.3	17.5

SOURCE: Federal Deposit Insurance Corp., Deposit Market Share Report, June 2016.

NOTE: See full list of banks with branches in Texas, their asset sizes and CRA category.

Within the category of qualified investments lies a subset of funds that are donated without an expectation of financial return, referred to as grants or contributions. Estimating what percentage of qualified investments is grants is difficult due to the lack of standardized reporting practices in PEs. However, within the Texas sample, five PEs designated dollar amounts of grants or contributions. Based on analysis of these reports, the level of grants is about 1.7 percent of total qualified investments (*Chart 1*).

**Chart 1: Grants Make Up Small Share of Investments**



NOTES: Data are in thousands of dollars. Chart is based on subsample of five Texas sample banks.

SOURCE: CRA performance evaluations.

While one should be careful about drawing conclusions from a small subsample, bank contributions that are free of expected financial return are, in general, a small percentage of the investments banks typically make. Most CRA dollars are loans or investments on which banks expect to make some kind of return.

Finally, we were able to estimate the total dollar amount that flows into LMI communities in Texas—whether loans, traditional investments or grants, using a few assumptions and a ratio calculated from the Texas sample. To read more about the methodology, see the appendix.

We estimate that the remaining large banks in Texas—those not included in our Texas sample—would

lend and invest \$4.08 billion community development dollars annually in Texas. Adding this to the \$1.79 billion from our Texas sample, we determine that large banks provide about \$5.88 billion in the form of loans or investments to Texas communities annually (*Table 3*).

**Table 3: Estimated Annual Lending and Investing in Texas Communities Tops \$5.8 Billion**

Investment	Amount
Community development dollars, Texas sample	\$1.79 billion
Community development dollars, other large banks	\$4.08 billion
Total community development dollars	\$5.88 billion

NOTE: The estimate total is rounded.

SOURCES: CRA performance evaluations; Atlanta Fed methodology; author’s calculations. See appendix for more.

This number—\$5.88 billion—should not be taken as an exact amount, but rather as an estimate based on the author’s assumptions. Many factors are involved in banks’ decision-making for lending and investing in LMI communities that could change yearly, but this estimate is a start at capturing a dollar amount that benefits Texas annually. This estimate will help policymakers and community development organizations achieve a basic understanding of CRA investing and lending. However, this quantitative analysis does little to illuminate details of the impact of CRA-funded projects, the effectiveness of the regulations and other experiences. To add more richness to this analysis, we launched a poll to ascertain perceived areas of strength and needed improvement in the CRA from the perspective of those who work with it firsthand: Texas CRA bankers.



# CRA Banker Poll Findings

In addition to collecting bank data on the monetary contribution of the CRA in Texas, the Dallas Fed queried the bankers themselves for more insights on how the law is working.

## Introduction

In July 2017, the Dallas Fed launched a poll of CRA, compliance and community development specialists at banks across Texas (Box 2). The poll garnered 51 responses from bankers headquartered in 24 counties, reaching from East Texas to El Paso and from the Panhandle to the southwestern border. Bank service areas span all 13 service regions as defined by the Texas Department of Housing and Community Affairs (Map 1).

Fifty-seven percent of respondents represent large banks, and the remainder are from intermediate-small (ISB) or small banks (Table 4).

