Community Reinvestment and Cities: A Literature Review of CRA's Impact and Future

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A Discussion Paper prepared for
The Brookings Institution
Center on Urban and Metropolitan Policy

March 2000

Acknowledgments

The Brookings Institution Center on Urban and Metropolitan Policy would like to thank the Ford Foundation for its support of the Center's research and policy work on metropolitan growth trends and how regional dynamics affect urban neighborhoods. We would also like to thank the Foundation for its support of the Center's work on community reinvestment, particularly at a time of rapid changes in finance and capital markets. This literature review on the impact of the Community Reinvestment Act in urban areas provides an important base of knowledge for non-profit, public, and corporate leaders as they shape the future direction of reinvestment policies in our nation's lower-income and minority communities.

About the Author

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Haag would like to thank the many people who provided the advice and assistance that made this paper possible. In particular, she would like to thank Daniel Immergluck of the Woodstock Institute and Mark Pinsky of National Community Capital Association for their thoughtful comments on a draft version of this paper, and many others who were especially generous with their time, materials, and expertise, including Konrad Alt, Joann Barefoot of KPMG Peat Marwick, Scott Bernstein of Center for Neighborhood Technology, Calvin Bradford, Malcolm Bush of the Woodstock Institute, Jim Campen of the University of Massachusetts, Glenn Canner of the Federal Reserve, Steve Cross of the Office of Thrift Supervision, Deborah Goldberg of Center for Community Change, Julie Johnson of BankOne, Patricia McCoy of Cleveland Marshall School of Law, Randall Scheessele of the Department of Housing and Urban Development, Michael Schill of New York University, Tom Schlesinger of the Financial Markets Center, Alex Schwartz of the New School for Social Research, Bill Shear of the General Accounting Office, Anne Shlay of Temple University, Michael Stegman of the University of North Carolina, Ken Thomas and Susan Wachter of the Wharton School, and Steve Zissel of the Community Bankers Association.

While the author has attempted to cover the salient work in the subject areas addressed by this review, the result is by no means exhaustive. Omissions, and variations in the extent of detail in bibliographical abstracts, do not reflect a judgment on the importance or quality of the work.

The views expressed in this discussion paper are those of the author and are not necessarily those of the trustees, officers, or staff members of The Brookings Institution.

ABSTRACT

Since its passage in 1977, the Community Reinvestment Act (CRA) has been an important tool for increasing the availability of credit and financial services to lower income and minority borrowers and their communities, and has helped to change the ways that depository institutions approach lending in these communities. This paper examines the effects of the CRA, particularly in urban areas, the continued disparities in the availability of financial services to lower income and minority communities, and how recent changes in the financial industry pose new challenges for community reinvestment efforts in the future. Specifically, this literature review on the CRA summarizes findings on: lending patterns in urban communities; the effects of changes in CRA regulations and enforcement; the nature of CRA commitments; the impact of bank consolidations on access to credit; and how changes in the financial marketplace, like the use of the internet and the increased role of non-bank financial institutions, may shape the future of community reinvestment policies. The literature review includes detailed abstracts of some of the key literature on each of these issues.

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COMMUNITY REINVESTMENT AND CITIES: A LITERATURE REVIEW OF CRA'S IMPACT AND FUTURE

INTRODUCTION

The Community Reinvestment Act (CRA) was enacted in 1977 in response to evidence that commercial banks and savings associations were engaging in "redlining" practices that were contributing to the decline of many inner-city urban areas.[1] Redlining referred to the practice whereby depository institutions would literally or figuratively draw a red line around certain geographic areas, and decline to make loans in those areas on the basis of the racial composition, age of housing stock, or other factors, regardless of the creditworthiness of individual loan applicants.[2] It was believed that these practices were resulting in the disinvestment and decline of many older, central city and typically low-income and minority neighborhoods and a shift of jobs to surrounding areas. The CRA addressed this problem by recognizing a "continuing and affirmative obligation" on the part of depository institutions to help meet the credit needs of the local communities in which they are chartered to do business, and directing the banking regulators to encourage the institutions that they supervised to carry out this obligation.[3] The hope was that by encouraging depository institutions to look for profitable lending opportunities in their local communities, the CRA would be a tool for revitalizing inner-cities at a time when investment was moving to distant money centers or to more affluent and outlying communities.

The statutory scheme was minimal. The law directed the Federal banking regulators, in connection with their supervisory examination of depository institutions, to "assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with the safe and sound operation" of the institution. The Federal banking regulators were further directed to take this record "into account," along with safety and soundness and other factors, in their evaluation of an institution's application for a deposit facility, defined to include applications: (1) for a Federal bank or thrift charter; (2) for FDIC deposit insurance for a State bank or thrift; (3) to establish a branch; (4) to relocate a home office or branch; or (5) to merge, consolidate, or purchase assets or assume liabilities of a regulated financial institution. The potential denial or delay of an institution's application on account of an inadequate community lending record served as the statute's principle enforcement mechanism.

The regulatory examination process was supplemented by the input of local citizen groups with expertise in their communities who could monitor an institution's lending record and challenge a pending application on the basis of CRA concerns. The process afforded an opportunity for community groups to negotiate commitments by an institution to improve an inadequate CRA record through specific types of loans, investments, and financial services in low- and moderate-income areas. Public accountability as a tool of CRA enforcement was augmented in 1990 when new amendments to the CRA and the Home Mortgage Disclosure Act (HMDA) went into effect. The CRA required regulators to now prepare written, public evaluations of an institution's record in meeting the needs of its entire community, while residential lending reporting requirements under HMDA were expanded to include the race or ethnicity, gender, and income of loan applicants, and the disposition of their applications. Enforcement under the statute was further enhanced in 1995 through an overhaul of CRA regulations that shifted the focus of CRA compliance and examination criteria from procedural efforts to ascertain community credit needs to the institution's actual record of lending, investments, and financial services in its delineated community.

This paper summarizes some of the key research on the effects of the CRA on low- and moderate- income communities, particularly over the last decade, to help lay the groundwork for further thinking on the future of community reinvestment policy. This literature review places special emphasis on the role of the CRA in urban and metropolitan areas. This review, while extensive, is by no means exhaustive.

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[1] Pub. L. No. 95-128, Title VIII, 91 Stat. 1147 (Oct. 12, 1977), codified at 12 U.S.C. §§ 2901-2901 (as amended).
[2] 123 Congressional Record 17,630 (June 6, 1977).
[3] 12 U.S.C. § 2901.

In general, the research reveals several salient trends. First, home mortgage lending to low- and moderate-income and minority households and neighborhoods during the 1990s has increased at rates that far exceed the increases in lending to other segments of the population during the same time period. Economists have attributed these increases at least in part to the influence of the CRA and fair lending laws.

Second, the CRA has helped spawn a community development infrastructure within the banking industry, the bank regulatory agencies, the secondary market organizations, and in inner-city communities that is changing the terms of CRA compliance. While community development initiatives predated the CRA, the CRA has fostered increased collaborations between and among bankers, local and state governments, and community-based organizations in arrangements such as loan consortia and public/private enterprise partnerships. Further, the last few years have seen the crafting of financial vehicles designed to make the most of the private capital represented by bank CRA commitments, while bringing CRA activities into the financial mainstream. These have included transactions like Citibank's $1 million "equity-equivalent" investment to capitalize community development financial institutions (National Community Capital Association); a $29 million private placement of common stock of a real estate investment trust specializing in affordable housing and community development (Local Initiatives Support Corporation); a $2 billion secondary market program for affordable home mortgage loans launched by Self-Help in conjunction with the Ford Foundation and Fannie Mae; and Bear, Stearns' private placement of securities backed by 5400 First Union CRA loans and guaranteed by Freddie Mac. Such initiatives appear to represent an increasingly important component of the low- and moderate-income credit market.

Third, changes in the financial marketplace may threaten the future efficacy of the law. The consolidation of the banking industry, combined with interstate banking and branching and deregulation of other constraints on financial activities, threatens both the local nexus that underpins CRA enforcement and the proportion of the financial services industry that is subject to the law's requirements. In particular, passage of the Gramm-Leach-Bliley Act in November, 1999, which repealed the Glass-Steagall Act of 1933 and amended the Bank Holders Company Acts of 1956 and 1970, permitted affiliations between depository institutions, securities firms, and insurance companies, which may have important further consequences for the availability of financial services in low-income and minority communities.[4]

This paper examines the CRA literature as it relates to five issue areas. Part I of the paper looks at evidence of how lending in central cities has changed over the course of the 1990s, focusing primarily on home purchase mortgage and small business lending. The review revealed very little research on CRA lending in central cities in particular; analyses for the most part have focused on national aggregate lending, or on the broader metropolitan area. The literature indicates that home purchase mortgage lending to low-income and minority households and neighborhoods increased at a faster rate than home purchase mortgage lending generally during the 1990s, but also that this trend has shown signs of some reversals. The more limited data available on small business lending indicate that small business lending overall has increased, but that lending in upper-income areas exceeded small business lending in low-income areas by about 37 percent; and that loan denial rates for black- and Hispanic-owned businesses far exceed denial rates for white-owned businesses.

Part II looks at the impact of the Clinton Administration's reform of CRA regulations and the enhancement of CRA enforcement. While the literature points out the continuing need for better defined benchmarks of performance and more rigorous application by the regulators, substantial evidence suggests that the new regulations have successfully shifted the focus of compliance to performance, and helped to coalesce a market-based approach to community reinvestment.

Part III examines the nature and scope of CRA commitments adopted by major depository institutions, finding that they take a multi-faceted approach to serving the credit and capital needs of low-income communities; and that banks with agreements generally tend to have better records of lending to low-income and minority borrowers and neighborhoods than banks without agreements.

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[4] Pub. L. No. 106-102, 113 Stat. 1338 (November 12, 1999).

Part IV looks at the research on the impact of depository institution consolidations on lending patterns in communities that no longer have locally-owned banks. In general, this research suggests that consolidations are in some instances associated with decreased lending by consolidating institutions, but that these declines are being offset by lending by other market participants over time. The past twenty years have seen a decline in the number of banking offices in low-income communities, both in absolute numbers and per capita, during a period that saw a substantial increase in the number of branches overall, although the net result has been a more even per capita distribution of banking offices across neighborhoods by income levels. Examination of nationwide aggregate data on the impact of industry consolidation on residential lending found that bank consolidation is consistently associated with declines in residential lending by the consolidating organization in the counties in which it operated offices at the time of consolidation, although national aggregate levels of home purchase lending appear not to be affected. These results suggest that declines in local lending by consolidating institutions may be offset by increased lending by the same institutions seeking geographic diversification in other markets, or by other market participants such as independent mortgage or finance companies. At the same time, the portfolio share of consolidating organizations dedicated to low-income lending increased, suggesting a positive impact of CRA requirements on these organizations. Likewise, in the small business market, declines in lending at the institutional level appear to be offset by increased lending by other market participants. Evidence suggests that credit scoring technologies may be substituting for some of the informational advantages of local presence, although it remains unclear the extent to which credit scoring may have a disparate impact on minority business owners. Other studies of both residential and small business lending and more anecdotal evidence suggest that these shifts may have a disproportionate impact in low-income areas and for low-income borrowers, and in any event can disrupt lending relationships upon which small businesses, in particular, depend.

Part V considers the future of federal community reinvestment policies, given the changes in the financial marketplace. This section looks at the issue of defining CRA assessment areas for internet banks and other non-branch delivery systems, literature that suggests extending a CRA obligation to non-bank financial institutions that hold an increasing portion of domestic assets, and literature suggesting modifications of the CRA. Also included is a summary of the Clinton Administration's current Federal community reinvestment policy as outlined by then-Deputy Treasury Secretary Lawrence Summers. An addendum briefly addresses the profitability of CRA lending.

The literature review closes with a series of appendices, including abstracts of bibliographical sources for those who want to delve more deeply into some of the research findings and a list of contact information for the banking regulators, other government agencies, and nonprofit organizations involved in CRA-related matters. The hope is that the paper will serve as a resource for all those interested in community reinvestment issues.

Former Comptroller of the Currency Eugene Ludwig said, "We live in an age that is redefining – and quite properly so – the role of government in the lives of our people. CRA – a law that calls for no public expenditures, little bureaucratic intervention, and local control – has become a model for this new relationship." Further research, we hope, will yield insight into how to adapt that model to the financial services industry of the 21st century.

I. LENDING PATTERNS IN CENTRAL CITIES IN THE 1990S

To what extent has bank and thrift lending in central cities fundamentally changed since the early 1990s? Are we seeing, for example, substantial increases in market-rate lending in central cities during this period? Are there differences between the lending experiences for residential (both homeownership and rental), small business, and community development?

While disinvestment in central city neighborhoods was a major impetus for passage of the CRA, assessments of bank and thrift lending during the 1990s generally focus on patterns of lending to low-income or minority borrowers or neighborhoods within an entire metropolitan area. An important reason for this focus, presumably, is that the expanded data on the race, ethnicity, and income of residential loan applicants that became available in 1990 revealed dramatic disparities in the rates of acceptance between white and nonwhite applicants for mortgage loans and between applicants from white and nonwhite neighborhoods, and generated substantial policy focus on fair lending/discrimination issues (Canner and Smith, 1991, 1992). Further, because it is a bank's record of lending to low-income components of its community that provides the measure of its CRA performance, regardless of whether that community is the central city or the suburbs, CRA policy analysis has tended to focus on credit access by race or income.[5]

Nonetheless, lending in central cities remains an important barometer of where the CRA has taken us, given the persistent concentration of lower-income and minority populations in central cities, and the persistent migration of wealth and development to outlying suburbs. This section examines sources of data as well as analyses of residential, small business, and community development lending by banks and thrifts in the 1990s, highlighting central city patterns to the extent they are available, as well as race and income measures of community reinvestment activity.

In general, very little analysis of central city lending patterns has been done, although data on residential lending according to geographic location is available that would permit further scrutiny of the issue. One study that does isolate lending in a central city, the City of Boston, from lending in the outlying suburbs, is based on HMDA data, indicating that this sort of analysis can be done for other metropolitan areas, as well (Campen, 1998). The results of that study suggest that the central city trend may mirror nationwide results. Specifically, the literature indicates that home purchase mortgage lending to low-income and minority households and neighborhoods increased at rates significantly higher than lending to higher-income and white households and neighborhoods between 1990 and 1998, although there is some indication of some leveling off in these trends from 1995 to 1997. The literature also reveals significant increases in African-American homeownership rates during the 1990s, as well as some evidence that more black homebuyers are moving into segregated, all-black neighborhoods than at the beginning of the decade (Immergluck, 1999). Data on conventional as compared to government-backed home purchase mortgage lending from 1990 showed the ratio of noncentral city to central city conventional home purchase loan originations at about 1.75 to 1. Other residential lending analyses show multifamily housing lending almost tripled between the periods of 1983-1985 and 1991-1993 in the Chicago area; and significant disparities in refinancing rates between black and other minority borrowers as compared to white borrowers. Finally, data indicate that mortgage companies are claiming an increasing percentage of the home purchase mortgage lending market, although representing a significantly smaller share of lending to low-income and minority borrowers than financial institutions subject to the CRA, at least in the Boston metropolitan area.

Analyses of the geographic distribution of small business lending, based on data reported under the revised CRA regulations and available beginning in 1996, indicate that small business lending declined as a percentage of total business lending from 56 percent to 50 percent between 1996 and 1997 but increased to 58.1 percent in 1998.[6] The spatial distribution of small business loans followed fairly closely the distribution of businesses between central city and suburban areas, as well as the distribution of population across census tracts grouped by neighborhood income. However, the same data reveal that loans-per-

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[5] See Department of Housing and Urban Development, Final Rule, *Federal Register* 60:61,845-62,005, Appendix B (Dec. 1, 1995) (codified at 24 C.F.R. Part 81) (concluding that central city location is not an adequate proxy for lack of access to mortgage credit in setting annual goals for the purchase of mortgages in underserved areas under the Federal Housing Enterprises Financial Safety and Soundness Act of 1992).
[6] The revised CRA regulations also required reporting with respect to loans to small farms (Bostic and Canner, 1998). The rural lending market has received little attention in the literature, but is not addressed by this review.

business in upper-income areas exceeded loans-per-business in lower-income areas by 37 percent. Analyses of other small business lending data indicate that black-owned businesses are more than twice as likely as white-owned business to have their small business loan applications denied, and that Hispanic-owned businesses also face higher denial rates (Blanchflower, et al., 1998). Other trends in small business lending include a substantial increase in small loans (under $100,000) by large banks (with assets over $5 billion) in the latter half of the 1990s, possibly attributable to the use of credit scoring for small business lending, as well as a substantial increase in the business use of credit cards, raising the issue of the extent to which business credit card lending may be shielded from CRA review. Finally, research into the spatial distribution of SBA lending shows these business development subsidy loans predominating in more affluent, suburban, nonminority areas.

Apart from revealing the lending patterns themselves, the literature suggests the critical role of the expanded data on residential lending that has been reported by depository institutions since 1990. This data, the equivalent of which is not available for small business lending, has made meaningful analysis of residential lending patterns possible in the first place, while apparently influencing those lending patterns through the public accountability they have created.

A. Residential Lending

Analyses of residential lending patterns are based primarily on a combination of data reported under the Home Mortgage Disclosure Act (HMDA) and data available from the U.S. Census Bureau.[7] Under HMDA, certain depository institutions and other mortgage lenders report on an annual basis originations and purchases and census tract location of four types of residential loans under both conventional and government-backed lending programs: home purchase mortgage, home improvement, mortgage refinancing, and multifamily home lending.[8] As a result of successive amendments to the statute in 1989 and 1991 and a new exemption standard adopted by the Federal Reserve in 1992, HMDA data during the 1990s have included a greater proportion of the residential lending market than when the statute was enacted in 1975, including loans and purchases by most independent mortgage companies in addition to depository institutions and their subsidiaries. Most importantly, HMDA data since 1990 have included the race or ethnicity, gender, and income of loan applicants and borrowers, as well as whether each application was approved, denied, or withdrawn by the customer.

Residential lending patterns are analyzed by correlating HMDA data with census data on the racial composition, median family income, and central city, suburb, or rural location of the loan property census tract. This combination of HMDA and census data, which is available from the Federal Financial Institutions Examination Council (FFIEC), provides the raw material to generate a broad range of analyses of lending in central cities nationwide or by individual MSA or non-MSA county.[9] The only central city information that is generated and made publicly available on a routine basis is data on applications for home purchase (broken down into government-backed or conventional loans), home refinancing, and home improvement loans by the central city or non-central city location of the subject loan property; and nationwide aggregate statistics on loan application disposition (FFIEC, 1999, Table 2, Table 10).

The other data routinely generated by the FFIEC break down conventional and government-backed home purchase lending by racial or ethnic group and income of borrowers. The income categories used in HMDA analyses, and which also correspond to definitions in the CRA regulations, are low-income (median household income of the borrower or in the census tract in which the loan property is located is less than 50 percent of the median household income in the MSA); moderate-income (median household income is 50-79 percent of the median household income in the MSA); middle-income (median household income is 80-119 percent of the median household income in the MSA); and upper-income (median household income is 120 percent or more of the median household income in the MSA). The literature often groups together lending in the first two categories, referring to low- and moderate-income (LMI) or lower-income lending. Low- and moderate-income and minority

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[7] 12 U.S.C. §§ 2801-2811, as amended.
[8] Covered depository institutions initially included commercial banks, savings associations, savings and loan associations, and credit unions with assets over $10 million. This asset threshold was raised to $29 million in 1997.
[9] The FFIEC is an interagency body comprised of a member of the Board of Governors of the Federal Reserve System, the Chairman of the Federal Deposit Insurance Corporation, the Chairman of the National Credit Union Administration, the Comptroller of the Currency, and the Director of the Office of Thrift Supervision.

households or neighborhoods are also referred to in the literature as "traditionally underserved borrowers" and lending to underserved borrowers or neighborhoods as "affordable lending."

1. Spatial Distribution

The Federal Reserve presented some national aggregate central city analysis in the early 1990s, but has not undertaken any comparison analysis in more recent years. In 1990, central and noncentral city areas were nearly identical in total number of housing units (38.1 million housing units in central cities as compared to 38.7 million in noncentral city areas). In contrast, about 38 percent of the loans (and 36 percent of the dollar value of loans) made to borrowers residing in metropolitan areas went to borrowers in central city locations and the rest to borrowers in noncentral city locations in 1992; and the rate of noncentral city to central city conventional home purchase loan originations was 1.75 to 1.0 (Canner and Passmore, 1994, p.93). This disparity has been attributed to various factors, including the pronounced suburbanization of residential development serving the middle- to higher-income populations over the course of recent decades (Canner and Gabriel, 1992), as well as demographic factors such as the relatively higher proportions of low-income families, unemployed individuals, and renters in central cities (43.9 percent of housing units in central cities were rentals, a number 70 percent higher than in noncentral city locations) (Canner and Passmore, 1994, p.93).

The distribution of applications for various types of residential loans across central city and noncentral city locations has stayed fairly constant over the course of the 1990s, except with respect to applications for loan refinancing. In 1993, 46.8 percent of applications for government-backed home purchase loans were for properties in central city locations, while 53.2 percent were in noncentral city locations, as compared to 45.2 percent and 54.8 percent, respectively, in 1997. Applications for conventional home purchase loans were 38.3 percent for properties in central city locations, as compared to 61.7 percent in noncentral city locations in 1993, and 38.8 percent central city and 61.2 percent noncentral city in 1997. With respect to home refinancing loans, 36.6 percent were in central cities and 63.4 percent in noncentral city locations in 1993, as compared to 40.5 percent in central cities and 59.5 percent in noncentral cities in 1997. Finally, with respect to home improvement loan applications, 44.6 percent were related to properties in central cities and 55.4 in noncentral cities in 1993, as compared with 44.4 percent and 55.6 percent, respectively, in 1997.

According to the Federal Reserve, the mix of loans used by borrowers in central city locations in 1992 was similar to that used by borrowers in noncentral city locations with a few exceptions. Twenty percent of home purchase loans made in central cities were FHA-insured compared to 15 percent in noncentral cities; and about 72 percent of the loans made in central cities were conventional, as compared to 79 percent of the loans made in noncentral city locations. With respect to racial distribution, 5.4 percent and 5.1 percent of total loans were made to black and Hispanic borrowers, respectively, in central cities, while 2.4 percent and 3.2 percent, respectively, were made to black and Hispanic borrowers in noncentral city locations. Also, the proportion of multifamily loans was higher in central cities, partly reflecting the higher proportion of multifamily and rental houses. Finally, borrowers in central cities had relative incomes that were similar to those of borrowers in noncentral city areas, although *residents* in central cities had relative incomes that were lower than those of residents in noncentral city areas (Canner and Passmore, 1994, pp.93-94).

2. Nationwide Aggregate Changes in Low-Income and Minority Home Purchase Mortgage Lending

The first expanded data under HMDA for 1990 showed significant disparities in loan approval rates across applicant and neighborhood racial and income categories. With respect to denial rates across neighborhoods grouped by resident income level, Canner and Smith found that the rate of loan denial declined as the income of the residents increased. The rate of loan denial for conventional home purchase mortgage loans relating to properties in low- or moderate-income neighborhoods was 20.2 percent, as compared to 13.9 percent for middle-income and 9.7 percent for upper-income neighborhoods (Canner and Smith, 1991).

The data also showed that black and Hispanic loan applicants were denied credit in greater proportions than white applicants, even within the same income groupings.[10] Nationally, Canner and Smith (1991) reported that in 1990, about 14.2 percent of white applicants for conventional home purchase loans were denied credit, as compared to 33.6 percent of black applicants and 21.4 percent of Hispanic applicants. The denial rate for Asian applicants was the lowest of any group, at 12.8 percent. Within the lowest income group, the denial rate for blacks was still substantially higher, at 40.1 percent, as compared to 31.1 percent for Hispanic, 17.2 percent for Asian, and 23.1 percent for white applicants. Among applicants in the highest income group, the denial rate for black applicants was 21.4 percent, as compared to 15.8 percent for Hispanic, 11.2 percent for Asian, and 8.5 percent for white applicants (Canner and Smith, 1992).

Comparing denial rates for conventional loans across neighborhoods grouped by racial composition and income level of their residents, Canner and Smith found that the rate of loan denials increased as the proportion of minority residents in a neighborhood increased. Thus, areas with less than 10 percent minority residents experienced a denial rate of about 12 percent in 1990, as compared to a denial rate of about 24 percent for areas with 80 percent or more minority residents (Canner and Smith, 1991, p.872-873). The pattern of loan denial for government-backed loans was virtually the same. Analysis of lending across middle-income neighborhoods found that depository institutions covered by HMDA extended roughly three to four times more home purchase loans per single family housing unit in predominantly white neighborhoods than in predominantly minority neighborhoods (Canner and Smith, 1991, p.864). About two-thirds of the loans originated in predominantly white tracts were located in suburban areas, whereas three-fourths of the loans made in predominantly minority neighborhoods were located in central cities (Canner and Gabriel, 1992).

HMDA data indicate that since the early 1990s, originations of conventional home purchase mortgage loans to low-income and minority households and neighborhoods have increased at rates significantly higher than loans to higher-income and white households and neighborhoods. Federal Reserve staff have attributed these changes at least in part to affordable home purchase lending programs targeted to lower-income borrowers and neighborhoods (Avery et al., 1999a). The Federal Reserve reported that the number of home purchase loans extended to low- and moderate-income borrowers increased 36 percent and 29 percent, respectively, between 1993 and 1997, while lending to middle-income borrowers rose 16 percent and lending to high-income borrowers rose 18 percent during the same period (Avery et al., 1999a, pp. 88-89, Tables 1, 2). From 1991 to 1992, 1992 to 1993, and 1993 to 1994, the number of conventional home purchase loans extended to low- and moderate-income borrowers combined increased 27 percent, 38 percent and 27 percent, respectively, while lending to upper-income borrowers increased by 10 percent, 8 percent and then 13 percent during the same three periods (Avery et al., 1996, p.638; Evanoff and Segal, 1996; Canner and Passmore, 1995, pp.100-101). While lending across all income categories showed declines or only very modest increases in the following three years, 1997-1998 saw substantial increases again, with lending to low-income borrowers increasing by 25 percent, as compared to a 20 percent increase to upper-middle-income borrowers, 20 percent increase to lower-middle-income borrowers, and 16 percent increase in loans extended to upper-income borrowers (FFIEC, 1999, Table 5).

Lending to minority borrowers has shown similar patterns. The Federal Reserve reported that lending to minority borrowers increased about 53 percent between 1993 and 1997, while lending to nonminority borrowers increased 13 percent during the same period (Avery et al., 1999, p.88, Table 2). Again, after declines or modest increases between 1994 and 1997, 1997-1998 saw increased lending across all racial and ethnic categories, with an increase of 22 percent in lending to Hispanic borrowers, 13 percent to black borrowers, and 15 percent to white borrowers. Immergluck (1999, p.7) found that African-American homebuying increased by 126 percent between 1992 and 1995, substantially faster than the 54 percent increase in overall home buying activity during that period, or the 78 percent increase in homebuying by low- and moderate-income households during the same period. As a result, the African-American homeownership rate grew from 42.1 percent in the beginning of 1994 to 45.2 percent in 1998, for a 7.4 percent increase that was significantly larger than the overall increase in U.S. homeownership of 3.3 percent over the same period.

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[10] A vast literature has debated whether discriminatory lending practices underlay these disparities, and debating the appropriate research methodology for making the determination. For a recent treatment of this literature, see Margery Austin Turner and Felicity Skidmore, *Mortgage Lending Discrimination: A Review of Existing Evidence*, Washington, D.C.: The Urban Institute (June 1999). See also Evanoff and Segal (1996), pp. 24-28, Boxes A and B (charting mortgage redlining and microeconomic lending studies) and Schill and Wachter (1994), pp. 247-55, Table 1 (summarizing studies on racial and ethnic geographic disparities in home loan mortgage markets).

Segal and Sullivan (1998) found that the gap between black and white homeownership rates decreased by nearly 3 percent between 1995 and 1997 (although the homeownership rate for blacks remained 23 percent below that for whites in 1997).[11] However, there is also evidence that the gap between minorities and whites being denied home mortgages widened in 1996 and 1997, after improving in previous years; and that much of the new lending to blacks in recent years has come from subprime mortgages (NCRC, 1999; Campen, 1998; Marsico, 1999).

3. Lending Patterns at the Metropolitan Level: Low-Income and Minority Home Purchase Mortgage Lending in Boston and other Metropolitan Areas

Studies of home mortgage lending in particular metropolitan areas have shown similar trends as the nationwide aggregates, with the strongest growth in lending rates between 1992 and 1995.

a. Boston

In a study of mortgage lending in the City of Boston and 27 surrounding cities and towns, Campen (1998) found that for the eight-year period from 1990 to 1997, the general pattern that emerged was of substantial increases in total mortgage lending to low-income and minority borrowers through 1993 or 1994, relative constancy through 1996, and a general decline in 1997 from the levels reached in the immediately preceding years – with declines in some cases so substantial that the indicators used in the report were lower in 1997 than they had been in 1990, the earliest year for which comparable data were available. However, when looked at by denial rates rather than loans actually made, the data show continued general improvement in 1997.

Campen's profile of lending in Boston includes data for three geographic areas: the City of Boston, the 12 cities and towns that share a boundary with Boston ("Inner Ring"), and the 15 additional cities and towns that share a boundary with at least one of the Inner Ring municipalities ("Outer Ring"), thus making it possible to isolate central city lending, and to compare it to lending in the outlying suburban areas. Analyzing the spatial distribution of the population by race and income across the three areas, Campen found a substantial concentration of minority households and LMI neighborhoods in the central city. Data from the 1990 decennial census show that the population of the City of Boston was 20.6 percent African-American, 8.1 percent Hispanic, and 66.4 percent white. In contrast, the population of the Inner Ring cities and towns were 3.6 percent African-American, 3.5 percent Hispanic, and 89.3 percent white; and the population of Outer Ring cities and towns were 2.6 percent African-American, 3.5 percent Hispanic, and 92.9 percent white. With respect to income, 68.5 percent of census tracts in the City of Boston were low- or moderate-income (median family income no greater than 80 percent of the Boston MSA, meaning less than $38,950), while 30.3 percent of the census tracts in the Inner Ring cities and towns, and 19.7 percent of the census tracts in the Outer Ring cities and towns, were low- or moderate-income (Campen, 1998, Table 1). The family median income in the City of Boston was $34,377, as compared to $47,758 in the Inner Ring cities and towns, and $51,662 in the Outer Ring cities and towns.

Campen found that total home purchase lending within the City of Boston increased dramatically between 1990 and 1997, from 1,770 loans in 1990 to 5,706 in 1997, with lending to minority households increasing at a significantly higher rate than lending to white households during the earlier years of the study period. Between 1990 and 1993, home purchase loans to African-American borrowers increased by 148 percent, from 287 to 712 loans; and lending to Hispanic borrowers increased by 122 percent, from 91 loans to 202 loans; while lending to white borrowers increased by 85 percent, from 1,266 loans to 2,344 loans. However, while lending to white borrowers continued to increase each year through 1997, lending to African-American and Hispanic borrowers dropped between 1996 and 1997 (from 897 to 836 for African-Americans, and from 392 to 334 for Hispanics). African-American borrowers received 836 loans in 1997, down 12 percent from the high point of 955 loans in 1994, while loans to whites rose by 38 percent during the same period (Campen, 1998, p.3). The number of loans to Hispanic borrowers fell from 392 in 1996 to 334 in 1997, a drop of 15 percent during a period when loans to white borrowers rose by 10 percent (Campen, 1998, p.3, Table 2 and Chart 2).

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[11] But see Evanoff and Segal (l996), who found that the increase in mortgage originations to black households between 1992 and 1994 was insufficient to move the homeownership rate a single point.

Lending in the Inner and Outer Rings between 1993 and 1997 followed a similar pattern as in the City of Boston, with increases in lending to African-American and Hispanic borrowers outpacing increases in lending to white borrowers between 1993 and 1994, and then declining between 1996 and 1997. Thus, between 1993 and 1994, loans to African-Americans in the Inner Ring increased by 59.8 percent and by 71.1 percent in the Outer Ring, loans to Hispanics increased by 29.5 percent in the Inner Ring and by 83.5 percent in the Outer Ring, while loans to whites increased by 11 percent and 9.1 percent in the Inner and Outer Rings, respectively. Lending between 1994 and 1995 saw more modest increases and some declines within each racial group; larger increases again in 1996, and declines in 1997 in loans to African-American borrowers (10.3 percent decline in loans to black borrowers in the Outer Ring, with modest increase of 4.4 percent in the Inner Ring) and Hispanic borrowers (20.8 percent decline in the Inner Ring, 8.9 percent decline in the Outer Ring), while loans to white borrowers increased modestly, by nearly 6 percent, both in the Inner and Outer Rings (Campen, 1998, numbers extrapolated from Table 18-A and 18-B).

The share of total home purchase loans going to low- and moderate-income households in the City of Boston increased between 1990 and 1997, though figures in both categories declined between 1995 and 1997 from their highest levels in 1994. Thus, lending to low-income households as a percentage of all home purchase loans in Boston increased from 2.8 percent in 1990 to 11.6 percent in 1995, but then dropped somewhat to 10.8 percent in 1996 and 10.1 percent in 1997. Likewise, lending to low- and moderate-income households combined increased from 22.4 percent in 1990, to a peak of 40.6 percent in 1993, with the percentage of loans to low- and moderate-income households gradually declining thereafter, reaching 34.7 percent in 1997 (Campen, 1998, Table 3). Lending to low- and moderate-income households in the Inner and Outer Rings followed a similar pattern (Campen, 1998, Tables 23-A and 23-B).

Data on home purchase loan denial rates by race in the City of Boston showed dramatic progress between 1990 and 1997. The denial rate for African-American loan applicants was 32.7 percent in 1990; that rate decreased to 17.5 percent in 1993, with continued decreases until the 1995 low of 15.8 percent. While the African-American denial rate showed increases in 1996 (to 18.3 percent) and 1997 (to 19.5 percent), the denial rate remained dramatically below its 1990 level, and below the 1997 national denial rate of 53 percent. Nonetheless, the denial rate for blacks in Boston when grouped by income category was well above that of white applicants in every income category (Campen, 1998, p.4, Table 5, Chart 5).

Analysis of the relative share of City of Boston home purchase loans by race found that since 1990, blacks and Hispanics have claimed a smaller share of home purchase loans than their percentage representation among Boston households. However, African-American and Hispanic borrowers' relative share of home purchase loans rose, and white borrowers' share fell between 1990 and 1996; but by 1997, the African-American share of loans had fallen below its 1990 level (14.7 percent as compared to 16.2 percent), and white borrowers had regained their 1990 share (71.6 percent as compared to 71.5 percent). Campen also found that lower-income neighborhoods with a high concentration of black and Hispanic residents received only about three-quarters of their proportionate share of the city's home purchase loans measured by mortgageable housing units (Campen, 1998, p.4, Table 6, Chart 6, and Map).

Finally, Campen also assessed lending under three "targeted" lending programs negotiated between banks and community groups in Boston, finding that lending under these programs comprised a substantial portion of the total home purchase lending in the City of Boston. Of the total home purchase loans made to minority borrowers in the City of Boston in 1993, 12.9 percent were made under the three studied negotiated loan programs; 18 percent in 1994, 38 percent in 1995, 27 percent in 1996, and 27 percent in 1997. Of the total home purchase loans made to low- and moderate-income borrowers in the City of Boston, 13 percent were made under the three negotiated loan programs in 1993, 17 percent in 1994, 29 percent in 1995, 29 percent in 1996, and 28 percent in 1997 (extrapolated from Campen, 1998, Table 13 data).

Studies of changes in home purchase mortgage lending to low- and moderate-income and minority households and neighborhoods in other metropolitan areas (none of which isolate central city lending from other lending within the MSA) show similar trends as the nationwide and Boston data.

b. New York City and other Metropolitan Areas

Another recent study examined CRA impact in the New York City metropolitan area by examining relative market share of home purchase mortgage loan originations among five CRA-target communities between 1991 and 1998. Marsico found that the market share of conventional home mortgage loans made to black, Hispanic, and low- and moderate-income applicants, and in minority neighborhoods, increased between 1991 and 1997, with the strongest gains between 1993 and 1995, and the largest increases in market share of loans in predominantly minority neighborhoods and to Hispanic borrowers. The market share of loans held by predominantly minority neighborhoods grew by 37.8 percent, from 7.4 percent in 1991 to 10.2 percent in 1997. The market share of loans held by Hispanic borrowers increased 38.2 percent from 1991 to 1997, from 5.5 percent to 7.6 percent. The market share of loans held by black borrowers and low- and moderate-income persons grew at lower rates, 10.8 percent and 17.4 percent, respectively. Only the market share of loans in low- and moderate-income neighborhoods declined during the period, by 22.5 percent, from 10.2 percent in 1991 to 7.9 percent in 1997.

Marsico suggests that low- and moderate-income communities did not reflect the growth in market share of loans during the period because the increased availability of credit opened previously unaffordable housing markets, in higher income neighborhoods, for members of these subject communities. He found empirical support for this theory in the fact that the strongest growth in market share of loans from 1991 to 1997 was in middle- and upper-income predominantly minority neighborhoods, which increased by 167 percent and 222 percent, respectively, as compared with a growth of 20 percent in low- and moderate-income predominantly minority neighborhoods, and a growth of 37.8 percent in all predominantly minority neighborhoods during the period (pp.497-498).

Marsico also documents a general decline in market shares of applications and loans in the subject communities in 1996 and 1997, suggesting that lenders may have satisfied the accumulated demand for loans in these communities between 1992 and 1995, "after which demand returned to a more normal level" (p.497).

In a study of home mortgage lending in Denver, Ford and Carver (1996) found that the largest Denver banks had doubled, and in some cases tripled, the home mortgage dollars loaned to African-Americans between 1991 and 1994. During the same period, the African-American mortgage loan rejection rate dropped from its previous rate of nearly three times higher than the rate for whites, to 1.7 times greater. Looking at changes in conventional home purchase lending between 1990 and 1995 in six cities (Boston, Wilmington, Raleigh-Durham, Buffalo, Richmond, and Tallahassee), Shlay (1999) found that lending to low-income borrowers, in low-income census tracts, and to black borrowers were either comparable to or exceeded overall market trends.

