PolicyLink

Equitable Development Toolkit

Community Reinvestment Act

Updated November 2001

Lifting Up What Works®

What Is It?

The Community Reinvestment Act (CRA) was established by Congress in 1977. The Act requires that deposit-taking financial institutions offer equal access to lending, investment and services to all those in an institution's geographic assessment area-at least three to five miles from each branch. In the case of large banks with many branches, the geographic area may encompass an entire county or even a state.

Before the CRA, many bankers excluded low-income neighborhoods and people of color from their lending products, investments, and financial services - a practice known as "redlining". Community activists coined the term when they discovered that the failure of banks to make loans in some low-income neighborhoods was so geographically distinct, that it was easy to draw red lines on maps to delineate the practices.

In the 1970s, activists in Chicago and across the country brought strong pressure on banks to lend equitably to all those in their communities. Since its passage, the CRA has been used across the United States to win tens of billions of dollars in new lending, investments, and services for communities. The National Community Reinvestment Coalition tracks more than $1 trillion dollars in community reinvestment pledges nationally. These pledges are explicit investments in equitable development goals, and finance many tools in this toolkit.

Why Use It?

Access to Credit

Access to credit and financial services is critical to all communities. The CRA is a tool that community organizations can use to secure loans for home construction, purchase and improvement; for establishing neighborhood businesses; and for supporting community institutions. Access to banking services allows residents to be connected to the financial mainstream through checking accounts, investment vehicles and advice.

Who are the Federal Regulators?

The Federal Reserve, Federal Deposit Insurance Corporation (FDIC), the Office of the Comptroller of the Currency (OCC), and the Office of Thrift Supervision (OTS) monitor bank and finance activity in the United States

The importance of CRA lies in the fact that regulators do two sets of bank examinations: one for financial safety and soundness, and the other for community reinvestment. **Increasingly, this biannual bank CRA examination by federal regulators offers opportunities to comment on the bank's performance to the regulators** and open a dialogue with the bank about neighborhood access to capital and financial services or lack thereof.

CRA negotiations are most powerful during a bank acquisition or merger, when the regulators are carefully scrutinizing the bank's activities. The regulators look at CRA, among other issues, in deciding whether to approve a bank application to purchase another financial institution. It is also possible, however, to negotiate CRA commitments when there is no acquisition pending. When well prepared with data, community organizations can use public pressure to convince banks that they can gain financially [and otherwise] with a commitment to a community partnership.

CRA has helped community organizations win increased investments, charitable contributions, branches, and access to loans and financial services. More than $1 trillion dollars has been committed to community investments; the polices and practices of financial services have significantly changed; and the public's and media's views have shifted to support the need for equal access to capital and financial services-largely as a result of CRA advocacy.

Keeping Local Accountability

In 1999, the U.S. Congress passed the Gramm-Leach-Bliley legislation, allowing banks direct ownership of insurance companies, mutual funds, and other financial companies. This has resulted in some enormous institutions growing even larger, and raises the question of how to ensure that banking access expands for low-income neighborhoods and people of color. Over the next few years, community-based organizations will need to join the CRA battle as their local banks are purchased by outside financial institutions.

- The more banking becomes national, rather than local, and contains multiple business ventures, the more difficult it is for local communities to persuade financial institutions to focus on neighborhood needs.

- The more bank corporations expand to include other financial sectors, the more investors they have to answer to, and typically, deliver high profits to, as quickly as possible. This keeps lending focused on the short-term bottom line and not on long-term community needs.

CRA activism is needed in every community so that a continuum from local savings and loans to mega-banks fully serve the community's needs. Local organizations are in the best position to promote local investment needs and there are state and national advocacy organizations and resources to assist them. When a community develops explicit equitable development goals, they can be negotiated into specific CRA criteria with this spectrum of investors.

Building On Success back to top

Community use of the CRA began as soon as the Act was passed in 1977. Groups such as National People's Action and the Center for Community Change became important sources of knowledge and technical assistance about strategies to convince financial institutions to comply with the Act's provisions.

By the mid-1980s, community groups had successfully negotiated CRA lending, investment, and service commitments that focused on the needs of low-income and communities of color from banks and savings and loan institutions. These early agreements signaled the possibilities for success to other groups across the country.

CRA advocacy intensified in the 1990s with major CRA commitments. In 1992, Bank of America made a $12 billion commitment associated with its acquisition of Security Pacific Bank. The funds were committed for increased lending in affordable housing and economic development and for increased services for low-income consumers. Specific dollar and targeting goals were made for housing, small business, and consumer lending. New products were developed to serve the needs of low-wealth communities. Services were made easier to access by requiring only one form of identification and a small deposit to open a low-cost checking account.

The commitments of large financial institutions can be seen by the brief history below.

Model comparisons

Year	Bank	Commitment ($millions)
1992	Bank of America Wells Fargo Bank First Interstate Bank	12,000 7,000 2,000
1996	Wells Fargo Bank Union Bank of California	45,000 11,000
1997	Washington Mutual Savings Bank of America Home Savings of America	75,000 140,000 35,000
1998	Washington Mutual Savings Wells Fargo bank	120,000 15,000 (3 years)
1999	Bank of America	10,000 annually

** All the commitments below are for ten years except as noted. Some financial institutions are repeated due to additional commitments associated with acquisitions and mergers.*

These investments underscore the potential impact of CRA in low-income communities.