**Table 4:** Bank Sizes and Respondent Percentages

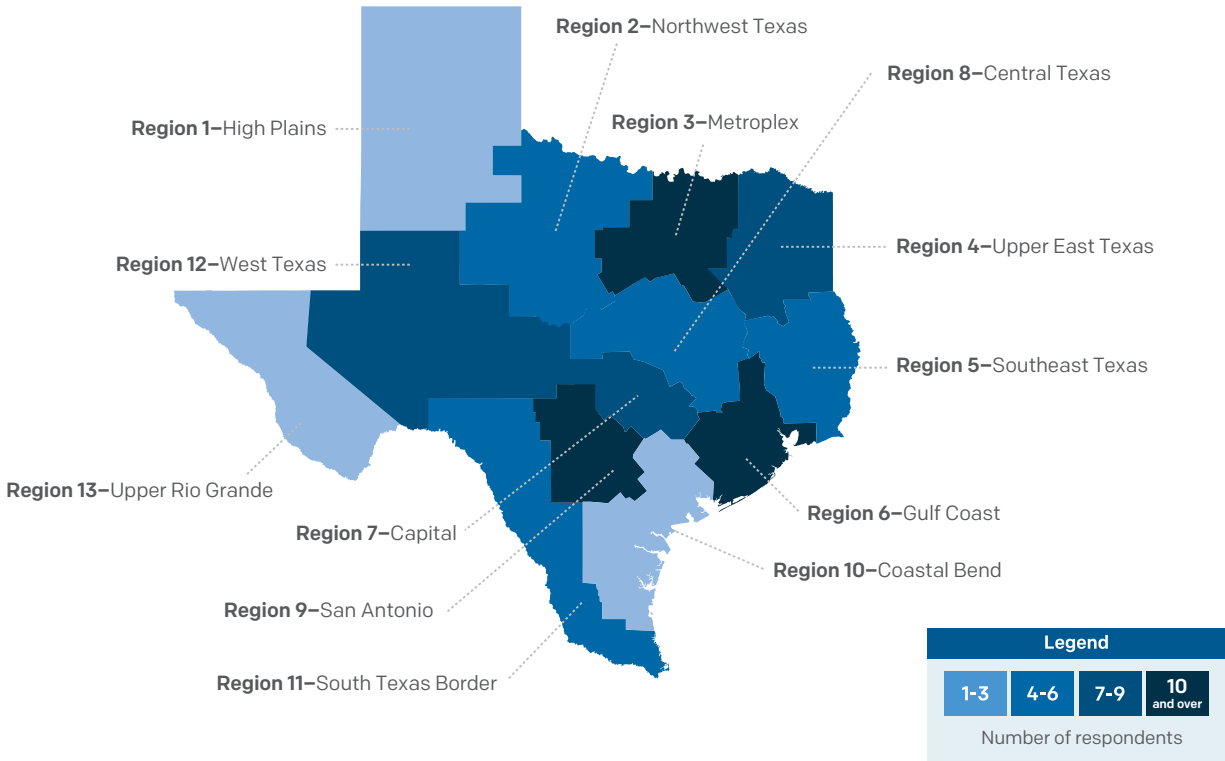
Bank size	Asset range (in prior two calendar years)	Percent of poll sample
Small	< \$307 million	2
Intermediate-small	> \$307 million; < \$1.226 billion	41
Large	> \$1.226 billion	57

## BOX 2: THE ROLE OF CRA AND COMPLIANCE OFFICERS

**Although banks** are not required to have a specifically designated CRA officer position, many intermediate-small and large banks do. The type and title of the role may vary depending on the asset size and complexity of the bank's operations. Smaller banks may fold CRA responsibilities under one person.

**In either case**, there will be a specific point of contact at all regulated banks for CRA-related inquiries and comments. Responsibilities include staying up to date on federal regulations and developing, implementing and evaluating CRA strategy for the financial institution.

**Map 1: Poll Respondents by Service Region**



The vast majority (88 percent) of these bankers have branches in LMI areas—ranging from just 1 percent to 100 percent—with most having at least a quarter of their branches in these communities. About 30 percent indicated that their bank has plans to open a new location in an LMI area. Only one bank not currently operating in an LMI community indicated plans to do so.

### Bank-Specific CRA Perceptions

Banks vary greatly in terms of leadership-sponsored initiatives or support that can facilitate the ease of CRA activities or make them a priority. Senior management at some banks may create programs or processes through which CRA activities become a bank focus; others may view the CRA as just a hurdle to jump over. Therefore, we asked questions to assess the existence of programs or level of support for CRA activities within banks.

Without the support and understanding of bank leadership, fulfilling responsibilities as a CRA officer can be much more challenging. We asked respondents to evaluate their CEOs’ or senior management’s understanding of the needs of LMI households in their

communities. Most (80 percent) indicated that senior management has at least a good basic understanding of LMI needs. Thirty-seven percent suggested that CEOs and other leaders are “well aware” of the needs of the LMI communities in their service areas.