4. Corollary Trends

In addition to significant increases in the extent of home purchase lending to low-income and minority households and neighborhoods during at least the first half of the 1990s, several corollary trends in residential lending patterns have been identified over the same time period.

a. Increased Segregation

An analysis of residential lending in Chicago by the Woodstock Institute in 1999 found that while homeownership among African-Americans increased significantly during the 1990s, more black homebuyers are moving into segregated, all-black neighborhoods than at the beginning of the decade, with the effect that black homebuying has become more highly segregated (Immergluck, 1999). Immergluck suggests that the statistics on increased African-American homebuying since the early 1990s are indications of the success of the CRA and other federal policies focused on increasing access to credit for home buyers and overcoming other obstacles related to African-American homeownership, but that a complementary strategy of intervention in the home selling markets designed to provide African-American homebuyers with access to a broader variety of neighborhoods is now required.

b. Concentration Effects

Examining a subset of data from the Boston Federal Reserve Bank's 1992 study of lending discrimination in Boston, Schill and Wachter (1994) found evidence consistent with their hypothesis that the CRA may create incentives that cause the concentration of low-income homebuyers in low-income neighborhoods and of minority homebuyers in minority neighborhoods.[12] For example, they found that an average low-income person applying for a loan in a predominantly nonpoor neighborhood was almost three times more likely to be rejected than if he or she had applied in a neighborhood predominantly composed of poor residents; and that nonpoor households that were otherwise similar to poor households had a higher probability of being rejected in low-income neighborhoods (Schill and Wachter, 1995). Likewise, Schill and Wachter found that a black person's loan application is more likely to be accepted if he or she is applying for a loan in a neighborhood with a higher proportion of black residents; and that low- and moderate-income applicants are more likely to be accepted in neighborhoods with higher proportions of black households (Schill and Wachter, 1994). Thus, Schill and Wachter postulate that federal policies that seek to target spatially the flow of home finance capital may have the unintended consequence of intensifying the spatial concentration of poverty (Schill and Wachter, 1994, p.225; Schill and Wachter, 1995, p.453). Further, Schill and Wachter suggest that the CRA could have the unintended effect of increasing disinvestment, to the extent that financial institutions are encouraged to take undue risks in accepting the loan applications of poor and minority households in predominantly poor and minority neighborhoods, and these households ultimately default on their loans (Schill and Wachter, 1995, p.453).

Galster (1995) challenges Schill and Wachter's conclusions on several grounds. With respect to the CRA's unintended effects, Galster argues that Schill and Wachter provide no evidence that the CRA has fomented concentrated defaults and neighborhood blight. To the contrary, he argues, CRA loans have been found to be no riskier than standard loans, and evidence indicates that the CRA may provide the impetus for lenders to overcome the variety of biases, information shortcomings and market failures that have been responsible for past shortcomings in lending in these areas. Second, Galster argues that the loan concentration effects that Schill and Wachter find cannot be traced convincingly to the CRA, inasmuch as the Boston data on which their conclusions are based predate intensified CRA enforcement, and in fact were used to demonstrate in the Boston Federal Reserve Bank study that equally qualified minorities were denied for mortgage applications at a rate 60 percent higher than whites.

5. Interest Rate Issues: Government-Backed Mortgage Lending and the Subprime Mortgage Market

The extent of a banking institution's provision of conventional mortgage loans to low-income or minority borrowers is generally viewed as a barometer of the institution's reinvestment commitment because conventional, or market-rate, lending represents greater risk than government-backed mortgages that carry with them governmental insurance (FHA loans) or guarantee (VA loans) (Schwartz, 1998a, p.283). In addition, while government-backed mortgages have lower downpayment requirements that may make them more accessible in the short-run for low-income households, they can be more costly in the long-run. FHA loans, for example, carry a 3.8 percent mortgage insurance premium that makes them more expensive than conventional loans with loan to value ratios above 80 percent, which typically require less expensive private mortgage insurance, or with loan to value ratios below 80 percent that generally do not generally require any mortgage insurance at all (Megbolugbe, 1993, p.198).

The 1990 data indicate that government-backed home purchase lending was almost evenly divided between central city and noncentral city areas. In contrast, the ratio of noncentral city to central city conventional home purchase loan originations was about 1.75 to 1. This disparity is generally attributed to the relatively high house prices paid by middle- to higher-income homebuyers, coupled with restrictions on the maximum loan amounts backed by FHA insurance or VA guarantees, which together serve to reduce the applicability of government-backed lending in many suburban areas (Canner and Gabriel, 1992, p.254).

Further, the data reveal that even after controlling for differences in applicant income, African-American borrowers rely on FHA and VA loans to a much greater extent than do white borrowers. For example, in 1990, 65 percent of low-income black borrowers used government-backed loans to purchase their homes, whereas only 41 percent of white borrowers relied on these types of loans. Also, although virtually the same proportions of central city and noncentral city low-income black borrowers relied on government-backed loans in 1990 (65 percent in both cases), a higher proportion of low-income white in central cities (49

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[12] See Alicia H. Munnell, Lynn E. Browne, James McEneaney and Geoffrey M.B. Tootell, "Mortgage Lending in Boston: Interpreting HMDA Data." Federal Reserve Bank of Boston Working Paper 92-7 (1992).

percent) used these types of loans than did whites with similar incomes in the suburbs (35 percent). Suggested reasons for this persistent racial differential in mortgage loan utilization were loan product recommendations by real estate agents, self-steering by the loan applicants, differences in marketing efforts by lenders, or lender racial bias (Canner and Gabriel, 1992, p.264).

Another interest rate issue that has claimed increasing attention among community reinvestment advocates and banking regulators alike has been subprime lending. Subprime lending typically refers to lending at above-market interest rates and carrying higher fees, normally offered to high-risk borrowers who do not meet standard underwriting criteria. The subprime market has experienced dramatic growth over the last decade, and research indicates that the subprime market includes a significantly higher percentage of minority, particularly African-American borrowers; a significantly higher percentage of low-income borrowers; and a higher share of borrowers living in underserved areas (Immergluck and Wiles, 1999; Cassidy and Englestad, 1998; NCRC, 1998). At the same time, there has been a dramatic increase in reported cases of "predatory" mortgage lending practices, which may include charging excessive fees and interest rates; fraudulent, high-pressure, or misleading marketing; and "flipping," or overly frequent refinancing with repeated fees being rolled into the loan, resulting in increased debt and reduced owner's equity (Immergluck and Wiles, 1999, p.1). Immergluck and Wiles suggest that while minority and lower-income homebuying increased substantially in the 1990s, the simultaneous growth in predatory lending practices by independent mortgage and finance companies that predominate in low-income and minority neighborhoods threatens to reverse the impact of these gains.

Immergluck and Wiles suggest that CRA examination criteria may tend to support predatory lending in several ways. Because pricing and terms are rarely examined in the CRA context, high-cost and even predatory loans may receive as much credit as conventional lending. And because predatory lenders may concentrate in lower-income communities, they may be receiving high marks under the lending test. Likewise, purchases of predatory loans, or CRA targeted mortgage-backed securities that include predatory loans, may receive CRA credit.

At the same time, banking regulators suggest that properly administered risk-based pricing can broaden the market and improve homeownership opportunities, bringing mainstream lenders into lower tiers of the credit market that until now have had to rely on very high-priced, often predatory, alternative institutions (Seidman, 1999).

6. Multifamily Lending

Multifamily lending refers to loans made for the purchase, improvement, or refinancing of buildings with five or more units, and thus generally signifies rental housing. Nationwide, the proportion of multifamily loans is higher in central cities than in noncentral city areas, partly reflecting the higher proportion of multifamily and rental houses in central city locations (Canner and Passmore, 1994).

One study of multifamily housing lending in the Chicago area by the Woodstock Institute indicates that lending in this market almost tripled between the periods of 1983-1985 and 1991 -1993, from an average of 361 loans averaging $53 million per year in the early period, to an average of 992 loans representing $240 million per year in the later period (Goldwater and Bush, 1996). Analysis of the change in multifamily lending by neighborhoods showed dollar value increases in lending of more than 200 percent in 25 of Chicago's 45 low- and moderate-income neighborhoods, more than 500 percent in eight neighborhoods, and more than 1,000 percent in three neighborhoods.

Goldwater and Bush attribute this increase in multifamily lending primarily to CRA lending mandates, as well as declining real wages that increased demand for rental housing, community development corporation projects that spurred private development, and other financial inputs including low-income housing tax credits, community development block grants and HOME program low-interest second mortgage loans, Federal Home Loan Bank Affordable Housing Program loans, and various other state and local incentive programs.

7. Refinancing

HMDA data on refinancing loans reveal a significant disparity in refinancing rates among African-American and other minority borrowers as compared to white borrowers which one study attributes to poor marketing to borrowers (Healy et al., 1996; Grimes et al., 1995). Healy, Ortiz, and Immergluck found that in both 1992 and 1993, as interest rates dropped to their lowest levels in decades, African-Americans in Chicago showed much lower rates of refinancing relative to their levels of homeownership (9 percent and 11 percent of refinancing loans, respectively, while comprising 29 percent of homeowners) than did white homeowners (69 percent of refinancing loans in 1993, and representing 58.7 percent of homeowners) (pp.19-20). Further, comparing refinancing rates in communities with virtually the same median household income, Healy et al. found that the lowest rates of refinancing in 1992 and 1993 were in those moderate-income communities that were predominantly African-American. Similar disparities appeared for loan refinancing applications. In 1992 and 1993, African-Americans applied for 11 percent and 13 percent of refinancing loans, respectively, while white applicants comprised 67 percent and 61 percent of refinancing applications during the same two years.

Healy et al. found that when interest rates began to rise in 1994, the percentage of refinancing loans made to African-Americans rose dramatically (28 percent of all refinancing loans, as compared with 49 percent of all refinancing loans made to whites), even though the tide of refinancing loans was stemmed. The authors conclude that the disparities in refinancing are largely a result of poor marketing to minorities, with the 1994 rise reflecting more aggressive efforts by banks and mortgage companies to maintain a stake in the refinancing market as rates began to rise. Healy et al. suggest that while a lower rate of refinancing loans to low-income and African-American borrowers are often attributed to factors such as a decline in economic security, inability to gather closing costs for refinancing, or a decrease in home value causing a greater loan-to-value (LTV) ratio, these factors cannot explain the rise in 1994.

A Federal Reserve Bank of Chicago report on refinancing in 1993 found similar racial disparities. Grimes, Woos, and Essig found that the rate of refinancing applications by census tract in Chicago decreased one percentage point for every 10 percent increase in African-American population, though the authors of the report suggest that the higher percentage of FHA/VA loans that go to African-Americans, rather than race, per se, was the cause.

8. Mortgage Banks as Compared to Depository Institutions

Comparisons between depository institution and independent mortgage company lending patterns have been used as an indicator of the influence of the CRA since independent mortgage companies are not covered by the CRA and have no comparable community lending obligation, but have since 1993 reported their residential lending under HMDA. Such comparisons have yielded mixed results, and some commentators suggest that the comparison may have limited utility. In the first place, the comparison cannot address the question of whether the low-income and minority lending rates of CRA-covered depository institutions would have been significantly worse in the absence of CRA, given the trend in banking towards noninterest earnings, or income earned through fees rather than through loan interest, and the incentives that creates to move towards more affluent markets (Immergluck, 1999c). Further, comparisons of lending volumes provide no indication of the extent to which the loans being made are FHA or conventional, or may be subprime loans, which predominate among independent mortgage lenders.

The Federal Reserve reported that in 1992, depository institutions directed a greater share of their total lending to low- and moderate-income borrowers than independent mortgage company lenders, with depository institutions extending 20 percent of their conventional home purchase loans to low-income households, while independent mortgage lenders extended 15 percent of their conventional loans to low-income households (Canner and Passmore, 1994). However, Canner and Passmore also found that depository institutions provided a smaller proportion of home purchase and refinancing loans to minorities than independent mortgage companies, though the difference was attributed in part to a greater proportion of loans to “joint” borrowers and to Asian borrowers, on account of more loans originated in California, which has a large Asian population. Evanoff and Segal (1996) found no significant differences in lending rates between depository institutions and independent mortgage lenders, and that disparities in denial rates between minority and nonminority applicants declined over time for both sets of institutions (p.36). And Gunther et al. (1999) found that the portfolio share of lending to low-income neighborhoods and borrowers by lenders not covered by the CRA increased more between 1993 and 1997 than the portfolio share of such lending by CRA-covered lenders.

A comparison of mortgage bank and commercial bank lending in Boston in 1997 revealed more pronounced disparities between mortgage bank and commercial bank lending to traditionally underserved borrowers. In 1997, mortgage companies made 54.2 percent of all home purchase loans in Boston, 36.6 percent of all the loans made to African-Americans, 31 percent of the loans to Hispanics, and 26.7 percent of the loans to low-income borrowers. In contrast, the biggest Boston banks made just 25.1 percent of total home purchase loans, but accounted for 52.6 percent of the loans to African-American borrowers, 54.2 percent of the loans to Hispanic borrowers, and 55.7 percent of the loans to low-income borrowers (Campen, 1998). Looking at the share of total loans made to low- and moderate-income and minority borrowers by big Boston banks as compared to all other banks and credit unions, and as compared to mortgage companies, Campen found that African-American borrowers received 29.4 percent of the loans made by the big Boston banks, 9.5 percent of those made by mortgage companies, and 7.3 percent of those made by all other banks. Hispanic borrowers received 12.1 percent of the loans made by big banks, 3.2 percent of mortgage companies loans, and 4.0 percent of other bank loans. Low-income borrowers obtained 21.9 percent of big banks loans, 4.8 percent of mortgage company loans, and 8.3 percent of loans from all other banks. Low- and moderate-income census tracts that had over 75 percent black and Hispanic residents received 15.9 percent of the loans by the big Boston banks, but only 7.2 percent of the loans made by mortgage companies and 4.4 percent of the loans made by other banks.

The simultaneous trend in mortgage company lending, which has raised concerns about the declining influence of the CRA, is that mortgage companies are claiming an increasing percentage of the home purchase lending market. Campen (1998) found that the largest Boston banks and their affiliated mortgage companies made one-quarter of all Boston home-purchase loans in 1997, their lowest loan share of the decade (as compared with their peak level of 43.6 percent in 1995, and lower than their 28.9 percent share in 1990), while independent mortgage companies for the first time accounted for more than one-half of all loans (up from 43.4 percent one year earlier, and 23.5 percent in 1990). (Campen, 1998, p.5, Table 7). Nationwide, the Federal Reserve reports that independent mortgage lenders extended about one-third of the home purchase loans in metropolitan areas in 1998. (Avery, Bostic, Calem, and Canner, 1999, p.82 n.6).

B. Small Business Lending[13]

Expanded reporting of data on small business lending since 1993 has resulted in a good deal of attention to the subject in recent years. Under the revised CRA regulations, large depository institutions (having assets over $250 million or owned by a bank holding company with more than $1 billion in assets) are required to report to their banking regulator by March 1 of each year aggregate data on small business loans for each census tract or block numbering area, known as a "geography," in which the bank originated or purchased a small business loan during the year. The reported data includes the aggregate number and amount of loans in each of three loan size categories ($100,000 or less, $100,000 to $250,000, and $250,000 through $1 million), and the aggregate number and amount of loans made to businesses with gross annual revenues of $1 million or less. Information on business ownership characteristics comparable to that required by HMDA on the race, gender, and income of loan applicants is not required.

In addition, since 1993, all insured depository institutions have been required to report the outstanding amount of small business loans in their Reports of Condition and Income filed with their federal banking regulators in June of each year (Board of Governors, 1997). In these "call reports," banks report small business loans in two classes (commercial and industrial loans and commercial real estate loans) and in the same three size categories as CRA reporting (Peek and Rosengren, 1998). Call reports, however, provide no geographic information.

In general, "small business lending" thus refers to loans of $1 million or less, being defined by the size of the loan rather than the size of the borrower. While this approach has been criticized, this loan amount threshold is generally accepted as a fair proxy for identification of small businesses on the rationale that in practice, most loans under $1 million are loans to small businesses (Peek and Rosengren, 1998, p.28; Immergluck and Mullen, 1998; Board of Governors, 1997, p.16). Alternatively, the

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[13] The impact of merger and consolidation activity on small business lending patterns is considered separately in Part IV.

class of businesses with $1 million or less in gross revenues, also identified in CRA disclosures, is also used to represent small business lending.[14]

In the first year of CRA small business loan data reporting under the revised regulations, 2,078 institutions (1,564 commercial banks and 514 savings institutions) constituting 18 percent of all U.S. commercial banks and savings institutions, were subject to the requirements. These institutions accounted for approximately two-thirds of both the number (64.6 percent) and dollar volume (65.9 percent) of small business lending (FFIEC,1998; Bostic and Canner, 1998, pp.7, 11). Approximately 97 percent of the reported small business loans were originated by commercial banks or their affiliates, reflecting the fact that commercial banks are the predominant source of credit for small businesses (Bostic and Canner, 1998, p.8). Reflecting the lack of a well-developed secondary market for small business loans, most reported small business loans were originations; only about 2 percent were reported as purchases from another institution.

From 1996 to1997, the number of small business loans increased from 2.4 million to 2.6 million, totaling $150 billion in 1996, and $159 billion in 1997. During the same period, the proportion of small business loan dollars in low- and moderate-income areas remained virtually the same (20.6 percent), while the percentage of reported small business loans extended to firms with revenues of $1 million or less decreased from 56 percent of total loans in 1996 to 50 percent of total loans in 1997, but increased to 58.1 percent in 1998 (Bostic and Canner, 1998, p.11; FFIEC, 1999). The number of reporting institutions decreased by about 10 percent during the same year (to 1,421 commercial banks and 475 savings associations).

1. Spatial Distribution

CRA data from 1996 and 1997 indicate that small business loans are concentrated in central city and suburban areas (about 81 percent of all small business loans), as are the bulk of the U.S. population and businesses. With numbers that are fairly consistent from 1996 to 1997, approximately 40 percent of the number of small business loans, 43 percent of the dollar amount of small business loans, 41 percent of the businesses, and 37 percent of the population were in central cities, while suburbs represented 41 percent of the loans, 41 percent of the dollar amount, 41 percent of the businesses, and 43 percent of the population (Bostic and Canner, 1998). The data also indicate that most of the small business loans made in lower-income areas were for businesses in central city census tracts: approximately 91 percent of all small business loans made in low-income areas were in central cities, 7 percent in suburbs and 2 percent in rural areas. The higher-income area small business loans were more prevalent in suburban areas, which had 47 percent of all upper-income small business loans percent were in suburban areas, while 40 percent were in central cities, and 13 percent in rural areas (FFIEC, 1998, percentages extrapolated from Table 4-1).

Small business lending data reveal that small business loans have generally followed the distribution of population and businesses. Federal Reserve analysis of the nationwide geographic distribution of small business lending across census tracts grouped by neighborhood income indicates that in 1996, low-income areas represented about 4.9 percent of the population and 5.6 percent of the businesses, and received 4.7 percent of the number and 5.6 percent of the total dollar amount of new or purchased small business loans at CRA reporting institutions. In comparison, moderate-income areas represented 18.8 percent of the businesses, 18.5 percent of the population, 15.9 percent of the number of small business loans, and 16 percent of the dollar amount of small business loans. The total amount of lending to middle- and upper-income neighborhoods taken together only slightly exceeded their share of the population and businesses (Bostic and Canner, 1998, p.13).

However, nationwide loan-per-business rates extrapolated from the same data show rates that are substantially higher in middle- and upper-income neighborhoods than in low- and moderate-income neighborhoods. Thus, the CRA data indicate that CRA-reporting depository institutions made 24.9 loans per 100 businesses in low-income census tracts, as compared with 34.2

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[14] The Small Business Administration (SBA) defines a small business as one that has under 500 employees. Of businesses with under 500 employees, 84 percent also have $1 million or less in revenues, so that some commentators treat this $1 million benchmark as a fair proxy for measuring loans to small businesses (Bostic and Canner, 1998). On the other hand, Thomas argues that the use of loan size was a major policy setback in the CRA regulation (Thomas, 1998, pp.214-16). He asserts that there is not a consistently reliable relationship between loan size and size of business, and that the one revenue indicator of $1 million or less is too large to have any realistic relationship to a small business or farm. He suggests three categories of alternative benchmarks: under $100,000 in revenue as a small business, $100,000- $1 million as a medium-sized business, and $1 million or more as a large business.

loans per 100 businesses in upper-income tracts, yielding a loan-per-business rate that was 37 percent higher in upper-income areas than in low-income ones. The middle-income lending rate was 18 percent higher than in moderate-income tracts (Immergluck, 1998).

The distribution of small business lending in the Chicago area by neighborhood income level in 1996 mirrored the nationwide pattern. Immergluck and Mullen (1998a) found that the number of loans per 100 businesses in the Chicago area was 16.6 in low-income areas, 18.4 in low- and moderate income areas combined, 21.8 in middle-income areas, and 23.1 in upper-income areas. Thus, upper-income tracts received 39 percent more loans per business than low-income tracts. If analysis is limited to firms with annual revenues of $1 million or less, the differentials are greater, with upper-income tracts receiving 67 percent more loans per business than low-income tracts (16.2 loans per business in upper-income tracts as compared with 10.8 loans per business in low-income tracts). Even when businesses with fewer than five employees are excluded, loans per business rates are 30 percent lower in lower-income communities (63 loans per business in upper income neighborhoods as compared to 44 loans per business in lower-income neighborhoods). When these lending rates are mapped by census tract across the Chicago area, the lowest lending rates are generally concentrated in the city, with the highest loan per business concentrations in the outlying areas of the six-county area.

Similarly, Squires and O'Connor (1999) found in their study of small business lending in the Milwaukee metropolitan area that the number of loans per 100 businesses was 20 in low-income areas, 20 in moderate-income areas, 34 in middle-income areas, and 37 in upper-income areas, so that upper-income tracts received 85 percent more loans per business than either low- or moderate-income tracts (Table 4).

CRA data on the distribution of small business loans by neighborhood racial composition suggest that predominantly minority neighborhoods receive a somewhat smaller share of the business loans and loan dollars than might be expected based solely on the distribution of the number of businesses and population across areas (Canner, 1999). Likewise, Squires and O'Connor (1999) found that in Milwaukee, both small business lending and lending to firms with revenues under $1 million are concentrated in white communities, with approximately 90 percent of loans and loan dollars going to firms in these areas, approximately two percent of loans and loan dollars going to businesses in predominantly black neighborhoods, and less than one percent to businesses in Hispanic areas. They also found that the number of loans and loan dollars per 1,000 persons decreased as the proportion of non-whites in the population increased. For example, Squires and O'Connor found that the number of loans per 1,000 persons varied from a high of 13 in neighborhoods where the population was at least 90 percent white to a low of 2 in neighborhoods where the population was more than 70 percent black. Loans per 1,000 persons also varied from 11 in areas that were less than five percent Hispanic to four in areas that were more than 25 percent Hispanic. Lending activity per business by racial composition could not be calculated because data on small business are not available at the census tract level.

2. *Minority-Owned Small Businesses*

While research based on CRA data can examine the geographic distribution of small business lending across lower-income and minority neighborhoods, other data sources have been used to assess access to credit for minority-owned small businesses in particular, which is a critical issue for neighborhood economic development efforts in lower-income and minority communities. One of these sources is the 1993 National Survey of Small Business Finances (NSSBF), a survey conducted for the Board of Governors of the Federal Reserve System and the U.S. Small Business Administration. The NSSBF surveyed over 4,600 small businesses (defined to include businesses with fewer than 500 employees) and includes some information about the firm's primary owner, such as personal demographics, management experience, and credit history, which makes it possible to assess the role of owner characteristics in loan approval decisions. In addition, the NSSBF details demographic and financial data on the business itself, such as the firm's location, primary industry, organizational form, and its recent financial relationships with a variety of depository institutions, which makes it possible to control for a number of other firm characteristics (Lang, 1999).

Several papers presented last year at a Federal Reserve conference on business access to capital and credit (Blanton, Williams, and Rhine, 1999) used the NSSBF data to compare lending to black- or Hispanic-owned small businesses to lending to white-owned small businesses, and found that black-owned firms are up to two-and-a-half times as likely as white-owned firms to

be denied for loans; and that large disparities remained even after controlling for differences in credit histories and a variety of firm and owner characteristics (Blanchflower et al., 1999; Bostic and Lampani, 1999; Cavalluzzo et al., 1999). Blanchflower et al. also found disparities in lending to Hispanic-owned businesses, that minority-owned firms receive smaller loan amounts than white-owned firms, and that black-owned firms pay higher interest rates.[15] While these results appear to confirm disparities found in earlier studies (Bates, 1999, p.270), the recent literature has not examined the extent to which these disparities may have changed over the course of the 1990s.

Blanchflower et al. found that black-owned firms are more than twice as likely to have a loan application rejected relative to white-owned firms (65.9 percent denial rate for black-owned firms as compared to 26.9 percent for white-owned firms). Hispanic business owners were also more likely than white applicants to have their loan application rejected (39 percent denial rate) (pp.8-9, Table 1). Even after controlling for a number of differences related to creditworthiness, such as the firm having been bankrupt or had legal judgments against the firm or owner, black-owned firms remained 28 percent more likely to have their loan request denied compared to white-owned firms; and 25 percent more likely to be denied after controlling for a variety of other factors such as firm size and age, organizational type, educational qualifications of owner, whether or not it had any business lines of credit or revolving credit agreements in 1993, firm location, and industry (Blanchflower et al, 1998, p.12). The researchers also concluded that black-owned firms pay rates of interest that are approximately one percentage point higher than white-owned firms after controlling for differences in creditworthiness, even for black-owned firms with good credit histories, with little evidence that interest rate differentials charged to black-owned firms differed between proprietorships/partnerships, older and younger firms, bigger and smaller firms, and industry (pp.20-21).

Other researchers have also found disparities in loan approval rates for minority-owned businesses. Cavalluzzo et al. (1999) found that black-owned firms were over two-and-a-half times as likely to have been denied credit within the last three years, and almost three times as likely to have been denied credit on their most recent loan request than were businesses owned by white males, and that substantial differences remained even after controlling for a large number of firm and owner characteristics (p.189). Bostic and Lampani (1999) found that 52 percent of loan applications from black-owned firms were approved, as compared to 83 percent of loan applications from white-owned firms, and 83 percent of loan applications from Hispanic-owned firms. Adding variables measuring racial composition of the local neighborhood and variables representing the economic characteristics of the local geography reduces the disparity, but does not eliminate it. Differences between Asian-owned and or Hispanic-owned and white-owned firms remained statistically insignificant. Bostic and Lampani suggest that factors related to local geography may account for some, although not all, of the observed differences in outcomes; although Bates (1999) argues that differences based on local geography should already be reflected in other variables relating to firm profits.

For several reasons, the results of these studies are likely to understate the constraints on minority access to business credit. Bates (1999) points out that the NSSBF data focus on loan accessibility for older, more established small firms. According to Census Bureau data, the median age of NSSBF firms was 14.3 years, while the median age for all minority-owned firms is five to six years (five for Asian and Hispanics, six years for blacks). Consequently, an appropriate data base for examining minority small business credit access would have to focus on younger firms, in operation for less than five years. Many black- and other minority-owned firms that are most vulnerable to loan access difficulties were "dead and gone before they were sufficiently mature to be likely candidates for inclusion in the NSSBF data base" (Bates, 1999, p.273). Another reason that NSSBF data may understate disparities is suggested by evidence that black- and Hispanic-owned firms may avoid applying for bank credit in the first instance because of fear of being denied (Cavalluzzo et al., 1999; Blanchflower et al., 1998).

Furthermore, constraints on access to start-up financing may be a critical reason why minority-owned firms do not have the longevity of white-owned businesses, based on research that has found a relationship between levels of initial capitalization and long-term success (Bates, 1999; Huck et al., 1999). Bates (1997) found that blacks are less likely than whites to receive start-up

[15] As in the residential lending context, researchers disagree about the extent to which these disparities signify discrimination in the lending process or the extent to which discrimination can be proven with the available data. While acknowledging that none of the studies alone can be conclusive on the issue, Bates argues that it becomes difficult *not* to infer discrimination "when a variety of studies conducted in different years, based upon different data bases, employing various methodologies, all produce consistent empirical evidence of Black loan applicant disadvantage" (Bates, 1999, p.271).

business financing from banks (17 percent as compared to 22.7 percent of white-owned firms), and that those who do obtain bank loans receive smaller loan amounts, on average, than white borrowers. Blacks are consequently more likely to use other forms of consumer credit, such as credit cards or home equity loans, to finance their businesses (29.6 percent of black borrowers as compared to 18.4 percent of white borrowers), which also result in smaller average loan sizes ($20,776 for black borrowers, and $33,060 for white borrowers) (p.491).

Black-owned businesses, on average, begin operations with less than half the capitalization of white-owned firms, with the gap being even wider in capital-intensive industries, such as manufacturing and wholesaling. Among young firms nationwide in 1987 in these fields, average startup capitalization (debt and equity) was $37,571 and $92,935, respectively, for black- and white-owned businesses. Corresponding means for leverage (debt divided by equity) were 0.96 and 1.41 respectively (Bates, 1999). In addition, those firms that do receive bank loans receive smaller loans, on average, than white borrowers, controlling for borrower demographic traits, borrower human capital such as college education, firm traits, borrower equity investment in the firm, and other factors (Bates, 1997, p.487; Bates, 1999, p.271). Bates finds that low startup capitalization results in "stunted firms in fields like manufacturing, and the predictable consequence is higher rates of business closure for Black owners, relative to Whites" (1999, p.272-273).

Blanchflower et al. (1999) conclude that disparities in small business loan approval rates are even greater than in home mortgage loan approval rates. They suggest that one reason is that secondary market requirements, and the fact that lenders will likely be selling the mortgage loans, provides added "distance" in the transaction that might reduce the likelihood of discrimination (p.28). Blanchflower et al. point out that a comparable secondary market for small business loans does not exist.

3. *Growth in Small Business Lending by Large Banks and the Use of Credit Scoring Technologies*

While small business lending has traditionally represented a substantially greater proportion of assets for small banks than large banks, evidence indicates that large banks began to do more small business lending during the latter half of the 1990s, particularly in the smallest loan size category (Peek and Rosengren, 1998; Feldman, 1997). For example, the Federal Reserve Bank of Minneapolis found that small business loans under $100,000 made by banks with assets over $5 billion increased by 16 percent between June 1995 and June 1996, as compared to an increase of 4 percent in the previous year (Feldman, 1997).

This growth has been attributed to several factors. In part, it has been attributed not to a net increase in the number of small business loans, but to a shift in distribution among institutions as a result of consolidation activity. Thus, some of this growth reflects mergers of small or mid-sized banks resulting in the creation of a large-size bank that includes the combined small business loan portfolios of the smaller banks; or the acquisition of small banks, including their small business loan portfolios, by large-size banks. In addition, increases in loan-to-one borrower limitations may accompany mergers of small institutions, permitting larger loans to particular small business customers (Board of Governors, 1997).

Several commentators suggest, however, that the numbers also reflect real growth in small business lending by large institutions and are attributable to the use of credit-scoring technologies previously used in consumer and mortgage lending, which are particularly adaptable to loans in the smallest size category. By substituting analysis of the net worth and economic characteristics of the business owner for the more time-consuming underwriting based on analysis of balance sheets, income statement, underlying collateral, and other indicia of the prospects of the business itself, credit scoring is making the small business lending market more accessible for larger banks that may not have a local presence (Peek and Rosengren, 1998). Additionally, it is thought that the increased standardization provided by credit scoring, with its potential for evaluation of risk of pools of small business loans, increases the potential for securitization of small business loans, which will further contribute to making small business lending more attractive for large institutions (Board of Governors, 1997). In fact, large banks have begun to use credit scoring not only to approve loans, but to select potential small business and market to them through the mail (Immergluck and Mullen, 1998a, pp.14-15). And recent research examining small business lending in 1997 found that banks that credit scored small

business loans generally originated a larger proportion of their loans in low-income areas than banks that did not credit score. (Padhi et al., 1999).

However, while the data indicate a net increase in small business lending over the 1990s, some commentators suggest that the increased use of credit scoring nonetheless raises concerns about its impact on small business credit. First, will the expanded use of credit scoring result in large banks "skimming off" the most profitable business opportunities, leaving smaller and local banks with riskier portfolios, or will it create new demand for bank loans by small firms (Immergluck and Mullen, 1998b; Feldman, 1997; Board of Governors, 1997). Some research has found that large banks do not appear to "cherry pick" the market by only offering loans to larger, higher quality small businesses; but that the smallest small businesses do appear to have access to capital, especially line of credit loans, from large banks than other small business borrowers. (Haynes et al., 1999). Second, there is some evidence that credit scoring may have a differential impact on minority-owned businesses. While on the one hand it may reduce the opportunity for discrimination in the lending decision by substituting objective criteria, the focus on personal wealth and credit history could have a disparate impact on minorities (Ladd, 1998).

Other factors cited as contributing to increased small business lending other than the use of credit scoring technologies have been increased use of small business credit cards, increased origination and sale of SBA and other guaranteed loans, and development of CRA-inspired investment programs, including consortium lending corporations, small business investment companies, SBA 504 development companies, and community-based micro-enterprise loan funds (Board of Governors, 1997).

4. Credit Card Lending

A growing portion of small business lending is represented by business credit cards, which are included in the small business lending data reported under the CRA. The twelve credit card banks that reported some amount of small business lending in 1996 accounted for 30 percent of the total number of small business loans reported for the year nationwide, though only 2.9 percent of the dollar volume of such loans (Bostic and Canner, 1998, p.11; Cyrnak, 1998). In the Chicago metropolitan area, three of the five largest small business lenders were credit card banks; these three lenders accounted for 39 percent of the small business loans in the Chicago metropolitan area reported in 1996 (Immergluck and Mullen, 1998a). Evidence shows that business credit cards increasingly are being used as a source of working capital and small equipment purchases by small firms, and not just for expense management (Immergluck and Mullen, 1998a, citing Board of Governors, 1997, p.15).

The full extent of small business lending being done through credit cards may be unknown, and may be shielded from CRA review. Some banks that issue business credit cards may also be issuers of large numbers of consumer credit cards, on the basis of which they have attained "limited purpose" bank status. Limited purpose banks, whose CRA performance is reviewed under the community development test, are not evaluated with respect to their small business lending activities. Immergluck and Mullen note that American Express, for example, the largest provider of small business financing in the nation, is exempt from CRA examination of its small business lending practices (Immergluck and Mullen, 1998b, p. 15).

5. Federal Business Development Subsidy Programs

An important segment of small business lending is represented by small business loans guaranteed or subsidized by the Small Business Administration (SBA) under programs designed to promote depository institution funding of small business loans. Recent research indicates that while overall lending under SBA programs has increased in the 1990s, these federal subsidies are not reaching lower-income, minority, or central city communities at substantial rates. Instead, they are predominating in more affluent, suburban, nonminority areas, exacerbating problems of spatial mismatch and the decentralization of metropolitan regions (Fisher, Lee, and Zak, 1994; Immergluck and Mullen, 1998a). This spatial distribution of SBA lending raises concerns both because of its economic development impact, as well as its potentially diluting effect on CRA initiatives since financial institutions may receive CRA credit for loans made under SBA programs, regardless of whether they reach underserved borrowers or communities (Immergluck, 1995, p.20).

To analyze the intrametropolitan distribution of loans under the SBA's 504 development company program, Immergluck and Mullen (1997, 1998a) compared the distribution of 504 loans to the distribution of businesses in the Chicago metropolitan region between 1992 and 1996, and found that for the manufacturing, wholesale, and retail sectors, though not for the service sector, firms in higher-income zip codes and those farther from the central business district of Chicago received more 504 loans after controlling for firm count and industrial mix. In the manufacturing sector, 33 percent of all loans were approved to businesses in low-income and lower middle income zip codes (median income below $39,788 in 1989), while manufacturing businesses in those areas accounted for 49 percent of all small businesses; 17 percent of 504 loans to manufacturers were approved in the lowest income quartile of zip codes, whereas these areas contained 27 percent of manufacturers in the six-county area. In the wholesale industry, 32 percent of 504 loans were approved in low-moderate and lower-middle-income areas, while these areas accounted for 42 percent of wholesalers. In the retail sector, 30 percent of 504 loans were approved to retail businesses in low-moderate and lower-middle income areas, while these areas accounted for 46 percent of retail firms. The service sector was the one sector in which more 504 loans were approved for firms in lower-income areas than would be expected based on the spatial distribution of firms, with 50 percent of loans approved for firms in low-moderate and lower-middle income areas, while these areas contained 44-47 percent of all service firms.

When 504 lending during the study period is mapped across the Chicago metropolitan area according to median household income, less than 15 percent of all loans went to firms in the city of Chicago, with the greatest concentrations of loans in middle- and upper-income suburbs in DuPage and Kane counties (Immergluck and Mullen, 1997, Figure 4). Immergluck and Mullen (1997) found that job creation or retention effects (which are a criterion for 504 loan approvals) do not provide a rationale for this geographic distribution of 504 lending, given that most of the job creation and retention claimed under the studied 504 loans was in upper-income areas, often far from higher unemployment, lower-income neighborhoods.

Immergluck and Mullen also found that both the 504 development company program and SBA's 7(a) loan program were serving predominantly nonminority-owned businesses, which represented over 80 percent of the loans approved under these two programs in 1996, although the proportion of these loans going to minority-owned businesses did increase between 1992 and 1996 (1997, p.5). Thus, between 1992 and 1996, the proportion of loans going to minority-owned firms under the 7(a) program increased from 15 to 20 percent, and under the 504 program from 9 to 15 percent. According to the Census Bureau's Survey of Minority Owned Businesses, minority-owned businesses accounted for no more than 13 percent of U.S. firms in 1992, meaning that loans under both programs appear to be serving minority-owned firms at rates exceeding their proportion in the economy (Immergluck and Mullen, 1997, p.5). Immergluck and Mullen suggest that these increases may be due to increased attention to minority businesses by the SBA or by banks, but that a substantial portion of the increase is likely due to demand-side, demographic factors, such as increases in business formation among Hispanics and Asians over the 1987-1992 period. However, the program appears to be the least effective in reaching African-American-owned firms; less than two percent of 504 loans were to African-American-owned firms, despite a 46 percent increase in such firms between 1992 and 1996 (Immergluck and Mullen, 1997, p.7).