Delivering Significant Capital

The growth of CRA commitments can be attributed to three facts:

- **CRA lending has been profitable for financial institutions.** The ten-year California commitments made by Bank of America, Wells Fargo Bank and First Interstate Bank in 1992 were completed within four to five years. In half the time expected, *a total of $21 billion had been invested in low-income communities and communities of color.* This was a lesson for all the major banks: expanding products and marketing to previously ignored communities and people increased profits. These California commitments were the largest and most comprehensive in the country and helped set the terms of engagement nationally.

Unprecedented Credit

In the year 2000, the California Reinvestment Committee estimated that more than $30 billion in California lending and investments were made by Bank of America, California Federal Bank, U.S. Bank, Union Bank of California, Washington Mutual Bank, and Wells Fargo Bank in line with their CRA commitments. CRA has facilitated the extension of billions of dollars to low-incomce communities and communities of color. These funds represent loans for affordable multifamily rental housing, home ownership, small businesses, and additional servies for low-income consumers, community development venture capital funds, and community development financial institutions. Commitments contain other important components: branch openings, vendor purchase programs and equal employment.

California Reinvestment Committee

In addition, studies by diverse groups such as Bank of America and the Woodstock Institute, a community research institute based in Chicago , have shown that mortgage loans to low-income single families are less risky than those to wealthy borrowers.

- **Banks have seen CRA commitments as an opportunity to distinguish themselves from their competitors.** A public CRA commitment is one way for a bank to show that it recognizes, cares about, and meets the needs of its neighbors. CRA commitments have provided positive public relations and media coverage. The fear of negative publicity from failing to make a community commitment continues to motivate financial institutions to negotiate and sign these agreements.
- **The numerous mega mergers of banks and financial institutions in recent years have delivered leverage** to CRA agreements to prevent delays in completing the deals that can cost bank shareholders significant amounts of money.

How To Use It

Identify Community Need

Community Survey

Government data can miss important facts. While regulators have accepted lending to low-income census tracts as a good measure of equal access, it may not be an accurate indication of a bank's commitment to low-income borrowers. A bank could have a good lending record, according to HMDA data, but actually be lending to wealthier residents and not to thos with lower incomes.

CRA has a language of its own but the regulations are essentially focused on a very simple question: Is there equal access to capital? A community analysis should focus on answering basic questions such as: Is there a reasonable amount of lending for the variety of people who make up the neighborhood? Have investments and charitable contributions gone to real community needs, such as for jobs and housing?

To move a CRA campaign, the community must identify its needs through:

1. **surveys** of neighborhood residents, church members, community-based organizations and community newspaper readers to evaluate if banks are serving low-income residents;
2. **data analysis**, using public lending data such as that available on home mortgages (Home Mortgage Disclosure Act (HMDA) or small businesses; and
3. **review of survey and data information** at community meetings to identify community needs and goals.

A community survey should review the income levels of borrowers,

Many local community organizations have a staff member or volunteer with the skills and knowledge to collect and analyze the data to answer these questions. If not, someone at a nearby university or college may be able to provide the needed analytical skills. Another resource is the Community Affairs office of the Federal Reserve or the FDIC.

Survey Current Practices

The key to community reinvestment advocacy is identifying the lending, financial services, and investment needs of your community. Federal regulators use these three criteria to assess the compliance of financial institutions with the provisions of the CRA. Some of the questions to survey for include:

Lending Needs

- *What are the business, housing and consumer loan needs of your community?*
- *What are banks doing in your community to meet community needs?*
- *Are neighbors being approved for loans? If not, is it discrimination or ignorance on the part of the lending institution?*
- *Does bank staff go out in the neighborhood to visit community organizations and businesses? Are they learning about community needs?*

Investment Needs

- *What investments or charitable contributions would add to the economic vitality of the community?*
- *Do community-based nonprofit organizations receive charitable grants from banks?*
- *Do community and nonprofit housing development organizations get investment support from banks?*

Service Needs

- *What are the neighborhood service needs regarding branches (full service and in-store), technology, mortgage and business counseling, ATMs, etc.?*
- *Are there neighborhood bank branches? Are they full service branches?*
- *Does the Bank support mortgage and business loan counseling?*

Analyze Data

Analyze HMDA data and compare to your community survey data. The following chart comprised from HMDA data illustrates home purchase lending for Oakland, California in 1998.

Comparative Loan Denial Rates for the City of Oakland, California

Comparative Loan Denial Rates for the City of Oakland, California

	Native American	Asian American	Black	Latino	White	Total
Loans Originated	28	569	904	539	2,415	4,987
% Total Loans	0.60%	11.40%	18.10%	10.80%	48.40%	100.00%
Oakland Pop.	0.50%	14.50%	43.20%	13.20%	28.50%	100.00%
Loans Denied	3	106	354	94	318	1,068
Denial Rate	0.8	1.3	2.3	1.3	1	
Total Apps	31	675	1,258	633	2,733	6,055
%	0.50%	11.10%	20.80%	10.50%	45.10%	

Reviewing this information reveals inequities:

- African American households received a proportion of home loans representing less than half their portion of the city population. They were denied loans more than twice as often as whites.
- Latinos and Asian Americans got loans proportionally less than their share of the population and were denied more often than whites.

- Applications taken from all people of color were significantly below their representation in Oakland. This means that the results of outreach efforts to potential homeowners of color were <u>not</u> proportionately adequate.
- African Americans were denied 2.3 times as often and Asian Americans, and Latinos were denied 1.3 times as often as white applicants. This indicates that the bank underwriting process may unfairly judge applicants of color.

These inequities need to be addressed in negotiations. Fairness requires new products that better meet the needs of people of color, true diversity among loan officers, and focused marketing to reach the previously underserved. These needs can also form the basis of letters to bank regulators.