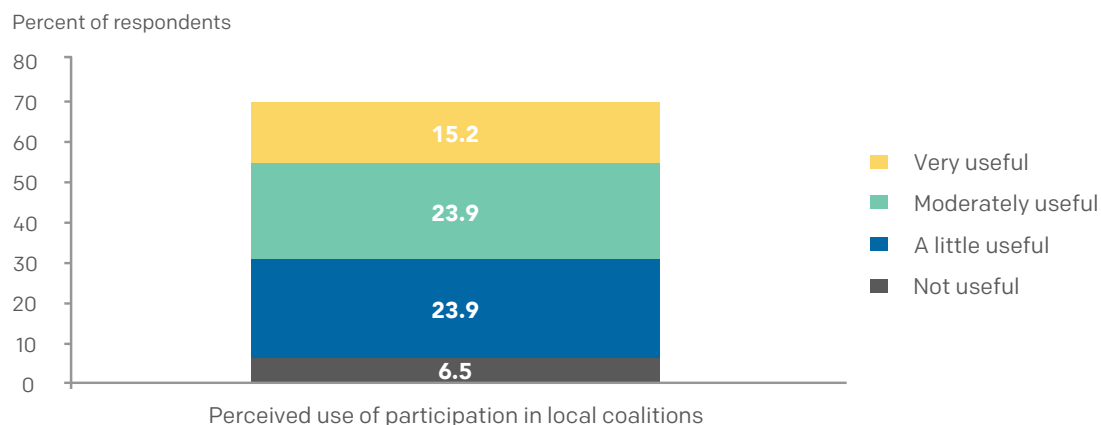
**20%** of respondents, however, stated that there is “a little work to do” to get bank management more informed and mindful of the situations of LMI individuals in the areas they serve.

Responses indicating this need for improvement varied regardless of asset size or location and did not seem to be correlated with having branches in LMI areas or not.

We also asked if the respondents’ banks have a formal application process through which community-based organizations (CBOs) could apply for CRA-eligible loans, grants or services. These applications could streamline CRA initiatives or make them more visible to CBOs. About a third of bankers in the poll reported that they do have a formal procedure. Some explained that the application focuses solely on loans, while others reported a broader range of options. The most commonly reported practice



**Chart 2:** Banks Participating in Community Coalitions See Use for Meeting CRA Obligations



was an online system through which nonprofit organizations can apply for loans, grants or other investments. Some banks send the website to CBOs to solicit requests. Still, for 68 percent of banks in the sample, there is no formal process for collecting loan or investment requests.

Finally, we inquired about banks’ participation in local community development coalitions and how this involvement could facilitate finding CRA opportunities. About 70 percent of the sample is involved in a local coalition. Of those, the vast majority consider this participation of some use for finding opportunities to meet CRA obligations (*Chart 2*).

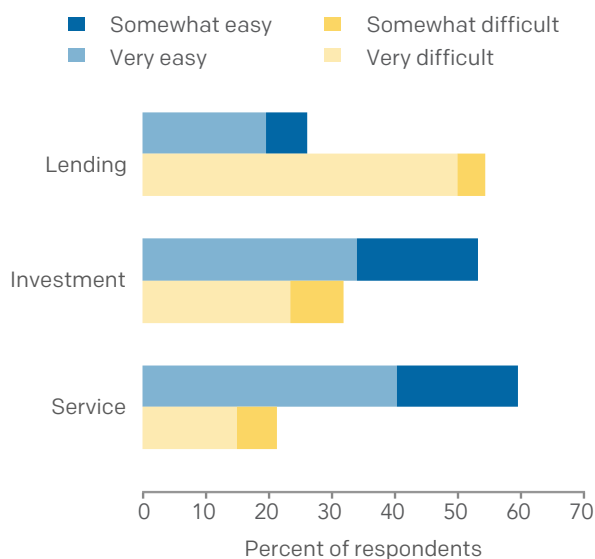
The remaining 30 percent of respondents do not have bank representation in local community development coalitions. Bankers who reported that their senior leadership does not have a good basic understanding of LMI needs were more likely to indicate that their institutions are not involved in a coalition.

### CRA Barriers and Impact

Getting to the heart of the matter, we asked for banker perspectives on a series of questions relating to regulatory burden, CRA effectiveness and community impact.

Out of the three community development activity tests, respondents indicated the most difficult is fulfilling requirements for loans (*Chart 3*).