Finally, the Woodstock Institute also analyzed the impact of the SBA's LowDoc program on lending to modest-income and minority neighborhoods (Immergluck, 1995). Aimed at increasing the number of 7(a) loans going to smaller borrowers, the LowDoc program succeeded in increasing the number of SBA 7(a) loans nationwide by 36 percent during 1993, and reducing the average 7(a) loan size from more than $245,000 to less than $164,000 during fiscal year 1994. However, comparing SBA 7(a) lending for the year before and the year after the LowDoc program was introduced in the San Antonio MSA, Immergluck (1995) found that minority-owned firms obtained smaller shares of SBA loans and total dollars after LowDoc was introduced (29 percent and $21 million) then before (32 percent and $19.5 million). In contrast, SBA 7(a) loans to white-owned businesses increased from 68 percent of all 7(a) loans in the San Antonio MSA to 71.4 percent, and from $35.4 million to $46.3 million over the study period. Further, comparing loans and lending dollars to nonmanufacturing businesses across zip codes by minority or income composition, Immergluck found that nonmanufacturing firms in lower-income zip code areas received 39 percent of the 7(a) loans and 43 percent of the loan dollars, while these zip codes accounted for 55 percent of the nonmanufacturing establishments and 54 percent of the sales and receipts in these retail and service sectors. After LowDoc, lower-income zip codes accounted for only 34 percent of 7(a) loans. Likewise, prior to LowDoc, minority neighborhoods contained 39 percent of the nonmanufacturing businesses in the area and 39 percent of the related sales and receipts, and received 32 percent of the 7(a) loans and 36 percent of 7(a) loan dollars; after LowDoc, the number declined to 27 percent of 7(a) loans and 26 percent of loan dollars. Comparing the

changes in 7(a) loans to all firms, including manufacturers, lending increased by 52 percent in minority areas and by 10 percent in nonminority areas (Immergluck, 1995, pp.11, 14, Tables 4 and 5).

C. Community Development Lending

The large institutions covered by CRA reporting requirements are required to report the aggregate number and aggregate amount of community development loans they originate or purchase during the year. Community development loans are defined as loans that have as their primary purpose community development, which may include loans for affordable housing for low- or moderate-income individuals, community services targeted to low- and moderate-income individuals, activities that promote economic development by financing small businesses and small farms, and activities that revitalize or stabilize low- or moderate-income geographies.[16] Examples include loans to local lending consortia and local nonprofit organizations (Bostic and Canner, 1998, p.20).

CRA data on community development lending is comprised of only gross numbers, including no information on geographic distribution or details on types of projects. For 1997, community development lending totaled nearly $19 billion, up from $17.7 billion for 1996, with a typical loan size of $745,000, up from $542,000 in 1996. These loan sizes are relatively large compared to the average size for small business and small farm loans (Bostic and Canner, 1998).

[16] 12 C.F.R. § 25.12(h).

II. Effects of CRA Regulatory Reform

What has been the impact of the Clinton Administration's reform of CRA regulations? Have the new regulations shifted bank CRA efforts towards certain qualifying activities? What has been the impact of regulatory reform on CRA enforcement?

The federal banking agencies promulgated revised CRA regulations in April, 1995, in response to President Clinton's call for a regulatory regime that would emphasize performance over paperwork.[17] The primary goal of the revisions was to institute more objective, performance-based assessment standards that would assess an institution's performance in meeting the credit needs of its community based upon its actual lending, investments, and services, instead of its policies and procedures for ascertaining community credit needs or documentation of its community outreach efforts that formed the basis of the previous regime. The revised regulatory scheme also augmented the types of activities explicitly recognized for CRA credit in the evaluation process. Most notable among these were inclusion of a discrete evaluation category for community development investments, recognition of community development as an explicit benchmark of performance in the lending and service tests, and recognition of CRA credit for loans carried out through third party intermediaries.

The impact of the new regulations has been assessed in several ways.[18] Immergluck (1997, 1998) and Thomas (1998) examine performance evaluations (PEs) and ratings for indications of changes in bank activities and regulatory response, as well as the extent of continued "grade inflation" in CRA compliance ratings. Several other articles elucidate the types of community development lending and investment opportunities created or recognized under the new regulations and their potential impact on community development and low-income lending (Lento, 1994; Immergluck, 1998; Mahoney, 1998; Santiago et al.,1998). Other articles look at the extent to which the regulatory revisions have enhanced the effectiveness of the CRA in achieving its goals. Segal and Sullivan (1998) assess the extent to which a significant decrease in the gap between black and white homeownership rates between 1995 and 1997 might be attributable to the new regulations and enhanced CRA enforcement; while Shlay (1999) evaluates the impact of the regulatory changes from a broader political perspective.

The literature suggests that CRA regulatory reform has effectively shifted the focus of examinations to performance rather than documentation of efforts, while also opening up new avenues for community reinvestment efforts. With respect to enforcement, performance evaluations under the new regime reveal the need for continued efforts to increase consistency among the banking regulators, to provide clear guidelines for eligible activities, and to develop better quantitative and qualitative benchmarks for measuring performance.

With respect to community reinvestment activities, the literature suggests that the revised CRA regulations are creating opportunities for enhanced linkages between CRA compliance and the large body of community development expertise and initiatives that has developed along parallel lines with the CRA over the last 25 years. These linkages are represented by various market-based financial arrangements for facilitating bank and thrift CRA efforts, such as equity equivalent investments in community development financial institutions (CDFIs), a real estate investment trust specializing in affordable housing and community development debt and equity assets that meet CRA requirements, and development of a more liquid secondary market for CRA loans through the use of CRA-targeted mortgage-backed and community development securities, as well as the formation of lending consortia and other public-private partnerships for community development. The literature suggests that twenty years after passage of the CRA, and with the impetus of the regulatory reforms of the 1990s, the CRA is finding a niche in the financial marketplace.

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[17] Community Reinvestment Regulations, Joint Final Rule, *Federal Register* 60:22,156-22,223 (May 4, 1995) ("Joint Final Rule"), codified at 12 C.F.R. Parts 25 (Office of the Comptroller of the Currency), 228 (Federal Reserve System), 345 (Federal Deposit Insurance Corporation), and 563e (Office of Thrift Supervision). Section numbers of the regulations correspond from one agency codification to another. For example, the sections dealing with assessment area delineation are 25.41, 228.41, 345.41, and 563e, respectively. Citations to the regulations in this section are to the OCC codification of the joint rule.

[18] The assessment period for the revised regulations has been relatively brief. New data collection requirements and small bank evaluations under the new standards went into effect on January 1, 1996, and large retail institutions could opt-in on that date, but all large banks were not subject to the new evaluation criteria until July 1, 1997. *Federal Register* 60:22,176.

A. Summary of Compliance Tests under the Revised Regulations

The revised CRA regulations establish separate compliance examination tests for three categories of institutions: large retail, small retail, and wholesale or limited purpose institutions. The regulations also offer an alternative option for any institution to be examined against a "strategic plan" of measurable annual goals and objectives to be established by the bank, with input from its community, and approved by the institution's banking regulator. Based on examinations under these compliance standards, an institution is assigned one of four possible overall, composite ratings: Outstanding, Satisfactory, Needs to Improve, or Substantial Noncompliance, to be taken into account by the institution's banking regulator when acting upon an institution's application to establish a deposit facility.

An institution's community for purposes of evaluating its CRA performance is referred to as its "assessment area," which the bank is to delineate to include one or more entire MSAs or political subdivisions (counties, cities, towns) that include the geographies (census tracts or block numbering areas) in which the bank has its main office, branches, and its deposit-taking ATMs, as well as surrounding geographies in which the bank has originated or purchased a substantial portion of its loans (12 C.F.R. § 25.41). A single institution may have one assessment area or many; and with the easing of restrictions on interstate banking, a single institution might have assessment areas scattered across the country.

In addition to considering efforts directed at low- and moderate-income individuals and neighborhoods within an institution's assessment area, the compliance tests give consideration to loans, investments, and services that have as their primary purpose "community development." Community development is defined to include affordable housing for low- or moderate-income individuals (including multifamily rental housing), community services targeted to low- or moderate-income individuals, activities that promote economic development by financing small businesses or small farms, and activities that revitalize or stabilize low- or moderate-income geographies (12 C.F.R. § 25.11(h), (i)).

1. Large Retail Institutions

The CRA performance of large retail financial institutions (independent institutions having $250 million or more in assets or institutions having a parent holding company with $1 billion or more in assets) is assessed under a three-part test that evaluates the institution's lending, investments, and services. Examiners assign one of five component ratings (Outstanding, High Satisfactory, Low Satisfactory, Needs to Improve, or Substantial Noncompliance) and points for each of the tests, which are then added up according to a rating matrix to create the institution's composite rating. Lending is the most heavily weighted in the equation, counting for at least one-half of the composite rating, so that an institution cannot receive a composite rating of Satisfactory or better unless it receives a minimum of Low Satisfactory on the lending test (Evanoff and Segal, 1996, pp.23-24). At the same time, an institution that receives an Outstanding on the lending test is assured an overall Satisfactory, even if it receives Substantial Noncompliance on the other two components (Immergluck, 1997).

The lending test evaluates a bank's record of helping to meet the credit needs of its assessment area though home mortgage, small business, small farm, and community development lending, and includes both originations and purchases (12 C.F.R. § 25.22). Consumer lending may be considered if it constitutes a substantial majority of the bank's business, or at the bank's option. Lending is assessed according to five performance criteria: (i) the number and amount of loans in the bank's assessment area(s); (ii) the geographic distribution of loans, including the proportion and dispersion of loans in the bank's assessment area, and the number and amount of loans in low-, moderate-, middle-, and upper-income geographies in the bank's assessment area; (iii) the distribution of the bank's loans by borrower income characteristics, looking at the number of loans to low-, moderate-, middle, and upper-income borrowers within the bank's assessment area and the number of loans to small businesses and farms with less than $1 million in annual revenues; (iv) the bank's community development lending, including the number and amount of community development loans and their complexity and innovativeness; and (v) the bank's use of innovative or flexible lending practices to address credit needs of low- and moderate-income individuals or geographies. Community development loans both within the bank's assessment area or in a broader statewide or regional area that includes the bank's assessment area are considered.

The investment test evaluates a bank's record of meeting the credit needs of its local community through qualified investments that benefit its assessment area or a broader statewide or regional area that includes the bank's assessment area (12 C.F.R. § 25.23). A "qualified investment" has as its primary purpose community development, and may include an investment, deposit, membership share, or grant in or to financial intermediaries such as CDFIs or community development corporations (CDCs), to organizations engaged in affordable housing rehabilitation or construction, small business investment companies (SBICs), day care facilities, projects eligible for low-income housing tax credits, state and municipal obligations, or nonprofits serving community development needs such as homeownership counseling and other financial services education. An institution's investment activity is evaluated against four performance criteria: (i) the dollar amount of qualified investments; (ii) the innovativeness or complexity of qualified investments; (iii) the responsiveness of qualified investments to credit and community development needs; and (iv) the degree to which the qualified investments are not routinely provided by private investors.

The service test evaluates a bank's record of meeting the credit needs of its community through retail banking and community development services (12 C.F.R. § 25.24). Performance criteria for retail banking services are (i) the distribution of the institution's branches among low-, moderate-, middle- and upper-income areas of its community; (ii) the institution's record of opening and closing branches, particularly those located in low- or moderate-income areas or serving low- or moderate-income individuals; (iii) the availability and effectiveness of alternative systems for delivering retail banking services; and (iv) the range of services provided to low-, moderate-, middle-, and upper-income geographies and the degree to which the services are tailored to meet the needs of those geographies. Community development services are assessed according to (i) the extent to which the bank provides community development services, and (ii) the innovativeness and responsiveness of community development services. Community development services are services that have as their primary purpose provision of financial services to low- and moderate-income communities and not classified as one of the retail banking services. These may include, for example, providing technical expertise for organizations serving low- and moderate-income housing needs or economic revitalization; credit counseling to promote community development and affordable housing; school savings programs, or low-cost or free government check cashing.

2. *Small Retail Institutions*

Small depository institutions are evaluated under a simplified and less rigorous test that focuses on lending and lending-related activities. Consideration of investment, service, and community development activities is at the bank's option, and is used only to upgrade a rating from Satisfactory to Outstanding.

Small bank CRA performance is evaluated according to five performance criteria: (i) the bank's loan to deposit ratio (and, as appropriate, other lending-related activities such as loan originations for sale to the secondary markets, community development loans, or qualified investments); (ii) the percentage of loans (and, as appropriate, other lending-related activities) in the bank's assessment area; (iii) the bank's record of lending (and, as appropriate, engaging in other lending-related activities) to borrowers of different income levels and businesses and farms of different revenue levels); (iv) the geographic distribution of the bank's loans; and (v) the bank's record of taking action in response to written complaints about its performance in helping to meet credit needs in its assessment area.

3. *Wholesale or Limited Purpose Institutions*

Wholesale or limited purpose institutions are evaluated under a community development test, which does not consider direct residential or small business lending activities (12 C.F.R. § 25.25). Wholesale banks are defined as banks that are not in the business of making home mortgage, small business, small farm, or consumer loans to retail customers. Limited purpose banks are those offering only a narrow product line such as credit cards or motor vehicle loans.

The community development test looks at an institution's record of helping to meet the credit needs of its assessment area through community development lending, qualified investments, or community development services. Performance criteria for these institutions are (i) the number and amount of community development loans, qualified investments, or community

development services; (ii) innovativeness and complexity of community development investments, loans, and services; (iii) the extent to which qualified investments are not routinely provided by private investors; and (iv) the bank's responsiveness to credit and community development needs. At a bank's option, examiners will consider community development lending by consortia and third parties in which the bank has invested or loaned money, and will consider activities outside the bank's assessment area if the bank has adequately addressed the needs of its assessment area.

4. Performance Context

Examiners are directed to apply the CRA tests in the context of the particular institution and the market in which it operates. This "performance context" is defined to include information about the economic and demographic characteristics of the institution's assessment area, lending, investment, and service opportunities in the bank's assessment area, the institution's product offerings and business strategy, the institution's capacity and constraints, the institution's past performance and the performance of similarly situated lenders, and information contained in the institution's public CRA file (12 C.F.R. § 25.41(b)).

B. Impact on Enforcement: CRA Examination Results

One of the hopes behind the revised CRA regulations was that performance-based evaluation criteria would foster more rigorous examination and rating practices and consequently increased community reinvestment. CRA advocates generally believed that under the previous regime, bank CRA ratings reflected dramatic "grade inflation" and lax enforcement by banking regulators (Immergluck, 1997, pp.2-3; Thomas, 1998, pp.56-58). This view was based primarily on analysis of the distribution of CRA ratings. For example, between 1990 (when CRA evaluations first became publicly available) and 1996, the proportion of banks receiving Outstanding ratings increased from less than 7 percent to almost 26 percent; and the proportion of banks receiving either Outstanding or Satisfactory ratings increased from 87 percent to 98 percent. During the same period, the number of institutions receiving Needs to Improve or Substantial Noncompliance ratings dropped from 14 percent to 2 percent (Immergluck, 1997, p.2; Thomas, 1998, p.57, Table 4-1).

An alternative explanation for the rise in the ratings distribution, of course, was that it reflected the banking industry's improved record of lending in low- and moderate-income neighborhoods under the impetus of the CRA; or at least its increased sophistication in managing the compliance evaluation process (Thomas, 1998). Finding that even the improved trends in lending to low- and moderate-income neighborhoods during those years do not correlate with the extent of the increases in CRA ratings, however, Immergluck (1997) concludes that the rising ratings reflected continued rating inflation (pp.2-3).

In an attempt to ascertain the impact of regulatory reform on ratings, Thomas (1998) analyzed all publicly available CRA performance evaluations (PEs) for 1996, the first full year of operation under the revised regulations. Thomas used independent evaluators to effectively redo each of the component performance tests for each institution, sometimes supplemented by additional demographic, banking, or other data not available in the PEs, and then compared those evaluations with actual examiner evaluations and component and overall ratings. Thomas "quantified" the extent of continued grade inflation, and attributed it primarily to the "friendly regulator" and examiner subjectivity.

Examining results of large bank evaluations the following year, from July 1997 to July 1998, Immergluck found that composite ratings remained high, with less than two percent of institutions receiving Needs to Improve or Substantial Noncompliance ratings. However, Immergluck found that Outstanding ratings did drop significantly from 1997 to the first half of 1998, from 24.3 percent to 18.6 percent of institutions over the study period, with the largest drop occurring in ratings of banks regulated by the Office of the Comptroller of the Currency (from 20 percent Outstandings to eight percent) (1998, pp.13, 23).

1. Investment Test

Looking at the component test results from July 1997 to July 1998, Immergluck found that investment test scores were markedly lower than scores for lending or services. About 4 percent of institutions received a score of Outstanding on the investment test, and 21 percent received a High Satisfactory. In contrast, on the lending test, 12 percent of institutions received an

Outstanding, and another 64 percent received a High Satisfactory; and on the service test, 12 percent received an Outstanding and another 57 percent received a High Satisfactory. Further, more than 14 percent of institutions received low scores of Needs to Improve or Substantial Noncompliance on the investment test, dramatically more than the .8 percent and 1.6 percent of institutions that received those scores on the lending and service tests, respectively (Immergluck, 1998, pp.13-14).

Thomas suggests that more specific guidelines about what will be given credit as a qualified investment, and about the distinction between community development loans and qualified investments, will help institutions to improve their investment performance (1998, pp.386, 396-402). Likewise, Immergluck suggests that these low investment test scores are an indication that banks and thrifts may be seeking additional investment opportunities, creating the potential for increased capital flows to CDFIs (1998, p.13). However, Immergluck points out that the rating scheme provides no real incentive for institutions to strive for higher investment test scores, since the bulk of institutions with component ratings of Low Satisfactory or below on the investment test nonetheless received Satisfactory or better composite ratings.

Immergluck and Thomas both suggest the need for more quantitative and relative measures for evaluating an institution's community development lending and investments. For example, Immergluck found that only three of the 12 large bank PEs he examined made any attempt to measure investment activity relative to bank size, and that among these three, two different measures were used (1998, pp.16-17). Immergluck suggests that the regulators develop a more comprehensive and consistent set of data that examiners can use to compare banks to their peers in a market, including data such as bank size, tier 1 capital, net income, and related bank capacity measures, as well as data that distinguishes between outstanding and new investment and community development loan commitments (1998, pp.6-18). Thomas similarly argues that relative measures of qualified investments are needed in order to make investment ratings meaningful and to reduce the role of examiner subjectivity. Just as ratios are used in the lending test (loans to deposits) and in safety and soundness exams, Thomas suggests a Qualified Investments/Assets (QITA) ratio for evaluating CRA investment performance (1998, pp.393-95).

In addition to better quantitative measures, both Immergluck and Thomas suggest that regulators need to develop and apply more consistent qualitative distinctions and benchmarks for identifying what is complex and innovative and for evaluating responsiveness to credit and community development needs. For example, Immergluck points out that an investment in a small business investment company that does not target investments to minority firms or firms in distressed areas and that provides a rate of return exceeding 20 percent presently receives as much credit as an equity-equivalent investment in a microloan fund targeting minority firms and that would not provide a similar rate of return (1997, p.21). Likewise, Thomas cites the minority bank qualified investment "loophole," which provides investment test credit for deposits or shares in minority-owned financial institutions that are risk-free and pay a competitive rate of return (1998, p.401).

C. Impact on Activities: Qualified Investments in CDFIs, Secondary Market Vehicles, and Loan Consortia

A variety of sources suggest that the new CRA compliance tests have fostered the development or enhanced use of a variety of financial vehicles to meet their compliance criteria.

1. Qualified Investments in Community Development Financial Institutions (CDFIs)

The explicit recognition of CRA credit for activities that promote community development through lending, investments, or services has focused attention on the potential for increased linkages between traditional financial institutions and CDFIs. While CDFIs trace their origins to "immigrant guilds of New York City's Lower East Side [and] the Prairie Populists of the late 1800s" (Santiago, 1998, p.598), the industry in its present form has existed less than 20 years, with most of its growth in the last ten[19] (Taibi, 1994, p.1526). CDFIs include a broad variety of locally-based financial intermediary organizations, including community development loan funds, community development credit unions, community development banks, and microenterprise loan funds, all of which are primarily devoted to developing the community in which they operate (Santiago, 1998, pp.602-609; Taibi, 1994,

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[19] As of Fall 1998, there were over 350 established CDFIs in 50 states that had loaned $3.5 billion in distressed communities "with a collective loan-loss rate comparable to the best banks." David Daniel, "CDFIs Unmasked," *The Neighborhood Works* 21(4):11-12 (July/August 1998).

p.1521). A CDFI may make loans and investments that are considered risky or unbankable by conventional industry standards; serve borrowers, investees, and customers not serviced by mainstream financial institutions; or link financing to other development activities (Santiago et al., 1998, pp.596-602). In particular, by locating in the community it seeks to develop and undertaking coordinated, comprehensive action, a CDFI can develop specialized market expertise and the critical mass of investment and activity necessary to shift residents' and investors' perceptions (Lento, 1994).

CDFIs receive their operating support and lending capital from a variety of sources, including sale of stock (for-profits only), deposits by members, loans from banks, and grants.[20] The CRA has been an important vehicle for facilitating the growth of these institutions by providing a source of private capital (Parzen and Kieschnick, 1992). CDFIs, in turn, have been an important source of expertise to traditional financial institutions in discovering and reaching underserved segments of the community. As Immergluck (1998, p.1) notes, "Each side brings resources to this partnership. CDFIs bring knowledge of local and distressed markets, expertise in community development finance, and philanthropic and government resources to bear on the problems faced by economically distressed communities and individuals. Banks bring the resources of scale, as well as the ability to tap secondary markets and a broader network of financial services."

Under the revised regulations, CDFIs present a source of CRA credit to financial institutions either for investments used to capitalize a CDFI, or for the financial institution's pro rata share of loans made by the CDFI, or both. An investment vehicle devised to accommodate bank and thrift investments in CDFIs is the "equity equivalent," or EQ2, investment created in 1997 by the National Community Capital Association (NCCA) in collaboration with Citibank. As not-for-profit institutions, CDFIs generally cannot raise equity by issuing stock, and so have relied upon capital grants from philanthropic sources. With the impetus of the revised CRA regulations' recognition of CRA credit for investments, the EQ2 was created to provide CDFIs an alternative source of capital and financial institutions a vehicle for CRA investment test credit (Lehr, 1997, pp.1-2). In the first EQ2 transaction, Citibank made a $1 million investment to capitalize NCCA's Central Fund, which would then garner further investments and grants to make loans to NCCA's CDFI members. The CDFIs, in turn, would use the funds to support community development programs.

The EQ2 is a hybrid instrument with sufficient equity-like attributes to be treated as an investment for CRA and other regulatory purposes. The EQ2 is heavily subordinated and so behaves like permanent capital, increasing NCCA's debt capacity by protecting senior lenders from losses. At the same time, the investment is unlike permanent capital in that it must eventually be repaid and requires interest payments during its term, although at rates well below market. Given the particular attributes of the instrument, the OCC ruled that the EQ2 investment could be considered for CRA credit under the investment test; or alternatively, Citibank could have its EQ2 investment considered under the lending test, claiming credit for its pro rata share of community development loans originated by NCCA (OCC, 1996, p.3). Under some circumstances, partial credit could be claimed under both the investment and lending tests.

2. *Secondary Market Vehicles: CRA-Targeted Mortgage-Backed Securities and a Real Estate Investment Trust for Community Development Loans*

Development of a flourishing secondary market in CRA securities has been seen as an important tool for increasing the affordable lending capacity of financial institutions and the available funds for community and economic development by permitting banks to recycle CRA capital. By selling CRA assets, depository institutions free up part of their balance sheets for more lending. However, because of the lower downpayments, flexible underwriting standards, and lack of mortgage insurance on typical "CRA loans," they traditionally have not been saleable in the mainstream secondary market.[21]

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[20] CDFIs received Federal recognition and support with passage of the Community Development Banking and Financial Institutions Act of 1994, Pub. L. No. 103-324, tit. I, 108 Stat. 2160, codified at 12 U.S.C. §§ 4701-4718, which created a $382 million CDFI Fund to provide financial support in the form of loans, investments, grants, and deposits, which must be matched dollar for dollar with non-governmental sources (Marsico, 1995, pp.307-308).

[21] The "government-sponsored enterprises" (GSEs) that dominate secondary market activity are the Federal National Mortgage Association (Fannie Mae), the Federal Home Loan Mortgage Corporation (Freddie Mac), and the Government National Mortgage Association (Ginnie Mae). Fannie Mae and Freddie Mac mainly buy conventional mortgage loans that are packaged into securities and then sold to investors. Ginnie Mae does not purchase loans, but rather guarantees the timely payment of principal and interest for privately issued securities backed by FHA-insured

However, the literature reflects the mainstream secondary mortgage market becoming increasingly responsive to low-income housing and community development needs in recent years, driven in part by the impetus of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, which required HUD to set annual affordable loan-purchase targets for Fannie Mae and Freddie Mac; but also by demand for products that can satisfy the investment test compliance criteria.[22] Thus, secondary market products, such as mortgage-backed securities and other instruments backed by affordable housing and community development loans, that provide a source of investment test credit at the same time promote the liquidity of the secondary market for the CRA loans that underlie the instruments. Thus, the revised CRA regulations are helping to foster increased secondary market activity by supporting both sides of the secondary market equation.

There are several examples of recent secondary market programs for affordable housing loans. In October, 1997, First Union Corporation completed a securitization involving $384 million in mortgage loans originated through First Union's CRA program and guaranteed by Freddie Mac. Bear, Stearns arranged the private placement of the securities primarily with financial institutions seeking qualified investment credit under the revised CRA regulations (Mahoney, 1998, p.265). Likewise, Fannie Mae has developed mortgage-backed securities backed up to 100 percent by mortgage loans to borrowers with incomes below 80 percent of the area median income, with geographic distribution custom-designed to meet the CRA assessment area of each investor (Fannie Mae, Investment Tools, 1999). Described as CRA-Targeted Mortgage-Backed Securities, Fannie Mae developed the product in order to help CRA originators as well as institutions seeking to purchase CRA-qualified investments. Finally, Self-Help, a North Carolina CDFI that initiated a secondary market program in 1994 for purchasing affordable home mortgage loans from lenders in North Carolina, expanded its program nationwide in 1998 with the help of a $50 million grant from the Ford Foundation to be used for credit enhancement and a commitment from Fannie Mae to purchase and/or securitize $2 billion of loans, including loans that do not meet traditional underwriting standards (Havemann, 1998; Self-Help, no date). The program was launched with participating lenders that included Bank of America, Bank One, Chase Manhattan Bank, First Union, and Norwest.

It has been more difficult to establish a high-volume, fully-functioning secondary market for community development loans, which include multi-family affordable housing and economic development (Kenny and Altman, 1997). However, various efforts by national nonprofit organizations since the late 1980s have built the beginnings of a secondary market for community development loans, as well. Again, with the assistance of philanthropic organizations like the Ford Foundation, these organizations act as a bridge between community development lenders and institutional investors, offering flexibility to accommodate unconventional products (Kenny and Altman, 1997). For example, the Community Reinvestment Fund (CRF), a non-profit founded in 1988, purchases and bundles loans from community development organizations and uses them as collateral to issue bonds that are sold to private investors.[23] As of 1999, CRF had purchased more than 670 loans, providing more than $24.5 million in new, private capital to development organizations in nine states and Washington, D.C.

Another recently developed secondary market vehicle for multifamily and other nonconforming mortgages is a real estate investment trust (REIT) that specializes in acquiring debt and equity in affordable housing and community development projects that satisfy CRA criteria. Launched by the Local Initiatives Support Corporation (LISC), a nonprofit supporter of community development initiatives, Community Development Trust (CDT) closed a $29 million private placement of common stock in June, 1999, with investments from Fannie Mae and 16 leading financial institutions and insurance companies (Local Initiatives Support Corporation, 1999). A REIT operates much like a mutual fund for real estate in that multiple investors obtain the benefit of a diversified portfolio. The participating institutions are eligible for CRA credit for their investments as long as they hold their CDT stock. The REIT's debt acquisitions focus on multifamily mortgages, primarily those nonconforming to other secondary markets because of small size, location (inner city or rural), configuration (scattered site, urban rehabs) or type (assisted

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and VA-guaranteed loans. Banks, thrifts, insurance companies, and other entities are also secondary market participants. The GSEs each impose strict underwriting guidelines for loans eligible for purchase, such as maximum loan-to-value and monthly debt-to-income ratios, as well as loan-size limitations, which vary somewhat among the secondary market entities. (Canner and Passmore, 1994, pp.99-100.)

[22] This is reflected, for example, in various Fannie Mae initiatives, including its CRA- targeted mortgage-backed securities program, commitments to invest at least $75 million in CDFIs through the end of the decade, its Housing Impact Fund to support innovative development or financing opportunities for lower-income rental or ownership housing, and its "trillion dollar commitment" low-income housing goal. Fannie Mae, "Investment Tools," www.fanniemae.com/neighborhoods/investment/investment_tools.html.

[23] Community Reinvestment Fund, "About CRF and Our Services," www.crfusa.com/about/aboutcrf.html. CRF also provides loan servicing and other portfolio management services to its loan sellers and some other clients.

living), with the goal of providing liquidity to banks, CDFIs, loan consortia, and state and local housing finance agencies. The REIT's equity investments include HUD Section 8 and other affordable housing properties. CDT planned to hold these properties and continue to operate them as affordable housing, rather than converting them to middle-income or luxury housing as other REITs have done.

Noting the promising early use of secondary market vehicles such as First Union's transaction, Mahoney (1998) suggests development of a "primary purpose of community development" safe harbor and other interpretive refinements to the CRA regulations to facilitate greater certainty and ease of administration for institutions and thereby development of a more liquid and active secondary market and increased lending to low-income neighborhoods. For example, under Mahoney's safe harbor proposal, depository institutions would receive 100 percent CRA credit for investments backed by pools comprised of 80 percent qualifying loans. This approach would (i) permit leavening of loan pools with a mix of geographically and demographically diverse loans; (ii) facilitate valuation of the securities and thereby increased liquidity and demand; (iii) permit lenders and issuers to commit to delivery of securities meeting fixed criteria on specific dates; (iv) reduce the information costs for financial institutions by avoiding having to gather loan-level data for CRA examination purposes.

3. Loan Consortia: Spreading Credit Risk and Sharing Transaction Costs

The broader recognition of CRA credit for third-party intermediary lending and qualified investments in the revised regulations has provided greater scope for lenders to pool their resources in various multi-bank lending arrangements such as loan consortia (Avery et al., 1997, p.1). Loan consortia generally consist of institutions that pool lending money or collect equity stakes for low- and moderate-income housing and community development.

These institutional lending arrangements have been used increasingly use in recent years because they appear to offer an effective means to address transaction cost and credit risk concerns related to community lending (GAO, 1995, p.73). Credit risk concerns focus on the perception or reality that lending to low- and moderate-income borrowers entails higher risk of financial loss due to borrower default. Higher transaction costs than for other commercial or consumer lending may be attributable to the additional time and effort necessary to ascertain the creditworthiness of the borrower or the related property in low- or moderate-income areas.

Thus, the literature suggests that these multi-bank lending arrangements can reduce the costs of lending through the pooling of resources and economies of scale. Avery et al. (1997) find that in many low- and moderate-income neighborhoods, demand is too low to allow more than a handful of lenders to learn enough about the area to operate profitably. As a result, encouraging all lenders to be active in all neighborhoods may increase the costs of lending in neighborhoods with thin loan demand. By establishing institutional arrangements such as community development banks or loan consortia, lenders can pool their resources and specialize in collecting and analyzing local market data, and thereby stand a better chance of generating economies of scale than they would through direct financing. Likewise, Mendez (1998) suggests that by assuming the role of subcontractor to their bank investors, consortia can provide community development expertise and capacity that small- and mid-sized financial institutions often cannot afford; and provide large financial institutions with an effective way to reach underserved populations through products and services that might be initially unprofitable if performed internally.

Multi-bank lending arrangements can also ameliorate the credit risk that institutions normally associate with low-income lending. By sharing risk among a number of institutions, individual institutions can avoid concentration of credit risk in a particular project or in a limited geographic area (GAO, 1995, p.73). Further, Calem and Wachter (1998) suggest that collaborative community reinvestment efforts focused on targeted neighborhoods may mitigate credit risk by increasing lending activity in those neighborhoods, based on the results of their empirical study of an affordable home loan program in Philadelphia that found that the likelihood of loan delinquency declines with increased levels of neighborhood housing market activity.

Mendez (1998) charts how each of the CRA compliance tests accommodates bank involvement in various types of multi-bank lending. He points out that the revised regulations recognize both loans to a consortium and loans made through a consortium, through either participation or purchase, as community development loans.

D. Impact on Homeownership Rates and Lending Activity

Attempts to quantify the impact of regulatory reform on lending suggest that the CRA amendments have had a discernible effect. LaCour-Little (1998) examined a geographically diversified portfolio of $374 million of first mortgage loans originated by a single lender following the Clinton administration's reform of CRA regulations (from 1993-1996 and observed through year-end 1997). During the review period, the lender substituted judgmental underwriting standards for automated credit scoring methods for loans in low-to-moderate income census tracts or loans to low-to-moderate income borrowers. LaCour-Little found that approximately half of the total loan volume, or $187 million, reached borrowers who would not have qualified for credit under the credit scoring rule.

Analyzing homeownership data between 1977 and 1997, Segal and Sullivan (1998) found a drop of three percent in the gap between black and white homeownership rates between 1995 and 1997. Finding that very little of the drop reflected changes in demographic and income factors, they attribute the change to the recent CRA amendments and their more vigorous enforcement.

Shlay (1999) found that home purchase mortgage lending to low- and moderate-income and minority borrowers and low- and moderate-income neighborhoods increased at a rate that exceeded changes in overall lending between 1990 and 1995 in the six cities studied. Shlay concludes that these changes in lending patterns can be explained by a combination of favorable market conditions and a CRA-minded political climate created by the coalescence of local organizing and the Clinton administration's attention to regulatory reform and strengthened CRA enforcement, which together have influenced lender decisionmaking by causing lenders to reach out to under-explored communities to which CRA has pointed the way.

III. CRA COMMITMENTS

What has been the nature and scope of CRA commitments adopted by major depository institutions? To what extent do the CRA commitments follow a common pattern? Do some commitments emphasize certain kinds of lending over others? How spatially targeted are the commitments?

The term "CRA commitments" denotes a banking institution's promises to provide particular types of credit, capital, or services to low-income and minority households and neighborhoods, generally made in anticipation of a merger or other transaction that will trigger CRA review. The term is used to refer both to agreements negotiated between community groups and/or state or local governments and depository institutions, as well as to publicly-announced, unilateral community reinvestment plans such as those undertaken by NationsBank (10-year, $350 billion) and CitiGroup (10-year, $115 billion) in 1998. The only source of systematic information on CRA commitments adopted by depository institutions is the National Community Reinvestment Coalition (NCRC), the trade association of more than 690 community reinvestment organizations. NCRC keeps and publishes an ongoing tally of CRA commitments nationwide, maintains copies of most negotiated agreements, and has compiled an overview of the types of programs and products that have been addressed. According to NCRC, banks and community organizations have entered into 360 agreements representing commitments for over $1 trillion in loans, investments and services to minority and low-income households and neighborhoods since passage of the law in 1977, with 99 percent of the total being committed since 1992.

This dramatic increase in commitments in the last seven years has been attributed to various factors, including enhanced HMDA data and CRA disclosures for assessing bank performance; the increased sophistication of community organizations in assessing community needs and entering into partnerships with banks; the proliferation of mergers and acquisitions that create the occasion for CRA challenges that result in negotiated agreements or for banks to launch voluntary reinvestment programs; and the structural evolution of the banking industry that has created the context for commitments that are regional or national in scope (NCRC, 1998; Schwartz, 1998). For the most part, these commitments have been touted as a sign of the tremendous progress of the CRA in encouraging banks to focus on the credit and capital needs of lower-income borrowers and neighborhoods. On the other hand, some community reinvestment advocates have been skeptical of the extent to which unilateral, multimillion dollar packages are tailored to truly meet credit needs in disadvantaged areas.

For example, of the $115 billion commitment made by CitiGroup, $60 billion was for consumer loans, including a large but unspecified portion of which would be credit cards, which historically have been problematic in low-income communities."[24]

No regulatory mechanism monitors CRA commitments to determine the extent to which institutions deliver on their promises. In the earlier days of the statute, banks with inadequate CRA records often received approval on a pending application nonetheless, based on commitments for future performance. However, in 1986 the regulators announced that commitments for future action would not be taken into account. Thus, for example, in denying its first application on CRA grounds in 1989, the Federal Reserve Board ruled that the bank's commitments and plans to improve its CRA performance could not "serve as a substitute for the established record of CRA performance required by the statute."[25] Based on this regulatory stance, the agencies have taken no role in monitoring bank commitments, and correspondingly, will not adjust downward an institution's CRA rating based on its failure to keep its commitments.[26] However, negotiated agreements usually include their own mechanisms for

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[24] Timothy L. O'Brien, "For Banks, A Big Nudge to Do More: Communities Fear Lending Drop-Off." *New York Times*, July 5, 1998, p.1.

[25] Continental Bank Corp., *Federal Reserve Bulletin* 75:304, 305 (1989). In the place of approvals combined with commitments for future action, regulators frequently use the mechanism of conditional approvals.

[26] CRA Final Rule, *Federal Register* 60:22,156, 22,165. In adopting the final revised CRA regulation, the banking agencies rejected the suggestion to consider as part of the lending test the extent to which an institution has fulfilled lending agreements made with third parties, stating that "the CRA requires the agencies to assess an institution's record of helping to meet the credit needs of its community, not to enforce privately negotiated agreements. Therefore, an institution's record of fulfilling these types of agreements is not an appropriate CRA performance criterion." In September, 1998, the Office of the Comptroller of the Currency signaled its concern over this monitoring issue by publishing a notice of its intent to conduct a survey of national banks that have publicly announced commitments to undertake lending, investment, or other activities pertaining to their obligations under the CRA. The notice sought public comment on proposed survey questions designed to determine the adequacy of the systems and procedures banks are using to track their progress in achieving their announced goals. No further action has been taken on this survey to date.

monitoring the implementation of commitments, such as review boards, regular meetings between community groups and lenders, disclosure of lending records, and use of mystery shoppers (NCRC, 1998, pp.41-42; Schwartz, 1998b).

This section reviews the nature and scope of CRA commitments, as well as several articles that examine the outcomes of CRA agreements. At their best, it appears that commitments, particularly those represented by negotiated agreements, can play a role in fostering communication and collaboration between financial institutions and community-based organizations, serving as a tool through which lenders discover new and profitable markets and make serving low-income and minority neighborhoods a regular part of their business (Schwartz, 1998b; Squires, 1992). With respect to the outcomes of CRA agreements, Schwartz (1998a) found that banks with agreements approved a higher proportion of conventional mortgages, particularly to low-income and minority households and census tracts, than banks without agreements; and that the market share of mortgage approvals for minority and low-income households and census tracts of banks with agreements significantly exceeded their overall market share of mortgage approvals within the state or metropolitan area. Shlay (1999) found in general that increased lending to low-income and minority households and neighborhoods was not limited to financial institutions with CRA agreements, but that larger increases were associated with institutions with CRA agreements.