Mount a Campaign

- **Build a coalition to advance your campaign.** The broader the coalition is, the greater its power and the more varied the issues upon which it must collaborate. If the coalition is too broad, it may not be able to agree on key issues or tactics. If it is too small, it may have too little power.
- **Prepare a list of community needs and recommendations to bank officials.** Advocacy teams should include people with expertise in the issues to be discussed and those whose position or organizational affiliation will be impressive to the banker. The banker is likely to look for areas where bank products can be redirected to avoid negative publicity.
- **Meet with the local branch manager.** Neighborhood need is central to a CRA campaign. This approach is particularly useful if it is a local bank where managers have real power. While big banks no longer give significant authority to branch officers, the local branch staff may help identify the key decision-makers. In any case, advocates will need the support of the regional manager of retail banking or of the CRA official. When possible, consult with other groups locally, regionally or nationally that have relationships with the bank in question.
- **Be a persistent, concrete, and persuasive advocate.** Financial institutions may not quickly adopt recommendations for new products and approaches to meeting community needs. Bank staff often try to exhaust community activists by extending discussions and meeting dates. Work to understand the financial sector's culture and language and to address their interests and concerns. While bankers may see themselves as open to new opportunities, the educational process takes time.
- **Persuade banks and savings and loans to expand their current lines of business** rather than create new lending programs. In other words, if the financial institution does not do business lending, don't expect it to be easy to get them to agree to meet small business credit needs. Demanding new products may not be practical, and alternative approaches should be explored.
- **Explore other avenues if rebuffed by local bank officials,** such as assistance from the bank's regulator, or an appeal to the CRA officer at the state or national headquarters of the bank. Obtain assistance from other organizations that have a relationship with the bank. If these methods don't yield results, more aggressive approaches may be necessary.
- **Set minimum goals between the bank and the coalition** Understand that the relationship is part of a long-term process. In Stockton, California, activists failed to win an end to the Bank of America's business relationship with an anti-union corporation, but they did secure increased support for local

nonprofit groups, increased marketing through local minority-owned media, and continued operation of the bank's branch in South Stockton.

- **Do not sell the neighborhood (and its potential) short** by compromising too quickly with a bank. Identify short- and long-term potential for the community and the bank.

Applying Pressure

When the regional manager of the Stockton, California Bank of America refused to meet with community representatives including unions, they took up a more creative approach. The Teamsters' local organized a picket line to meet outside the main bank branch every Friday at noon when local people came to cash their paychecks. After two weeks, the branch manager came out to ask why they were there and arranged meetings with the state CRA officer on key issues Discussions proceeded. The regional manager was replaced after the Teamsters' lodged their complaint.

Craft Specific Agreements

To accomplish its goals, a CRA agreement (bankers may prefer the term "community commitment") must contain clear and specific goals. In other words, the agreement or letter from the bank to community leaders must be written in a manner that is measurable and indisputable. It should be filed with the appropriate regulatory agency. Here are some examples regarding language of the agreement.

- **Avoid the general term " affordable housing** ," as in "$50 million annually for *affordable housing* loans." While there is a specific amount of money to be lent over a specific amount of time, there is no definition of the kind of housing to be financed under the agreement.
- **Specify for whom single** (one to four units) **or multi-family housing** (five units or more) **is affordable** . Specify affordable rental housing or affordable homeownerships. Specify to whom loans will be made. Consider limited equity, rent-restricted, or market-rate properties.
- **Use language that allows clear evaluation of accomplishments** : for instance, "$100 million minimum annually for multi-family rental housing loans with 66 percent of loans to very low-income tenants and nonprofit housing developers."
- **Avoid calling for unspecified " charitable contributions** ," as in *"charitable contributions of $200,000 annually to nonprofit organizations."* This language is too vague regarding community needs.
- **Set minimum contribution amounts** with mechanisms for increasing contributions: "Charitable contributions equal to 2% of net income or no less than $1 million annually, of which 40% is allocated to nonprofit organizations creating housingand fostering economic development." The specific targeting of those contributions to affordable housing and economic development will form an

Leverage Agreements During Mergers

Utilize the regulatory scrutiny financial institutions face at the time of mergers to forge key CRA agreements. Documentation is a key part of the CRA process. his process usually begins by filing a letter protesting the merger: To see the type of information that would be included in a protest letter,

Challenges

There are **two principal challenges** to face when pursuing CRA financing for equitable development practices: the evolution of the banking industry and the difficulty of building an effective coalition.

Evolution of the Industry

Recent conservative federal provisions have increased the **consolidation of financial institutions** , which has allowed insurance companies and securities institutions to acquire banks without the restrictions of CRA. These provisions have also encouraged the formation of mega-banks, which simply have less local connection and allegiance. The size, distance, and company diversity inherent in these larger institutions may require more investment by CRA advocates in local communities in putting together a coalition with sufficient strength to capture the institution's attention. It may force a coalition to target local banks instead.

Maintaining Coalition

Remember!

1. There is no numeric test and no such thing as an 'amount' of CRA credits
2. CRA bank examinations are subjective
3. A bank cannot be directly punished for an unsatisfactory CRA record Statutes provide that a bank's CRA record must be considered when evaluating an application by that bank, but a bank cannot lose its charter or FDIC Insurance

The other main challenge involves maintaining the coalition to achieve reinvestment goals. It is critical that the coalition agree on its goals, structure and process early in the campaign, and stick to the agreement. The leaders need to balance the needs of stakeholders in a manner that keeps everyone moving forward together.

Any coalition faces a difficult task in setting reinvestment goals. These **goals must relate directly to community needs** and stakeholder interests. The goals must be realistic and achievable.