**Chart 3:** Lending Obligations Most Difficult to Meet



NOTE: “Neutral” responses not included.

The majority (54 percent) of the sample described the lending requirements of the CRA as somewhat or very difficult for them to meet. As Table 5 shows, bankers with more of their assessment areas in rural communities were even more likely to indicate difficulty in meeting loan obligations—75 percent of those with at least a 50 percent rural assessment area reported difficulty, compared with 50 percent of those with less than a third rural.

Digging into these lending issues, we asked bankers to evaluate the relative ease or difficulty of making loans in four distinct community development categories: affordable housing, community services, economic development and revitalization/stabilization.

Chart 4 shows most respondents believe CRA-eligible affordable housing loans are the most difficult to make in their communities. The easiest loans to make, according to most respondents, are for revitalization or stabilization.

Over a third of respondents said lending for the community services or economic development categories is neither easy nor difficult. For these two loan groups,

we asked about specific types of loans that qualify. Under community services, child care and education lending was deemed most difficult by 50 and 52 percent of the sample, respectively. Health services was least challenging, with 20 percent of respondents pointing to relative ease. Under economic development, 44 percent of bankers believe small-business lending is at least somewhat easy; conversely, just 4 percent believe the same of digital broadband access, which was publicly announced as a CRA-eligible infrastructure investment just last year.<sup>15</sup> For more information on receiving CRA credit for broadband investments, see the Dallas Fed publication “Closing the Digital Divide: A Framework for Meeting CRA Obligations.”

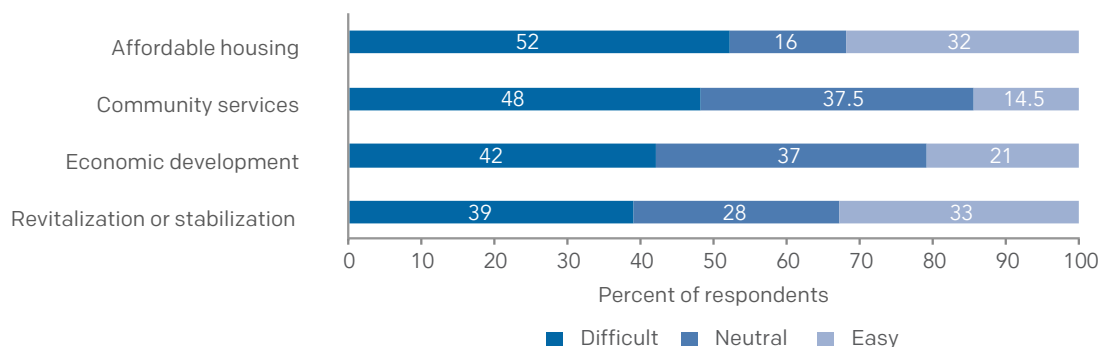
### Barrier Specifics

Community development CRA requirements can be perceived as difficult to meet for a variety of reasons. Compliance officers or CRA bankers may feel there is little opportunity in their region, that nonprofits looking

**Table 5:** Lending More Onerous for Banks with Large Rural Assessment Areas

	Percent of assessment area in rural communities		
	Less than a third	At least a third	At least half
Percent reporting lending as “somewhat” or “very” difficult	50	66	75

**Chart 4:** Housing Loans Most Difficult to Make



for loans are unable to manage the influx of funds, or the regulatory burden may feel too great. We asked respondents to elaborate on these issues, as shown in Chart 5.

One-third of the sample selected “lack of opportunity for impactful and cost-efficient deals that meet demand” as one of the top barriers to CRA activity. For some bankers, particularly those in rural areas, finding lending opportunities is difficult. A compliance officer at a large East Texas bank explained:

“The biggest challenge for us is finding opportunities with lending. We’ve entered a few partnerships with organizations for either economic development or affordable-housing programs, but getting participants in those programs so that loans are actually made has proven challenging. We believe a lot of the challenge is because of the more rural areas we serve. Our presence in urban areas is tiny.”

Another banker had a similar perspective, stating that despite doing everything possible to help communities, “the prospects for CRA are far greater for banks in large

metropolitan areas. The rural banks don’t have so many opportunities.”