A. Nature and Scope of Commitments

CRA commitments have evolved into sophisticated, multi-year programs that reflect a multi-faceted approach to addressing the obstacles that can impede access to credit and capital for low-income and minority households and neighborhoods. Often they rely upon some collaborative effort between the bank and the local community in implementing the agreement, such as community involvement with marketing, financial counseling, or other services designed to facilitate the development or success of CRA-related products and services. While commitments generally do target minority or low-income borrower populations or neighborhoods, they do not appear to be spatially targeted. This may reflect the fact that the relevant geographic focus for purposes of CRA review is the depository institution's assessment area surrounding its main office, branch, and ATM locations, wherever that falls along the city/suburb line.

NCRC has categorized the types of CRA commitments into seven broad subject areas, providing a useful survey of the nature and scope of CRA commitments, which is summarized below (NCRC, 1998a, pp.13-42). These subject areas are housing; business and economic development; consumer loans; farm loans; building community capacity; banking services and branch and staff policies; needs assessment, marketing, and outreach and accountability to the community.

1. Housing

Most CRA agreements include specific dollar or volume targets for residential lending, and usually specify a particular type of housing. Commitments for single-family housing loans are the most common, but commitments also have included multifamily housing, funding for nonprofit and minority housing developers, housing cooperatives, land trusts, mobile homes/manufactured housing, and mixed use real estate.

In addition to lending targets, agreements frequently include commitments to provide specified loan terms and conditions and underwriting standards in connection with residential lending to the targeted populations. These loan terms and conditions often include below-market interest rates, lower minimum mortgage size requirements, waiver or reduction of closing costs and points, lower downpayment requirements (often referred to as loan-to-value (LTV) ratios), and waiver of mortgage insurance requirement. These latter two provisions are often used in conjunction because mortgage insurance is generally required when a borrower's downpayment is less than 20 percent, but is believed to be difficult for low-income and minority borrowers to obtain. Less common terms include allowance of sweat equity, loans to nonprofits on a nonrecourse basis, and greater forbearance on distressed properties.

Commitments related to underwriting standards often include a flexible approach to credit history, such as a second review of all applications from minorities and low- and moderate-income applicants and efforts to lend to applicants with marginal credit scores, and referrals of denied applicants to homeownership counseling programs. These types of commitments also often

include a flexible approach to employment history that focuses on steady income rather than continuous employment in a single job, consideration of broader sources of income in evaluating creditworthiness, and use of higher ratios of acceptable housing expense-to-income and income-to-debt.

Another common subject of housing-related commitments is participation in federal, state, or local government loan programs that encourage creation of affordable housing by providing insurance and/or subsidies to private lenders. Such commitments have included offering FHA-insured and VA-guaranteed insured mortgage loans at less than market rate interest, participation in Federal Home Loan Bank Affordable Housing and Community Investment Programs, purchase of state housing finance agency bonds used to finance affordable housing projects, investments in low-income housing projects eligible for federal low-income housing tax credits, and investments in loan pools or consortia that provide funding for affordable housing and/or community reinvestment projects.

Other types of commitments include support of loan counseling programs, "second look" programs to ensure that denials of applications are not due to discrimination, hiring of outside discrimination testers, and notification or offer of foreclosed properties to nonprofits.

2. *Business and Economic Development*

As with housing, many CRA agreements include specific dollar and volume target commitments for small business, minority and women-owned businesses, micro-businesses, and economic development project lending. Other frequent commitments in this area include agreements to participate in governmental loan programs that encourage economic development by providing insurance and/or subsidies to private lenders, such as SBA loan programs; and agreements to create or participate in public or private loan pools and consortia that spread the risk and reduce transaction costs of small business lending, such as an equity investment to capitalize a pilot micro-lending program focused on start-up and non-bankable businesses. Other commitments aimed at support for business include loan review programs, provision of counseling and technical assistance to small businesses, and use of minority business vendors for bank contracts.

3. *Consumer Loans*

Examples of commitments in the area of consumer loans are use of flexible underwriting criteria to qualify low- and moderate- applicants without traditional credit histories; and dollar amount targets for second mortgages and home equity loans to be used for any purpose.

4. *Farm Loans*

According to NCRC, only a few CRA agreements have focused on rural credit needs. Examples of these commitments include a dollar amount target for loans to small farms located in low- and moderate-income areas, and agreements to restructure debt for farmers where it would be cheaper than foreclosure or forced liquidation.

5. *Building Community Capacity*

Many agreements include commitments to support alternatives to mainstream financial institutions such as community development credit unions or community development loan funds, or to provide loans or lines of credit to community development corporations engaged in community development activities such as housing development, business financing, day care centers, and job training and placement activities. Many agreements also include commitments for grants to community reinvestment organizations.

6. *Banking Services, Branch, and Staff Policies*

CRA agreements frequently include commitments to offer basic banking services at low cost, such as lifeline checking accounts that have low or no fees or minimum balances. Other commitments include establishment of Individual Development Accounts (IDAs) or cashing of government checks for customers and noncustomers at no charge.

With respect to branch policies, commitments have included keeping existing branch offices open, improving bank services at branches located in or near low-income neighborhoods, or opening new branches. CRA agreements have also been used to increase bank hiring of low-income, minority, and bilingual staff, require training of bank staff on credit needs of low-income and minority communities, and require female or minority board representation.

7. Needs Assessment, Marketing and Outreach, and Accountability to the Community

This last category of commitments frequently found in CRA agreements includes commitments to conduct needs assessment of the community to ascertain appropriate loan products and services; commitments to increase marketing and outreach efforts to encourage low-income and minority individuals to apply for loans, including advertising, call programs to brokers and realtors and small and minority businesses, seminars and trainings to explain bank credit programs and application procedures, marketing through community organizations, creation of a CRA liaison position to work with community groups, or creation of a special community outreach unit. Finally, to ensure that commitments are met, agreements usually include provisions establishing review boards, regular meetings between community groups and lenders, and disclosure of lending records.

B. Outcomes of CRA Agreements

While there is no formal mechanism for monitoring CRA commitments, negotiated agreements normally include mechanisms for implementing and monitoring their progress.[27] Additionally, recent articles have assessed the extent to which CRA agreements attain their goals, and have assessed the impact of CRA agreements by comparing lending to low- and moderate-income households and neighborhoods by depository institutions with and without CRA agreements.

Schwartz (1998b) compares the implementation of four particular negotiated agreements – in Chicago, Cleveland, Pittsburgh, and New Jersey – in order to assess the extent to which lenders attain the goals established in the agreements. Because no objective indicators are available by which to evaluate outcomes of most of the commitments included in reinvestment agreements, Schwartz's research is based on interviews with agreement participants. Schwartz found that some types of commitments are more consistently met than others. He found that lenders are generally most successful in meeting their targets for single-family home mortgages, and also consistently meet their goals for investments in low-income tax credits and for grants and loans to community organizations. Also, Schwartz found that banks with agreements tend not to have the reductions in branch operations that have occurred generally in the industry; overall, these banks have kept existing branches open and in some cases opened new ones. Schwartz found results more uneven for construction loans, permanent financing for new housing development, and business loans, possibly because these types of lending are less structured and standardized than single-family mortgages, and thus a bank may be less accountable for its decision to reject particular applications. Commitments aimed at influencing bank hiring and procurement processes have also proved to be less successful. Shlay (1999) found that another key variable in the success of particular agreements was the extent to which top level bank management was involved in implementation of the agreement, and the working relationship between the bank and the community-based organization that negotiated the agreement (pp.34-35).

Schwartz (1998a) and Shlay (1999) also attempt to assess the impact of CRA commitments by comparing home purchase mortgage lending by financial institutions with and without agreements. Schwartz compared mortgage and home improvement lending in 1994 for all banks in states and metropolitan areas with one or more CRA agreements and found several salient results.

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[27] A sample, non-exhaustive bibliography of assessments of lender performance under particular community reinvestment agreements is included at the end of this section.

First, looking at the entire sample of mortgage lenders, Schwartz found that banks with agreements are significantly larger than those without agreements in terms of the number of mortgage applications and approvals involving each market segment; and that banks with agreements approved a higher proportion of conventional mortgages across all market segments, although the differences were sharpest with respect to low-income and minority households and census tracts. Nearly three-quarters of the mortgage loans approved for black households by banks with agreements were conventional, as compared to less than 60 percent of those approved by other banks. Among white applicants, conventional mortgages accounted for 84 percent of the agreement-banks' approvals, and 78 percent of the non-agreement banks' approvals. Second, Schwartz (1998a) found that banks with agreements had significantly higher rates of approvals of mortgage loans to black borrowers, with an average share nearly 20 percent higher than their share of total approvals, while the average share of approvals of mortgage loans to black borrowers by non-agreement banks was 14 percent less than their share of total approvals (p.285).

Schwartz found that for banks with agreements, their market share of mortgage approvals for low-income and minority households and census tracts exceeded their overall market share within that state or MSA by 12 percent. In contrast, for banks without agreements, low-income and minority households and neighborhoods represented 18 percent less than their market share of total mortgage approvals. With respect to denial rates, Schwartz found that banks with agreements denied mortgages to African-American applicants 2.5 times more often than to whites, whereas other banks denied mortgages to African-American applicants 3.13 times more often. Schwartz found few significant differences in market share based on differences in agreements such as voluntary or negotiated status, age, geographic coverage, or the number of additional agreements signed by the same community group.

Shlay (1999) assesses the impact of CRA agreements by comparing the relative market shares of home purchase mortgage loans to low- and moderate-income and minority households and neighborhoods between 1990 and 1995 of lenders with CRA agreements and those without in three cities. Shlay found that in general, lenders with CRA agreements showed larger changes in the direction of more CRA-oriented lending and along more indicators than lenders without CRA agreements during the six-year study period (p.33). Nonetheless, Shlay found that lenders without agreements also showed increased lending to low- and moderate-income and minority individuals and neighborhoods during the study period, and did not exhibit the "patterns of redlining and racial avoidance that characterized lending activities during the 1980s" (p.33).

Shlay also undertook to compare changes in bank and thrift conventional home purchase lending between 1990 and 1995 in three cities with at least three negotiated CRA agreements in effect (as signifying a high level of CRA organizing) and three control cities without at least three negotiated CRA agreements in effect (as signifying low levels of CRA organizing). Shlay found that increases in lending to low- and moderate-income and minority individuals and neighborhoods exceeded increases in overall lending in all six cities during the study period, with no apparent correlation with whether it was a high- or low-CRA organizing city. Shlay suggests that the changes in lending patterns found in the research can be explained by a combination of favorable market conditions and the influence of a CRA-minded political climate on lender decisionmaking, created by the coalescence of local organizing and the Clinton administration's attention to strengthening CRA. Shlay posits that with an expanding economy and more capital for investment, lenders have reached out to the underserved markets that inner-city communities represent and to which the CRA has pointed the way. Thus, rather than altering market forces, Shlay concludes that the CRA may be helping the market to work better by providing incentives for lenders to discover and develop products for underserved markets and by reducing class and racial bias in the lending decision.

IV. Impact of Bank Mergers and Acquisitions on Lending

To what extent has the rise of mergers and acquisitions in the banking industry affected lending patterns in communities that no longer have locally-owned banks?

The banking industry has undergone considerable consolidation in the last 25 years. Between 1975 and 1997, the number of commercial banks and savings associations in the United States dropped by more than 40 percent, from 18,679 institutions in 1975 to 11,077 in 1997 (Avery et al., 1999a, p.83). Between 1993 and 1997 alone, 21 percent of all institutions were acquired in a merger or acquisition, and the total number of institutions dropped by 18 percent. Much of this consolidation has involved mergers and acquisitions among institutions that had been operating in different local markets, resulting in a drop in the number of independent, locally-owned institutions. By mid-1998, more than one-quarter of banking institution assets were owned by banking organizations with headquarters in another state (Avery et al., 1999a, p.83; Keeton, 1997).

The impact of this loss of many independent, locally-owned institutions on lending to lower-income and minority borrowers and neighborhoods has been of especial concern for several reasons. First, successful lower-income residential lending programs often rely upon techniques and procedures that require local presence and flexible decisionmaking. These might include the use of flexible underwriting standards, nontraditional measures of credit quality, a variety of credit enhancements, or intensive monitoring of outstanding loans that all depend upon knowledge of local neighborhoods, and economic conditions and credit risk factors specific to the local community. Likewise, these programs may be sponsored by local public agencies or community organizations (Avery et al., 1999a, p.84). The transfer of bank ownership outside of the local community often means the transfer of the locus of decisionmaking outside the local community as well, potentially defeating many of these procedures that can make lending to lower-income and minority populations viable. Second, recent research documents the importance of the relationship between lenders and small business customers in determining the terms and availability of credit (Board of Governors, 1997, p.vi). Due to the greater complexity of business lending as compared to mortgage lending, commercial loan officers have traditionally utilized their local presence to market their products and to gather information for making lending decisions, reducing the cost of providing credit while providing borrowers with better access to credit and potentially lower borrowing costs (Cole, 1998; Immergluck and Mullen, 1998; Strahan and Weston, 1996, p.1). The merger of local institutions into larger and distant organizations may impact these lending relationships, and consequently the availability or pricing of small business loans. A third, related concern is that consolidations may result in branch closings, and that the loss of lending personnel familiar with the needs of the local community, and the disruption of working relationships with individual loan officers will result in decreased credit availability, as well as the loss of the branch's anchoring presence in the community. On the other hand, some argue that consolidations should result in increased credit availability for small businesses and low-income communities as a result of the increased efficiency, safety, and liquidity that banks enjoy from belonging to larger and more diversified organizations (Keeton, 1997, p.1).

This section examines empirical studies of the impact of banking industry consolidation on changes in low-income residential and small business lending, as well as on changes in the distribution of banking offices. In general, the research reveals the following. First, research indicates that the number of banking offices in low-income communities declined substantially between 1975-1995, while the number of banking offices overall increased by one-third during the same period, although the population of low-income communities also declined during the period; and that mergers of banking organizations with offices in the same ZIP code area prior to the merger resulted in declines in the number of banking offices, and that these declines were significantly greater in low-income neighborhoods in urban areas than in non-low-income neighborhoods in urban areas between 1985-1995. However, mergers between a local institution and an institution with no offices in the local area showed no consistent significant correlation with changes in bank branching (Avery et al., 1999b). With respect to residential lending, research found that the number of home purchase mortgage loans made by banking organizations involved in consolidations consistently declined substantially in counties in which the acquired banking organization operated banking offices, both overall and across low- and moderate-income borrower and neighborhood categories, with acquisitions of banking offices by out-of-MSA banking organizations being associated with the most dramatic declines in lending (Avery et al., 1999a). At the same time, overall lending by these organizations did not decline during the period, leading the researchers to conclude that the decline in local lending represented a trend toward geographic diversification. However, Avery et al. (1999a) also found that the proportion of the

portfolio of the typical consolidating organization devoted to loans to lower-income and minority borrowers and neighborhoods in counties in which they had banking offices *increased* during the study period, and by larger numbers than changes among banking organizations not involved in combinations, suggesting that the CRA merger enforcement scheme may be having an effect. With respect to small business lending, the research reveals divergent results for mergers as opposed to acquisitions. Mergers resulted in a significant decrease in the proportion of small business loans made by participating institutions, across a variety of types of transactions and sizes of banking organizations. Acquisitions of equals and out-of-state-acquisitions tended to increase small business lending, while acquisitions of unequals and in-state acquisitions reduced small business lending; and depository institutions involved in acquisitions increased the proportion of loans in the largest loan size category. The research found that mergers and acquisitions both resulted in statistically significant increases in small business lending by other banks in their local market that essentially offset declines in lending at an institutional level by three years after the consolidation (Berger et al., 1998).

A. Distribution of Banking Offices

One of the concerns raised by the increasing consolidation of the banking industry is that the process of organizational restructuring may be resulting in the closing of banking offices, particularly in lower-income neighborhoods, affecting the availability of credit as well as banking services in these communities. While some commentators suggest that the number of banking offices may not be a reasonable proxy for the availability of banking services (Osterberg and Sterk, 1997), and that research directly measuring the quality, quantity, and pricing of banking services is necessary to clarify the impact of consolidation on the availability of banking services (Avery et al., 1999b, pp.531-32), others have found evidence that the proximity of an institution's branch networks to low- or moderate-income neighborhoods is related to the proportion of the institution's loans made in those neighborhoods (Immergluck and Mullen, 1998; Squires and O'Connor, 1999; Goldwater and Bush, 1996). In addition, community reinvestment advocates emphasize the economic and psychological significance of a local banking office to a community, since the local branch is typically the anchor business tenant, the most stable of all businesses, which not only attracts other businesses but supplies them with customers and financial resources with which to operate (NCCA, 1997, p.35).

In looking at changes in the distribution of banking offices between 1975 and 1995, Avery et al. (1997) found, contrary to expectations, that the total number of banking offices increased during this period by nearly 29 percent (38 percent increase in number of commercial bank offices, and 5 percent increase in the number of savings association offices). This change represented an increase of 38 percent in the number of banking offices in the first decade of the study period from 58,911 to 81,161 (with the number of savings association offices increasing 63 percent and the number of commercial bank offices increasing 29 percent), while the total number of institutions fell slightly. This increase was followed by a decline of about 6 percent in the number of banking offices in the second decade (to 76,056), while the number of banking institutions declined nearly 32 percent (Avery et al., 1997, pp.708-709). The six percent decline between 1985 and 1995 represented divergent trends, with the number of savings association offices dropping by about 36 percent, and the number of commercial bank offices continuing to increase, although at a much slower pace than the previous ten years, by about 7 percent.

Despite this overall increase, the Federal Reserve found that the number of banking offices in low-income neighborhoods declined during the 20-year study period by 21 percent (from 2,164 offices to 1,719 offices), and that the number of offices *per capita* in low-income areas declined by 6.4 percent (Avery et al., 1997, p. 719-29).[28] Between 1985-1995, the number of banking offices declined in all neighborhoods except those in the high-income category, with the reduction in the number of banking offices in low- and moderate-income areas together between 1985 and 1995 representing nearly two-thirds of the total decline in offices during that period, which had about one-fifth of all banking offices in 1985 (Avery et al., 1997, p.720). Avery et al. (1997) also found, however, that low-income areas had the highest number of offices per capita in 1975, and that combined with population declines in these areas during the period, there was relatively little difference in the per capita number of offices among neighborhoods across income categories by 1995 (pp.720-21, Table 7).

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[28] Nearly all of the general decline in the number of banking offices in low-income areas was in areas with low rates of owner occupancy, which are generally taken to denote business areas, while the number of offices per capita increased slightly in low-income areas with higher rates of owner occupancy (Avery et al., 1999, p.722).

While the overall percentage of banking offices in metropolitan areas remained fairly constant between 1975 and 1995, suburban areas gained share and central cities lost share during the 20-year period. This change corresponded to shifts in the population, suggesting that population shifts into suburban areas were a strong catalyst for office expansion (Avery et al., 1997, p.715). Overall, the proportion of offices in central cities declined from 35.6 percent in 1985 to 33.6 percent in 1995, and the proportion of offices in suburban locations rose from 37.2 percent to 39.0 percent during the same period (Avery et al., 1997, p.709, Table 3).

Furthermore, between 1975 and 1995 the number of banking offices increased in all neighborhood income categories within suburban and rural areas, but increased only in high- and middle-income neighborhoods in central city areas (Avery et al., 1997, p.721). However, the same general trends of high growth in the number of banking offices from 1975 to 1985 followed by a contraction from 1985 to 1995 appeared in every geographic category, including suburban areas, where the number of offices declined between 1985 and 1995, although the suburban share of banking offices grew during that period (Avery et al., 1997, p.715). Among central city ZIP code areas, those with the lowest incomes had the most banking offices per capita in 1995 (3.46 banking offices per 10,000 residents), while among suburban ZIP code areas, those with the highest income had the most banking offices per capita (3.42 banking offices per 10,000 residents).

Avery et al. (1999b) subsequently examined the correlation between bank consolidations and changes in the number of bank branches in local markets. Avery et al. classified banking offices geographically by ZIP code area and analyzed consolidation and branching data during two ten-year time periods, 1975-1985 and 1985-1995, and with respect to three different types of mergers: within-ZIP mergers (both the acquiring and acquired institutions had offices in the ZIP code area), within-market-but-not-within-ZIP mergers (both the acquiring and acquired institutions had offices within the same county or MSA), and out-of-market mergers (the acquiring institution was located outside of the ZIP code's market at the time of the merger).

Avery et al. (1999b) found that only consolidations between banking institutions with overlapping branch networks in the same ZIP code area were consistently related to declines in the number of banking offices per capita in a ZIP code area; and that the higher the percentage of offices involved in a within-ZIP merger, the larger the expected reduction (p.514). The authors found that declines in the number of banking offices in connection with within-ZIP mergers were significantly greater in low-income neighborhoods than in non-low-income neighborhoods for the 1985-1995 period in urban areas. The number of banking offices per capita in low-income areas also showed greater declines in connection with within-market-but-not-within-ZIP-mergers during the same period in urban areas (p.523). Out-of-ZIP mergers showed no consistent significant correlation with changes in bank branching.

The authors qualified these results with the finding that these declines in branch offices in low-income neighborhoods occurred only in those states in which state laws were eased during the study period to permit statewide branching, and were closely tied to changes in the number of savings association offices. Avery et al. conclude that these findings of differential impact in low-income urban areas may not be indicative of future branching patterns because most states now have unrestricted branching and because savings associations are less prevalent and financially healthier than in the past.

The authors did not find any consistent significant correlation between changes in bank branching and neighborhoods with a high proportion of minority residents; although the few instances where there was a significant interaction between minority neighborhood status and mergers showed increases in bank branches (Avery et al., 1999b, p.523).

B. Residential Lending

The Federal Reserve has also examined the impact of consolidation of banking organizations on home purchase mortgage lending between 1993-1995 and 1995-1997, both overall and to lower-income and minority borrowers and neighborhoods (Avery et al., 1999a). In order to assess the impact of consolidation activity on residential credit availability in the local neighborhood in which a banking office was involved in a consolidation, the authors distinguish between changes in banking organization behavior in counties in which a depository institution component of the organization had banking offices before the

consolidation, and therefore had a CRA obligation in the county, and changes in their behavior in counties in which a depository institution component did not have a banking office prior to the consolidation.[29]

The authors considered a number of factors in their analysis. Avery et al. (1999a) used three-year study periods in order to allow time for the effects of a consolidation to influence home purchase lending, and used two study periods in order to compare and contrast observed relationships.[30] Further, in order to take into account the geographic proximity of acquiring and acquired organizations, the authors divide consolidations into three types: within-county consolidations (both acquiring and acquired components of the organizations operated offices within the county; within-MSA-not-in-county-consolidations (acquiring component operated an office in the MSA containing the county but not in the county); and out-of-MSA-consolidations (acquiring component did not operate offices in either the county or its MSA) (p.92). Finally, in order to account for differences in size of the organizations involved in a consolidation, the authors group consolidations according to asset size: a small organization (assets of less than $250 million acquiring another small organization; a medium-sized organization (assets between $250 million and $10 billion) acquiring a small organization; a medium-sized organization acquiring another medium-sized organization; a large organization (assets greater than $10 billion) acquiring a small organization; a large organization acquiring a medium-sized organization; and a large organization acquiring another large organization (Avery et al., 1999a, pp.93-94).

Avery et al. (1999a) found that the number of home purchase mortgage loans made by banking organizations involved in consolidations declined substantially in counties in which the acquired banking organization operated banking offices, both overall and across low- and moderate-income and minority borrower and neighborhood categories, and showed greater declines (or less growth) than lending by non-consolidating organizations[31] (p.95). Specifically, the number of loans extended by banking organizations in counties in which they had banking offices involved in consolidations declined about 14 percent during the 1993-1995 period, and by 14 percent again during the 1995-1997 period, while the number of loans extended in those counties by banking organizations that were not involved in consolidations increased 3 percent during both periods, and total lending by all mortgage lending organizations increased by 3 percent in 1993-1995 and 17 percent in 1995-1997. The number of home purchase loans to minority borrowers by banking organization-county combinations involved in consolidations increased by 12 percent in the 1993-1995 period, and then decreased by 11 percent in the 1995-1997 period, while home purchase loans to lower-income borrowers declined by 13 percent and then 6 percent over the two study periods. In contrast, lending to minority borrowers by banking organizations not involved in consolidation increased by 26 percent and then decreased by 2 percent in the 1995-1997 period, while lending to lower-income borrowers by these non-consolidating banking organizations declined by 2 percent over 1993-1995, and increased by 1 percent over 1995-1997.

All three geographic types of consolidations were associated with declines in lending both overall and to lower-income and minority borrowers during the study periods, although lending by banking organizations involved in within-county consolidations showed the least change. Home purchase mortgage loans by banking offices acquired by out-of-MSA banking organizations declined by 27 percent between 1993-1995, and 23 percent between 1995-1997. These overall declines included a 20 percent decrease in mortgage lending to minority borrowers, and an 18 percent decrease in mortgage lending to lower-income borrowers. Within-MSA-but-not-within-county mergers resulted in declines in home purchase lending to minority borrowers of 34 percent, and to lower-income borrowers of 20 percent. In contrast, home purchase mortgage lending by banking organizations involved in within-county consolidations decreased by 8 percent to minority borrowers, while lending to lower-income borrowers showed no change.

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[29] The authors note that many banking organizations do considerable lending in areas where they do not have banking offices, often through affiliated mortgage and finance companies. Loans made by banking organizations in counties in which they had banking offices accounted for only 38 percent of overall home purchase lending in 1993. (Avery et al., 1999, p.91).

[30] The authors selected 1993 as the initial year of analysis because HMDA data for that year and after would include the information on income and race or ethnic origin of borrowers that had been included in HMDA beginning in 1990; and because 1993 was the first year that HMDA data included the activity of most of the nation's most active independent home purchase mortgage loans in metropolitan areas (Avery et al., 1999, p.82 n.6).

[31] To count as a consolidation in a given county, the consolidation must have involved the acquisition of a banking institution operating banking offices in that county. Counties in which only the acquiring institution operated banking offices were not considered to have had consolidations (Avery et al., 1999, p.87).

The authors conclude that these declines in home purchase mortgage lending by consolidating organizations in areas where they operated banking offices were attributable to a trend toward geographic diversification of lending activity, and not to overall reductions in lending by the consolidating organizations. Avery et al. (1999a) found that overall home purchase lending by these organizations in fact grew 16 percent during the 1993-1995 period and 22 percent during the 1995-1997 period, with virtually all of the growth in counties in which the acquired banking organizations did not have banking offices at the beginning of the study period (p.96). For example, between 1993 and 1997, banking organizations increased their overall lending by 69 percent in areas where they did not have banking offices at the beginning of the period, but by only 8 percent in those counties where they did operate banking offices, with similar differences in growth rates for the four borrower and neighborhood lending categories (Avery et al., 1999a, p.91). The authors speculate that this diversification may have been fueled by acquisitions of large, previously independent mortgage banking organizations and an expansion of activity by previously affiliated mortgage and finance companies. Also, increased standardization in the home purchase mortgage market, facilitated by changes in the secondary market and the growing use of automated underwriting, may be reducing the need for local presence in originating home purchase mortgage loans.

Notwithstanding the overall declines in lending in local markets, the authors found that the typical consolidating organization increased the *proportion* of its portfolio devoted to loans to lower-income and minority borrowers and neighborhoods in counties in which it had banking offices; and that these increases were generally larger (or less negative) than changes among banking organizations not involved in combinations. For example, during the 1993-1995 period, the typical organization involved in consolidation increased its portfolio share of loans to minority borrowers by 31 percent, compared with 21 percent for the typical organization not involved in a consolidation (Avery et al., 1999a, p.97, Table 9). The consolidating organizations increased their portfolio share of lending to lower-income borrowers in the same period by 3 percent while the portfolio share of lower-income lending declined by 5 percent for organizations not involved in a consolidation. The authors conclude that these results are consistent with the view that the CRA has been effective in encouraging banking organizations, particularly those involved in consolidation, to serve lower-income and minority borrowers and neighborhoods in their local communities (Avery et al., 1999a, p.97). As the authors point out, however, a banking organization may have a growing portfolio share of lending to a given population, yet a shrinking presence overall in lending to that population in terms of absolute numbers of loans or market share (Avery et al., 1999a, p.93).

In contrast to their findings at the organization level, the authors found that the overall level of consolidation activity within a county had little effect on total home purchase lending or on lending to either lower-income or minority borrowers or neighborhoods within a county[32] (Avery et al., 1999a, p.89). Thus, the authors conclude that the overall reduction in lending in local markets at an institutional level was generally more than offset by expanded home purchase mortgage lending in geographic areas where banking organizations did not operate banking offices, by both the banking organizations and independent mortgage and finance companies and credit unions.

C. Small Business Lending

The traditional reliance of small businesses on local commercial banks for external finance has caused concern about the impact of the restructuring of the banking industry into larger organizations headquartered outside of local markets. Various studies have verified a correlation between the location of banking offices and small business lending. Berger et al. (1998) report that 84.9 percent of small businesses utilize the services of a commercial bank within 30 miles (p.196). Immergluck and Mullen (1998) found that in the Chicago metropolitan area, banks with a high percentage of small business loans in low- and moderate-income areas tended to be small- to medium-sized institutions, and to have relatively high proportions of their branches located in and near central city and low- and moderate-income tracts. Conversely, many of the Chicago area's largest banks and bank holding companies with extensive networks of branches concentrated more in affluent than in low-income areas tended to make a smaller proportion of their loans to firms in low- and moderate-income areas. Squires and O'Connor (1998) found a similar

[32] Consolidation activity within a county was characterized as low if the proportion of loans extended by organizations involved in consolidation was less than or equal to the median share of loans extended by organizations involved in consolidation for that period. Characterization as a high consolidation activity county meant that the proportion of loans extended by organizations involved in consolidation was greater than the median share of loans extended by organizations involved in consolidation for that period (Avery et al., 1999a, p.87).

pattern; lenders with branches in economically distressed census tracts in Milwaukee made 6.6 percent of their loans in low-income tracts, compared to 5.1 percent for lenders without a branch in the low- or moderate-income neighborhood. Padhi et al. (1999) also found branch presence a significant factor in the amount of small business loans that are originated in a given census tract

Economists also have consistently found that larger institutions generally devote a smaller proportion of their assets to small business lending than do smaller institutions, raising the concern that as the industry becomes dominated by larger institutions, small business credit will decline.[33] Based on June 1997 call report data, banks with less than $100 million in assets invested about 9 percent of their portfolios in small business lending, whereas banks with over $10 billion in assets invested about 2 percent of their assets in these loans (Berger et al. 1998, p.188). Other studies have found similar trends (Berger et al., 1995; Keeton, 1995; Peek and Rosengren, 1996; Strahan and Weston, 1996). Along similar lines, research also suggests that the smallest small businesses fare better in obtaining credit from smaller institutions, in part as a result of findings that large banks may utilize a so-called "cookie-cutter" approach to loan approval decisions, in contrast to smaller bank reliance on character and pre-existing relationships in evaluating small business borrowers (Cole et al., 1999); and that large banks hold a higher proportion of loans for larger, older, and more financially secure businesses than smaller banks (Haynes et al., 1999).

In response to these concerns, a number of studies have assessed the impact of mergers and acquisitions on small business lending in the last several years. Since 1993, all insured depository institutions have been required to report the outstanding amount of small business loans in their Reports of Condition and Income filed with their federal banking regulators in June of each year (Board of Governors, 1997). In these "call reports," banks report small business loans in two classes (commercial and industrial loans and commercial real estate loans) and in the same three size categories as CRA reporting, although with no geographic information (Peek and Rosengren, 1998). The other principal source of small business lending data used in the research is the Federal Reserve's Survey of the Terms of Bank Lending to Businesses (STBL), which contains detailed information on loan terms for about 50 banks with the largest volume of commercial and industrial loans, and a sample of loans made by about 300 additional banks per quarter since the late 1970s (Board of Governors, 1997, p.39). While the STBL data is less comprehensive in terms of total bank coverage, it provides a longer time frame for analysis (Berger et al., 1998).

The research suggests that the impact of banking organization consolidations on small business lending may be sensitive to a broad range of variables, such as the relative sizes of the surviving and the target participants, the lending proclivities of the participants prior to consolidation, or the geographic proximity of the acquiring organization. The earliest studies (Berger, Kashyap, and Scalise, 1995; Keeton, 1995, 1996; Peek and Rosengren, 1996) supported the idea that mergers reduce small business lending on net. This section examines a recent study that attempts to capture simultaneously several of these effects on small business lending, and concludes in general that lending by consolidating organizations does result in decreases in lending in the short term, but that this decline is generally offset by lending by other organizations in the local market over time. However, the impact of these changes on particular business customers in the short-run as a result of the disruption of lending relationships, and the broader impact on lower-income borrowers and communities in general, requires further research.

Using a data base that includes the majority of U.S. bank mergers and acquisitions from the late 1970s to the early 1990s, Berger et al. (1998) analyze the impact of consolidations from the perspective of four types of potential effects. The first three, which relate to the effects of mergers or acquisitions on the small business lending of the participants, are the "static" effect (change in lending propensities resulting from simply combining the balance sheets of the participating banks into a larger pro forma institution); the "restructuring" effect (the change in lending that follows from any restructuring of the institution in terms of its size, financial characteristics, and local market competitive position); and the "direct" effect (the change in lending by the consolidated institution attributable to a change in lending focus above and beyond the changes associated with the transformations of institution size and other characteristics created by the static and restructuring effects, capturing the difference in lending between the new "restructured" institution and the lending of an otherwise similar institution that has not undergone a recent merger or acquisition). The fourth is the "external" effect, and refers to responses by other depository institution (but not

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[33] While large banks may devote only a small proportion of their assets to small business lending, their greater size adds up to a nonetheless substantial role in the small business lending market. According to the Federal Reserve, large banks currently account for approximately 30-40 percent of total small business loans outstanding (Board of Governors, 1997, p.16).

nonbank) lenders in the same local market.[34] Importantly, Berger et al. include data three years following a merger or acquisition to allow for the latter three "dynamic" (non-static) effects to occur. Small business lending is comprised of loans less than $1 million, and is measured as a proportion of gross total assets.

In general, Berger et al. found that the static effect of mergers tended to substantially reduce small business lending, consistent with prior research although acquisitions did not appreciably reduce small business lending by the acquired institutions. However, the authors found in both cases that the declines were largely if not fully offset by dynamic effects that included increased lending by other banks in the same local market.

1. Mergers

Examining mergers involving 6,369 banks that merged between 1977 and 1992, which reduced their number to 2,508, Berger et al. found that the institutions involved in mergers reduced their small business lending as a proportion of assets by 41.6 basis points, which translated into $20.2 billion over the study period. Static effect alone reduced the small business lending proportion of the pro forma banks by 53.3 basis points, or one-half of one percentage point, amounting to approximately $25.8 billion less small business lending or 16 percent of total small business lending in 1995 (Berger et al., 1998, p.212). The positive restructuring and direct effects somewhat offset this negative static effect by increasing small business lending by 6.7 and 4.9 basis points, or $3.5 billion and $2.6 billion, respectively. Thus, by the end of three years after mergers, the negative static effect is only slightly offset by the positive restructuring and direct effects. However, Berger et al. (1998) estimated the external effect of lending by other banks in the local market as increasing small business lending by $48.6 billion over the study period, more than offsetting the reduction in lending at an institutional level by the merging banks (p.222).

Berger et al. found that mergers of small and medium-sized banks (with gross total assets of less than $1 billion) resulted in increased small business lending, consistent with Peek and Rosengren (1996, 1998) and Strahan and Weston (1996, 1998); and that mergers of large survivor banks (gross total assets of $1 billion or more) with either large or medium-sized target banks resulted in declines in small business lending. The authors speculate that this result may be attributable to the fact that mergers of small- and medium-sized banks allow the participants to increase their business lending as a whole, most of which is restricted to small business lending because of legal lending limits and limited diversification. For example, a bank with $50 million in assets and a 6 percent equity capital ratio has a legal lending limit to a single borrower of $450,000 (15 percent of equity). A merger with a similar bank would double the size of loans and commitments that are permitted, with the additional loan amount still counting as small business lending (Berger et al., 1998, p.217).

2. Acquisitions

In contrast to mergers, Berger et al. found that acquisitions in which a depository institution is acquired by a new top-tier holding company but retains its charter, did not appreciably reduce the proportion of small business lending by the acquired institution. Looking at the effects of 4,146 acquisitions, the static effect resulted in a decline in small business lending of 63.8 basis points, or $7 billion, the restructuring effect was very small (3.2 basis points, or $.35 billion), and the direct effect showed increased lending of 61.6 basis points, or $6.8 billion, that essentially offset all of the static effect (Berger et al., 1998, p.213).

This overall result of essentially no change in small business lending related to acquisitions masks some significant differences related to the size of the organizations involved. Acquisitions of large banking organizations by other large organizations tended to increase small business lending, while acquisitions of smaller organizations by large organizations tended

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[34] Local market effect is assessed based on evidence that small businesses rely on nearby banks for financial services, such that small loans size may be a proxy for local effect (Berger et al., 1998, p.220).

to decrease small business lending (Berger et al., 1998, p.217). Berger et al. speculate that these differing results may reflect differences in the purpose behind the acquisition. For instance, the very largest acquisitions may often be for the purpose of market expansion by aggressive acquirers who wish to expand all types of lending.

Depository institutions involved in acquisitions also increased the proportion of loans to medium and large businesses more than was the case for banks involved in mergers. Berger et al. found that lending in the largest loan size category, over $25 million, reflected a large positive static effect, suggesting that larger bank holding companies may allow acquired banks to initiate more large loans as a result of improved overall diversification.

Looking at changes by type of merger or acquisition, Berger et al. found that all categories of mergers (mergers of equals, family mergers, all mergers) tended to reduce small business lending by comparable amounts, but that the zero overall effect of acquisitions also masked varying results by type of acquisition[35] (p.215, Table 4). Acquisitions of equals and out-of-state acquisitions showed increased lending, while acquisitions of unequals and in-state acquisitions yielded negative effects on small business lending (-6.1 basis points and -61.0 basis points, respectively) (p.215). The results of out-of-state acquisitions run contrary to some other literature, and against the conventional wisdom that out-of-state acquirers impose non-local policies and procedures that inhibit relationship-driven small business lending (Keeton, 1997; Whalen, 1995).

Berger et al. suggest that the difference in impact between mergers and acquisitions may be that acquisitions are associated with keeping mostly the same lending policies and procedures and loan officers within the bank, so that the acquired bank's loan officers can maintain their ties to the local community that enable them to continue extending relationship-based loans to small, informationally opaque borrowers, minimizing the impact of the consolidation on small business lending. The choice of a merger, on the other hand, may more often be associated with a strategic decision to integrate the acquired bank more fully into the acquiring organization, rather than maintaining its local identity, making it less inclined or less able to extend relationship-based small business loans. However, Berger et al. point out that acquisitions may still have important effects on small business lending in the long run if these acquisitions are preludes to family mergers over the following few years. In some cases, an acquired bank is merged with an existing bank holding company affiliate some time after the acquisition, which then yields a reduction in small business lending. Nearly a quarter (23.7 percent) of newly acquired banks engage in family mergers in the three years following acquisition. Further, Berger et al. suggest that family mergers are likely to increase dramatically in the near future, as the Riegle-Neal Act of 1994 removed most of the restrictions on family mergers across state lines as of June 1, 1997 (Berger et al., 1998, pp.213-14).