Since CRA campaigns can last a number of months, conflicts arise between stakeholders' short-term needs and the longer timeline of the campaign. Even after the bank makes a commitment, tensions can continue depending on what compromises have been made. As much as possible, **set ambitious goals so that all parties see benefit in the final agreement.** Resist bank attempts to undercut alliances by making grant offers to key coalition members contingent on their abandoning the campaign.

Time is of the essence during CRA negotiations to keep the issue in the mind of the bank and to not lose partners. Merger approvals from regulators typically last 20 to 30 days after a bank's submission of the application. This timeline must be kept in mind.

Sense of scale is critical. From the beginning of planning the bank negotiations, it is critical that the community team have a clear idea of its goals. From the goals flow the decisions regarding the scale of the negotiations in terms of time, complexity, targets for pressure and support, and other key elements.

Composition of the negotiating team is critical. The team should include the full range of affected community residents, public officials, business people, etc.

Success Factors

Clarity

Having clear goals is critical to the success of a community coalition if its members expect the bank to consider its position for increased investment. CRA activism can position both the community and banks to win. There is a common interest between the community getting its financial needs met and the bank making a reasonable profit from its products.

Allies

A broad-based alliance of community-based organizations can become a powerful force. Balancing the size and diversity of a coalition is a key challenge for starting and managing a CRA campaign. **Evaluate banking issues to assess which allies to recruit** :

If a branch closes, reach out to seniors and merchants who need a local branch nearby.

If deposit accounts are too expensive, organize youth and low-income people who need low cost checking and savings accounts.

If lending is discriminatory, identify merchants who need small business loans; neighbors who need home purchase loans; seniors who need equity loans to fix up their houses; local and state regulators and politicians who can champion fairness in lending.

If significant capital is needed for revitalization efforts, work with labor unions who will secure construction and development contacts; congregations and nonprofit developers that have worked to develop a community plan.

Summary Targets for a CRA Commitment

Developing targets for the bank commitments is fundamental to successful CRA advocacy. Organizations should strive for the deepest commitments possible to secure resident stability and ensure development without displacement in low-income communities. **Banks engaged in CRA negotiations should be pressed to adopt the targeted investment criteria:**

Target	Goal
Culturally Appropriate Lending	Develop flexible underwriting that responds appropriately to cultural borrowing habits of low-income people and people of color.
Affordable Housing Lending	Single Family Housing: Target loans to purchasers with incomes at or below 80% of median income; perform secondary review of denials. Multifamily Rental Housing: Favor developments where tenants have incomes at or below 50% of median income; priority to nonprofit housing developers; number of years that the housing will remain affordable to these tenants.

Subprime Mortgage Lending	Maintain a lending program that matches conventional loans in terms of fees charged, insurance required and other elements. Ensure cross-referrals to conventional mortgages.
Small Business Lending	Confirm at least 50% of loans at or below $50,000; perform secondary review of denials.
Consumer Lending	Match percentage of loans to low- and moderate-income borrowers to percentage of low- and moderate-income households in the bank's assessment area.
Consumer Services	Provide free or low-cost checking accounts with low opening and balance requirements.
Marketing	Utilize local minority-owned media companies; support counseling programs for loan programs.
Branch Distribution	Open more full-service branches in low-income communities and communities of color; establish a clear procedure requiring community involvement before any branch is closed.
Community Investments	Increase investments in local Community Development Financial Institutions; improve the position of equity investments for Community Development Corporations.
Capacity Grants	Institute substantial grant programs to support capacity of community organizations, including community and housing developers.
Vendor Program	Establish programs focused on purchasing from minority-, disabled-, and women-owned firms; clear accounting by type of owner
Rural Program	Support programs that include self-help housing and other forms of rural assistance.
Meetings	Agree to share specific data prior to semiannual bank meetings.
Diversity	Provide a specific plan for diversifying the bank's top executive levels.

Financing

The Community Reinvestment Act is a financing tool for community development. It is important to understand which activities and products CRA agreements can support in order to better target an advocacy strategy.

Securing Finance Products that Work

In 1998, many newspapers carried a banner headline: Bank of America pledges $350 billion for community reinvestment. When the bank pledged $12 billion in 1992 and when Wells Fargo Bank pledged $45 billion in 1996, similar headlines appeared. What difference do these pledges really make for local businesses, neighbors and community organizations?

The truth is that the commitments probably have had more *and* less impact than anticipated. ***Direct commitments*** result in short term impact, with increased loans and financial presence. ***Indirect commitments*** slowly change the way banks operate, with long-term implications for the community. Both are important. With community residents and their organizations holding banks responsible, there can be scores of community investments and improvements occurring. The types of equitable development financing support to target include:

<u>Lending</u>

- Small business loans (less than $50,000) previously unavailable, or only available at substantially higher interest rates.
- Mortgage loans with low down payments and reasonable interest rates available to moderate and low-income residents.
- Monitoring and correction of discriminatory practices.
- Financing of affordable rental housing built by nonprofit developers.
- Mortgage financing for long-term affordability properties including LEHCs and CLT housing.

<u>Investments</u>

- Corporate grant programs that support community-based organizations.
- Bank investments in nonprofit community development loan pools.

<u>Services</u>

- Bank vendor purchase programs that offer business opportunities for minority-owned businesses.
- Retention of local bank branches.

Policy

Protecting CRA

CRA is under continual attack on the legislative, regulatory and corporate playing fields. The 1999 Gramm-Leach-Bliley legislation undercut the CRA by allowing financial corporations to merge operations without community reinvestment responsibilities or without requiring financial institutions and nonprofit organizations to report on CRA deals. Every year, bills are introduced in Congress that, if passed, would further undercut CRA, and fair housing and fair lending laws.