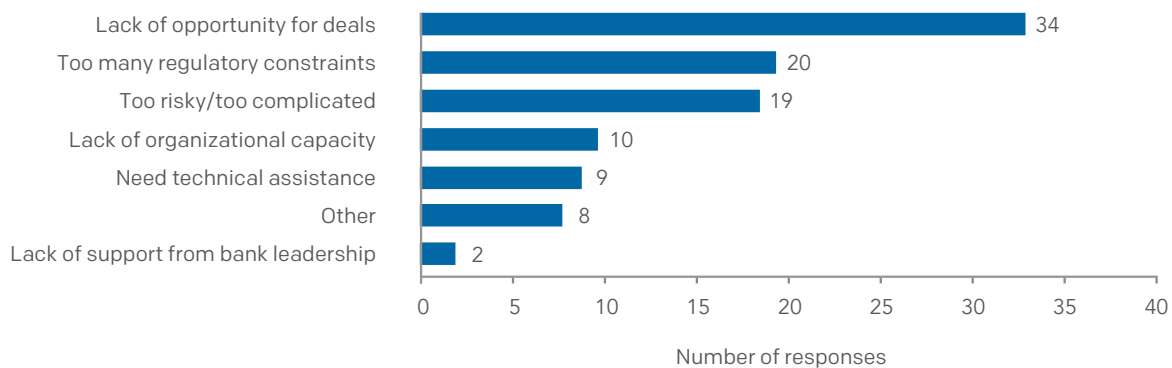
Within “regulatory constraints,” some feel they serve too many masters, with multiple types of examiners (safety and soundness, along with CRA and fair lending). Others note a lack of tangible examples for CRA. “Interagency questions and answers are helpful,” one representative from a large South Texas bank notes, referring to guidance documents released by regulators,<sup>16</sup> “but there is still so much gray area.”

Just 10 respondents pointed to organizational capacity of local nonprofits or other partners as a large barrier. When asked about specific types of organizations in their communities, most bankers believed capacities to properly handle a loan or investment were about average.

## Changes and Recommendations

Addressing these constraints and barriers, we asked bankers what regulatory changes, if any, would improve the CRA. Suggestions fall into four main categories

**Chart 5: Bankers See Lack of Opportunity as Greatest Barrier to CRA Activity**



NOTE: Respondents could check up to three boxes.

(Table 6). The highest number of comments received relate to improving clarity of the goals or requirements.

Not understanding how to “meet the minimums” surfaced a few times in the comments. Beyond improving clarity, some bankers also mentioned the need for certain definition or scope changes, such as getting more credit for all volunteer activities or expanding what qualifies as “service” to activities beyond financial services. Rural challenges were highlighted again in the remaining comments. Some bankers suggested expanding assessment areas for banks with large rural footprints to increase opportunities; others wrote that adding a new asset category between ISB and large would help reduce the burden on rural banks with less than half the asset size of other large banks.

Finally, we asked about additional resources bankers might want to help them meet CRA targets. Once again, respondents discussed improving resource allocations in rural and border communities that include improving connections to coalitions in these areas.

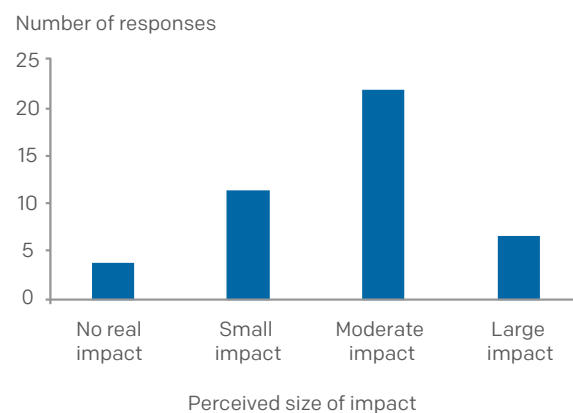
Other bankers focused on staff needs and training opportunities, including more interagency roundtables—meetings hosted by the OCC, FDIC and Federal Reserve System—that give bankers a chance to interact with regulators and hear about CRA opportunities and resources. Two respondents wanted to see more bank staff involved in understanding CRA work and its

importance. The remainder of the comments suggested clearer expectations and more communication between bankers and regulators.