3. External Effects

Estimating the impact of mergers and acquisitions on lending by other banks in the same local market, Berger et al. found that both mergers and acquisitions resulted in statistically significant increases in small business lending by other banks in their local market that essentially offset declines at an institutional level by three years after the consolidation (p.222).

4. Issues for Further Research

While the offsetting impact of external effects on small business lending is promising, a critical question is the effects caused by the disruption in the supply of funding. For example, if it takes two to three years for the market supply to respond to the decline caused by the withdrawal of a bank because of a merger or acquisition, "will the affected small firms have the internal resources to ride through the storm?" (Small Business Administration, 1997, p.12).

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[35] Mergers of equals are mergers in which the surviving bank had between one-third and two-thirds of the pro forma bank's gross total assets before the merger. Family mergers are mergers in which both banks were already in the same top-tier bank holding company prior to the merger. Acquisitions of equals are acquisitions in which the acquiring bank holding company's gross total assets before the merger was between one-third and two-thirds of the pro forma holding company's gross total assets. An out-of-state acquisition is an acquisition in which the bank was purchased by an out-of-state holding company. (Berger et al., 1998, p.216, Table 4.)

One suggested possibility for being able to examine these issues is development of a database linking borrowers and lenders, in order to better understand borrowing and lending behaviors of small businesses and post-merger banks (Small Business Administration, 1997, p.12). One study has attempted to address this question by examining results of a survey of small businesses that elicited information about the firms' most recent attempt to locate financing. (Scott and Dunkelberg, 1999). Among its questions, the survey asked whether the firm's principal financial institution had been bought out or absorbed by another, with follow-up questions regarding how the change had affected the firm. The researchers concluded that consolidation did not impair, and may even have enhanced, credit availability; and they found no significant adverse effect on interest rates or loan-to-value ratios. However, consolidations did appear to be associated with a higher probability that a bank would require the small firm's use of additional financial services as a condition of the loan, and higher fees on other bank services, which resulted in higher frequency of shopping for a new financial services provider by firms experiencing a merger.

V. THE FUTURE OF FEDERAL COMMUNITY REINVESTMENT POLICIES

Given the fundamental changes in the marketplace, what does the future hold for the Community Reinvestment Act as currently structured? How should federal lawmakers and regulatory officials think about the community obligations of non-traditional financial institutions?

The twenty years since passage of the CRA have seen two principal alterations in the financial marketplace that may limit the reach and effectiveness of the CRA regime. First, the proliferation of non-branch delivery systems for banking products and services such as internet banks, e-commerce, the U.S. mail, and the telephone, have challenged the definition of the "community" to be served for purposes of CRA compliance. To the extent that the geographic focus for evaluating bank CRA performance continues to be the area surrounding physical facilities (even if they be more modern incarnations such as supermarket kiosks or ATMs), then a growing portion of bank lending and other activities will fall outside the purview of CRA review. Second, the combination of interest rate and other banking deregulation, increased competition in the financial services industry, and technological innovation has resulted in a shift of financial assets out of depository institutions that are subject to the CRA's mandate and into nonbank financial services providers such as insurance companies, mutual funds, pension funds, and finance companies. In 1977 when the CRA was passed, depository institutions held nearly 40 percent of the country's total financial intermediary assets. By 1995, that number was less than 22 percent (Litan, 1997, pp.63-65). As the segment of the financial services community subject to any CRA obligation diminishes, so will the dollar amount of CRA-type lending or investments. Thus, changes in the financial marketplace threaten to pull the rug out from under the CRA by limiting its geographic scope and its financial base.

This section examines the community reinvestment policy implications raised by the "non-traditional" financial institutions denoted by both of these market developments. It examines recent rulings by the banking regulators defining the CRA assessment area applicable to various non-branch delivery systems; the potential for using technology to improve low-income access to depository and payment services; and proposals for extending the CRA to the nonbank financial services providers that are taking the place of banks and thrifts in many areas of financial intermediation. The section concludes by looking at some proposed modifications of the CRA enforcement scheme, and where Federal community reinvestment policy currently stands.

A. Defining the Community: Assessment Area Issues

One of the current challenges to enforcement of the CRA is how to adapt the CRA mandate for depository institutions to help meet the credit needs of the local "community" they were chartered to serve to institutions that deliver banking services regionally or nationally through non-branch delivery systems such as the internet, credit cards, or insurance agents. Under the revised regulations, a financial institution's CRA performance is evaluated within its geographic "assessment area." A financial institution (other than a wholesale or limited purpose bank) is directed to delineate its assessment area or areas to correspond to MSAs or contiguous counties, cities, or towns and to include the whole "geographies in which the bank has its main office, its branches, and its deposit-taking ATMs, as well as the surrounding geographies in which the bank has originated or purchased a substantial portion of its loans."[36] CRA advocates assert that the "surrounding geographies" language would include areas where an institution has agents or conducts business through electronic means.[37]

Three of the banking regulators addressed the assessment issue this year in the context of applications that involved the delivery of banking products and services through the internet and through a nationwide network of insurance agents. While the Office of the Comptroller of the Currency (OCC), the Federal Reserve, and the Office of Thrift Supervision (OTS) all maintained

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[36] 12 C.F.R. § 25.41. "Geography" refers to a census tract or a block numbering area delineated by the Bureau of the Census in the most recent decennial census. 12 C.F.R. § 25.12(l))

[37] Letter from Malcolm Bush, President, Woodstock Institute, and Convenor, Chicago CRA Coalition, to John D. Hawke, Chair, Federal Financial Institutions Examination Council (Feb. 22, 1999). The Woodstock Institute and the Chicago CRA Coalition propose a standard for determining where a financial institution conducts sufficient business to warrant a new assessment area based on wherever (i) the financial institution has a significant share of the loan market or deposits (.05 percent) and/or (ii) the number of loans/deposits represents a large portion of the institution's total portfolio.

assessment area delineations based on physical facilities, the OTS appears to be reading the assessment area delineation more broadly.

In July, 1999, the OCC (1999) approved the application of Canadian Imperial Bank of Commerce (CIBC) to charter a new full-service national bank that would have no traditional banking offices but would deliver its products and services through ATMs, through the internet via a transactional website, and through the bank's toll-free customer service line. Customers would be able to access all of these electronic delivery channels at kiosks located on the premises of a grocery store chain. Each kiosk would house a dedicated phone line to the bank's call center and a computer with dedicated access to the bank's website. A bank ATM would be placed on an external wall or otherwise adjacent to the kiosk. The kiosk would be staffed with a part-time customer service representative who would facilitate use of the electronic delivery channels, but would not have the ability to accept deposits, approve loans, negotiate interest rates, or otherwise commit the bank to transactions or activities. The bank planned to offer deposit products including no-fee checking and savings accounts earning above-market interest rates, certificates of deposit, electronic bill payment, and an ATM card. Loan products would be limited initially to unsecured consumer loans, but might later include residential mortgages, secured consumer loans, and credit cards. Based on the location of the bank's main office and initial kiosks in the Orlando, Florida area, the OCC decided that the bank's plan to designate the Orlando MSA as its initial assessment area was appropriate, and summarily rejected the idea that this assessment area delineation would not be consistent with the bank's plans to operate on a nationwide basis via the internet. The Federal Reserve thereafter likewise approved CIBC's bank holding company application to acquire the newly chartered national bank, finding that convenience and needs considerations were met by the bank's definition of its assessment area in the Orlando MSA and by its satisfactory prior CRA record (Federal Reserve System, 1999).

In November, 1998, the OTS (1998) granted a thrift charter to State Farm Mutual Automobile Insurance Company, the largest automobile, property, and casualty insurance company in the country. The new thrift, State Farm Financial Services, F.S.B., would be based in the State Farm headquarters complex in Bloomington, Illinois, would also operate in the St. Louis area, and eventually expand operations throughout Illinois and Missouri, to Arizona, and other states. The thrift planned to offer a full range of banking services, including taking deposits and making various types of home mortgage, auto, and home equity loans, by direct mail and through its nationwide network of independent agents, to State Farm's insurance customers.

Although State Farm's CRA assessment area was defined as the Bloomington-Normal MSA in which its headquarters is located, State Farm's CRA commitments were much broader. The OTS press release accompanying the approval asserts that State Farm's thrift committed to make $195 million in loans to low- and moderate-income borrowers in the states served by the new thrift during the first three years of operation, and set a long-term goal of CRA-related loan commitments and activities equal to the greater of 5 percent of the thrift's assets or the amount of deposits generated from low- and moderate-income persons (OTS, 1998). The thrift also agreed to review the extent of insurance agent participation in the distribution of its credit products in each state it enters and how that would affect the thrift's CRA and fair lending performance; agreed to provide CRA and compliance training to State Farm field coordinators and officers; hired a director of residential lending experienced in community development activities; planned to participate in a variety of community organizations and programs; agreed to create a national community advisory council at the time its operations expand beyond the initial three states; and agreed to submit to OTS a quarterly analysis of the disposition of the thrift's loan applications by race, income, and geography, as well as the price, terms, and conditions of approved loans.

OTS Director Ellen Seidman articulated the rule underlying the State Farm ruling that would apply to other thrift charter applications that propose nationwide or super-regional home mortgage or multi-product consumer lending through non-traditional means with a single main office or branch. Seidman stated that the thrift "must demonstrate its capacity to achieve satisfactory CRA performance (i) by at least adequately addressing the needs in its main office assessment area, given the performance context of its operations in that area, (ii) by showing that the prospects for its retail products penetrating low- and moderate-income markets in the regions it reaches outside its assessment area are favorable, and (iii) by demonstrating that its community development lending, qualified investments and community development services provide appropriate levels of benefit to appropriate markets throughout the scope of its thrift operations" (Seidman, 1999). Seidman emphasized that State

Farm's thrift's assessment area would be limited to the MSA surrounding its Bloomington, Illinois headquarters only initially; and that the OTS would evaluate the institution's performance in other states and regions as the thrift's operations expand there.

According to Seidman, the banking regulators have considered several other alternatives for adjusting the idea of community underlying the definition of an institution's assessment area. First, expand eligibility for the community development test from wholesale and limited purpose banks to a larger variety of nontraditional institutions. This test evaluates community development lending, investments, and services in the institution's assessment area as well as the broader statewide or regional area that includes the assessment area, or beyond, and could accommodate nationwide deposit or lending activities. Second, expand the regulatory definition of assessment area to include areas where an institution gathers a substantial amount of its deposits or makes a substantial portion of its loans. Third, use customer-based assessment areas, based on the location of customers rather than branch location, which is presently the approach used under the regulations for institutions that serve military personnel or their dependents. Fourth, use the strategic plan option, which permits an institution to develop its own plan, in consultation with community representatives, for helping to meet community credit needs. As an example, Seidman (1999) describes the strategic plan recently approved by OTS for Household, FSB, which established goals for community development activities within the Chicago metropolitan area where its home office is located, as well as customer-based lending goals based on the nationwide membership of the AFL-CIO (p.5).

B. Digitization of Commerce: Low-Income Access to Depository and Payment Services

Technological changes in the delivery of banking products and services also raise issues with respect to low-income access to depository and payment services. While some community reinvestment advocates warn that technologically-driven delivery systems will further marginalize low-income people from mainstream finance because they lack access to home computers or computer training, others suggest that the lowered costs and increased alternatives present an opportunity for expanded access to affordable and reliable depository and payment services.[38]

Fueling this divergence of views is research that reveals the growing extent to which the basic financial services needs of low-income households are met by alternative financial institutions. Caskey (1994) documents the dramatic increase in the number and use of commercial check-cashing outlets and pawnbrokers since the 1980s, and the critical role that this system of "fringe banks" plays in the financial system by providing basic credit and payment services to millions of low- and moderate-income households that rarely interact with the formal banking system. Caskey suggests that this boom in fringe banking reflects falling standards of living of many lower-income households and consequent reduced ability to save, combined with the deregulation of interest rates and increased competition in the financial services markets resulting in elimination of previously cross-subsidized services such as low-cost, small-balance deposit accounts, and the closing of unprofitable or marginally- profitable branches, many of which were in low-income areas. However, Caskey and Stegman (1999) also suggest that lower-income households use fringe banking alternatives because their product and service offerings and fee structure better fit their needs. For example, check cashing outlets may offer "payday loans" or "deferred presentment" for small amounts and for short periods; and may be less intimidating, and offer more personal contact, than mainstream institutions. Nonetheless, fringe banks are problematic because households that utilize them pay more for basic financial services than households that maintain financial savings and use mainstream financial institutions, and because they afford none of the Truth-in-Lending or other consumer protections afforded by mainstream financial institutions (Caskey, 1994; Hogarth and O'Donnell, 1999).

The potential of technology to enhance low-income access to mainstream depository and payment services has been an important focus in the Treasury Department's implementation of the Debt Collection Improvement Act of 1996 (commonly referred to as "EFT'99'"), which required that all recurring Federal payments (other than tax refunds) be made by means of

[38] One study has shown that the average cost of completing a banking transaction through a telephone call center, ATM, or internet is $ .54, $ .27, and $ .01, respectively, as compared to $1.07 for a traditional branch. Booz, Allen & Hamilton, "Consumer Demand for Internet Banking," July, 1996, III-5F (cited in Comptroller of the Currency, 1999, p.7 n.15). Based on these costs, the Canadian Imperial Bank of Commerce plan to provide services through a supermarket kiosk equipped with internet access and staffed by trained personnel, for example, would seem to offer a workable model for low-income communities.

electronic funds transfer by January 2, 1999.[39] Part of the significance of EFT'99 is that it also required creation of an Electronic Transfer Account (ETA) for the unbanked, through which recipients may receive their benefits (Hogarth and O'Donnell, 1999, p.468). Litan (1997) suggests that implementation of the law may well provide the occasion for bringing the 15 percent of American households presently without bank accounts into mainstream finance, and the ambit of affordable and reliable payment and deposit services. Likewise, Stegman (1999) argues that if combined with an economic literacy campaign and a national individual development account (IDA) savings initiative, the law could be the first step towards helping the working poor to accumulate savings and become financially self-sufficient. IDAs are dedicated savings accounts that can be used only for purchasing a first home, for education or job training expenses, or for capitalizing a small business. Deposits from salary or wages by lower-income individuals into their IDAs are matched on a dollar-for-dollar basis using both public and private sources. Stegman suggests that a national IDA program could be put in place for as little as $100 million a year, less than the $195 million annual savings that EFT'99 makes possible, and only a fraction of the $17 billion, ten-year cost of the Roth IRAs Congress made available to higher income workers in 1997[40] (Stegman, 1998).

Stegman suggests that inclusion of lower-income individuals in mainstream banking through the direct deposit mechanism of EFT'99 provides an important link to enhanced credit access, by enhancing the ability of the working poor to accumulate savings and become creditworthy. Stegman suggests that CRA enforcement can be enhanced in several ways to support the transition to electronic benefits transfer, which he argues will ultimately increase the demand for mortgages and other mainstream loan products. First, financial institutions should receive CRA credit for offering and heavily marketing ETA and other low-cost/no-cost depository and payment services. In particular, banking regulators should examine the extent to which an institution markets and promotes the use of these accounts through direct or indirect support of financial education services, based on research indicating that giving the unbanked inexpensive access to account services without intensive outreach will fail to draw many of them into the mainstream banking system. Second, regulations should be clarified and codified to ensure that institutions receive CRA credit for participation in IDA programs, such as by providing free checking and ATM services to low- and moderate-income IDA account holders, or deposit subsidies or matching dollars to an IDA program, or participation of bank management or staff in the development or implementation of financial education and training for low- or moderate-income IDA holders. Third, increase the weight assigned to the services test in the CRA compliance examination scheme. Presently, delivery systems for banking services other than bricks and mortar branches may be awarded CRA credit, but only to the extent they are effective alternatives to branches in providing needed services to low- and moderate-income areas and individuals. Stegman suggests that giving more weight to the services component might give banks an incentive to re-examine how they provide basic financial services.

Apart from EFT'99, there have been a variety of proposals for ways to use technology to lower costs and increase low-income access to depository and payment services, both through the mainstream banking system and through fringe banks (Hogarth and O'Donnell, 1999, p.472). For example, Caskey proposes that we follow what he calls a European model, which is to offer low-cost, low-minimum balance savings accounts (rather than low-cost lifeline checking accounts) combined with low-cost convenient access to money orders. Pointing out that money orders can now be delivered through reconfigured ATM machines, Caskey envisions an ATM machine printing a money order and dropping out an envelope and a stamp, so all that needs to be done is to fill in the name of the person being paid and to drop it in the mail. The primary benefit of this system would be to help people avoid bounced check fees, which are normally $20 or $25, and tend to be incurred by the people with low-balance accounts, who can least afford it. Indeed, Caskey points out that because of the bounced check fees, many low-income people who are using banks would find it cheaper to use check-cashing outlets, paying the fees to cash checks and purchase money orders. Another example of technological innovation serving the particular needs of low-income people is the use of ATM networks for money transfer. Caskey describes the Envia Card, which is an account with two ATM cards offered by Banco Popular in Puerto Rico. The accountholder keeps one and sends the other to a family member elsewhere (in the Dominican Republic, for example, because a

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[39] Pub. L. No. 104-134, ch. 10, 110 Stat. 1321 (April 26, 1996), codified at 31 U.S.C. § 3332. The Treasury Department's regulations implementing the law, promulgated in September, 1998, are codified at 31 C.F.R. Part 208.

[40] Senator Joe Lieberman has introduced a bill to promote IDAs by awarding banks a tax credit of up to $300 for each IDA account to which they contribute. Only individuals making less than 60 percent of their area median income would be eligible to participate (on average less than $22,000 per year). See The Savings for Working Families Act, S.895 (introduced April 29, 1999).

great deal of money transfers go on between the two places). Currently, the cost of such a transfer is $20; but with the Envia Card, Banco Popular can do it for $3.00.

Other proposals and experiments involve taking advantage of the existing fringe banking system that is effectively serving many low-income communities. Caskey (1994) suggested that check-cashing outlets be permitted to function as agents for banks by taking deposits. This arrangement would permit people who live in communities without bank branches to obtain bank payment and deposit services locally, while saving banks the cost of establishing a full-service branch. While check cashing outlets are not "financial institutions" eligible to offer deposit accounts or to receive electronic deposits directly from the government under Treasury's EFT '99 regulations, some check cashers have developed hybrid arrangements that permit consumers to open an account with the financial institution and then move the funds into an intermediary account that consumers can access through check cashing outlets, although these arrangements are not covered by FDIC insurance or other consumer protections (Hogarth and O'Donnell, 1999, p.470). In another arrangement, the National Check Cashers Association (NaCCA), in collaboration with a depository institution, offers a debit card to consumers without bank accounts who frequently cash Federal benefit or payroll checks at check cashing affiliates of the association, that permits debit card purchases or ATM withdrawal at any NaCCA-member check cashing outlet in the country (Hogarth and O'Donnell, 1999, p.471). Stegman (1999) offers other examples of a growing number of collaborations between banks and check cashers.

In terms of consumer education, one byproduct of EFT '99 has been the creation of the Financial Services Education Coalition, comprised of Federal agencies, bank trade associations, and consumer and community groups, including the Federal Reserve, the American Bankers Association, and the National Community Reinvestment Coalition. This Coalition has produced a resource guide for community-based educators with information on planning, implementing, and evaluating EFT '99 education programs in their communities[41] (Hogarth and O'Donnell, 1999, pp.469-70). According to Hogarth and O'Donnell, staff of the Coalition have worked with church groups, housing service providers, senior citizen groups, nutrition programs, and tribal councils to reach consumers with information on choices for receiving federal payments.

C. Nonbank Financial Institutions: Extending the Reach of the CRA

The last thirty years have seen the shift of an increasing portion of domestic financial assets out of depository institutions and into nonbank financial intermediaries comprised of four major types of nonbank institutions: mutual funds, pension funds, insurance companies, and finance companies. D'Arista and Schlesinger (1993) coined the term "parallel banking industry" to denote these nonbank financial intermediaries that have taken over many of the functions traditionally served by depository institutions. In addition to holding more than two-thirds of Americans' long-term savings and investments, as compared to less than one-third in the mid-1970's, nonbank intermediaries now serve as the primary source of credit for many American households and businesses (Pinsky and Threlfall, 1996, p.1).

Many commentators and CRA advocates propose that a reasonable and meaningful public policy would extend a community reinvestment obligation to the full spectrum of financial institutions, including the parallel banking industry, as a practical necessity for ameliorating conditions in distressed local economies, as well as to level the playing field in the financial marketplace. In particular, they argue that the expectation of a commensurate community reinvestment responsibility from parallel banks is justified by the reliance of these nonbank institutions on the same or comparable governmental, taxpayer-supported benefits as the banking industry, such as direct access to Federal guarantee programs and State guarantee associations, as well as indirect access to back-up credit and liquidity from the conventional banking system (D'Arista and Schlesinger, 1993; Southern Finance Project, 1995; Pinsky and Threlfall, 1996).

Proposals to tailor reinvestment obligations to the non-bank institutions that make up the parallel banking industry include vehicles for direct involvement in low-income communities, as well as indirect involvement through partnerships with CDFIs. Pinsky and Threlfall (1996) suggest that direct involvement in low-income communities might be accomplished through

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[41] Financial Services Education Coalition, "Helping People in Your Community Understand Basic Financial Services."

"distribution" requirements for nonbank investment and loan portfolios. For example, finance companies might be required to target a percentage of their total lending at affordable rates to low-income households that meet certain income requirements; in turn, favorable ratings of finance company commercial paper issues could reflect the company's demonstrated ability to consistently target affordable loans to low-income populations. Savings instruments such as mutual funds and pension funds could be tailored to meet the savings and investment needs of low-income individuals, possibly on the model of IDAs that help low-income individuals accumulate wealth and direct savings towards high-yield public purpose investments such as education, business creation, and home ownership. The creation of similar "asset building" mutual funds for low wage earners could help lower-income households save for the future and also provide an entry point for participation in the parallel banking system.

Alternatively, parallel banking institutions could fulfill a community reinvestment role through indirect means, by partnering with CDFIs through various types of investments, loans, or management of lending pools in the same manner as conventional banks have done (Pinsky and Threlfall, 1996, p.14). Other proposals include the possibility that aggregated savings instruments like pensions and mutual funds make investments in for-profit CDFIs, or equity-like investments in non-profit CDFIs, on the model of socially responsible mutual funds. Or, as proposed by the Southern Finance Project (now known as the Financial Markets Center) (1995), creation of a National Reinvestment Fund (NRF), not unlike the concept of the CDFI Fund, but to be financed with mandatory investments by all private nonbank financial institutions and managed on a regional basis by the 12 Federal Reserve Banks. The NRF would capitalize the growth of existing CDFIs and provide seed capital for new CDFIs; and provide credit enhancements, financial guarantees, and policy coordination for federal loan-guarantee programs (Southern Finance Project, 1995).

As a practical matter, the controversy over the CRA that preceded passage of the Gramm-Leach-Bliley Act in November, 1999, suggests that these proposals to extend the reach of the CRA are unrealistic for the foreseeable future.[42] While the new law did make a satisfactory CRA rating a prerequisite for engaging in the expanded financial activities permitted under the law, the law also reduced the CRA examination cycle for small banks to every four years for institutions with a satisfactory rating at their last examination, and every five years for institutions with an outstanding rating. In addition, new CRA agreement "sunshine" provisions require that depository institutions disclose their agreements with community groups, and that community groups report to banking regulators on their use of funds received under these agreements.

D. Proposals and Current Policy

This section focuses on proposals to create better incentives within the CRA scheme, and a summary of the Clinton Administration's three-part approach to community reinvestment through the CRA, the CDFI Fund, and targeted tax incentives.

1. Positive Incentives

Several commentators propose that the CRA make increased use of positive incentives for compliance. Hylton and Rougeau propose rewards in the form of relaxed regulatory constraints, a reduction in taxes, or outright payments to encourage banks to move into inner-city communities. As an example, they cite a bill introduced in 1996, the American Community Renewal Act, which would have designated 100 "renewal communities" based on pervasive poverty and economic distress, and would have offered incentives such as tax credits, regulatory relief, and low-interest loans to businesses and individuals that invested in those neighborhoods. Banks could satisfy their CRA obligations by making certain approved types of investments in these renewal communities.

Swire (1993) proposes a regulatory "safe harbor" for banks and their holding companies from CRA enforcement as a means to increase community investment while reducing bank compliance costs and minimizing misallocation of credit. Swire proposes that a bank or bank holding company that met certain CRA investment criteria, through substantial investments in community development banks and other qualifying investments, be exempt from CRA examinations and have its applications

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[42] Pub. L. No. 106-102, 113 Stat. 1338 (Nov. 12, 1999).

subject to review under the CRA receive automatic favorable treatment. Swire argues that while other alternatives offer some supplemental benefits, the CRA, with adoption of a safe harbor, is a preferable means to achieve the goals of eliminating redlining, preventing racial discrimination, and increasing investment in low- and moderate-income communities. For example, Swire argues that the CRA is preferable to direct government expenditures, because banks are in the business of making loans and are in a better position than the government to make local investment decisions; tax programs are difficult to establish effectively; and antidiscrimination suits are unsuited to achieving the corrective and affirmative goals of the CRA.

Marcus (1996) proposes a market-based framework for generating low- and moderate-income lending based on restricted access to the secondary markets. Marcus proposes requiring that Fannie Mae and Freddie Mac purchase loans from banks only in blocks that contain a minimum percentage of low- and moderate- income loans originated within a bank's assessment area. Thus, in order to sell its mortgage loans to Fannie Mae or Freddie Mac, a bank would have to originate enough low- and moderate-income loans to meet the percentage required to sell a block, or else be forced to hold its loans until maturity. This would also create an incentive for banks to enlarge their assessment areas to include more of the low- and moderate-income areas around their branches (rather than less, as under the current law), because only loans originated within its assessment area would count toward satisfying the percentage requirement in each block of loans. This block system would also be an effective tool to expose banks that are not doing such lending, to be investigated for evidence of racial discrimination by the Justice Department.

In a similar vein, Klausner (1995) recommends a market-oriented alternative in the form of a system of "tradable CRA obligations." Under this proposal, banks would be assigned an annual quota of CRA-qualified loans, which might be a specified percentage of assets or deposits, and would include loans to residents, businesses and projects in low-income neighborhoods, designated by median incomes as under current CRA regulations. A bank could meet its quota by originating or holding qualified loans, buying them from another lender, or lending through a consortium. Potential advantages would include promotion of specialization and information efficiencies; internalization of neighborhood externalities, resulting in more value per dollar lent than untargeted and uncoordinated lending; reliance on market forces to allocate loans in low-income neighborhoods; and reduction of enforcement and compliance costs.

2. *Focus on Provision of Services rather than Branches*

Several commentators suggest that the CRA's assessment criterion based on an institution's record of opening and closing offices in low-income communities may be counterproductive by making bankers unwilling to open offices in these communities in the first instance (Hylton and Rougeau, 1998). On the other hand, other commentators argue that if institutions comply with the requirement that assessment areas be delineated to include entire MSAs or political subdivisions, then the CRA's compliance scheme should not be able to operate as a disincentive to operating in low- to moderate-income communities.

In any event, several alternatives have been offered that focus on reducing or sharing the costs of operating in low-income communities. Caskey recommends that appropriate policy should separate the issue of promoting business and housing credit from the issue of the availability of services, since provision of services may be addressed by means less costly than a full-service branch, such as by establishment of a community credit union, or a consortia of banks that jointly capitalize and operate a branch in an underserved area (NCCA, 1997, Caskey, 1994). Similarly, Thomas (1998) recommends a joint venture approach, suggesting that a bank office be shared between competitors, on the model of shared ATMs. A proprietary shared office would be owned and operated by a single bank, with other competitor banks sharing the facility through specially designated teller lines and a per-transaction fee; or two or more financial institutions could join together in a generic shared branch, or what Thomas calls a "Community Banking Center," to share all of the major noninterest expenses of operating a branch – the costs of brick and mortar, neutral personnel, and technology. Possible sites for such a banking center might be retail stores, senior citizen complexes, large condominiums, office buildings, college campuses, or transportation terminals (Thomas, 1998, pp.170-71).[43]

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[43] Thomas' recounting of an attempt to establish such a branch, and the experience of the single bank that ultimately opened a branch in the targeted location, suggests that a shared branch may suffer from many of the same problems as an individually-owned bank, and indeed of any

3. Localism and CDFIs

Both CRA advocates and critics alike have pointed to CDFIs as having an important role to play in community reinvestment policy. Litan (1997) maintains that federal policy, in addition to operating through the CRA's broad mandate placed on banks and aimed at entire neighborhoods, also needs to operate through more specialized institutions, ranging from credit unions to nonprofit community development groups, that "know how to reach the neediest and to succeed where ordinary commercial finance cannot easily thrive" (p.145). The Southern Finance Project (1995) recognizes the "patient, labor-intensive, direct portfolio lending necessary in distressed communities and targeted investment areas" that banks often no longer routinely provide. Lacker (1995) also finds that CDFIs may be uniquely situated, as banks are not, to address the credit and capital needs of low-income neighborhoods. Marsico (1995) likewise sees CDFIs as a superior tool for fighting poverty (as compared to direct commitments by banking institutions) by developing the economic infrastructure of low-income communities and promoting community self-determination rather than dependence on banks and other outside institutions. In sum, it appears that CDFIs are gaining importance because they embody the local nexus that underlay the CRA model, but that no longer completely defines the mainstream banking industry.

On the other hand, CRA advocates are generally adamant that CDFIs cannot be a substitute for banks, having neither the resources nor the capital commensurate with the market that needs to be served; and that the CDFI Fund is no substitute for the CRA (Thomas, 1998, p.163; NCCA, 1997, p.6). Pinsky notes that CDFIs manage approximately $2.5 billion in assets, equivalent to the size of a moderate bank; and though substantial enough to make a difference, the CDFI field simply lacks the scale to fuel the long-term economic change necessary to foster opportunity at a meaningful scale, and are too small to supplant banks, commercial credit providers, and other conventional institutions. The role of CDFIs, rather, is to leverage conventional private and public financing sources.[44]

4. Current Community Reinvestment Policy

As outlined by then-Deputy Secretary of the Treasury Lawrence Summers in 1998, the Administration's current community reinvestment policy has three components: the CRA, the CDFI Fund, and targeted tax incentives. The Administration's policy is based on the premise that private financial markets fail when it comes to the very poor – that market psychology and other barriers tend to artificially restrict the flow of capital to certain neighborhoods or to minority groups, and that mechanisms are needed to "revive the power of the market for low-income families." First, Summers touts the revitalized CRA as establishing a new paradigm in community regeneration strategies, in which public sector and nonprofit organizations "work shoulder to shoulder with mainstream banks and other financial institutions to bring affordable credit and private sector investment to distressed districts and transform their prospects" (Summers, 1998, p.4). In particular, Summers points to 1996 HMDA data revealing that conventional home mortgage lending to African-Americans increased 67.2 percent, lending to Hispanics increased 48.5 percent, and lending to low- and moderate-income areas increased 37.9 percent, in a period in which the entire market grew by only 18 percent.

Second, Summers points out that the CDFI Fund has since its inception in 1994 awarded 80 CDFIs over $75 million in grants, loans, equity investments and technical assistance, and notes that these CDFI awards would be leveraged 3-4 times in the short term alone; and under the Bank Enterprise Awards program, had made 92 awards worth $30 million to insured depository institutions that had increased their investments in CDFIs or increased their direct lending and other services to low-income communities. Summers compares CDFIs to a "niche venture capital firm" that "deploys its superior knowledge of an emerging market niche to invest and manage risk better than other investors. CDFIs are often 'early birds' or 'market scouts' who see the market potential of overlooked customer segments. . . . But like other frontier investors, CDFIs cannot survive unless they find

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single business attempting to make it in a distressed community. Sharing costs may not solve the problem of bringing back the community in which it is located sufficiently to support its operations.

[44] According to Pinsky, NCCA members leverage $6 in conventional financing for every $1 invested in development. Mark A. Pinsky, "CDFIs: Bridges to Opportunity," *Neighborhood Works* 21(4):9 (July/August 1998).

paying customers. They must make loans and investments that are repaid. And, in the end, they must aim to be supplanted. By definition, CDFIs' customers are not yet fully served by the market. But the end goal is always to change the psychology of the marketplace to catalyze more investment by the private sector" (1998, pp.4-5).

Third, Summers outlines the Administration's use of targeted tax incentives including "brownfields" tax incentives, empowerment zones, wage credits for employers that hire families coming off welfare, and making the low-income housing tax credit a permanent feature.

ADDENDUM: THE PROFITABILITY OF CRA LENDING

The question of the profitability of CRA lending as compared to non-CRA lending is viewed by some as a question about the economic and political legitimacy of the CRA as federal policy. Some economists suggest that if CRA lending is profitable, it proves that bankers were indeed overlooking profitable lending prospects in their communities, and perhaps not treating creditworthy borrowers evenhandedly. By providing the impetus for institutions to seek out these previously underserved markets, the CRA represents good business and good policy.[45] On the other hand, if CRA loans show greater than average default rates, or prove to be unprofitable as a result of transaction costs or underwriting flexibilities, it proves the concern of CRA opponents that the law represents credit allocation based on the volume of deposits coming from certain areas, without regard for credit demand or the merits of individual loan applications.

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[45] Economists have identified several types of market failures that would explain why institutions may overlook profitable lending opportunities absent the CRA, including imperfect information, externalities, and discrimination. See, e.g., Charles W. Calomiris, Charles M. Kahn, and Stanley D. Longhofer, "Housing-Finance Intervention and Private Incentives: Helping Minorities and the Poor," *Journal of Money, Credit, and Banking* 26(3):634-78 (August 1994, Part 2); Keith N. Hylton and Vincent D. Rougeau, "Lending Discrimination: Economic Theory, Econometric Evidence, and the Community Reinvestment Act," *Georgetown Law Journal* 85:237-88 (December 1996); Leonard Nakamura, "Information Externalities: Why Lending May Sometimes Need a Jump Start," *Business Review* pp.3-14. Federal Reserve Bank of Philadelphia (January-February 1993); Peter Swire, "The Persistent Problem of Lending Discrimination: A Law and Economics Analysis," *Texas Law Review* 73:787- 869 (March 1995).

While some research finds higher default rates in low- and moderate-income loans (LaCour-Little, 1998), other literature finds the performance of these loans not significantly different from more typical lender portfolios (Mills and Lubuele, 1994). Others suggest that the profitability of CRA lending, like any line of business, depends upon particularized techniques; and that the banking industry and the financial marketplace have been developing the expertise to make CRA lending a profitable part of the banking business (Board of Governors, 1997).[46]

[46] The Gramm-Leach-Bliley Act requires the Federal Reserve to submit to Congress by March 15, 2000, a report on the performance and profitability of CRA lending, which will be based on a survey of depository institutions. Pub. L. No. 106-102, § 713, Nov. 12, 1999, 113 Stat. 1469-70.

Appendix A: Selected Bibliography and Abstracts

I. Lending Patterns in Central Cities in the 1990s

A. Residential Lending

1. **Robert B. Avery, Raphael W. Bostic, Paul S. Calem and Glenn B. Canner. 1999. "Trends in Home Purchase Lending: Consolidation and the Community Reinvestment Act,"** ***Federal Reserve Bulletin*** **85:81-102, 88-89 (February).** Finds that home purchase lending to low- income and minority borrowers in metropolitan areas increased at a faster rate than lending to other groups between 1993 and 1997 (31 percent to lower-income borrowers as compared to 18 percent to higher-income borrowers; 53 percent to minority borrowers as compared to 13 percent to nonminority borrowers). Attributes growth pattern to strong economy and job market, relatively low interest rates coupled with relatively modest changes in home prices that improved the affordability of homebuying, as well as the affordable home purchase lending programs and government-backed lending programs initiated since the early 1990s. (This article is also discussed in Section IV of the Appendix on effect of mergers).

2. **Robert B. Avery, Raphael W. Bostic, Paul S. Calem, and Glenn B. Canner. 1996. "Credit Risk, Credit Scoring, and the Performance of Home Mortgages,"** ***Federal Reserve Bulletin*** **82:621-48; 639-47 (July).** Examines how mortgage lenders assess credit risk, including use of credit scores, and how credit risk relates to loan performance, including the performance of loans made through nontraditional underwriting practices and affordable home lending programs. Finds that from 1992 to 1993 and from 1993 to 1994, the number of conventional home purchase loans extended to low- and moderate-income borrowers increased 38 percent and 27 percent, respectively. Over these same two years, lending to upper-income borrowers rose more slowly, increasing only 8 percent and then 13 percent.

3. **James T. Campen. 1998.** ***Changing Patterns V: Mortgage Lending to Traditionally Underserved Borrowers & Neighborhoods in Greater Boston, 1990-1997*****. Massachusetts Community and Banking Council (December).** Profiles home purchase mortgage lending to low- and moderate-income households and neighborhoods in Boston and 27 surrounding cities and towns between 1990 and 1997. Examines three categories of data: total Boston lending by race and income of households and neighborhoods; comparative performance of major types of lenders; and loans made under four multi-bank targeted mortgage programs. Finds that (i) over the eight-year period, general pattern is substantial increases in lending to traditionally underserved borrowers through 1993 or 1994, followed by relative constancy through 1996, and decline in 1997; (ii) denial rates in Boston increased slightly but remained low compared to their 1990 levels in Boston and nationwide; (iii) the biggest Boston banks made only one-quarter of all Boston home purchase loans in 1997 (lowest loan share of the decade), while mortgage company lenders for the first time accounted for more than one-half of all loans; (iv) the biggest Boston banks directed the substantially highest share of loans to traditionally underserved borrowers as compared to smaller banks and mortgage company lenders; and (v) after three years of rapid growth, the total number of targeted mortgage program loans made in Boston decreased 13.6 percent between 1996 and 1997.