Regulators are conducting a review of CRA through 2002. Community organizations must project their issues into this review to prevent backward movement of the regulation. Currently, most banks are receiving satisfactory or outstanding ratings from regulators (a process called grade inflation). Community organizations need to respond by contacting regulators about banks with which they have concerns. Community organizations also need to keep an eye on regulatory changes (posted in the Federal Register) that may undercut CRA as banking changes.

The consolidation of the corporate structures including insurers, finance companies, mutual funds, stock brokerages, banks, mortgage companies and others creates difficulty for upholding CRA. These large, new corporations are less focused on depositors and neighborhoods than banks were previously. In addition, the new structures may move former banking practices to subsidiaries that do the mortgage or consumer lending but are not regulated under CRA.

Review CRA Evaluation : All large banks and savings and loans' CRA activities are examined at least every two years by federal banking regulators. The regulators assess compliance to the CRA in three major activities: lending, services, and investments. Lending is the most important of the three. Community development is a special subcategory of all three banking areas, and prescribes additional credit availability for certain activities. Regulators report on CRA performance of each regulated financial institution that they examine. The public portion of the report can be obtained from the financial institution or the regulator.

Monitor Merger Applications : All financial institutions must file an application for approval of an acquisition or merger. Portions of the application are public and can contain useful information. These are announced on the regulators' web sites and, often, in newspapers.

Evaluate CRA Public Files : All regulated financial institutions must keep all complaints for two years in at least one office in every metropolitan area as well as in the bank's main office. They must also keep a record of their CRA goals and activities in the file.

Review Fair Housing and Fair Lending Practices : It is illegal to discriminate against an applicant based on race, age, gender, or disability. Fair housing councils monitor violations, and can provide information about a bank's fair lending practices.

Monitor Annual Corporate Reports : Most public corporations publish an annual report and are required by law to file a more detailed financial report with the Securities and Exchange Commission (SEC). The annual financial report is SEC Form 10K, the quarterly report is Form 10Q. Both financial reports are publicly available.

Examine Proxy Statements : At times of major corporate events, such as mergers, the corporation issues a proxy statement to its shareholders and the SEC that often has very useful information in it about legal suits against the bank, financial difficulties, or new lines of business.

Scrutinize Home Mortgage (HMDA) Data : All mortgage lenders must report home purchase, refinance, and rehabilitation loans on properties with one to four housing units and permanent loans for larger units. These reports include loan applications, denials, and approvals categorized by race, gender, income, and census tract. They also contain data on multifamily mortgage lending (five or more units). This is public information and can be obtained from a bank main office or any branch in a metropolitan area.

Evaluate Business Lending Data : Information on lending to businesses in low, median, and moderate-income census tracts is also public and can be obtained from a bank main office or any branch in a metropolitan area.

Compile Community Knowledge : Members of community organizations, neighbors and others are likely to know a great deal about historical lending discrimination and the needs of the community.

Track Deposits and Market Share : The Federal Deposit Insurance Corporation (FDIC) has annually updated records of deposits in each branch of each bank. In addition, the FDIC tracks market share of banks.

Monitor Newspaper Articles and Public Testimony : Most likely, local newspapers have covered banking, and a search of archives may prove useful. It is also possible that bank representatives have testified before city, state, or federal legislative bodies regarding community needs. Some listservs cover reinvestment information as well.

Apply Public Pressure

Petition Public Officials

There are four federal financial regulatory agencies - the Federal Reserve Bank, the Federal Deposit Insurance Corporation (FDIC), the Office of the Comptroller of the Currency (OCC), and the Office of Thrift Supervision (OTS). They each have jurisdiction over different financial institutions although some very large banks may be regulated by more than one agency. The regulators examine larger banks every two years for 1) safety and soundness and 2) CRA compliance, including fair lending issues. Smaller banks, those with less than $250 million in assets, are now examined every four to five years.) Banks with negative ratings ("needs to improve" or "substantial noncompliance") are examined more often. Nearly 99 percent of all financial institutions get rated "satisfactory" or "outstanding" for their CRA activities. Some decry this as "grade inflation."

These increasingly important examinations are publicly announced on the regulators' web sites. They create an opportunity to organize community members, forge alliances, mount a letter writing campaign, identify bank lending, investment and service problems, and call for investigation. Writers should specifically ask that their letter be placed in the bank's public CRA file to document a history of problems with the bank when regulators must review the public CRA file.

When a merger or other activity requires approval, the regulators can hold public hearings. If hearings are not scheduled, communities can press for them. Regulators can also extend the comment period on proposed mergers to give community representatives more time to respond effectively.

Bank regulators should be visiting community organizations and businesses to study banking practices. If not, community advocates may choose to contact them, requesting a meeting or series of meetings.

City council members, state legislators, members of Congress and other officials should also be participating to ensure that local community needs are met. If not, applying community pressure may be worthwhile.

Organizing Power

U.S. Bank first ventured into the Los Angeles area through the purchase of Southern California and Santa Monica Banks. Neither of these banks had branches in downtown LA. Only three of their branches were in the proximity of the under-served LA empowerment zone. Community organizations met with bank representatives without success. The involvement of City Council members, state legislators and congressional representatives brought the bank back into talks. After the City Council announced it would reconsider billions of dollars of trustee contracts with the bank, a key bank executive joined the discussions. The bank then made a commitment that included creating three new branches in underserved communities within two years

Source: California Reinvestment Committee

Measuring Success

As banks expand beyond any one community or state, community advocates must find ways to measure appropriate levels of commitment. When a bank is located in only one state, use bank assets and net income as the base measurement. California Reinvestment Committee advocates for at least 4.5 % of assets with 2% of net income before taxes as the amount of community investment and grants. For a financial institution that operates in more than one state, it is difficult to assess the amount of assets or net income produced by operations in any one state or community. In these cases, CRC uses deposits as the base measurement because the amount of deposits is easily calculated for any geographic area. This information is readily available from and verifiable by the FDIC.