## CRA Impact

The final question asked bankers if they see the impact of CRA activities in their communities. All but four bankers noted some impact, mostly in the moderate or small category (Chart 6). Representatives of large banks were slightly more likely to see moderate or large impacts than small banks or ISBs.

**Chart 6:** Most Bankers See Some CRA Impact in Their Communities



**Table 6:** Recommendations to Improve CRA

	Examples	Number of comments
Increase clarity	<ul style="list-style-type: none"> <li>• Further define what should be included in supporting documentation</li> <li>• More clarity on minimum expectations for “satisfactory” rating</li> </ul>	10
Expand scope	<ul style="list-style-type: none"> <li>• Broaden scope to include more volunteer work</li> <li>• Expand definition of service activities beyond financial expertise</li> </ul>	6
Other regulatory changes	<ul style="list-style-type: none"> <li>• Add bank asset category between intermediate-small bank and large bank</li> <li>• Streamline required forms and documentation</li> </ul>	5
Broaden geography	<ul style="list-style-type: none"> <li>• Expand geography for rural assessment areas</li> <li>• Greater consideration of activities in statewide funds</li> </ul>	4



## Banker Interviews and Project Highlights

Adding further dimension to these findings, a handful of poll respondents opted to speak further about challenges or successes related to their recent CRA loans, investments or service opportunities.

A chief lending officer for an ISB near the southwestern Texas border echoed some of the challenges discussed earlier in this report. He described the difficulties of rural banks—especially smaller ones—pointing to lack of staff and lack of opportunities. “Reputational effects, resource allocations, lending opportunities and business structures are not uniform among large and small banks,” he said, adding that this makes it difficult for a smaller, rural bank to get a high rating. The officer specifically mentioned bonds—the ones his bank can bid for are typically outside its assessment area, making CRA credit unlikely. He also mentioned the rarity of “outstanding” ratings and how difficult they are to obtain. Indeed, of the 11 PEs analyzed for the quantitative portion of this report, one had an “outstanding” rating, one had “needs to improve” and the remaining were “satisfactory.” The officer worries that because smaller banks are thought to be highly engaged in communities, a “satisfactory” rating could hurt their reputations.

Other bankers, representing financial institutions of all sizes, discussed positive experiences in lending, investment and service. Each gave examples of how important partnerships can be to helping the community and meeting CRA goals. A CRA banker at Broadway

Bank, a large institution, highlighted the importance of affordable housing work in San Antonio. “Rarely are developers building houses under \$150,000,” she noted. To help fill this need, the bank created the Home Advantage Loan Program through a partnership with Neighborhood Housing Services. The minimum borrower contribution for a down payment is just \$500. Just through June 2017, the program has funded 35 loans to get LMI families into affordable and green housing. This program is particularly advantageous because it concentrates CRA activity for maximum impact—and credit. Broadway Bank has been able to earn credit for this program under lending (making loans), investment (donations to fund classes) and service (bankers have served on the board of their partner nonprofit).

A senior officer at Citizens 1st Bank, a small East Texas bank, participates in a fruitful partnership focused on education and the workforce. Joining with local foundations and the Rusk school district, the bank through its Rusk TJC Citizens Promise Program provides scholarships to Tyler Junior College for the top half of graduating high students and includes not just academic programs, but also vocational training. This collaboration is a prime example of how a bank of any size can tackle workforce development through the CRA.<sup>17</sup> The partnership began in 2014, and through the spring of 2017, more than \$544,000 had been granted. Citizens 1st was awarded the 2017 Cornerstone Award from the Texas Bankers Association for these efforts. The bank hopes to start more programs throughout the region and across

Texas and is interested in helping others start their own Promise programs.

Finally, a CRA officer of Southside Bank in East Texas spoke about a successful partnership with a local nonprofit that created an innovative opportunity in nonprofit capacity building. Partnering with A Circle of Ten, Southside launched a grant-writing program called CRA2U focused on improving understanding of the

importance of grant writing for communities and banks. CRA2U is a two-and-a-half day institute for bankers and nonprofits; goals include fostering better collaboration between the two groups. She said about the program, launched in January of this year, “Nonprofit organizations commented that they felt empowered to request money and work closer with banks to fulfill their needs. It gave them the tools to change people’s lives.”