4. **Glenn B. Canner and Wayne Passmore. 1995. "Home Purchase Lending in Low-Income Neighborhoods and to Low-Income Borrowers,"** ***Federal Reserve Bulletin*** **81:71-103.** Examines 1993 HMDA data to measure extent of home purchase lending in lower-income and other neighborhoods and to lower-income and other borrowers. In general, finds that the volume of home purchase lending in low-income neighborhoods and to low-income borrowers in the U.S. is small and is generated by only a small proportion of lenders. Finds the following. (i) 90 percent of the number and 92 percent of the dollar value of loans for the purchase of owner-occupied homes in 1993 were made in middle- and upper-income neighborhoods; (ii) The ratio of number of loans extended relative to the number of owner-occupied housing units was 2.7 in low-income tracts, compared with 7.2 in upper-income tracts. (iii) The loan-to-income ratio for the median borrower in each neighborhood income group is fairly uniform, ranging from about 189 percent to 200 percent. Loan-to-value ratios were significantly higher in lower-income neighborhoods, possibly reflecting the widespread use of government-backed mortgage programs in those neighborhoods. (iv) 1.1 percent of all home purchase loans were made in low-income neighborhoods. (v) For a significant number of lenders, the market share of home purchase lending in low- and moderate-income census tracts exceeded their market share in middle- and upper-income neighborhoods, suggesting a small number of competitors in these neighborhoods. Delineates the contrasting interpretations of the data as an example of efficient markets versus evidence of discrimination. Includes a brief history of the CRA, summary of the proposed revised CRA regulations, review of the business of banking and how the CRA might affect it, according to the efficient markets, discrimination, and externalities points of view.

5. **Glenn B. Canner and Wayne Passmore. 1994. "Residential Lending to Low-Income and Minority Families: Evidence from the 1992 HMDA Data,"** ***Federal Reserve Bulletin*** **80:79-108.** Examines 1992 HMDA data to analyze patterns of loan applications and their disposition. Finds that requests for home refinancing accounted for more than half of all home loan applications for 1992. White applicants accounted for 85.8 percent of refinancing applications; 90 percent of applications were for properties in middle- or upper-income census tracts; 64 percent were in noncentral city locations. Percentages of minority applicants broken down by income category are not tabulated. However, finds that HMDA data may indicate positive effect of targeted loan programs on homeownership by low- and moderate-income households. Number of conventional home purchase loans extended to applicants with incomes below the median family income for their respective MSA increased 27 percent from 1991 to 1992, compared to an increase of 10 percent for borrowers with incomes greater than 120 percent of the median family income. Number of conventional home loans extended to black borrowers increased 26 percent as compared to increase of 21 percent to white borrowers, 8 percent to Hispanic borrowers, and 6 percent to Asian borrowers. For applicants whose incomes were below the median, increases were 34 percent for black borrowers, 28 percent for white borrowers, 25 percent for Hispanic borrowers, and 42 percent for Asian borrowers. Further, approval rates rose and denial rates fell for both black and white applicants and for low-income applicants for both government-backed and conventional home purchase loans. With respect to government-

backed mortgage loans, the share of loans insured by the FHA dropped sharply from 1991, probably resulting from increased costs to homebuyers for use of FHA-insured loans and greater availability of conventional loan products designed to reach low- and moderate-income buyers. As in previous years, greater percentages of lower-income and black applicants than whites or Asians used government-backed home purchase loan programs, and differences could not be explained by differences in income. For example, among low-income loan applicants, 53 percent of black applicants sought FHA or VA loans, compared with 40 percent of Hispanic applicants, 31 percent of white applicants, and 22 percent of Asian applicants. Data for 1992 again showed that greater proportions of black and Hispanic loan applicants were turned down for mortgage credit than Asian and white applicants (36 percent of black applicants, 27 percent of Hispanic applicants, 15 percent of Asian applicants, and 16 percent of white applicants were denied credit). Consistent with these findings, HMDA data indicate that the rate of denial for conventional home purchase loans generally increases as the proportion of minority residents in a neighborhoods increases. Likewise, within each income group, white applicants for conventional home mortgages had lower rates of denial than black or Hispanic applicants. Thus, in lower-income areas, black applicants were denied 36 percent of the time, Hispanic applicants 31.8 percent, white applicants 21 percent, and Asian applicants 17.5 percent. Attributes lower overall denial rates in 1992 than 1991 to lower mortgage rates, stable home values, and greater use of targeted affordable home loan programs by lenders.

6. **Glenn B. Canner and Dolores S. Smith. 1992. "Expanded HMDA Data on Residential Lending: One Year Later," *Federal Reserve Bulletin* 78:801-24.** Analyzing HMDA data for 1991, finds little change from 1990 data in the disparities in approval and denial rates among applicants grouped by their income and racial characteristics. Denials for conventional home purchase loans in 1991 were 37.6 percent of black applicants, 26.6 percent of Hispanic applicants, 15.0 percent of Asian applicants, and 17.3 of white applicants. Finds similar rates of loan denial across racial lines for home refinancing and home improvement lending. Describes three attempts to assess the extent to which the disparities in approval/denial rates may be attributed to unfairness in the loan process or to factors that influence credit decisions that are not contained in HMDA reports, such as financial assets, level of debt, employment experience, and record of payments on debt. First, the Department of Justice investigation of home-lending practices in Atlanta, leading to its filing of a complaint against Decatur Federal Savings and Loan Association, was based on a detailed statistical analysis of credit files. Complaint alleged that black applicants were subjected to stricter underwriting standards than were white applicants, Decatur failed to advertise in media oriented to the black community, and excluded portions of the black community from its defined lending market. Second, the Federal Reserve Bank of Boston study of racial disparities in lending in Boston, based on additional data on financial characteristics, employment experience, and credit history obtained from financial institutions relating to about 1,000 black and Hispanic applicants who had applied for home purchase loans and about 3,000 white applicants, concluded that the denial rate for minority applicants would have been 20 percent if race had not been a factor, as compared to the actual denial rate of 28 percent. Finally, New York State Banking Department study of mortgage lending practices of ten savings banks in metropolitan New York, based on detailed examination of mortgage loan files, concluded that banks had applied underwriting criteria consistently, and that criteria were in line with industry and secondary market standards. Identifies efforts to promote fair lending and foster affordable housing and small business lending by the regulatory agencies, the banking and mortgage banking industries, HUD fair housing and mortgage-testing programs, and secondary market institution programs.

7. **Glenn B. Canner and Dolores S. Smith. 1991. "Home Mortgage Disclosure Act: Expanded Data on Residential Lending," *Federal Reserve Bulletin* 77:859-81.** Analyzes first year of data disclosed by financial institutions under amended HMDA for conventional home purchase lending in 1990, focusing on nationwide totals. Finds that black and Hispanic applicants were denied 33.9 percent and 21.4 percent of the time, respectively, as compared to a denial rate of 14.4 percent for white households. Finds that these denial rates do not change notably when applicants are categorized by income: among applicants whose incomes place them in the lowest income group, the denial rates for blacks, Hispanics, and Asians were 40.1 percent, 31.1 percent, and 17.2 percent, respectively, compared with 23.1 percent for white applicants. Among applicants in the highest income group, denial rates were 21.4 percent, 15.8 percent, and 11.2 percent, respectively, compared with 8.5 percent for whites. Finds that applicants applying for loans in predominantly minority areas were substantially more likely to be rejected (24 percent) than households applying in white neighborhoods (12 percent). For the most part, regardless of income level, the proportion of home purchase loan applicants denied credit increases as the percentage of minority residents increases, for both conventional and government-backed forms of credit (p.873). Other patterns include 60 percent of low-income black applicants sought government-backed home purchase loans, compared with 37 percent of low-income white applicants.

8. **Douglas D. Evanoff and Lewis M. Segal. 1996. "CRA and Fair Lending Regulations: Resulting Trends in Mortgage Lending," *Economic Perspectives.* Federal Reserve Bank of Chicago (November/December).** Examines evolution of the fair lending laws and the CRA; surveys and summarizes the literature on the role of race and neighborhood in mortgage lending (categorized as redlining studies, accept/reject studies, default rate studies, and performance studies); and evaluates the effectiveness of the CRA and fair lending laws through analysis of trends in mortgage lending in the 1990s. Charts HMDA data to show that between 1990 and 1995 the annual number of mortgage originations to low- and moderate-income households, to minority households, and in low- and moderate-income census tracts almost doubled; and that originations in census tracts where minorities accounted for at least half the population also grew significantly. Uses three different control group specifications in order to assess extent to which these patterns can be attributed to fair lending laws and CRA. First, comparing lending patterns pre- and post-recent regulatory changes, concludes that factors related to the aggregate demand for housing credit are more likely responsible for the high mortgage origination and refinancing growth rate in the 1990s than regulatory-induced changes in lending behavior. Second, comparing degree of lending to targeted groups (minority and low-income individuals and neighborhoods) with lending to nontargeted groups during period from 1982-1995, finds several results that are consistent with efforts by banks to target low- and moderate-income individuals and neighborhoods in their mortgage business. (i) Finds "overwhelmingly statistically significant" increase in growth after 1991 in mortgage originations to the two lowest income groups, suggesting that banks have responded to the CRA and have made significantly more loans in the low- and moderate-income markets. (ii) Further finds significantly stronger growth after 1991 in applications from low- and moderate-income areas, as compared to the slowest increase in the middle-income group which saw the majority of mortgage activity during the same period, consistent with the view that banks have been making a significant effort to encourage applications from lower-income neighborhoods and with statements by community groups that progress is being made in less affluent neighborhoods. (iii) Analysis of lending based on the income level of the borrower rather than the neighborhood in which the property is located shows growth in loan

applications and loans to low- and moderate-income individuals, especially after 1992, but at a confidence level uniformity throughout the 1990s. (iv) Analysis based on race of applicant and on minority proportion of census tract shows that growth in applications and originations from minority individuals and census tracts during the 1990s has been high relative to that for nonminorities, especially among blacks. (v) Arguable that demonstrated improvements are diminished on account of small base; lending in low- and moderate-income neighborhoods constitutes approximately 10 percent of total originations and even less of the dollar value of loans originated; mortgage activity among low-income individuals constitutes approximately 20 percent of the market. Thus for example, the 31 percent growth in mortgage originations in low- and moderate-income tracts from 1993 to 1994 corresponds to nearly 35,000 loans and approximately $2.7 billion. If all this is attributed to the regulations, it translates to just over 100 loans and $8 million per MSA in that year. (vi) Comparing denial rates for ethnic groups, finds that minority relative to nonminority group denial rates declined between 1990-1995. Finally, comparing lending behavior of depository institutions with lending behavior of less heavily regulated mortgage companies, concludes that lower denial rates may not be the result of increased regulatory scrutiny. In conclusion, minimizes the importance of the percentage increases in low-income and minority mortgage lending, suggesting that the growth rates are not unprecedented and, if attributed entirely to the regulations, translate to approximately 100 loans and $8 million per MSA between 1993 and 1994.

9. **Federal Financial Institutions Examination Council (FFIEC). 1999. Press Release with 1998 HMDA Data and Tables (July 29).** General overview and nationwide summary statistics regarding 1998 mortgage lending activity in metropolitan areas. Data include 24.7 million reported loans and applications, an increase of about 50 percent from 1997, resulting primarily from a very large increase in refinancing activity. The number of home purchase loans extended in 1998 compared with 1997 increased 21 percent for Native Americans, 16 percent for Hispanics, 13 percent for Asians and Whites, and 9 percent for Blacks. During the six years from 1993 through 1998, the number of home purchase loans extended has increased 87 percent for Hispanics, 72 percent for Blacks, 52 percent for Native Americans, 46 percent for Asians, and 31 percent for Whites. The number of home purchase loans extended to applicants in all income categories increased in 1998 compared with 1997. The number of loans extended in 1998 to applicants with incomes less than 80 percent of the median family income for their MSA increased 19 percent over 1997. During the same period, applicants with incomes of 100-119 percent of their MSA's median experienced a 15 percent increase, while the number of home purchase loans to applicants with incomes of 80-99 percent and 120 percent or more of the median both increased by 14 percent. During the six years from 1993 through 1998, the number of home purchase loans extended to applicants with incomes less than 80 percent of the median increased 64 percent, while loans extended to applicants with incomes of 120 percent or more of the median showed an increase of 45 percent, and loans to applicants with incomes of 80-99 percent and 100-119 percent of the median experienced increased of 42 percent and 37 percent, respectively.

10. **Federal Reserve Bank of Chicago. 1996. "Saginaw, Bay City, Midland MSA: A Profile,"** ***Profitwise*** **8(2):2-11 (Winter).** Finds that between 1993 and 1995, low- and moderate-income areas experienced a steady increase in their proportion of total loans, particularly in conventional, refinancing, and home improvement lending. Concludes that lending activity in LMI areas is consistent with the MSA's overall economic and demographic trends and may be due in part to the influence of CRA.

11. **George Galster. 1995. "A Response to Schill and Wachter's The Spatial Bias of Federal Housing Law and Policy," 143** ***University of Pennsylvania Law Review*** **1343 (May).** Refutes Professors Schill and Wachter's findings as either conceptually and/or empirically inconclusive. With respect to the CRA's unintended effects, argues that Schill and Wachter provide no evidence that the CRA has fomented concentrated defaults and neighborhood blight. Finds to the contrary that CRA loans have been found to be no riskier than standard loans, and that the CRA may provide the impetus for lenders to overcome the variety of biases, information shortcomings and market failures that have been responsible for lenders' past shortcomings in lending in these areas. Second, argues that the loan concentration effects that Schill and Wachter find cannot be traced convincingly to the CRA, inasmuch as the Boston data predated intensified CRA enforcement, and in fact were used to demonstrate in the Boston Federal Reserve Bank Study that equally qualified minorities were denied for mortgage applications at a rate 60 percent higher than whites. Further finds that Schill and Wachter are "conspicuously silent" with respect to policy suggestions on CRA; and that they pay insufficient attention to Clinton Administration initiatives to deconcentrate poverty.

12. **Sidra Goldwater and Malcolm Bush. 1996. "Case Study: Multifamily Housing in Chicago: A CRA Success Story," in Kathryn Tholin, ed.,** ***Tools for Promoting Community Reinvestment*****. Woodstock Institute (August).** Analyzes multifamily housing lending in Chicago between 1983-1985 and 1991-1993 to find dramatic increase in number of purchase, rehab, and new construction multifamily loans. Between 1983-1985, total number of multifamily loans in the study areas averaged 361 loans and $53 million per year, as compared to 992 loans and $240 million in the 1991-1993 period. Finds that this increase corresponds to a period that saw better enforcement of CRA and more serious attention to community credit needs by financial institutions, as well as negotiation of a number of CRA agreements that included a focus on multifamily lending. Other reasons include declining real wages causing increased demand for rental housing and other financial inputs such as low-income housing tax credits. Notes importance of multifamily rental housing and a strong multifamily housing market for lower-income urban families for whom it is the primary source of housing. Analysis based on combination of HMDA, U.S. Census, and local building permit (information on rehab work) data.

13. **Donald R. Grimes, Lorraine T. Woos, and George T. Essig. 1995. "Missed Opportunity: Mortgage Refinancing in 1994,"** ***The Midwest Economic Report*****. Federal Reserve Bank of Chicago (December).** Using regression analysis to identify variables that had the greatest impact on refinancing, finds that the rate of refinancing applications by census tract decreased one percentage point for every 10 percent increase in African-American population, after controlling for differences in income, education, housing value, and other factors. Also finds that the percentage of FHA/VA loans in a census tract has a smaller, but significant effect on application rates. Suggests that loan type rather than race influenced disparity in refinancing rates.

14. **Jennifer Healy, Anna Maria Ortiz, and Daniel Immergluck. 1996. "Case Study: Disparities in Refinancing Rates Adversely Affect Minorities," in Kathryn Tholin, ed.,** ***Tools for Promoting Community Reinvestment*****.**

Chicago: Woodstock Institute (August). Uses HMDA data to analyze access to refinancing loans during 1992-1994 drop in mortgage interest rates. Finds that in both 1992 and 1993, as interest rates plummeted to their lowest levels in decades, African-Americans showed much lower rates of refinancing in each of those years (9 percent and 11 percent of refinancing loans, respectively) relative to their levels of homeownership (29 percent of homeowners) than white homeowners 69 percent of refinancing loans in 1993, but representing 58.7 percent of the homeowners. Finds similar disparities in loan applications. In 1992 and 1993, African-Americans applied for 11 percent and 13 percent of refinancing loans, respectively, while white applicants comprised 67 percent and 61 percent of refinancing applications, respectively. In 1994, when interest rates began to rise, the percentage of refinancing loans to African-Americans rose dramatically (28 percent of all refinancing loans, as compared with 49 percent to whites), even though the tide of refinancing loans was stemmed. While factors such as decline in economic security, inability to gather closing costs for refinancing, or a decrease in home values causing greater LTV ratio might explain the 1992-1993 disparity in refinancing rates, these factors do not explain rise in refinancings in 1994. Concludes that disparities are largely a result of poor marketing to minorities, with 1994 rise reflecting more aggressive efforts by banks and mortgage companies to maintain a stake in the refinancing market as rate began to rise. Notes importance of refinancing to obtaining higher disposable income having ancillary benefits to local communities, or a quicker accumulation of equity.

15. **Daniel Immergluck. 1999a. *Unfinished Business: Increases in African-American Home Buying and Continuing Residential Segregation in the Chicago Region*. Chicago: Woodstock Institute.** Examines patterns of homeownership in the Chicago metropolitan area during the 1990s, finding that while significant progress has been made in increasing the number of African-American home buyers, the bulk of the increase is concentrated in a small number of neighborhoods. The number of African-Americans purchasing homes in neighborhoods where at least 75 percent of buyers were African-American increased more quickly than in any other type of neighborhood. Thus, by 1995-1996, 45 percent of African-American home buyers were moving into neighborhoods in which at least 75 percent of buyers were African-American, compared with only 27 percent in 1990-1991. Attributes this pattern to the fact that discrimination has not been reduced in other parts of the housing market, including realty and local government development practices. In order to reduce segregation and resegregation occurring in home buying markets, report recommends increasing the budgets of HUD's fair housing programs, supporting civil litigation against private and public sector actions that promote segregation, further fair housing goals through HUD's housing and community development programs, reform the FHA loan program which facilitates rapid racial change, increase state government resources for fair-housing enforcement, provide incentives for the development of affordable housing in high job-growth areas, and establish and increase local government and community-based efforts to enforce fair housing laws and reduce racial hostility.

16. **Daniel Immergluck and Marti Wiles. 1999. *Two Steps Back: The Dual Mortgage Market, Predatory Lending, and the Undoing of Community Development*. Chicago: Woodstock Institute (November).** Analyzes HMDA data on refinance loans from 1993 and 1998 in the six-county Chicago metropolitan area. Makes recommendations for reducing predatory lending practices, including strengthened federal consumer protection laws, increased enforcement and resources devoted to predatory lending issues at the FTC, Department of Justice, and the Department of Housing and Urban Development, and increasing financial literacy and legal services for existing and prospective homeowners. In particular, recommends use of CRA regulations to encourage banks and thrifts to serve the refinance and second mortgage needs of low-income and minority neighborhoods and thereby to break down the hypersegmentation of the mortgage marketplace. To this end, recommends the following: (i) ensure that banks delineate their community to include entire metropolitan areas, so as not to exclude minority neighborhoods; (ii) give greater attention in the lending test to refinance and second mortgage lending, and not just home purchase lending; (iii) consider loan pricing and terms, and not just an institution's proportion and quantity of lending to lower-income borrowers and neighborhoods; (iv) not give CRA credit for purchases of predatory loans or CRA targeted mortgage-backed securities that are backed by predatory loans.

17. **Richard D. Marsico. 1999. "Shedding Some Light on Lending: The Effect of Expanded Disclosure Laws On Home Mortgage Marketing, Lending and Discrimination in the New York Metropolitan Area," *Fordham Urban Law Journal* 27(2):481-532.** Examines changes in home purchase mortgage loan applications and originations in the New York City metropolitan area between 1991 and 1998 with respect to black, Hispanic, and low- and moderate-income applicants and borrowers, and residents of minority and low- and moderate-income neighborhoods, to determine the extent to which changes may be attributable to enhanced HMDA disclosures of application-level data on lending patterns that were first released in 1991. Uses changes in market share of applications as proxy for changes in loan demand reflective of increased marketing by depository institutions. Finds that the market share of both applications for and originations of conventional home mortgage loans increased overall between 1991 to 1997 in four of the five subject communities in the New York City metropolitan area, with the strongest growth occurring between 1992 and 1995, consistent with the timing of HMDA data disclosures. While acknowledging that the study results cannot definitively establish cause and effect, concludes that the extent, timing, and context of increases in market share of applications from and loans made to the subject communities point to a direct correlation. Posits that the decline in market share in low- and moderate-income neighborhoods during the period was a result of increased credit availability that opened previously unaffordable housing markets to these borrowers, which is supported by data showing that the strongest growth in loans from 1991 to 1997 was in middle- and upper-income predominantly minority neighborhoods, which increased by 167 percent and 222 percent, respectively, as compared with a growth of 20 percent in low- and moderate-income predominantly minority neighborhoods, and a growth of 37.8 percent in all predominantly minority neighborhoods during the period. With respect to a general decline in market share of applications and loans in the subject communities in 1996 and 1997, Marsico suggests that lenders may have satisfied the accumulated demand for loans in these communities between 1992 and 1995, after which demand returned to a more normal level. Beyond the New York City data, finds support for the correlation with HMDA disclosures in the data on national trends for the same time period, and specifically documented evidence of governmental enforcement efforts that followed the 1991 disclosures and lender efforts to increase their lending in the subject communities. Marsico also compares how lenders treated applications from the subject communities relative to their treatment of applications from control groups, finding significant evidence consistent with discrimination.

18. **Alicia H. Munnell, Lynn E. Browne, James McEneaney and Geoffrey M.B. Tootell. 1992. "Mortgage Lending in Boston: Interpreting HMDA Data." Federal Reserve Bank of Boston Working Paper 92-7 ("Boston Fed**

Study"). Seminal study concluding that discrimination plays a role in mortgage lending in Boston. Developed a model of the determinants of mortgage lending decisions in the Boston area by supplementing HMDA data with additional credit history information for all applications for conventional mortgage loans made by blacks and Hispanics in 1990 and for a random sample of 3300 applications made by whites, combined with census information on neighborhood characteristics. Finds that after taking into account financial, employment, and neighborhood characteristics, a black or Hispanic applicant in the Boston area was roughly 60 percent more likely to be denied a mortgage loan than a similarly situated white applicant. This meant that 17 percent of black or Hispanic applicants, instead of 11 percent, would be denied loans, even if they had the same obligation ratios, credit history, loan to value, and property characteristics as white applicants.

19. **National Community Reinvestment Coalition. 1999.** ***Best and Worst Lenders 1998*****.** Study on mortgage loan denial rates and examining subprime lending, finds that the gap between minorities and whites being denied home mortgages widened in 1996 and 1997, after seeing improvements in previous years; and that much of the new lending to blacks in recent years has come from subprime mortgages. *See* "Gap Widens on Loan Denials; Minority Buyers Gain More Mortgages, but at a High Price." The Washington Post, November 28, 1998 at E2.

20. **Michael H. Schill and Susan M. Wachter. 1995. "The Spatial Bias of Federal Housing Law and Policy: Concentrated Poverty in Urban America,"** ***University of Pennsylvania Law Review*** **143:1285-1342 (May).** Posits that federal housing policies over the last sixty years have contributed to the decline of inner cities through segregation of poor people and racial and ethnic minorities; and that government programs that seek to target spatially the flow of home finance capital have had the unintended negative consequences of exacerbating disinvestment and intensifying the spatial concentration of poverty. For example, to the extent that CRA encourages financial institutions to take undue risks in accepting loan applications of poor and minority households in predominantly poor and minority neighborhoods, and to the extent that these households ultimately default on their loans, neighborhood disinvestment can be exacerbated. Authors use a subset of data collected by the Boston Federal Reserve Bank in 1990 to test hypothesis that the CRA creates incentives that cause the concentration of low-income homebuyers in low-income neighborhoods. Examining lenders' decisions to accept or reject a borrower, finds substantial concentration effects in result that an average low-income person applying for a loan in a predominantly nonpoor neighborhood is almost three times more likely to be rejected than if he or she had applied in a neighborhood predominantly composed of poor residents; and that nonpoor households that are otherwise similar to poor households have a higher probability of being rejected in low-income neighborhoods. Recommends changes in federal policy to reverse these concentration patterns and promote economic and racial integration, including increased enforcement of the Fair Housing Act, relaxed regulatory barriers to affordable housing in the suburbs, adjusted rules to facilitate increased use of Section 8 certificates and vouchers, and relaxing the restrictiveness of replacement rules for Public Housing Authorities to enable demolition of nearly vacant, physically deteriorated public housing projects and permitting replacement by providing former tenants with housing vouchers or certificates to locate housing outside of their current neighborhoods.

21. **Michael H. Schill and Susan M. Wachter. 1994. "Borrower and Neighborhood Racial and Income Characteristics and Financial Institution Mortgage Application Screening,"** ***Journal of Real Estate Finance and Economics*** **9:223-39.** Tests for the presence and source of geographic disparities in lending by estimating a model of lenders' decisions to accept or reject home purchase loan applications and examining the interaction of income and race characteristics of both borrowers and neighborhoods in financial institution lending decisions. First, analyzes the extent to which mortgage lending is influenced by the CRA by examining HMDA and census data to compare the extent of mortgage lending to low-income and minority borrowers in five metropolitan areas (Atlanta, Boston, Houston, Los Angeles, and Philadelphia) (i) by covered financial institutions as compared to mortgage banks (which were not subject to the CRA in 1990); and (ii) in cities as compared to suburbs, based on the expectation of a higher acceptance rate in cities as compared to suburbs as a result of greater presence in cities of active community organizations. Finds that across all five cities (except for mortgage bank applicants in the City of Los Angeles), applications from blacks are less likely to be accepted (holding constant the other variables included in the regressions). Based on finding statistically significant differences between cities and suburbs only in the Atlanta and Boston MSAs; and between mortgage bank and non-mortgage bank lenders only in the Boston MSA, concludes that data do not support finding of a regulatory impact on home mortgage loan screening. However, discounts the significance of these finding in the absence of complete sets of individual risk control variables. Second, analyzing a subset of the more complete data set used in the Boston Fed study, finds evidence that screening of home mortgage loans by financial institutions produces three types of loan "concentration effects." (i) A black person's loan application is more likely to be accepted if he or she is applying for a loan in a neighborhood with a higher proportion of black residents. (ii) Low- and moderate-income individuals are more likely to be accepted for loans in low- and moderate-income areas, even with the inclusion of affordability variables. (iii) Low- and moderate-income applicants are more likely to be accepted in neighborhoods with higher proportions of black households. To estimate magnitude of these effects, looks at rejection rates by race for census tracts with varying proportions of black households. Finds that in predominantly black neighborhoods (greater than 50 percent), the rejection rates for black loan applicants are lower than those for white applicants: average actual rejection rate for white households in areas with average (or lower) proportions of black households (7.39 percent or lower) equals 10.1 percent. The white rejection rate increases to 11.2 percent in areas with greater than average proportions of black households and increases again to 32 percent in areas with 50 percent or more black households. For black households, average actual rejection rates increase from 23.7 percent to 33.8 percent, but then decrease in areas with 50 percent or more black households. Unable to distinguish among three potential sources of this outcome: CRA incentives to extend loans to particular categories of neighborhoods, discriminatory racial steering and other institutional factors that direct minority borrowers to specialized lending institutions (especially in metropolitan areas where race is highly correlated with income), or informational economies of institutions located in low-income or minority neighborhoods. Concludes that if concentration effects are due to information externalities generating an inefficient level of investment, then increasing the flow of funds to these neighborhoods through community-based lending policies such as CRA may be desirable. On the other hand, finding that poor and minority loan applicants are more likely to obtain loans in predominantly poor and minority neighborhoods may be attributable to racially discriminatory steering practices. Alternatively, if it is attributable to the incentives created by the CRA and default rates are increased by undue risk taking, CRA outreach could contribute to neighborhood decline. To the extent racial or ethnic minorities and low- and moderate-income households are encouraged to live in these communities rather than seek housing elsewhere, CRA may exacerbate problems associated with spatial isolation.

22. **Lewis M. Segal and Daniel G. Sullivan. 1998. "Trends in Homeownership: Race, Demographics, and Income,"** ***Economic Perspectives,*** **(Second Quarter). Federal Reserve Bank of Chicago, pp. 53-72.** Examines data on homeownership between 1977 and 1997 to determine overall trends, as well as extent to which recent homeownership gains of black households and drop in the white-black homeownership gap from 1995 to 1997 might be attributable to the effectiveness of the CRA and fair lending laws, or to changing demographic or income trends. Finds that data indicate that while the overall homeownership rate declined by only 0.8 percentage points between 1977 and 1995, the black homeownership rate fell by 2.6 percentage points to 40.7 percent. In contrast, the white homeownership rate increased by 0.4 percentage point to 67.9 percent, implying a 1995 gap of 27.2 percent. Although that gap shrunk by nearly 3 percent from 1995 to 1997, the homeownership rate for blacks remains more than 23 percent below that for whites. Finds that very little of the trend over time in the white-black differential in homeownership is explained by changes in demographic and income variables, particularly the drop in the gap since 1995. Therefore, concludes that the recent amendments to the CRA and fair lending laws or their more vigorous enforcement might be having a positive effect on black homeownership rates.

B. Small Business And Community Development Lending

1. **Timothy Bates. 1997. "Unequal Access: Financial Institution Lending to Black- and White-Owned Small Business Start-ups,"** ***Journal of Urban Affairs*** **19(4):487-95**. Finds that blacks are less likely than whites to receive start-up business financing from banks (17 percent as compared to 22.7 percent of white-owned firms), and that those who do obtain bank loans receive smaller loan amounts, on average, than white borrowers. The average bank loan amount received by black-owned firms was $29,068, as compared to $52,289 in start-up financing for white business owners, and black borrowers still showed smaller loan amounts after controlling for owner and firm characteristics. Bates found the difference in loan size amount attributable to the facts that black-owned business started with lower amounts of equity capital, and that they were able to leverage that capital at lower rates than white-owned firms. "Debt and equity are complements, not substitutes, in the context of small firm creation: possessing equity increases one's access to institutional credit sources." Bates found that black borrowers received $0.92 debt per equity dollar, which is $0.25 below the $1.17 loan amount associated with each equity dollar invested by whites.

2. **David G. Blanchflower, Phillip B. Levine, and David J. Zimmerman. 1998.** ***Discrimination in the Small Business Credit Market*****. Working Paper 6840. Cambridge: National Bureau of Economic Research (December).** Using data from the 1993 National Survey of Small Business Finances, finds that black-owned small businesses are almost three times more likely to have a loan application denied. Even after controlling for the differences in creditworthiness and other factors that exist between black- and white-owned firms, blacks are still about twice as likely to be denied credit. Also finds that black-owned firms pay higher interest rates. Suggests that even these results are likely to understate differences in credit access because many potential black-owned firms are not in operation due to the lack of credit, and those in business may be afraid to apply. Concludes that racial disparity in credit availability is likely caused by discrimination.

3. **Jackson L. Blanton, Alicia Williams, Sherrie L.W. Rhine, eds. 1999.** ***Business Access to Capital and Credit: A Federal Reserve System Research Conference; Proceedings of a Conference Held in Arlington, Virginia, March 8-9, 1999*****.** Includes papers delivered in the six sessions of the conference: (i) CRA Data on Small Business Lending (Glenn B. Canner; Gregory D. Squires and Sally O'Connor; Daniel Immergluck; with discussion comments by Anthony M.J. Yezer); (ii) Access to Credit for Minority-Owned Businesses (Raphael W. Bostic and K. Patrick Lampani; Ken Cavalluzzo, Linda Cavalluzzo and John Wolken; with discussion comments by Timothy Bates and Robert B. Avery); (iii) The Small Business Lending Relationship - Session A (George W. Haynes, Charles Ou and Robert Berney; Jonathan A. Scott and William C. Dunkelberg; Rebel A. Cole, Lawrence G. Goldberg, and Lawrence J. White; with discussion comments by Allen N. Berger and Mitchell A. Petersen); (iv) The Small Business Lending Relationship - Session B (Brian Uzzi and James J. Gillespie; Jeremy Berkowitz and Michelle J. White; Paul Huck, Sherrie L.W. Rhine, Robert Townsend, and Philip Bond; discussion comments by Gregory F. Udell and Philip E. Strahan); (v) Microenterprise Lending (Lisa J. Servon; Denise L. Anthony; with discussion comments by William C. Hunter); (vi) Credit Scoring and Securitization of Small Business Loans (Michael S. Padhi, Lynn W. Woosley, and Aruna Srinivasan; Zoltan J. Acs; with discussion comments by Gregory Elliehausen and Loretta J. Mester). Overview by Richard W. Lang, Senior Vice President and Director of Research, Federal Reserve Bank of Philadelphia; Keynote Address by Alan Greenspan, Chairman, Board of Governors of the Federal Reserve System, and Luncheon Address by Edward M. Gramlich, Board of Governors of the Federal Reserve System.

4. **Board of Governors of the Federal Reserve System. 1997.** ***Report to the Congress on the Availability of Credit to Small Businesses*****. (October).** Based on 1993 National Survey of Small Business Finances (co-sponsored by the Board and the SBA) and other sources, analyzes small business credit flow and terms and trends affecting the availability of small business credit. Finds that commercial banks provided more than 60 percent of the dollar volume of credit to small businesses (defined as businesses with 500 employees or less); and that total commercial bank loans to small businesses expanded 5-1/2 percent from June 1995 to June 1996, and 6 percent from June 1996 to June 1997. Finds that numerous indicators suggest that both large and small banks have been increasing efforts to attract small business customers, with terms and standards for small business loans steadily eased between December 1992 and August 1997, and interest rates on new business loans of less than $1 million several percentage points below peaks of eight years earlier. Examples of expanded types of small business lending by banks include increased use of small business credit cards (30 percent of small businesses reported use of business credit cards in 1993, including Wells Fargo offers of pre-approved lines of credit to small businesses through direct mail solicitations), increased origination and sale of SBA and other guaranteed loans, and development of CRA-inspired investment programs, including consortium lending corporations and loan pools, bank-owned or affiliated community development corporations, small business investment companies, SBA 504 certified development companies, and community-based micro-enterprise loan funds. Evaluates future trends in availability of small business credit as influenced by credit scoring, securitization of small business loans, and bank

consolidation activity. Finds that credit scoring is increasing the overall availability of credit to small businesses by lowering the costs for reviewing and monitoring small business loans, and is making certain products cost-effective, such as loans in the smallest category and direct mail pre-approved loan products. Cites study finding dramatic increase of 26.2 percent in smallest loan category of $100,000 or less by large banks between 1995 and 1996, with only slight increases among smaller institutions during the same time period, largely due to emphasis on automated loan application and evaluation. Notes that there is little qualitative evidence to date to determine whether credit scoring may have disparate effects on different groups of business owners, such as women or minorities, or their impact on businesses in underserved communities. Suggests that creditworthy businesses that do not qualify for loan approval on the basis of a credit score would still provide opportunities for community-based lending relationships, but that this lending may be riskier and entail higher costs of evaluating risks and monitoring performance over time. Suggests that credit scoring may promote small business loan securitization by permitting standardization and providing a basis for evaluating the risk of pools of small business loans, but that to date, very few small business loans other than those carrying an SBA guarantee have been securitized. Finally, looking at effects of mergers and consolidations on small business lending, finds that studies on balance find little evidence that aggregate credit flows have been reduced, although temporary disruptions in lending relationships have been reported by some small businesses.

5. **Ralph W. Bostic and Glenn B. Canner. 1998. "New Information on Lending to Small Businesses and Small Farms: The 1996 CRA Data,"** ***Federal Reserve Bulletin*** **84:1-21.** Assesses national trends in small business and small farm lending reflected in the first year of data under the revised CRA regulations. Salient findings include the following. (i) The distribution by number and dollar amount of small business loans across the four income categories generally follows the distribution of population and businesses across these groups. (ii) Small business loans are heavily concentrated in central city and suburban areas (about 80 percent of all small business loans), as are the bulk of the U.S. population and most small businesses. In lower-income areas, most small business loans are made in central city census tracts; in higher-income areas, suburban census tracts have the most small business loans. (iii) At least some small business loans are made in most geographic areas, but small business lending tends to be concentrated geographically, with the top 5 percent of census tracts in number of loans receiving 26 percent of all small business loans; and the census tracts receiving the top 5 percent in loan dollars receiving 33 percent of the small business loan dollars. (iv) 39 percent of CRA-reporting institutions reported that small business lending in low-income areas made up less than 1 percent of their newly originated or purchased loans, with 8.8 percent reporting that small business lending in moderate-income areas made up such a small share of their small business lending activity. (v) Community development loans reported for 1996 totaled $17.7 billion, the average loan being $542,000 (as compared to average small business loan of $61,000), with large commercial banks and savings associations (assets $1 billion or more) making the majority (55 percent) of the loans and accounting for 81 percent of community development lending measured in dollars.

6. **Raphael W. Bostic and K. Patrick Lampani. 1999. "Racial Differences in Patterns of Small Business Finance: The Importance of Local Geography," in Jackson L. Blanton, Alicia Williams, and Sherrie L.W. Rhine, eds.** ***Business Access to Capital and Credit: A Federal Reserve System Research Conference, Proceedings of a Conference Held in Arlington, Virginia, March 8-9, 1999*****, pp. 149-79.** After controlling for a variety of loan, firm, owner, and local market characteristics, finds statistically significant differences in approval rates between white-owned and black-owned firms, though not between white-owned firms and firms owned by Asians, Hispanics, or women. Suggests that economic and demographic characteristics of a firm's local geography should be considered for a more accurate quantification of racial disparities.

7. **California Reinvestment Committee. 1994.** ***No Credit For Those Who Need It: Uncle Sam Ignores Small and Minority Business*****. (January).** Examines SBA lending nationwide and in California between 1990 and 1992. Finds that SBA loans of $50,000 or less accounted for 14.5 percent of total loans and 2.1 percent of total loan dollars nationwide, while loans of $250,000 or more accounted for 32 percent of total loans and 68 percent of total loan dollars. Statistics of lending by race showed whites received almost nine out of ten SBA loans during the study period, Asians 6.2 percent, Latinos 4.8 percent, and African Americans 2.8 percent, with similar percentages in California, with lending to whites exceeding and lending to minorities far below their relative proportions in the population. Lower-income California counties received about 39 percent of SBA loans, but had 42 percent of the state's businesses; the amount of Equal Opportunity Loans (EOL) for businesses in low-income areas dropped from $91 million to $16.7 million between 1980 and 1992, while the total amount of SBA lending increased by more than half during that period. Argues that role of taxpayer-subsidized SBA lending should be to support small businesses not otherwise served by the credit system through loans to start-up businesses, businesses in low-income communities, and minority-owned businesses. Recommends creating incentives to increase business loans under $50,000; increasing lending to minority-owned businesses and businesses in low-income communities; making status as an SBA-guaranteed lender depend on record of lending in low-income communities and to minority-owned businesses; requiring lenders to make loans under the SBA 504 program (at less taxpayer expense than 7(a) program) if borrower is eligible.