Measuring CRA compliance continues to be a complicated task as some financial institutions not only lend using their deposits but also borrow money to make loans. Borrowing funds allows them to loan against an amount larger than their total deposits. Therefore, no set percentages exist to form a measurement that will work for all banks. Nor is there an absolutely perfect proportion of housing lending, business lending, consumer lending, or community investment that can be applied to all financial institutions. The best measurement is current bank and savings and loan practices, and focused plans to meet community needs in the future.

Case Studies

More than $1 Trillion Invested through CRA

Lenders and community organizations have negotiated $1.09 trillion in CRA dollars from 1992 to 2000. In contrast, $8.8 billion was negotiated from 1977 through 1991.

Two major factors contribute to increased commitments since 1992. First of all, NCRC members and other community organizations are becoming increasingly sophisticated in terms of being able to articulate community needs as well as providing homeownership counseling and other types of services in partnerships with banks.

The second major factor spurring the growth of CRA agreements is the structural evolution in the banking industry. As banks become regional and national in scope, they understand that it is important to maintain their local community lending and investing capacity. Large banks and thrifts make multi-state agreements with networks of community groups that tailor the lending and investing to fit local needs.

Profiles are courtesy of the National Community Reinvestment Coalition (NCRC)

NCRC has spearheaded and developed a national community reinvestment movement, with Community Reinvestment Act (CRA) activists now involved in every state and in both urban and rural communities across America. CRA activism is now truly a nationwide movement NCRC pushed the community reinvestment dialogue into the mainstream. NCRC's 800-plus member organization and its coalition-membership structure make it the country's largest and most influential community reinvestment coalition. NCRC's Data Hotline, which offers an analysis of home mortgage and small business lending data to member organizations, is a highly regarded and frequently used service, which is extremely valuable to local lender-community dialogue. The Hotline produces about 50 to 60 data analyses annually. The Action AJerts, Facts Sheets, technical manuals, and publications that NCRC produces and distributes nationally are widely regarded as quality resources for local community-based organizations
Source: http://www.ncrc.org

Provisions of CRA Commitments

This section is designed to assist lenders and community leaders in identifying the range of credit, capital, investment, and servicing needs that can be included in a CRA commitment. Below, are an overview and actual examples of CRA commitments that illustrate the range of programs and products that have been negotiated between community organizations-or local governments-and lenders. These examples are organized according to seven subject areas:

Community Reinvestment Act Successes in Housing

Single-Family

Single-family housing loans, for purchase or for home improvement, are the most frequently targeted form of housing in CRA commitments:

- In agreement with the Massachusetts Association of Community Development Corporations, Citizens Bank pledged to make $10 million in affordable home mortgage loans to new immigrants over a five-year time period starting in 1999. Fannie Mae will purchase the loans. CRA agreements should, where possible, include commitments by secondary market institutions to purchase loans so that the banks can obtain more capital for making additional CRA loans.

- In the wake of its takeover of H.F. Ahmanson's Home Savings of America, Washington Mutual signed a $120 billion CRA agreement with the California Reinvestment Committee (CRC), the Greenlining Institute, the Washington Reinvestment Alliance, and other community groups. More than $80 billion of the ten-year commitment will be for single family lending to minorities and borrowers in low- and moderate-income census tracts. Low- and moderate-income borrowers (under 80 percent of median family income) will receive $30 billion of the loans.

- Led by the Woodstock Institute and CANDO, the Chicago CRA Coalition of over 100 organizations signed a pioneering CRA agreement with First Chicago NBD in the summer of 1998. First Chicago will make 35,879 affordable, single-family home loans by the end of 2004. In each year, the bank's share of the market in low- and moderate-income areas will equal or exceed its share of the market in middle- and upper-income areas. Subprime lending will not be included in the lending increases to low- and moderate-income areas. In 1999, the Chicago CRA Coalition negotiated similar agreements with Old Kent Bank and Charter One.

Multi-family

- In its 1999 agreement with the Chicago CRA Coalition, Old Kent promised to maintain a LMI-to-MUI market share ratio of 1.5 for multifamily lending for three years. In other words, the bank's market share of multifamily loans in low- and moderate-income census tracts will be 1.5 times greater than its market share of loans in middle- and upper-income communities.

- The California Reinvestment Committee (CRC) and the Greenlining Institute, as part of their 1995 $45 billion agreement with Wells Fargo Bank of San Francisco, committed the bank to apply 60 percent of the $7 billion allotted to low-income housing towards low-income rental housing construction.

Nonprofit and Minority Housing Developers

- The Washington Reinvestment Alliance, in its 1992 agreement with Key Bank, committed the bank to provide $10 million in lines of credit for community-based nonprofits and housing authorities engaged in the construction and rehabilitation of housing for low-income or first-time home buyers. The lines of credit are also available for the construction and rehabilitation of low-income single-family, and multifamily rental housing.

Housing Cooperatives, Land Trusts, and Mobile/Manufactured Housing

Although rare, a few CRA agreements have also included provisions specifying loans for these types of housing.

- The Ohio Community Reinvestment Project (OCRP), in their 1990 agreement with Dollar Savings and Trust Company, committed the bank to develop a pilot program to make loans through community land trusts to low- and moderate-income home buyers.