## CONCLUSIONS

The CRA has been a significant and effective tool for ensuring financial investment in many otherwise underserved communities. The estimated \$5.88 billion of community development dollars that Texas sees every year—mostly in the form of investments or loans with an expectation of a financial return—can go a long way to funding impactful and innovative community projects such as the ones highlighted in this report. For bankers, getting support and buy-in from all levels of leadership will continue to be advantageous to meeting goals. As the American economy modernizes and changes, new and creative opportunities will become available. Regulatory support of newer eligible opportunities, such as broadband investment, is an essential feature of keeping the CRA flexible and relevant. Bankers say this communication with regulatory agencies is helpful and is needed on an even larger scale.

While the CRA is important, it is not always perfect. In fact, the act has been amended numerous times over its 40-year history. Further research should be done related to respondent suggestions—including broadening its scope and providing more incentives in the CRA to address rural issues—to maximize the CRA’s impact, ensure its responsiveness to all communities and reinforce its role as a strong community development tool for future generations.



# Community Outlook Series

Federal Reserve Bank of Dallas

**Contact the Dallas Fed's Community Development Department** to find out how to get involved in CRA initiatives across the state. For more information about this report, email Emily Ryder Perlmeter at [emily.perlmeter@dal.frb.org](mailto:emily.perlmeter@dal.frb.org).

## Notes

<sup>1</sup> The term "redlining" comes from the practice of outlining particular neighborhoods with red pen. See the Federal Reserve Bank of San Francisco's An Introduction to the Community Reinvestment Act video, available at [www.frbsf.org/our-district/about/sf-fed-blog/community-reinvestment-act-cra-what-you-need-to-know](http://www.frbsf.org/our-district/about/sf-fed-blog/community-reinvestment-act-cra-what-you-need-to-know).

<sup>2</sup> "Regulators Scrutinized in Mortgage Meltdown," by Greg Ip and Damian Paletta, *Wall Street Journal*, March 22, 2007.

<sup>3</sup> "Private Sector Loans, Not Fannie or Freddie, Triggered Crisis," by David Goldstein and Kevin G. Hall, *McClatchy Newspapers*, Oct. 12, 2008, <http://www.mcclatchydc.com/news/politics-government/article24504598.html>.

<sup>4</sup> Data source is HMDA data from the Federal Financial Institutions Examination Council.

<sup>5</sup> See "The CRA and Subprime Lending: Discerning the Difference," by Elizabeth Sobel Blum, Federal Reserve Bank of Dallas *Banking and Community Perspectives*, issue 1, 2009.

<sup>6</sup> "The Community Reinvestment Act: A Welcome Anomaly in the Foreclosure Crisis," Traiger and Hinckley LLP, New York, January 2008.

<sup>7</sup> "Debunking the CRA Myth—Again," by Carolina Reid et al., University of North Carolina Center for Community Capital, January 2013, <http://ccc.sites.unc.edu/files/2013/02/DebunkingCRAMyth.pdf>.

<sup>8</sup> See "Between a Rock and a Hard Place: The CRA—Safety and Soundness Pinch," by Jeffery W. Gunther, Federal Reserve Bank of Dallas *Economic and Financial Policy Review*, Second Quarter, 1999.

<sup>9</sup> "The Performance and Profitability of CRA-Related Lending," Board of Governors of the Federal Reserve System, July 17, 2000, [www.federalreserve.gov/BoardDocs/Surveys/CRAloansurvey/cratext.pdf](http://www.federalreserve.gov/BoardDocs/Surveys/CRAloansurvey/cratext.pdf).

<sup>10</sup> "Credit Where It Counts: The Community Reinvestment Act and Its Critics," by Barr, M. S., *New York University Law Review*, vol. 80, no. 4, 2005, pp. 513–652.

<sup>11</sup> "Did the CRA Cause the Mortgage Market Meltdown?" by Neil Bhutta and Glenn B. Canner, Federal Reserve Bank of Minneapolis *Community Dividend*, March 2009, [www.minneapolisfed.org/research/pub\\_display.cfm?id=4136](http://www.minneapolisfed.org/research/pub_display.cfm?id=4136).