8. **Federal Financial Institutions Examination Council (FFIEC). 1998. "Findings from Analysis of Nationwide Summary Statistics for 1997 Community Reinvestment Act Data: Fact Sheet."** Presents findings from analysis of 1997 small business, small farm, and community development lending data reported by commercial banks and savings associations under 1995 revised CRA regulations. Includes tables that show spatial distribution of small loans to businesses by number and loan amount and grouped by area income levels. Finds that small business loans are heavily concentrated in central city and suburban areas (about 81 percent of all small business loans), as are the bulk of the U.S. population and businesses. Specifically, 40 percent of the small business loans, 41 percent of the businesses, and 37 percent of the population were in central cities. Suburbs represented 41 percent of the loans, 41 percent of the businesses, and 43 percent of the population. Data on distribution of loans by amount were similar. Most of the small business loans in lower-income areas occurred in central city census tracts; the higher-income area small business loans are in suburban areas. Rural areas were 19 percent of loans, 18 percent of the businesses, and 20 percent of the population. Finds that the overall distribution of the number and dollar amounts of small business loans across the four neighborhood income categories also paralleled the distribution of population and businesses across the income categories.

9. **Federal Reserve Bank of Chicago. 1998.** ***CRA Small Business Lending Profile*****. Chicago: Federal Reserve Bank of Chicago.** Analyzes small business lending in five midwestern communities (Chicago, Des Moines, Detroit, Indianapolis, and Milwaukee), comparing lending among these communities and to lenders nationwide. Finds that percentage of loans and ratio of loans per business were lower in low- and moderate-income tracts than in middle- and upper-income tracts in each geographic location, with the largest gaps occurring in Milwaukee.

10. **Ron Feldman. 1997.** ***Small Business Loans, Small Banks and a Big Change in Technology Called Credit Scoring*****. Federal Reserve Bank of Minneapolis (September).** Suggests that credit scoring technology promises large banks greater access to and ability to compete in the small business lending market by providing a proxy for information previously available only to smaller banks through relationships and presence in the community. Cites statistics that very small business loans (under $100,000) made by banks with assets over $5 billion increased by 26 percent from June 1995 to June 1996. In contrast, between June 1994 and June 1995, when credit scoring was much less common, large banks saw only a 4 percent increase in such small business lending. Suggests that large banks will be able to access the most creditworthy small business market outside their geographic area, ultimately benefiting the consumer, but to the potential detriment of small, local banks and communities.

11. **Frank Ford. 1996.** ***Survey of Small Business Lending in Denver*****. University of Colorado at Denver, Colorado Center for Community Development.** Analyzes data from telephone survey of over 400 small business owners in the City and County of Denver between June 1994 and July 1995 designed to identify barriers small businesses face in seeking credit from financial institutions and to determine whether there was any racially-based difference in treatment of small business owners. Survey finds 51 percent rejection rate for African-Americans, as compared to 22 percent for Latinos and 15 percent for Anglos; and that after restricting criteria to produce stronger financial profile, Anglo rejection rate declined to 4 percent, but African-American rate remained consistently high at about 50 percent, with no statistically significant relationship between ethnicity and various other financial and business criteria. Argues that results support need for disclosure of applicant race information with small business lending data, citing the success of HMDA data in fostering creative lending programs to meet credit needs of people of color. See Michael Selz, "Race-Linked Gap Is Wide in Business-Loan Rejections," *The Wall Street Journal*, May 6, 1996, at B2.

12. **Cassandra Jones Havard. 1997-1998. "Synergy and Friction – the CRA, BHCs, the SBA, and Community Development Lending,"** ***Kentucky Law Journal*** **86: 617-74.** In order to ensure availability of small business and community development credit despite consolidation trends in the banking industry, argues that (i) CRA responsibility for small business lending should be transferred from the bank subsidiary to the bank holding company and (ii) SBA policies should be reformed to ensure they do not contribute to geographic disinvestment. Latter argument premised on fact that private lenders control which borrowers receive SBA-guaranteed loans, with the SBA's role generally limited to guarantor of the loans. With respect to bank holding companies, recommends that a bank holding company evaluate for each bank subsidiary the geographic location of its SBA-guaranteed loans, including those that have been sold on the secondary market, as part of a merger analysis. With respect to SBA reforms, recommends that SBA collect more data on geographic distribution of its loans; establish a preferred lender program for community development lenders, adopting the CRA definition of community development lending; establish a pilot program to make more guaranteed loan funds available to successful SBA bank lenders, including a revolving fund consisting of SBA-guaranteed securitized loans that would be available to banks for additional small business community development lending.

13. **Paul Huck, Sherrie L.W. Rhine, Robert Townsend, and Philip Bond. 1999. "A Comparison of Small Business Finance in Two Chicago Minority Neighborhoods," in Jackson L. Blanton, Alicia Williams, and Sherrie L.W. Rhine, eds.,** ***Business Access to Capital and Credit: A Federal Reserve System Research Conference Held in Arlington, VA, March 8-9, 1999,*** **pp. 467-502**. Examines small business access to credit in two ethnic neighborhoods in Chicago – Little Village, a predominantly Hispanic community, and Chatham, which is predominantly black. Considers "informal financing" as well as formal financing through bank loans. Concludes that black owners start their businesses with significantly less capital than Hispanic business owners, after controlling for industry types and various measures of human capital; and are less likely to be offered and to use trade credit; that both black and Hispanic owners started their businesses with less funding than owners in the other ethnic groups, and depended on personal savings for a higher proportion of their start-up funding, and were more likely to use personal savings as their only source of start-up funding. Comparing ongoing performance, as measured by annual profit, to the level of start-up capital, finds that start-up capital does matter for the future performance of the businesses in the sample, consistent with prior research indicating that the extent of start-up capital increases chances that a new enterprise will survive.

14. **Daniel Immergluck. 1998a.** ***Comments on Bostic and Canner's New Information on Lending to Small Businesses and Small Farms: The 1996 CRA Data*****. Woodstock Institute (February).** Responds to Bostic and Canner analysis of 1996 CRA small business lending data, finding that their presentation of results served to understate differential credit flows across neighborhoods by income level. By estimating raw numbers based on the percentages presented in their Table 8 on loan flows across neighborhoods, Immergluck extrapolates lending-per-business rates by income level of neighborhood. Finds that nationwide, the loan-per-business rate is 37 percent higher in upper-income areas than in low-income ones (34.2 loans per business in upper-income areas, as compared to 24.9 in low-income areas); and 18 percent higher in middle-income neighborhoods than in moderate-income tracts (29.8 as compared to 25.3). Suggests that changes such as more flexible underwriting, more targeted use of government enhancements (e.g. SBA, state programs, etc.), and more aggressive marketing in lower-income areas could spur increased lending in lower-income areas, in the same way that adjustments in mortgage products and underwriting procedures have helped to increase conventional mortgage credit flows in low-income areas. Notes other limitations of Bostic and Canner's analysis, including that it did not compare the distribution of loans to firms with $1 million or less in revenues to the distribution of firms in that size range, or control for industrial composition of businesses in particular census tracts in analyzing the data.

15. **Daniel Immergluck. 1995.** ***Moving to Economic Development: A New Goal for SBA Loan Programs: SBA 7(a) Lending Patterns in San Antonio Before and After LowDoc*****. Woodstock Institute.** Analyzes effect of SBA's low-documentation, or "LowDoc" program, designed to increase the number of loans the SBA guarantees for under $100,000, especially to minority-owned businesses, by looking at data for 7(a) lending, including LowDoc loans, in the San Antonio

area from one year prior to the program's introduction in November, 1993, through one year after its introduction. Finds that the LowDoc program resulted in greater increases in lending to nonminority-owned businesses and businesses in more affluent, nonminority neighborhoods than to minority-owned businesses and firms in modest-income and minority neighborhoods, with lending increasing by 52 percent in minority areas, compared to 110 percent in nonminority areas, and by 44 percent in lower-income zip codes, compared to 100 percent in upper income zip codes. Concludes that program not effectively targeting minority-owned businesses. Makes recommendations including: (i) 7(a) program should establish targets for, and market to, minority-owned firms and firms in modest-income metropolitan areas; (ii) SBA should create incentives to encourage lending to areas in need of economic development; (iii) absolute prohibition on SBA guarantee of loans to nonminority-owned firms relocating from modest-income neighborhoods to upper-income suburban areas; (iv) make SBA programs available to CDFIs; (v) SBA should conduct research to determine employment impacts of 7(a) programs; and (vi) only SBA loans to minority-owned firms and to firms in modest-income areas should be given CRA credit – not all SBA loans.

16. **Daniel Immergluck and Erin Mullen. 1998a.** ***Getting Down to Business: Assessing Chicago Banks' Small Business Lending in Lower-income Neighborhoods*****. Woodstock Institute (June).** Describes individual lending patterns of the 50 largest bank and thrift lenders to small businesses in the Chicago metropolitan area for 1996, based on the first year of small business lending data available under the 1995 revised CRA regulations. Finds that only 14.7 percent of loans in the MSA were made to low- and moderate-income tracts; and that the number of loans per 100 businesses in upper-income tracts exceeded loans per 100 businesses in low-income tracts by 39 percent (23.1 as compared to 16.6); and by 50 percent when considering only loans to firms with annual revenues of $1 million or less (16.2 as compared to 10.8). Also finds that in general, small or medium-sized institutions with branches located more in the central city and closer to low- and moderate-income areas tend to make a higher proportion of loans to businesses in low- and moderate-income areas, although there was significant variation among banks with similar branch location patterns. Suggests that greater complexity of business lending (as compared to mortgage lending) and its dependence on relationships accounts for this pattern. Finds that larger banks are beginning to make more small loans, including more loans to very small firms, on the basis of computerized credit scoring technologies; but suggests that credit scoring also may threaten smaller banks by skimming off the best potential customers, and may create additional barriers for less affluent and minority owners of very small firms on account of focus on personal wealth and credit. Finally, finds that credit card banks were three of the five largest lenders in the metropolitan area and accounted for 39 percent of the small business loans reported in 1996, yet are subject to only limited CRA review on account of their status as limited purpose banks, a status intended for issuers of consumer, not business, credit card lenders. Suggests regulators examine the lending of these banks for their impact on low- and moderate-income communities.

17. **Daniel Immergluck and Erin Mullen. 1997.** ***Economic Development Where It's Needed: Directing SBA 504 Lending to Lower-Income Communities*****. Woodstock Institute (June).** Examines data for SBA 504 lending between 1992 and 1996 over the 6-county Chicago metropolitan area by industrial sector and zip code. Finds that 504 lending is concentrated in middle- and upper-income suburbs and in newly developed areas, suggesting that the 504 program may be subsidizing central city job loss and suburban sprawl. For example, finds that 33 percent of all loans to manufacturing firms were to businesses in low-moderate and lower-middle income zip codes, while manufacturing firms accounted for 49 percent of all the businesses in these areas; and 17 percent of 504 loans to manufacturers were approved in low- and moderate-income areas, while these areas contained 27 percent of manufacturers in the six-county area. Highest lending rates were in upper-income counties. Finds similar patterns in retail and wholesale sectors. Further finds that 504 loan program serves predominantly nonminority-owned businesses, though data show increase in lending to minority firms in the last two years, predominantly to Hispanic- and Asian-owned firms. Altogether, finds that less than 15 percent of loans went to firms in the city of Chicago, with much higher geographic distribution of loans in nonminority, upper-income areas than in lower-income areas. Attributes this result at least in part to fact that certified development companies ("CDCs") through which 504 loans are disseminated often rely on bank loan officers for applicant referrals. Suggests that proactive SBA policies are needed to target business development that provides jobs and economic activity where they are needed, and not subsidize or exacerbate development patterns that work to the detriment of low-income communities and their residents; that government subsidy or sponsorship should not be based solely on increasing access to small business credit without regard for the development consequences of the lending patterns it supports. Makes recommendations to promote the use of 504 lending in the lower-income areas most in need of development. See also Daniel Immergluck & Erin Mullen, "The Intrametropolitan Distribution of Economic Financing: An Analysis of SBA 504 Lending Patterns." *Economic Development Quarterly* 12: 372-84.

18. **Michael S. Padhi, Lynn W. Woosley, and Aruna Srinivasan. 1999. "Credit Scoring and Small Business Lending in Low- and Moderate-Income Communities," in Jackson L. Blanton, Alicia Williams, and Sherrie L.W. Rhine, eds.,** ***Business Access to Capital and Credit: A Federal Reserve System Research Conference Held in Arlington, VA, March 8-9, 1999*****, pp.587-624**. Using a broad range of data that included a telephone survey of the largest 200 U.S. commercial banks, economists from the Federal Reserve Bank of Atlanta compare small business lending in 1997 by depository institutions that use automated underwriting techniques, i.e., credit scoring, and those that do not, in order to assess the extent of differences in their relative lending to low- and moderate-income communities. Finds that overall, banks that used credit scoring techniques did significantly more lending in low-income communities, and somewhat more lending in moderate-income communities, relative to other areas than did banks that did not use credit scoring. Comparing lending by credit scoring and non-credit scoring institutions with branches located in the census tract in which a small business loan is made, the researchers also found that more small business loans were originated in a tract in which an institution had a branch, but that branch presence is less important for banks that use credit scoring, indicating that scorers are more likely to lend further away from where they have a physical presence.

19. **Joe Peek and Eric S. Rosengren. 1998a. "The Evolution of Banking Lending to Small Business,"** ***New England Economic Review*** **27-36 (March/April).** Analyzes the impact of the two trends of bank consolidations and use of credit-scoring models on the extent and type of small business lending by banking institutions of varying sizes. Finds that the major area of increased lending by larger banking institutions has been in the under $100,000 loan category. Speculates that loans in this smallest category are the most amenable to use of credit-scoring models that avoid the costs of obtaining balance sheet and income statements for the firm and evaluating the underlying collateral, permitting large banks that specialize in a particular market to mimic informational advantages of smaller institutions with close community ties, and may be able to apply their securitization expertise. At the same time, finds that smaller banks are shifting their emphasis to larger loans, in the $100,000 to $1 million category, possibly as a result of mergers with smaller banks that result in eased borrower concentration constraints that limit small bank access to this sector of the small

business market. Concludes that overall, consolidations and use of credit scoring are likely to result in the availability of more and lower-cost options to small business borrowers.

20. **U.S. Small Business Administration Office of Advocacy. 1997.** ***Small Business Lending in the United States, 1997 Edition: A Directory of Small Business Lending Reported by Commercial Banks in June 1997*****. Washington, D.C.** Analyzes June 1997 call report data on a state-by-state basis, ranking small business lending performance of every commercial bank in the state. Rankings based on (i) ratio of small business loans to assets; (ii) ratio of small business loans to total business loans; (iii) dollar value of small business loans; and (iv) number of small business loans. Also available for 1996, 1995, and 1994.

21. **Gregory D. Squires and Sally O'Connor. 1999. "Access to Capital: Milwaukee's Small Business Lending Gaps," University of Wisconsin – Milwaukee. Available in Jackson L. Blanton, Alicia Williams, Sherrie L.W. Rhine, eds.,** ***Business Access to Capital and Credit: A Federal Reserve System Research Conference; Proceedings of a Conference Held in Arlington, Virginia, March 8-9, 1999.*** Uses CRA small business lending data to examine distribution of small business loans in the four-county Milwaukee statistical metropolitan area based on 1996 data, with comparison to 1997 data. Finds that small business lending in Milwaukee was concentrated in middle- and upper-income areas, and was more concentrated in these communities in the Milwaukee MSA than was the case nationwide. Upper-income tracts received 37 percent of all loans and loan dollars, while accounting for 27.1 of the population and 32.2 percent of all businesses; low-income tracts received approximately 5.5. percent of all loans and loan dollars while accounting for 12.7 percent of the population and 8.8 percent of all businesses. Second, lending to firms with assets of $1 million or less in Milwaukee was below nationwide levels, particularly in low-income areas. Third, small business lending and lending to firms with revenues under $1 million both are concentrated in white communities, with approximately 90 percent of loans and loan dollars going to firms in these areas, approximately two percent of loans and loan dollars going to businesses in predominantly black neighborhoods, and less than one percent to businesses in Hispanic areas. Finally, Milwaukee area lenders varied substantially in the extent of their small business lending by neighborhood income level. For example, while 5.5. percent of all loans went to low-income tracts, among the 20 institutions in the sample, two made fewer than one percent of their small business loans in low-income areas, while one lender did 14.0 percent of its lending, and three others did nine percent of their lending in low-income areas. Finds little change in this overall lending pattern in 1997 data, which also shows less lending activity in terms of loans and loan dollars in low- and moderate-income areas. Points out that the lack of application-level data on small business lending prevents analysis of extent to which variations in demand for credit across neighborhoods may account for these lending patterns, but suggests that the broad disparities among individual lenders in the distribution of their small business loans suggests that something other than the quantity or quality of the demand for credit underlies these patterns. In order to facilitate further research to understand the causes and policy implications of findings, recommends that covered lenders be required to report the number of applications for small business loans and their disposition; lenders be permitted to solicit information on the race of small business applicants; and the FFIEC release tract level data for individual lenders and make available tables that display lending activity by racial composition of tracts. Looks to possibility that disclosure of small business lending activity will increase the availability of small business loans in previously underserved communities in the same way that the combination of HMDA and CRA have increased the supply of funds for mortgage lending.

Appendix A

II. Effects of CRA Regulatory Reform

1. **Robert B. Avery, Patricia E. Beeson, and Mark S. Sniderman. 1997. "Information Dynamics and CRA Strategy,"** ***Economic Commentary*****. Federal Reserve Bank of Cleveland (February 1).** Based on national home mortgage data (1990 and 1991) and neighborhood characteristics data (1980 and 1990 decennial censuses), finds that in many low- and moderate-income neighborhoods, demand is too low to allow more than a handful of lenders to learn enough about the area to operate profitably. As a result, encouraging all lenders to be active in all neighborhoods may increase the costs of lending in neighborhoods with thin loan demand. Encourages lenders to take advantage of the greater latitude under the new CRA regulations for establishing institutional arrangements such as community development banks or loan consortia through which they can pool their resources and specialize in collecting and analyzing local market data, and thereby stand a better chance of generating economies of scale than they would through direct financing. Suggests that this specialization could increase overall lending in targeted neighborhoods.

2. **Bear, Stearns & Co., Inc. 1997. "Securities Backed by CRA Loans: A New Product for Mortgage and Asset-backed Investors," Mortgage Research (October 2).** Research that underlies Bear, Stearns' CRA loan securitization transactions. Analyzes CRA loan programs with respect to borrower demographics, underwriting criteria and loan attributes in comparison with agency conforming, home equity, and VA Vendee loans; and analyzes historical prepayment experience of $1.88 billion First Union CRA loans originated between 1990 and 1996 in five states. Concludes that as a result of low mobility rates of low- income borrowers, combined with tendency for CRA loans to have favorable financing rates, small balances, high LTVs and be primarily for first-time purchase transactions, CRA loans tend to have slower rate of prepayment based on housing turnover, and CRA borrowers are less sensitive to refinancing opportunities than agency borrowers. Concludes that CRA-backed securities offer investors prepayment stability that improves the convexity of CRA-backed transactions.

3. **Coalition of Community Development Financial Institutions. 1993.** ***Principles of Community Development Lending & Proposals for Key Federal Support*****. Philadelphia (January 25).** Lays out the key principles developed by community development lenders to guide the Clinton Administration's community development lending initiative that resulted in creation of the CDFI Fund. Requests four primary types of federal assistance: equity investment, long-term and below-market deposits, human capital development, and assistance with providing technical aid to borrowers and with developing new credit products.

4. **Federal Reserve Bank of San Francisco, Community Affairs Unit. 1998.** ***Qualified Investments: A Summary of Investment Test Results: Qualified Investments Under the Revised CRA*****. (April).** Summarizes qualified investments of 36 financial institutions in the Twelfth Federal Reserve District and Western Region examined by the four regulatory agencies between July 1, 1997 and March 15, 1998, including one small bank that opted to include investment activity, and five limited purpose institutions evaluated under the community development test. Lists each institution by approximate asset size, total dollar amount of qualified investments, investment rating, overall CRA rating, and regulator; as well as an itemized list of qualified investments. Also included is a summary of the 11 existing strategic plans nationwide, listing each institution by approximate asset size, strategic plan term, regulator, aggregate dollar volume of investment goals by year, and itemized list of approved investments.

5. **Financial Markets Center. 1999.** ***The Federal Reserve and Local Economic Development*****. (September).** Describes the legal and historical framework of the Federal Reserve's economic development obligations, providing an overview of its current community affairs infrastructure and a detailed summary of key community affairs activities at the 12 regional Federal Reserve Banks. Analyzes strengths and shortcomings in the community affairs program and recommends steps to improve the Federal Reserve's efforts, including increased and more effective use of regional roundtables to provide ongoing contact between community groups and lenders; issuance of a report evaluating the Mortgage Credit Partnerships model initiated by six Reserve Banks; expanded support for lending and investment consortia and CDCs; use of the Federal Reserve's applied research capabilities, including statistical and mapping skills, to more systematically identify and bring resources to bear on the most under-served communities or the most critical problems.

6. **U.S. General Accounting Office. 1995.** ***Community Reinvestment Act: Challenges Remain to Successfully Implement CRA*****. GAO/GGD-96-23 (November).** On the basis of case studies and detailed review of compliance examinations of 40 banks and thrifts and interviews with bankers, community groups, and regulatory officials to identify four major problems with CRA examination and enforcement under the previous regime and how the new regulations have responded to these problems. First, too much reliance on documentation of efforts and processes, and too little reliance on lending results, leading to an excessive paperwork burden: GAO believed the revised regulations would significantly reduce overreliance on documentation of efforts and processes by focusing examination standards on results, although examinations will require continued balancing of the need for objective standards with the need for flexibility in examining different types of institutions operating under differing financial conditions and serving wholly different types of communities. Second, inconsistent examinations by regulators resulting in uncertainty about how CRA performance is to be rated: GAO believed extent of improvement would depend on implementation, especially the effectiveness of the guidance and training provided to examiners. Third, examinations based on inadequate information that may not reflect a complete and accurate measure of institutions' performance: GAO notes how regulators attempted to strike a balance between increased data collection and reporting by which to assess performance and reducing regulatory burden, but that they do not address issues of data inaccuracies and need for clearer explanations of how performance ratings are determined. Fourth, because proposal to increase certainty in ratings by keying ratings to specified regulatory action on a pending application was rejected as a safe harbor, GAO believed enforcement concerns of bankers and community groups would likely continue. Continued challenges to implementing regulatory reform identified as uncertainty and inconsistency, as a result of discretion inherent in examiners' interpretations of CRA

standards, differences in examiner experience, limitations in accuracy and accessibility of data on which assessments are based, limited disclosures in public evaluation reports, and limits of regulatory resources. Identifies barriers to community lending in low- and moderate-income areas and the various initiatives by lenders to address them. Higher credit risk due to the possibility of borrower default and higher transaction costs for additional time and effort necessary to ascertain the creditworthiness of the borrower or the related property in certain LMI areas have been addressed through (i) arrangements for applicant screening, education, and counseling prior to loan extension and monitoring of borrowers after loans are granted, sometimes by providing technical assistance and grants to nonprofit housing counseling or community groups that provide these services; and (ii) use of lending consortia for spreading risk, saving transaction costs of gathering information, and developing expertise. Other barriers are opportunity costs of foregoing more profitable activities; safety and soundness concerns, which have been addressed by regulatory changes to risk-based capital standards, such as permitting institutions to hold less capital against multifamily housing loans than required in the past; and secondary market standards that limit the ability of institutions to sell loans that do not meet conventional underwriting standards or payment terms, which has been addressed by Fannie Mae and Freddie Mac initiatives in recent years to increase purchases of affordable loans and redefine standards for judging creditworthiness. Also details initiatives of federal, state, and local governments to encourage community development lending, and efforts of the regulators through their consumer affairs and outreach programs to facilitate community lending initiatives. Recommends that Congress consider the results from implementation of the revised regulations before making statutory changes.

7. **Judith Havemann. 1998. "A Hand Up, Via Homeownership; North Carolina Group Given $50 Million to Aid Working Poor," *The Washington Post*, July 24.** Reports the Ford Foundation's $50 million grant to Self-Help, a North Carolina nonprofit organization, to help low-income families buy homes. Under the program, banks (BankAmerica Corp., Chase Manhattan Corp., NationsBank Corp., Banc One Corp., and Norwest Corp.) make CRA loans which are then sold to Self-Help. Using the Ford Foundation funds, Self-Help, in turn, would insure the loans against losses and sell them to Fannie Mae. Fannie Mae committed to purchase $2 billion in loans, which it will pool for sale as mortgage-backed securities. The banks would use the capital from sale of the loans to make more affordable housing loans. Susan Berresford, president of the Ford Foundation, quoted as stating that an important goal of the grant will be to test whether low-wealth families that have been denied mortgages in the past can manage monthly mortgage payments, and thereby lay the groundwork for opening up lending policy nationwide. Ford Foundation emphasis on creating wealth among the poor of all ethnic backgrounds, and particularly minority communities, based on research finding that although black Americans make about 60 percent of what whites do, their assets amount to only 8 percent of those of whites; and that homeownership rates are only 45 percent for blacks, compared with 72 percent for whites. See also Self Help, "Community Advantage™ Home Loan Secondary Market Program" (promotional materials). [also included in Addendum].

8. **Daniel Immergluck. 1998. *CRA & CDFIs: The Community Reinvestment Act and Community Development Financial Institutions; Qualified Investments, Community Development Lending, and Lessons from the New CRA Performance Evaluations*. Woodstock Institute (September).** Reviews and summarizes the evaluation criteria and performance rating system under the revised CRA regulations, highlighting the types of activities recognized under each of the component tests relevant to bank involvement with CDFIs. Examining the composite and component CRA ratings for banks and thrifts evaluated under the large bank CRA regulations between July 1997 and July 1998, finds the following. First, composite ratings remained high, with the proportion of Needs to Improve or Substantial Noncompliance ratings remaining steady at fewer than two percent of institutions, although Outstanding ratings were significantly lower at all four banking agencies (with the largest drop at the OCC) than prior to the revisions. Second, investment test scores were markedly lower than scores for lending or services. On the investment test, 4 percent of the institutions received Outstanding, 21 percent High Satisfactory, and 14 percent Needs to Improve or Substantial Noncompliance. By comparison, on the lending test, 12 percent receiving Outstanding, 64 percent High Satisfactory, and less than one percent Needs to Improve or Substantial Noncompliance; and on the services test, 12 percent received Outstanding, another 57 percent High Satisfactory, and 1.6 percent received Needs to Improve or Substantial Noncompliance. Concludes that the low investment test scores mean that banks and thrifts could be looking for additional investment opportunities, meaning potentially increased capital flows to CDFIs. Alternatively, since the bulk of institutions with Low Satisfactory or below investment test ratings nonetheless received Satisfactory or better composite ratings, institutions may have little incentive to do better on the investment test unless they are striving for an Outstanding composite rating. Third, in order to analyze the relationship between investment activity and investment test scores, Immergluck calculates the ratio of total dollars of investments to asset size for 30 large banks in the San Francisco region (Federal Reserve Bank of San Francisco, 1998) and finds that generally, banks and thrifts receiving higher investment test ratings did have higher investment-per-asset ratios, although the results showed some rather dramatic inconsistencies. Finally, performs in-depth analysis of PEs of 12 large banks and thrifts to identify common characteristics and issues. Finds that (i) examiners have substantial discretion in conducting PEs, especially in the evaluation of community development lending and investments, which may be appropriate, although appears to be room for more consistency in how community development lending and investments are measured, how adequate levels are determined, and whether an activity is considered innovative or complex, and for more substantiation of examiner evaluations; (ii) shortcomings in consistency in evaluation of community development lending and investments stems in substantial part from a lack of comprehensive data that can be used to compare a bank to the rest of the market, which could be remedied by development by agencies of more comprehensive and consistent data including bank size, tier 1 capital, net income, etc, and data on outstanding and new investment and community development loan commitments; (iii) quantitative measures alone are not sufficient for evaluating community development loans and investments, and regulators need to develop and apply consistent distinctions and benchmarks for identifying what is complex and innovative; (iv) the most noticeable shortcoming in the PEs is failure to address responsiveness to credit and community development need in giving appropriate weight to various investments. For example, an investment in a small business investment company that does not target investments to minority firms or firms in distressed areas and that provides a rate of return exceeding 20 percent presently receives as much credit as an equity-equivalent investment in a microloan fund targeting minority firms and that would not provide a similar rate of return.

9. **Daniel Immergluck. 1997. *Is CRA Reform for Real? Analyzing the Ratings of Large Banks Opting for Evaluation Under the New CRA Regulations*. Woodstock Institute Working Paper (Sept. 17).** Evaluates upgradings and downgradings in CRA ratings between mid- 1996 and mid-1997 for 103 "large" institutions that "opted-in" to be evaluated under the new CRA regulations in 1996 and 1997, broken down by banking regulator; and evaluates scores on

the component lending, investment, and service tests. Premised on the view that CRA ratings under previous regime had been inflated, given that increases in CRA ratings did not correspond to statistical increases in LMI lending. Results raise concerns that only a modest amount of downgrading has occurred; that ratings are not uniform across regulators; and institutions are receiving highest scores on lending test, which is given the most weight in composite grade. (Subsequent analysis one-year later, discussed in the report below, showed more promising trends, with "outstanding" ratings dropping from 24.3 percent to 18.6 percent from 1997 to first half of 1998, with largest drop at OCC).

10. **Michael LaCour-Little. 1998. "Does the Community Reinvestment Act Make Mortgage Credit More Widely Available? Some New Evidence Based on the Performance of CRA Mortgage Credits," Citicorp Mortgage, Inc. (May 4).** Examines performance of CRA mortgage loans using data from a geographically diversified portfolio of $374 million of first mortgage loans originated by a single lender following Clinton administration reform of CRA regulations (from 1993-1996 and observed through year-end 1997). During the review period, the lender substituted judgmental underwriting standards for automated credit scoring methods for loans in low-to-moderate income census tracts or loans to low-to-moderate income borrowers. Study finds that approximately half of the total loan volume, or $187 million, reached borrowers who would not have qualified for credit under the credit scoring rule. [also included in Addendum for discussion of loan performance].

11. **Margaret Lehr. 1997. "Equity Equivalent Investments in Nonprofit CDFIs," Technical Assistance Memo, National Community Capital Association: Philadelphia (April 22).** Describes features, regulatory and accounting treatment, and major terms and conditions of Citibank's "equity equivalent" (EQ2) investment to capitalize the National Community Capital (NCCA) Central Fund to leverage loans to NCCA's CDFI members. EQ2 transaction devised by collaboration between Citibank and NCCA as an alternative to CDFI reliance on capital grants from philanthropic sources (or sometimes retained earnings) to supply permanent capital to support lending activities (since nonprofit organizations generally cannot raise equity by issuing stock as for-profit corporations do). The EQ2 is a long-term, deeply subordinated loan that includes six features (required by bank regulatory restrictions) that make it function like equity. Like permanent capital, the EQ2 enhances NCCA's lending flexibility and increases its debt capacity by protecting senior lenders from losses. Unlike permanent capital, the investment must eventually be repaid and requires interest payments during its terms, although at a rate well below market. In for-profit finance, a similar investment might be structured as a form of "convertible preferred stock with a coupon." Citibank received an advisory opinion from the OCC, issued jointly with the FDIC, OTS, and FRB, stating that the EQ2 could receive credit as a qualified investment under the investment test, or under the lending test, or in some circumstances, part under each. In addition, the investing bank is entitled to claim a pro rata share of the incremental community development loans made by the CDFI in which the bank has invested as long the loans benefit the bank's assessment area or a broader statewide or regional area that includes the assessment area. The bank's pro rata share is equal to the percentage of the CDFI's equity capital provided by the bank. See FFIEC, June 27, 1996 letter (expected CRA treatment of the EQ2); OCC, January 23, 1997 letter (finding EQ2 a permissible investment for national banks under 12 CFR Part 24); Michael Selz, "Citibank Pioneers a Way to Help Poorer Communities," *Wall Street Journal,* Oct. 24, 1996, at B2.

12. **Rochelle E. Lento. 1994. "Community Development Banking Strategy for Revitalizing Our Communities," *University of Michigan Journal of Law Reform* 27:773-812 (Spring/Summer).** Describes community development banking as one important tool in community revitalization, based on the fact that disinvestment is itself a market phenomenon, so that neighborhood decline can only be reversed by restoring market dynamics to a community. By locating in the community it seeks to develop, targeting that specific geographic location, and undertaking coordinated, comprehensive action, a community development financial institution (CDFI) can develop specialized market expertise and ensure the critical mass of investment and activity necessary to shift residents' and investors' perceptions. Describes three major categories of CDFIs: community development banks, community development credit unions, and community development loans funds, closely examining three well-established CDBs. For example, South Shore Bank, organized under a bank holding company and with various affiliates to provide real estate investment and development services that the bank itself cannot provide, can take a comprehensive approach with the ultimate goal of stimulating the private market into reinvesting in the target area. Points out how the Clinton Administration has supported community development banking through the proposed CRA regulations that emphasize community development activities by recognizing and promoting the types of strategies used by CDFIs, and through passage of the Community Development Banking and Financial Institutions Act of 1994 that provides for financial and technical assistance to CDFIs.

13. **Local Initiatives Support Corporation. 1999. "LISC Launches Community Development REIT." Press Release and Summary of Terms (June 1).** Announces the launching by the Local Initiatives Support Corporation of the first real estate investment trust to specialize in acquiring debt and equity in affordable housing and community development projects that satisfy CRA criteria. The Community Development Trust closed a $29 million private placement of common stock with investments from Fannie Mae and 16 leading financial institutions and insurance companies that would be eligible for CRA credit as long as they hold CDT stock. The REIT's debt acquisitions would focus on multifamily mortgages, primarily those nonconforming to other secondary markets because of small size, location (inner city or rural), configuration (scattered site, urban rehabs) or type (assisted living), with the goal of providing liquidity to banks, CDFIs, loan consortia, and state and local housing finance agencies. Equity investments would include HUD Section 8 properties, with plans to hold the properties and continue to operate them as affordable housing.

14. **Peter E. Mahoney. 1998. "From Command to Demand: Creating Markets for 'CRA Securities,'" *Journal of Affordable Housing and Community Development Law* 7:254-65 (Spring).** Provides detailed analysis of the definition and banking agency interpretations of "qualified investments" under the revised rules, advocating further development of a broad and objective test to facilitate development of a flourishing secondary market in CRA-eligible securities (i.e., securities that constitute "qualified investments" and therefore for which CRA-examined institutions receive CRA credit) in order to promote increased lending in low-income areas. First, examines standard for determining whether a particular investment has the requisite "primary purpose of community development." For example, notes the generalized guidance that if more than 50 percent of an investment funds CRA purposes, the investment will receive de facto recognition as a qualified investment; investments having less than half of their proceeds directed to CRA-eligible borrowers or neighborhoods may still receive CRA credit under a "motive" test that considers whether the express intent, structure, and effect of the investment have the requisite primary purpose. Suggests further

interpretive refinements to create a primary purpose “safe harbor” such as permitting 100 percent CRA credit for investments backed by pools comprised of 80 percent of qualifying loans in order to (i) permit leavening of loan pools with a mix of geographically and demographically diverse loans; (ii) facilitate valuation of the securities and thereby increased liquidity and demand; (iii) permit lenders and issuers to commit to delivery of securities meeting fixed criteria on specific dates; (iv) reduce the information costs for financial institutions by avoiding having to gather loan-level data for CRA examination purposes. Other steps would be to recognize a flexible geographic standard for wholesale and limited purpose institutions for qualified investments; and to recognize secondary market purchases of CRA securities for CRA credit. Argues that long-term effect of liquid and active secondary market would be to lower interest rates on the loans underlying the pools, since more lenders would compete to originate and secure loans having marketability attributes similar to traditional loans, but with the added incentive of CRA-qualified investment treatment. Argues that creation of an active market for CRA-eligible mortgage-backed and other securities could dramatically increase lending activity in low-income neighborhoods, based on market demand rather than regulatory command.

15. **Richard Marsico. 1995. “Fighting Poverty Through Community Empowerment and Economic Development: The Role of the Community Reinvestment and Home Mortgage Disclosure Acts,”** ***New York Law School Journal of Human Rights*** **12: 281-309.** After explaining the types of expertise and experience that make CDFIs more effective than banks in building a community's economic infrastructure and eliminating poverty, argues that bank support of CDFIs provides an optimal means of satisfying CRA obligations and maximizing the potential of the CRA and HMDA. Explains how the new CRA regulations provide greater opportunities for such use of CDFIs.

16. **Fred Mendez. 1998. “Consortia & the CRA,”** ***Community Affairs Advisor.*** **Federal Reserve Bank of San Francisco Community Affairs Unit (Fall).** Charts how bank involvement in various types of multi-bank lending consortia may satisfy the components of the large, small, and wholesale or limited purpose financial institution CRA compliance tests. Explains that by assuming the role of subcontractor to their bank investors, consortia can provide community development expertise and capacity that small- and mid-sized financial institutions cannot often afford; and provide large financial institutions with an effective way to reach underserved populations through products and services that might be initially unprofitable if performed internally.

17. **National Community Reinvestment Coalition. 1997.** ***Models of Community Lending*****.** Provides an overview of successful partnerships between community-based organizations and lenders to create fair housing or fair lending initiatives in underserved areas. Includes in-depth case studies of nine successful partnerships, and directory and summaries of 400 partnerships nationwide, organized by State.

18. **Office of the Comptroller of the Currency. 1997. Advisory Letter 97- 2, “Community Development Securities.” (Feb. 25) (www.occ.treas.gov/ftp/advisory/97-2.txt).** Provides guidance to national banks on the standard that community development securities must meet to qualify for purchase under the authority granted by the Investment Securities regulation, 12 C.F.R. 1, and the treatment of those investments under the CRA regulation, 12 C.F.R. 25. Provides that banks may purchase and hold unrated community development securities, up to 5 percent of capital and surplus, if the bank documents the ability of the issuer of the security to perform. National banks may also purchase community development securities as investments under the community development corporation, community development project, and other public welfare investments regulation, 12 C.F.R. 24, if the securities meet the public welfare requirements of part 24. Provides that a bank’s investment in community development securities will be considered a qualified investment under the CRA regulation, provided the investment benefits the bank’s assessment area(s) or a broader statewide or regional area that includes its assessment area(s), even if the loans backing the security are not located within the bank’s assessment area.