- The Washington Reinvestment Alliance, in their 1992 agreement with Seafirst, committed the bank to make a portion of their single-family lending goal-$1.1 billion over ten years-available for conventional and portfolio loans for the purchase and/or renovation of manufactured housing and mobile homes, including the purchase of mobile home parks by residents.

Target Populations

Several agreements include provisions to ensure that the needs of underserved populations are met.

- In its 1999 agreement with New Jersey Citizen Action and the Affordable Housing Network of New Jersey (now the Housing and Community Development Network of New Jersey), the Bank of New York pledged to allocate $10 million under a pilot program that would offer lower rate refinance loans to borrowers holding subprime loans. Under the pilot, borrowers will not be required to have a minimum credit score, provided they can demonstrate 18 months of satisfactory mortgage payments.

Lower Interest Loans

Below market interest rates for housing loans are also included in CRA commitments. With the advent of subprime lending, community groups have also secured promises from lenders that curb excessive costs from subprime loans.

- U.S. Bank has opened an "Alternative Loan Division" that will make subprime home equity loans to borrowers who do not qualify for prime loans. In the fall of 2000, U.S. Bank promised the California Reinvestment Committee that all home equity operations of the bank will adhere to pricing guidelines consistent with fair lending laws. In addition, the bank promises to implement fair lending guidelines for business relationships with New Century and other subprime lenders.

Distress

Distressed properties are properties that are under the threat of foreclosure due to missed loan payments. Some CRA agreements contain provisions committing the lender to exercise greater forbearance for distressed properties in low- and moderate-income and minority neighborhoods.

- ACORN, Philadelphia, in a 1986 agreement with Fidelcor, committed the bank to exercise greater forbearance prior to foreclosure. Specifically, the bank agreed to allow a moratorium on payments of up to six months where the failure to make payments is caused by circumstances beyond the control of the borrower, and there is a reasonable prospect that the borrower's situation will improve. The bank also agreed to allow repayment agreements permitting up to two years for a borrower to catch up on delinquent payments.

Loan Counseling

Even with concessions on loan terms and flexible underwriting criteria, low-income and minority individuals sometimes require counseling and education in order to be creditworthy for housing loans. A number of lenders in CRA agreements have committed to support loan counseling programs.

- In its 1998 agreement with Inner City Press/Community on the Move, Equity One committed to paying up to $250 for credit counseling for borrowers 31 days late on loan payments. Equity One is a subprime lender that specializes in offering loans to people with blemished credit histories. A commitment to paying for credit counseling is an indication that the lender will not seek to profit from delinquencies and foreclosures.

Community Reinvestment Act Successes in Business and Economic Development

Specific Loan Targets

While housing loans have been the primary focus of CRA agreements, community groups are increasingly using CRA agreements as a tool to promote economic development. CRA agreements include provisions setting dollar targets for small businesses, minority and women-owned enterprises, micro businesses, and economic development projects.

Small Business

Small business, while one of the main employment generators in the country, has traditionally faced problems accessing credit. A number of CRA agreements contain provisions committing lenders to target small businesses in low- and moderate-income areas.

- U.S. Bank made a pledge to the California Reinvestment Committee in 2000 that it will seek to make 50 percent of its small business loans in amounts of less than $50,000. Start-up businesses and micro-enterprises typically need the smaller loans of $50,000 and less.
- In its 2000 agreement with community groups and public officials in Massachusetts, Sovereign Bank will offer a guaranteed second look program to applicants for small business loans not meeting traditional underwriting criteria. The second look will ascertain if Sovereign can make a loan after considering mitigating circumstances and/or providing credit enhancement. In addition, the bank will provide a discount (50 basis points below the prime rate) to small business borrowers receiving technical assistance.

Minority- and Women-Owned Business

- In 1999, The Detroit Alliance for Fair Banking persuaded Michigan National Bank to target African-American businesses for loans under $500,000 including micro-loans up to $35,000. The bank will conduct second reviews of denied loans. The bank will promise that it will utilize the exemption under Regulation B for special purpose programs to report the number of loans made to minority business owners as well as those denied and loans made after second reviews.

Community Reinvestment Act Successes in Consumer Loans

Consumer Products

While not the primary focus of the CRA, community organizations have used CRA agreements as a means to increase access to consumer loan products for low-income and minority individuals.

- Seafirst Bank, in its 1992 agreement, with the Washington Reinvestment Alliance, agreed to provide $1.5 million annually for consumer loans with modified underwriting criteria and terms for low-and moderate-income individuals in Washington state.

Community Reinvestment Act Successes in Farm Loans

Addressing Farm Needs

Many small, family farmers and minority farmers have trouble accessing credit from lenders. However, only a few CRA agreements have focused on rural credit needs.

- The California Reinvestment Committee (CRC) and the Greenlining Institute, as part of their 1995 $45 billion agreement with Wells Fargo Bank of San Francisco, received the bank's assurance that it will meet the housing credit needs of rural Californians. Wells Fargo will continue to provide site development and construction loans for projects involving the FHMA and CHAFA as well as supporting self-help, or "sweat equity, housing projects.

- Norwest Bank in Iowa, in their 1990 agreement with Iowa Citizens for Community Improvement, agreed to provide $16 million in new loans to agricultural producers. Fifty percent of this amount is targeted for farmers owning less than 500 acres and having a net worth less than $150,000. Loans are available for crop production expenses, purchase of livestock and feed, purchase of machinery and equipment, land purchases and refinancing of existing debt. In addition, the bank agreed to restructure debt where restructuring is cheaper than foreclosure or forced liquidation. Specifically, the bank agreed to consider writing down the term of the loan, reducing the existing rate on the loan, extending the repayment period, and exercising forbearance.