<sup>12</sup> "The Effectiveness of the Community Reinvestment Act," by Darryl E. Getter, Congressional Research Service, Jan. 7, 2015, [www.newyorkfed.org/medialibrary/media/outreach-and-education/cra/reports/CRS-The-Effectiveness-of-the-Community-Reinvestment-Act.pdf](http://www.newyorkfed.org/medialibrary/media/outreach-and-education/cra/reports/CRS-The-Effectiveness-of-the-Community-Reinvestment-Act.pdf).

<sup>13</sup> "Community Reinvestment Act: How Much Is It Worth in the Southeast?" by Will Lambe and Jessica Farr, Federal Reserve Bank of Atlanta, September/October 2015, [www.frbatlanta.org/community-development/publications/partners-update/2015/05/151016-community-reinvestment-act-how-much-is-it-worth-in-the-southeast](http://www.frbatlanta.org/community-development/publications/partners-update/2015/05/151016-community-reinvestment-act-how-much-is-it-worth-in-the-southeast).

<sup>14</sup> Because service activities are not captured as a dollar amount, they are not included in this analysis.

<sup>15</sup> See "Interagency Questions and Answers," July 15, 2016, FFIEC.gov, [www.ffeic.gov/cra/qnadoc.html](http://www.ffeic.gov/cra/qnadoc.html)

<sup>16</sup> See note 5.

<sup>17</sup> For more information on CRA-eligible workforce investments, see "Engaging Workforce Development: A Framework for Meeting CRA Obligations," by Elizabeth Sobel Blum and Steve Shepelwich, Federal Reserve Banks of Dallas and Kansas City, [www.dallasfed.org/en/cd/EconDev/workforce/2017/workforceCRA.aspx](http://www.dallasfed.org/en/cd/EconDev/workforce/2017/workforceCRA.aspx).

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## APPENDIX: QUANTITATIVE METHODOLOGY AND ASSUMPTIONS

Overall, this research on the impact of the Community Reinvestment Act (CRA) in Texas follows methods established in a report from the Federal Reserve Bank of Atlanta, “Community Reinvestment Act: How Much Is It Worth in the Southeast?”<sup>1</sup> To arrive at an estimate of total annualized community development lending and investing in Texas, we made a few assumptions:

**1. We limit our analysis to large banks**—those with assets of at least \$1.226 billion—for a few reasons: First, we assume that these banks do the great majority of lending and investing in low- and moderate-income communities. This is not to say that intermediate-small (ISB) or small-bank lending/investing does not occur or does not have an important impact in communities, but rather that the volume is considerably less. Second, the CRA requirements for ISBs and small banks differ quite a bit from those for large banks. Small banks are not necessarily evaluated on community development lending specifically. ISBs do not have separate community development tests for lending, investment and service; rather, they are grouped together for one community development activities test. For these two reasons, it is difficult to obtain specific PE data and compare those with large bank data.

**2. We use a ratio calculated from the Texas sample** to estimate the total level of CRA funds in Texas communities. This requires an assumption that the eight banks in the Texas sample are similar in nature and representative of other large banks in terms of lending and investments.

Based on these assumptions, we calculated an estimate of the total amount of community development money that banks provide on an annual basis. First, we determined the ratio of community development money to total in-market deposits for the Texas sample, which came out to be .0061, or 0.61 percent.<sup>2</sup> We then determined that the remaining large banks in Texas hold approximately \$669.3 billion in deposits in the state. Applying that ratio, we calculated that these remaining large banks would lend and invest \$4.083 billion community development dollars annually in Texas. Adding this to the \$1.793 billion from the Texas sample, we arrived at the total reported in this report, \$5.88 billion.

### Notes

<sup>1</sup> “Community Reinvestment Act: How Much Is It Worth in the Southeast?” by Will Lambe and Jessica Farr, Federal Reserve Bank of Atlanta, September/October 2015, [www.frbatlanta.org/community-development/publications/partners-update/2015/05/151016-community-reinvestment-act-how-much-is-it-worth-in-the-southeast](http://www.frbatlanta.org/community-development/publications/partners-update/2015/05/151016-community-reinvestment-act-how-much-is-it-worth-in-the-southeast).

<sup>2</sup>This is based on the author’s estimates and should not be considered an industry standard.