Community Reinvestment Act Successes in Building Community Capital

Support for Community Development Credit Unions (CDCUs)

CDCUs are member-owned and controlled nonprofit financial institutions that bring both credit and financial service to people and communities with limited access to mainstream financial institutions. Community groups have committed banks to support CDCUs in a number of ways.

- In the 1999 agreement involving New Jersey Citizen Action and the Affordable Housing Network, Sovereign bank pledged to invest $1 million over the next three years in alternative lending vehicles such as CDCUs, micro loan funds, and CDFIs.
- The East Harlem Coalition for Fair Banking (Brooklyn New York), in its 1990 agreement with Banco de Ponce, committed the bank to provide a $100,000 deposit to the Union Settlement Federal Credit Union at five percent interest for two years.

Grants to Community-Based Organizations

CRA agreements contain provisions committing lenders to provide grants to community-based organizations.

- In its 1997 agreement with the California Reinvestment Committee and the Greenlining Institute, Home Savings of America pledged to make charitable contributions of at least 2% of after tax income. At least 80 percent of this will benefit underserved communities. Home Savings will make at a minimum $72 million of charitable contributions over the next 10 years.
- The Community Reinvestment Association of North Carolina, in its 1996 agreement with First Union Bank, has ensured that the bank will provide $50,000 annually for three years in grants supporting community-based initiatives such as homeownership counseling, banking training, and assessing community needs.

Community Reinvestment Act Successes in Banking Services, Branch, and Staff Policies

Banking Services

A pervasive problem in low-income and minority neighborhoods is the lack of access to basic banking services, forcing communities to use private check cashing outlets that often charge high fees. CRA agreements have committed banks to offer basic banking services at low cost to their communities.

Offer Basic or Lifeline Checking

Lifeline checking offers accounts with low, or no, fees and minimum balances.

- Comerica's 2000 pledge with the Detroit Alliance for Fair Banking includes several educational and financial literacy programs. For example, the bank's Youth Incentive Savings Program establishes about 40,000 student savings accounts annually.
- In its 1999 agreement, Citizens Bank established a goal of increasing its number of Basic Banking accounts 10 percent annually. It opened 10,604 of these accounts in 1998. Citizens' savings account will have a $1 monthly service fee that will be waived if the customer maintains a balance of $100 or more. The checking account will have a $2.50 monthly fee that includes 12 or fewer transactions. Free savings and checking accounts will be available to children under the age of 18 and to seniors over the age of 62.

Bilingual Initiatives

In communities where English is not the prominent language, banks have committed to hire staff that reflect the varied languages spoken in the community.

- The Fair Lending Coalition, in its 1991 agreement with Norwest Bank, committed the bank to hire and train bilingual staff at all branches where language barriers might pose an impediment to customer service.

Diversify Board

Some lenders have committed to appoint women or minorities to the board.

- Native Action and other Northern Cheyenne Reservation organizations, in their 1992 agreement with First Interstate, committed the bank to maintain at least one Northern Cheyenne Tribal member as a board member.

Community Reinvestment Act Successes in Needs Assessment, Marketing, and Community Accountability

Credit Needs Assessment

To ensure that a lender is offering loan products and services that are most appropriate to the specific credit needs of a community, many CRA agreements contain commitments by lenders to conduct a needs assessment of the community.

- The D and N Savings Bank, in its 1990 agreement with the Flint Coalition for Fair Banking Practices (Michigan), agreed to pay 20 percent of the costs of a multi-lender credit needs assessment of low- and moderate-income areas in Flint .
- The Shelby County Community Reinvestment Coalition, in a 1990 agreement with Union Planters National Bank, committed the bank to focus more of its advertising efforts towards making new and existing customers in targeted census tracts aware of the bank's products and services. Specifically, the bank agreed to advertise on/in radio stations targeting minorities, in minority newspapers, post information in low- and moderate-income neighborhoods, advertise in neighborhood association newsletters, and advertise the bank's real estate lending services in minority real estate publications.

Reports and Disclosure

- In its 1998 agreement, First Union pledged to address issues related to credit scoring. In quarterly advisory council meetings, the bank will provide data on income levels, underwriting characteristics, property condition, and other risk factors. The bank will provide average credit scores for each of its products. First Union will consider funding research on delinquency issues. In connection with its purchase of the Money Store, First Union will provide information on defaults by loan product and by the census tract locations of the defaults.

Resources

Where to Access Data

HMDA Data: These are available at http://www.ffiec.gov/hmda/default.htm, on the Federal Financial Institutions Examination Council (FFIEC) site.

Small Business Lending Data: Available by state, county, and MSA (Metropolitan Statistical Area) at the Federal Financial Institutions Examination Council (FFIEC) site: http://www.ffiec.gov/webcraad/craaggr.htm.

Corporate Financial Reports: These are available from the bank itself or the US Securities and Exchange Commission (www.sec.gov). Phone number (202) 942-8088 .

CRA Public Evaluations: Evaluations The Federal Reserve, FDIC, Office of the Comptroller, and Office of Thrift Supervision are available at http://www.ffiec.gov/cracf/crarating/main.cfm. Other relevant data is available at

http://www.ffiec.gov/cra/

Fair Housing Information: This is available from your local Fair Housing Council or the National Fair Housing Advocate at www.fairhousing.com.

Population Data: This is available from the US Census Bureau at www.census.gov and your county and state governments. Phone number (301) 457-4608 .

Local Data: This is available from your city or county planning office.