19. **Office of the Comptroller of the Currency. 1996. CRA Interpretations – Letter 727 (June 27) www.occ.treas.gov/interp/july/cra727.htm** Opinion letter finding that a national bank’s equity eq uivalent investment to capitalize a non-profit organization’s lending fund that would be used to garner other investments and grants with which to make loans to its CDFI members. The CDFIs, in turn, would use the funds to support their community development programs, which involve providing credit for affordable housing and small businesses to revitalize low-income areas throughout the United States. OCC finds equity equivalent functions sufficiently like equity to be treated under the CRA investment test; or alternatively, for the bank to claim a pro rata share of the CDFI’s community development loans under the CRA lending test, based on its investment in the CDFI. Equity-equivalent status was based on six essential attributes: the EQ2 is fully subordinated to the right of repayment of all other NCC creditors, is not secured by any NCCA assets, has a rolling, and therefore indeterminate maturity, is carried as an investment on Citibank’s balance sheet in accordance with GAAP, does not give Citibank the right to accelerate payment, and carries an interest rate that is not tied to any income received by NCCA.

20. **Senator Nellie R. Santiago, Thomas T. Holyoke and Ross D. Levi. 1998. “Turning David and Goliath Into the Odd Couple: How the New Community Reinvestment Act Promotes Community Development Financial Institutions,”** ***Journal of Law and Policy*** **6:571- 651.** Analyzes the revised CRA rules, focusing on the opportunities they create for partnerships between banks and CDFIs through third party intermediary lending, investment, and service activities aimed at community development. Suggests that CDFIs are well-situated through their grass roots knowledge of local lending and investing markets to identify customers who are not overly high risk and save a bank from having to learn how a particular local market works. Further, CDFIs are able to teach and develop basic skills in banking and finance and thereby help people develop financial assets that will make them eligible for regular bank lines of credit, and provide an expanded, lower-risk potential customer base for direct loans and other financial services for the future. Banks, in turn, can provide CDFIs with financing and training. Argues that partnerships between banks and CDFIs provide a prime example of how government-facilitated but private-sector, community-based partnerships can provide superior solutions to economic and social problems than government-sponsored programs. Reviews the history, function, and types of CDFIs.

21. **Lewis M. Segal and Daniel G. Sullivan. 1998. "Trends in Homeownership: Race, Demographics, and Income," *Economic Perspectives*, Federal Reserve Bank of Chicago (Second Quarter), pp. 53-72.** Examines data on homeownership between 1977 and 1997 to determine overall trends, as well as extent to which recent homeownership gains of black households and the drop in the white-black homeownership gap from 1995 to 1997 might be attributable to the effectiveness of the CRA and fair lending laws, or to changing demographic or income trends. Finds that while the overall homeownership rate declined by only 0.8 percentage points between 1977 and 1995, the black homeownership rate fell by 2.6 percentage points to 40.7 percent. In contrast, the white homeownership rate increased by 0.4 percentage point to 67.9%, implying a 1995 gap of 27.2 percent. Although that gap shrunk by nearly 3 percent from 1995 to 1997, the homeownership rate for blacks remains more than 23 percent below that for whites. Finds that very little of the trend over time in the white-black differential in homeownership is explained by changes in demographic and income variables, particularly the drop in the gap since 1995. Therefore, concludes that the recent amendments to the CRA and fair lending laws or their more vigorous enforcement might be having a positive effect on black homeownership rates.

22. **Self-Help. "Community Advantage™ Home Loan Secondary Market Program," (promotional materials).** Program designed to expand the secondary market for CRA loans and increase CRA lending through the purchase of nonconforming home mortgage loans. Partnership between Self-Help, a North Carolina CDFI, Fannie Mae, which committed to purchase $2 billion in CRA loans from Self-Help under the program, and the Ford Foundation, which committed $50 million to Self-Help to insure loans purchased under the program. Under the program, seller could sell eligible CRA loans to Self-Help for cash or exchange them for Fannie Mae mortgage-backed securities. Terms of the program are as follows. (i) Criteria for eligible loans are borrower income 80 percent or less of area median; purchase money, owner-occupied, first mortgages; 97 percent LTV maximum, 100 percent combined LTV maximum; no mortgage insurance required; current credit score taken into consideration; no loans currently delinquent; no 30-day lates in last 9 months (12 months for over 97 percent combined LTV); for loans not sufficiently seasoned, seller may indemnify Self-Help against losses until a loan has achieved 9 (or 12) consecutive payments with no 30-day lates. (ii) Pricing of loan purchases is 75 basis points annual recourse fee to Self-Help (net out of loan yield), and if loans sold to Self-Help, pricing based on Fannie Mae cash window, and if securitized with Fannie Mae, normal mortgage-backed security pricing applies. (iii) Seller agrees to re-lend same amount in future CRA loans, continues to service loans and earns full servicing fee, with servicing procedures generally the same as standard Fannie Mae/Fannie 97. Target markets are women, minorities, low-wealth families, and rural residents. Participating lenders include Bank of America, Bank One, Branch Banking & Trust, Centura Bank, Chase Manhattan Bank, First Citizens Bank & Trust, First Union National Bank, Norwest, State Employees' Credit Union, Wachovia Bank. See also, Fannie Mae, "Self-Help/Fannie Mae Initiative." (March 1999).

23. **Anne B. Shlay. 1999. "Influencing the Agents of Urban Structure: Evaluating the Effects of Community Reinvestment Organizing on Bank Residential Lending Practices," *Urban Affairs Review* 35(2:247-278).** Analyzes the impact of CRA on changes in bank and thrift conventional home purchase lending by examining lending patterns in six MSAs between 1990 and 1995: three cities with high levels of local CRA organizing and three control cities with low levels of CRA organizing. Finds overall increased lending to low-income and minority borrowers and neighborhoods over the study period at both the lender and city levels in all six cities, with no patterns of redlining and disinvestment (as compared to studies during the 1980s on bank lending practices that found for most lenders and in most cities patterns of disinvestment and racial barriers to credit). Finding that the extent of CRA organizing in a particular city was not necessarily predictive of the extent of increases in lending to low-income and minority borrowers and neighborhoods, suggests that the changes in lending patterns may be explained by favorable market trends in conjunction with local and national political action. Specifically, community organizing and CRA agreements at the local level (regulation from below) created the impetus for the strengthened federal CRA enforcement implemented by the Clinton administration (regulation from above), which set in place a CRA-minded context for lender decisionmaking. These political changes were accompanied by favorable market conditions: increased supply in that the expanding economy and increased capital for investment caused lenders to reach out to the under-explored, inner city communities market (to which CRA pointed the way) and increased demand resulting from enlarged expectations by potential future homeowners. Suggests that rather than altering market forces, CRA may have helped the market work better by providing incentives for lenders to discover and develop products for underserved markets; and may also be a critical handmaiden to fair housing and equal opportunity legislation because it works to reduce class and racial biases in the lending decision. Suggests that more direct test for the effects of CRA will require a multivariate approach that controls for relevant city characteristics, market factors, variability in CRA organizing and enforcement, and time.

24. **Karen Talley. 1997. "1st Union Bundles CRA Asset-Backeds," *American Banker* (Oct. 22), p.16.** Describes first securitization of CRA loans in a transaction involving 5400 First Union loans placed with institutional investors and guaranteed by Freddie Mac. By creating an aftermarket, intended to give lenders a chance to get CRA assets off their books and free up part of their balance sheet for more lending; plus offers banks that purchase the securitized paper ability to earn modest CRA credit. First Union touting the CRA security as an investment that could be less volatile than conventional mortgage securities while offering decent returns.

25. **Kenneth H. Thomas. 1998. *The CRA Handbook*. New York: McGraw Hill.** Compendium of information and analysis of the revised CRA regulations and examination procedures. Identifies patterns and problems in the implementation of the regulations, and strategies for each corner of the "CRA Triangle": banks in meeting their CRA goals, community groups in influencing bank CRA activities, and regulators in conducting examinations. Analyzes all publicly available CRA performance evaluations ("PEs") for 1996, the first full year of operation under the revised regulation, in order to assess the examination process. Using independent evaluators, effectively redoes each of the component performance tests for each institution, sometimes supplemented by additional demographic, banking or other data not available in the PEs, and then compares those evaluations with actual examiner evaluations and component and overall ratings. Provides various detailed breakdowns of results for the 1,407 small bank, 31 large retail banks, 16 limited purpose and 6 wholesale bank PEs. "Quantifies" the extent of grade inflation in the amount of 47 percent for small banks, 58 percent for special purpose banks, and 61 percent for large retail banks, which Thomas attributes primarily to examiner subjectivity. Makes recommendations including use of an examination template by examiners to produce greater consistency in ratings, expanding CRA to credit unions, other financial institutions, and

nonfinancial companies affiliated with banks, using an FFIEC-type joint compliance function among the regulators, and closing of loopholes and exemptions.

26. Additional CDFI Literature

1. **Valjean McLenighan and Jean Pogge. 1991. The Business of Self-Sufficiency: Microcredit Programs in the United States. Chicago: Woodstock Institute.**

2. **Office of the Comptroller of the Currency. *Community Development Investments Programs for National Banks*. 1996 Supp. Provides information on the 174 community development corporation and community development project investments made by national banks in 1996.**

3. **Julia A Parzen and Michael H. Kieschnick. 1992. *Credit Where It's Due: Development Banking for Communities*.** Looks at development banking as a tool of economic development at the community level.

4. **Peter H. Rossi. 1998. "Evaluating Community Development Programs: Problems and Prospects," in Ronald Ferguson and William Dickens, eds., *Community Development Programs*. Washington, D.C.: The Brookings Institution, 1998.**

5. **Michael H. Schill. 1996-1997. "Assessing the Role of Community Development Corporations in Inner City Economic Development." *New York University Review of Law and Social Change* 22:753-81.**

6. **Lisa J. Servon. 1998. "Credit and Social Capital: The Community Development Potential of U.S. Microenterprise Programs," *Housing Policy Debate* 9(1):115-49.**

7. **Kathryn Tholin and Jean Pogge. 1991. *Banking Services for the Poor: Community Development Credit Unions*. Chicago: Woodstock Institute.**

Appendix A

III. CRA Commitments

1. **First Chicago NBD Corporation. 1998. Cover Letter to Malcolm Bush, The Chicago CRA Coalition, c/o The Woodstock Institute, transmitting copy of Chicago CRA Coalition and First Chicago NBD (New Bank One) Six Year Plan: Community Reinvestment Programs and Activities (July 29).** Plan of community reinvestment programs to be implemented following merger of First Chicago NBD Corporation and Banc One Corporation resulting from negotiations between the merging banks and the Chicago CRA Coalition. Included here as an example of a CRA agreement. Sets forth CRA Coalition Goals and specific corresponding First Chicago-Banc One plans in various categories: housing, including increased single-family mortgage lending to low- and moderate-income people and areas, expansion into un- and underserved markets, review of impact of credit scoring to ensure it does not become a barrier to accessing credit for people with nontraditional or problematic credit histories, review of rejected loans for inclusion in CAP or SBA programs, and reduction in inappropriate subprime lending; multifamily lending; economic development, including small business lending and technical assistance; banking services, including establishing and marketing of lifeline accounts, increased financial literacy training, and increased branch network; investments and grants, including funding of the bank's community development corporation (CDC) and equity investments in Chicago CDFIs. Provides for monitoring of agreement through continued quarterly meetings of the Neighborhood Lending Review Board. Sets numerical six year goals for residential and small business lending.

2. **Richard Marsico. 1993. "A Guide to Enforcing the Community Reinvestment Act,"** ***Fordham Urban Law Journal*** **20(2):165-279 (Winter).** Details the steps that a community-based group needs to take to enforce the CRA through negotiated agreements with banks, including how to assess community credit needs, gather information about a bank's CRA record, evaluate the bank's record of meeting community credit needs, and negotiate the agreement. Also analyzes related Federal Reserve Board policies impacting the process (pre-dating the revised regulations).

3. **National Community Reinvestment Coalition. 1998a.** ***CRA Commitments 1977-1998*****.** Provides tables of the $1.04 trillion in CRA commitments made by financial institutions by year and by state. Includes both negotiated agreements and unilateral commitments undertaken by banking institutions since the passage of the CRA through Fall 1998. State compilation includes city, name of community organization involved, if any, name of lender, year, whether negotiated or voluntary, and total dollar amount of commitment. Surveys the range of credit, capital, investment and services subject areas covered by CRA commitments, with explanations and examples of each.

4. **National Community Reinvestment Coalition. 1998b.** ***CRA Dollar Commitments Since 1977*****. (December).** Updates tables of CRA commitments made by financial institutions by year and by state through the end of 1998.

5. **Office of the Comptroller of the Currency (OCC). 1998. "Notice and Request for Comments on Intent of OCC to Survey National Banks on How They Monitor Their Progress in Achieving the CRA Commitments They Have Announced,"** ***Federal Register*** **63:49,725 (Sept. 17).** Gives notice of the OCC's intent to conduct a survey of national banks that have publicly announced pledges or commitments to undertake lending, investment, or other activities pertaining to their obligations under the CRA. Goal of survey would be to determine the adequacy of systems and procedures the banks have in place to track their progress in achieving their announced goals. The notice seeks public comment on the questions proposed to be included in the survey. Comment period ended November 16, 1998. No further action has been taken to date.

6. **Alex Schwartz. 1998a. "Bank Lending to Minority and Low-Income Households and Neighborhoods: Do Community Reinvestment Agreements Make A Difference?,"** ***Journal of Urban Affairs*** **20(3):269-301.** Compares mortgage and home improvement lending to low- income and minority households and census tracts by lenders with and without CRA agreements. HMDA database of lenders comprised of banks (41 percent of sample), thrifts (10 percent) and independent mortgage companies (38 percent). Analysis based on information derived from National Community Reinvestment Coalition nationwide compilation of CRA agreements and 1994 HMDA data for all states and metropolitan areas with at least one local or regional CRA agreement in effect. Lenders with agreements accounted for 5.1 percent of the total sample, but over 13 percent of the sample's total mortgage loan approvals in 1994. Salient findings include the following. (i) Lenders with agreements approved a higher proportion of conventional mortgages across all market segments than lenders without agreements, especially among minority and low-income households and neighborhoods. For example, almost 75 percent of mortgages approved for black households by lenders with agreements are conventional, as opposed to less than 60 percent of those approved by other lenders. (ii) For lenders with agreements, market share of mortgage approvals for black households was 18 percent higher than their overall market share within that state or MSA. For lenders without agreements, black household market share was approximately 14 percent less than their share of total mortgage approvals. Finds no significant differences in relative market share index for Hispanics, or for predominantly minority neighborhoods. (iii) Few significant differences in market share based on differences in agreements such as voluntary or negotiated status, age, geographic coverage, or number of additional agreements signed by the same community group. (iv) When independent mortgage banks and small institutions (defined as those that received fewer than 30 mortgage applications in 1994) are excluded from the sample, institutions without CRA agreements show significantly less lending to minority and low- and moderate-income households and minority and low- and moderate-income census tracts (whereas with independent mortgage banks, significant differences appeared only with respect to black households). (v) With respect to denial rates, the only substantial change when mortgage banks are removed from consideration is that institutions with agreements denied mortgages to black applicants 2.5 times more often than to whites, whereas other institutions denied mortgages to black applicants 3.13 times more often (whereas with independent mortgage banks, lenders with agreements showed higher denial rates than lenders without agreements). Also provides overview of agreements, including their evolution and discussion of types of provisions frequently included.

7. **Alex Schwartz. 1998b. "From Confrontation to Collaboration? Banks, Community Groups, and the Implementation of Community Reinvestment Agreements," *Housing Policy Debate* 9:631-62.** Examines negotiated community reinvestment agreements in Chicago, Cleveland, Pittsburgh, and New Jersey to analyze the mechanisms used to monitor and enforce them and their effectiveness in attaining their goals. Descriptive analysis includes the monitoring arrangements in the four locales (combination of community advisory councils meetings at which banks report on progress, independent tracking, publishing of reports by community reinvestment advocacy groups, and use of mystery shoppers); assessment of the effectiveness of the agreements in attaining their goals; and elucidation of factors that seem to foster or inhibit implementation of the agreements. Suggests areas for further research: comparison of negotiated and voluntary agreements; comparison of strategic plans adopted under new CRA regulations with voluntary and negotiated CRA agreements; comparison of types of loan products and programs forged through CRA agreements with products and programs developed by banks without CRA agreements; study of the PMI approval process to determine extent to which community reinvestment advocates' fears are supported, since waiver of PMI is a major obstacle to secondary market access.

8. **Anne B. Shlay. 1999. "Influencing the Agents of Urban Structure: Evaluating the Effects of Community Reinvestment Organizing on Bank Residential Lending Practices," *Journal of Urban Affairs*.** Using evaluation research in conjunction with critical urban theory, analyzes the impact of CRA on changes in bank and thrift conventional home purchase lending between 1990 and 1995. First, comparing changes in lending by banks and thrifts during the six-year study period in three cities with high levels of local CRA organizing (locations where at least three CRA agreements had been negotiated and had been in effect for the time period under investigation) and three control cities with low levels of CRA organizing, finds that changes in CRA-oriented lending exceeded changes in overall lending in all six cities during the study period, with no apparent correlation between the extent of CRA organizing and the extent of the increases in lending. Second, compares the lending activity of three particular lenders with CRA agreements to lending activity of three particular lenders without CRA agreements (one lender with an agreement and one without an agreement in each of the three high CRA organizing cities) by comparing total market share with market share of lending to low- and moderate-income and minority borrowers and neighborhoods for each lender. Finds that in general, lenders with CRA agreements showed larger changes in the direction of more CRA oriented lending and along more indicators than lenders without CRA agreements, and that variations in outcomes among lenders with CRA agreements were reflective of differences in the implementation process, mainly the extent of top level bank management involvement with implementation of the agreement and the working relationship between the bank and community-based organizations. However, Shlay found that lenders without agreements also showed increased lending to low- and moderate-income and minority individuals and neighborhoods during the study period, and did not exhibit the "patterns of redlining and racial avoidance that characterized lending activities during the 1980s." Suggests that the changes in lending patterns may be explained by favorable market trends in conjunction with local and national political action. Specifically, community organizing and CRA agreements at the local level (regulation from below) created the impetus for the strengthened federal CRA enforcement implemented by the Clinton administration (regulation from above), which set in place a CRA-minded context for lender decisionmaking. These political changes were accompanied by favorable market conditions: increased supply in that the expanding economy and increased capital for investment caused lenders to reach out to the under-explored, inner city communities market (to which CRA pointed the way) and increased demand resulting from enlarged expectations by potential future homeowners. Concludes that rather than altering market forces, CRA may have helped the market work better by providing incentives for lenders to discover and develop products for underserved markets; and may also be a critical handmaiden to fair housing and equal opportunity legislation because it works to reduce class and racial biases in the lending decision. Suggests that more direct test for the effects of CRA will require a multivariate approach that controls for relevant city characteristics, market factors, variability in CRA organizing and enforcement, and time.

9. **Gregory D. Squires, ed. 1992. *From Redlining to Reinvestment: Community Responses to Urban Disinvestment*. Philadelphia: Temple University Press.** Documents the genesis and progress of CRA agreements in Boston, Pittsburgh, Detroit, Chicago, Milwaukee, Atlanta, and California through individual essays.

10. **Articles Assessing Particular Negotiated Programs**

Calvin Bradford. 1989. Impact of Neighborhood Lending Programs in Chicago, Partnerships for Reinvestment: An Evaluation of the Chicago Neighborhood Lending Programs. Chicago: National Training and Information Center. Community reinvestment agreement negotiated between the Chicago Reinvestment Alliance and the First National Bank of Chicago, Harris Trust and Savings, and Northern Trust Company.

Jim Campen. 1998. Changing Patterns V: Mortgage Lending to Traditionally Underserved Borrowers and Neighborhoods in Greater Boston, 1990-1997. Boston: University of Massachusetts (December).

Colorado Center for Community Development. 1996. Analysis of Mortgage Lending Activity of Banks Participating in the Denver Community Reinvestment Partnership. Denver. Study analyzing residential lending record of six banks during the first year of participating in a community reinvestment partnership with the City of Denver designed to increase credit availability to residents of Denver.

James A. Miara. 1995. Progress Report: Initiatives by Massachusetts Bankers and Neighborhood Lenders to Meet Community Credit Needs, 1990-1995. Boston: Massachusetts Community and Banking Council.

Pittsburgh Community Reinvestment Group. 1995. Follow the Money: Pittsburgh Community Reinvestment Group Neighborhood Lending Report, 1991-1994. Pittsburgh. In-depth analysis of mortgage lending by banks with which PCRG has agreements.

Woodstock Institute. 1997. 1995 Community Lending Fact Book. Chicago. Annual publication analyzing lending in Chicago by all banks, mortgage banks, and thrifts covered by HMDA. Used by Chicago community organizations as a tool in monitoring commitments.

Ronald N. Zimmerman, "Lessons Learned from the Atlanta Mortgage Consortium," Federal Reserve Bank of Atlanta. Unpublished Paper.

Appendix A

IV. Impact of Bank Mergers and Acquisitions on Lending

1. **Robert B. Avery, Raphael W. Bostic, Paul S. Calem and Glenn B. Canner. 1999a. "Trends in Home Purchase Lending: Consolidation and the Community Reinvestment Act,"** ***Federal Reserve Bulletin*** **85: 81-102 (February).** After outlining the variety of possible theoretical effects that consolidation of the banking industry might have on lending to lower-income and minority borrowers and neighborhoods, examines empirical evidence on the impact of consolidation activity on home purchase lending overall and to lower-income and minority borrowers and neighborhoods during two analysis periods: 1993-1995 and 1995-1997. Database includes information on mergers, acquisitions, and failures; and data on location of banking offices, neighborhood economic and demographic characteristics, and home purchase lending activity in 726 counties located in metropolitan statistical areas (constituting 20 percent of all counties in the United States and containing 78 percent of the total population and 70 percent of the banking offices). At the market level, finds that the level of consolidation activity within a county had little effect on changes in total home purchase lending or on changes in lending to either lower-income borrowers or neighborhoods within the county, suggesting that either consolidating organizations may not change their home purchase lending behavior, or that any changes may be offset by other market participants (banking organizations operating in areas where they did not have banking offices, and by independent mortgage and finance companies and credit unions). At the organization level, however, finds that banking consolidation is consistently associated with declines in lending within the counties in which a banking organization operates banking offices; except that the typical consolidating organization increased the *proportion* of its loan portfolio extended to lower-income and minority borrowers and neighborhoods. Concludes that these results are consistent with the view that the CRA has been effective in encouraging banking organizations, particularly those involved in consolidation, to serve lower-income and minority borrowers and neighborhoods. Finally, study finds that overall home purchase lending by organizations involved in consolidations grew 16 percent in 1993-1995 and 22 percent in 1995-1997, with virtually all of the growth in counties in which the banking organizations did not have banking offices. Authors suggest possible explanations of banking organization desire for geographic diversification of lending activity, and increased standardization in the home purchase loan market reducing need for local presence.

2. **Robert B. Avery, Raphael W. Bostic, Paul S. Calem and Glenn B. Canner. 1999b. "Consolidation and Bank Branching Patterns,"** ***Journal of Banking and Finance*** **23:497-532 (February).** Examines the association between bank consolidation activity and changes in levels of bank branching as measured by changes in the number of bank branches per capita. Contrary to popularly held views, consolidation is not unambiguously associated with declines in the number of banking offices per capita. Only within-ZIP mergers (both the acquiring and acquired institutions had offices in the ZIP code area) show a consistent inverse relationship with changes in levels of branching. However, the within-ZIP relationship does not have clear implications for level of banking services because consolidation of branches located in close proximity to each other may not affect the total level of service in any substantive way. Suggests that research measuring the quality, quantity, and pricing of banking services directly is necessary in order to assess the correlation between consolidation and the delivery of banking services. The relationships between within-ZIP and within-the-market-but-not-within-ZIP mergers (both the acquiring and acquired institutions had offices within the same county or MSA) and changes in the number of bank offices per capita are more negative in low-income neighborhoods than in other neighborhoods, primarily in states whose branching laws were eased during the period, and also appear to be closely tied to changes in the number of savings association offices. Because most states now have unrestricted branching and because savings associations are less prevalent and financially healthier than in the past, these findings may not be indicative of future branching patterns. Suggests that the most striking implication of the study, from a policy perspective, is that the local neighborhood as represented by ZIP code area is a relevant unit for analyzing the potential consequences of a proposed merger on the level of branching.

3. **Robert B. Avery, Ralph W. Bostic, Paul S. Calem & Glenn B. Canner. 1997. "Changes in the Distribution of Banking Offices,"** ***Federal Reserve Bulletin*** **83:707-25 (September).** Analyzes trends in the distribution of banking offices (savings associations and commercial banks) between 1975 and 1995 across neighborhoods grouped by median income of residents and degree of urbanization (central city, suburban, or rural location). Over the twenty-year period, the number of banking institutions declined by 35 percent (from 18,600 to 12,200) and the number of banking offices increased 29 percent, with differing trends over the two ten-year periods. Slight fall in total number of institutions from 1975 to 1985, with dramatic increase in number of banking offices during the same time period; and dramatic 32 percent decline in number of institutions, and 6 percent decline in number of banking offices between 1985 and 1995. Reviews factors influencing banks' decisions to expand or contract the number of banking offices they operate, including office profitability, risk diversification and strategic considerations, technological developments like provision of services through ATMs, deregulation of interest rates, deregulation of intrastate branching and interstate banking, CRA consideration of a bank's provision of services, and industry consolidation and competition. Finds that easing of intrastate branching restrictions appears related to an increase in the number of banking offices, although the two divergent trends holds for all states, regardless of how branching restrictions changed. Low-income areas were the only areas with decline in number of banking offices (21 percent) over the twenty-year period, but corresponding decrease in population in low-income areas, as well as increases in offices per capita in other areas resulted in convergence of number of banking offices per capita across all income categories of neighborhoods. Nearly all the decline in number of banking offices in low-income areas were areas with low rates of owner occupancy (i.e., presumed to be business districts), particularly when analysis is restricted to low-income areas in central cities. Also finds that between 1975 and 1995 both population share and the share of all banking offices increased in suburban areas about 3 percent, with central city and rural areas experiencing a decline both in share of population and share of all banking offices, and high-growth suburban areas experiencing a substantially larger increase in office share than either central city or rural high-growth areas.

4. **Allen N. Berger, Anthony Saunders, Joseph M. Scalise, and Gregory F. Udell. 1998. "The Effects of Bank Mergers and Acquisitions on Small Business Lending,"** ***Journal of Financial Economics*** **50 (February).** Examines small business lending effects of over 6,000 U.S. bank mergers and acquisitions between 1980 and 1995 on the lending of virtually all U.S. banks, using a combination of data from the Federal Reserve's Survey of the Terms of

Banking Lending to Businesses and the Call Report data available beginning with June 1993. Defines small businesses borrowers as those with bank credit of less than $1 million. Sets out to remedy deficiencies in the literature by focusing on M&As as dynamic events that take place not only to increase size but also to change the focus of the participants; and on the reaction of other small business lenders in the same local market which might offset any reduction in the supply of small business loans by M&A participants. Examines four effects of M&As on small business lending: static effect (change in lending that results from combining the balance sheets of the participating banks into a larger pro forma institution); restructuring effect (change in lending that follows from restructuring with respect to size, financial characteristics, and local market competitive position); direct effect (change in lending above and beyond static and restructuring effects); and external effect (responses to M&As by other lenders in the same local markets). Finds that the static effects of consolidation reduce small business lending, but are largely if not fully offset by the dynamic effects, including reactions of other banks and in some cases by the refocusing efforts of the consolidating institutions themselves. Considers variables such as type of M&A and the relative and absolute sizes of the participants. Notes that prior research had established a strong link between banking institution size and the supply of small business credit, with larger institutions devoting lesser proportions of their assets to small business lending than smaller institutions; June 1997 Call Report data indicates that banks with less than $100 million in assets devoted about 9 percent of their portfolios to small business lending, whereas banks with over $10 billion in assets invested about 2 percent of their assets in these loans.

5. **Board of Governors of the Federal Reserve System. 1997. *Report to the Congress on the Availability of Credit to Small Businesses*.** Examines small business credit availability, including consideration of various trends impacting credit flows. Among these, provides overview of research examining impact of mergers on small business lending since the "earliest" empirical work in 1995 and 1996, which generally found that mergers reduced small business lending on net. Finds that subsequent analyses provide little indication that small business lending has been significantly hurt by the accelerated pace of bank consolidation thus far, though data has not been available for long enough to assess adequately the changes; and consolidations may well have negative effects on particular business customers in the short-run due to disruption of lending relationships. Summary key findings are as follows. (i) Large banks maintain lower ratios of small business loans to assets than do small banks; some evidence indicates that small banks that are part of larger banking organizations hold fewer small business loans per dollar of assets than do other small banks; and when large banks acquire small banks, there may be less small business lending by the new bank. (ii) The most aggressive buyers of small banks have been other small banks, and purchasers of banks have tended to be more active small business lenders than the banks that were purchased. (iii) When small banks merge with other small or even mid-sized banks, there generally has been an increase or little change in small business lending by the new banking company. (iv) In markets where small business lending by merged institutions has declined, other commercial banks and nonbank lenders have expanded their share of the small business market.

6. **John P. Caskey. 1994. "Bank Representation in Low-Income and Minority Urban Communities," *Urban Affairs Quarterly* 29(4):617-38 (June).** Examines question of whether bank branches are significantly underrepresented in low-income and minority urban communities and whether the problem has worsened in recent years on account of banking deregulation and other factors that have led banks to close branches disproportionately in low-income and minority areas. Tests these propositions by examining data on bank branch locations from 1970 through 1989 in five cities: Atlanta, Denver, New York City, San Jose, and Washington, D.C. Distinguishes itself from previous studies (in particular, Robert Avery (1991), "Deregulation and the Location of Financial Institutions," in that it uses census tracts rather than ZIP code areas, which contain an average of about 4,000 residents and provide a smaller unit of analysis than ZIP code areas; focuses on changes in the number of communities completely without banks, rather than the number of banks per capita; and includes only FDIC-insured institutions, rather than the banks, thrifts, check-cashing outlets, and loan and mortgage companies included in Avery's study. Finds that in 1989, the relatively low-income census tracts in New York City and Atlanta were significantly less likely to have a local bank than were the more affluent tracts, and the mean number of banks per tract in the lower-income tracts was substantially below that of the more affluent tracts, but found no such pattern in Denver, San Jose, or Washington. In all the cities except San Jose, the percentage of tracts with banks or the mean number of banks per tract in tracts with a majority of African-Americans was less than half that of the nonminority tracts; similar pattern with respect to tracts with more than 40 percent Hispanic population, but much less dramatic.

7. **Rebel A. Cole, Lawrence G. Goldberg, and Lawrence J. White. 1999. "Cookie-Cutter versus Character: The Micro Structure of Small Business Lending by Large and Small Banks," in Jackson L. Blanton, Alicia Williams, and Sherrie L.W. Rhine, eds., *Business Access to Capital and Credit: A Federal Reserve Research Conference, Proceedings of a Conference Held in Arlington, VA March 8-9, 1999*, pp.362-389.** Uses data from the 1993 National Survey of Small Business Finances (NSSBF) to examine differences between large and small banks in their loan approval process. Hypothesizes that relationships are more important for small banks than for large banks due to organizational and operational differences, such as the need for explicit rules in a large bank in order to avoid distortions between successive hierarchies or to keep control across a geographically dispersed organization, whereas small banks may have more private information about potential borrowers because of proximity and a more personal relationship between banker and customer, and loan officers, who can be monitored more readily in the smaller organization, can be granted more discretion. In general, finds evidence that large banks ($1 billion or more in assets) are in fact more likely to employ standard criteria obtained from financial statements in the loan decision process, and that small banks (less than $1 billion in assets) deviate from these criteria by relying to a larger extent upon the character of the borrower. Large banks, but not small banks, are less likely to extend credit to firms with greater leverage and to minority-owned firms, and are more likely to extend credit to firms with greater cash reserves. Small banks, but not large banks, are more likely to extend credit to firms with which they had pre-existing loan relationships. Surveys the literature in the area of relationship lending.

8. **Anthony W. Cyrnak. 1998. "Bank Merger Policy and the New CRA Data," *Federal Reserve Bulletin* 84: 703-15 (September).** Examines small business lending in both urban and rural markets by locally-based banks and savings institutions, as well as firms based outside local banking markets, to evaluate benefit of using small business lending data instead of bank deposits to determine level of concentration within U.S. banking markets for purposes of merger antitrust analysis. Based on 1996 CRA data, finds that out-of-market lenders outnumber in-market lenders in most markets (54 percent); that out-of-market lenders account for a sizeable proportion of business loans by number (31

percent), with that proportion declining steadily with market population, but only 8 percent of the average dollar volume of small business loan originations in urban markets. When credit card banks are excluded, the average market share of loans provided by out-of-market lenders declines dramatically (from 40 percent to 10 percent for the largest MSAs, or from 31 percent to 8 percent for all MSAs combined), suggesting that credit card loans account for a large proportion of the small business lending activity of out-of-market reporters.

9. **U.S. General Accounting Office. 1999.** ***Federal Reserve Board: Merger Process Needs Guidelines for Community Reinvestment Issues*****. GAO/GGD-99-180 (September)**. Evaluates the Federal Reserve's process for considering CRA performance in its review of bank holding company merger applications, by means of case studies of six bank holding company applications (the two largest in 1995, the largest in 1996 and in 1997, and the two largest in 1998). Describes consideration given to CRA examination reports of the holding company's lead bank subsidiaries and to public comment letters. Also compares pre-merger and post-merger home mortgage lending for three of the six mergers, completed in 1995 and 1996, based on HMDA data. Finds that the Federal Reserve does not have written guidelines for how public comments raising CRA concerns are to be weighed in reviewing applications; that relatively few bank holding company acquisition/mergers are protested on CRA grounds (10.4% in 1995, 8.4% in 1996, 4.6% in 1997, and 4.2% in 1998) (p.12); that the principal concerns raised by public comments in the six mergers were (i) insufficient amount of home mortgage lending in low- and moderate-income areas, (ii) insufficient amount of small business lending in low- and moderate-income areas, (iii) expected branch closures in low- and moderate-income areas, and (iv) lack of specificity in CRA agreements. Finds that the Board gives the most attention to home mortgage and small business lending concerns, and does not consider CRA agreements in its decision. Finally, concludes that none of the three mergers examined for post-merger lending patterns showed a decline in single-family home mortgage lending to minority and low- and moderate-income census tracts, based on analysis of market share and portfolio share of both conventional and total loan originations across low- and moderate-income and minority areas by the merging bank holding companies from one year prior to the consolidation to two years after. Recommends development of a more "transparent" process, such as written guidelines, regarding how the Federal Reserve balances the CRA ratings of banks (particularly those with good ratings) with public comments raising CRA concerns.

10. **Daniel Immergluck & Erin Mullen. 1998a.** ***Getting Down to Business: Assessing Chicago Banks' Small Business Lending in Lower Income Neighborhoods*****. Chicago: Woodstock Institute (June).** Examines lending patterns of the 50 largest bank and thrift lenders to small businesses in the Chicago metropolitan area during 1996, using the first year of small business lending data available under the 1995 revised CRA regulations. Finds that small- or medium-sized institutions with significant branch networks in and near low- and moderate- income areas have the highest proportions of lending in low- and moderate-income areas. Suggests rationale of importance of relationships to small business lending, raising concern over potential impact of consolidation trends in the financial services industry.

11. **William R. Keeton. 1997. "Effects of Mergers on Farm and Business Lending At Small Banks: New Evidence from Tenth District Sales,"** ***Economic Review*** **81(3):63-75. Federal Reserve Bank of Kansas City (February).** Examines data on bank mergers in the seven states of the Tenth Federal Reserve district between 1986 and 1995 to determine whether small banks (defined as those with less than $100 million in assets) acquired by large or distant organizations reduce their farm and business lending. Finds that most acquisitions of small banks in the Tenth District shifted ownership to distant markets or made the banks junior partners in their new organizations. Lending tended to fall when out-of-state companies acquired banks owned by urban holding companies, and to a lesser degree, when urban banks became junior partners in large urban organizations. However, lending did not fall in other acquisitions that shifted ownership to distant markets or made banks junior partners in their organizations.

12. **William P. Osterberg and Sandy A. Sterk. 1997. "Do More Banking Offices Mean More Banking Services,"** ***Economic Commentary.*** **Federal Reserve Bank of Cleveland (December).** Based on examination of data on the change in the number of banking offices and in small business lending between 1993 and 1996, finds little support for using data on the growth in the number of banking offices to draw inferences about how consolidation has affected availability of banking services. Finds that a significant percentage of the growth in the number of banking offices between 1988 and 1996 is attributable to thrift conversions (banking offices increased from 63,167 to 71,137, though the number of thrifts fell during that period from 22,743 to 10,241); and that the vehicles through which banking services are provided, including ATMs and supermarket branches, do not necessarily provide the same range of services as are available from traditional bank branches.

13. **Joe Peek and Eric S. Rosengren. 1998a. "The Evolution of Banking Lending to Small Business,"** ***New England Economic Review*** **27-36 (March/April).** Analyzes the impact of the two trends of bank consolidations and use of credit-scoring models on the extent and type of small business lending by banking institutions of varying sizes. With respect to bank consolidations, analyzes small business lending data relative to small business loan assets of acquirers as compared to targets, and relative to acquirer and target total asset size. Finds in general that in each asset-size category, acquirer banks have larger shares of their portfolios devoted to small business lending than non-acquirer banks; that larger banks tend to have a smaller share of small business loans in their asset portfolio; and a tendency for small acquirers to increase and large acquirers to decrease small business lending following a merger. Finds that the major area of increased lending by larger banking institutions has been in the under $100,000 loan category. Speculates that loans in this smallest category are the most amenable to use of credit-scoring models that avoid the costs of obtaining balance sheet and income statements for the firm and evaluating the underlying collateral, and that with the use of credit scoring, large banks that specialize in a particular market may be able to mimic the informational advantages of smaller institutions with close community ties, or may be amenable to large bank securitization expertise. At the same time, finds that smaller banks are shifting their emphasis to larger loans, in the $100,000 to $1 million category, possibly as a result of mergers with smaller banks that result in eased borrower concentration constraints that limit small bank access to this sector of the small business market. Concludes that overall, consolidations and the use of credit scoring are likely to result in the availability of more and lower-cost options to small business borrowers.

14. **Joseph Peek and Eric S. Rosengren. 1998b. "Bank Consolidation and Small Business Lending: It's Not Just Size That Matters,"** ***Journal of Banking and Finance*** **22:799–820 (August).** Finds the the most prevalent type of

merger involves the consolidation of two or more small banks; that in roughly half the mergers, the acquirer has a small business loan portfolio share greater than that of its target; and that in approximately half the mergers, small business loans increase rather than decrease during the period immediately after the merger.

15. **Joe Peek and Eric S. Rosengren. 1995.** ***Small Business Credit Availability: How Important Is Size of Lender?*** **Working Paper No. 95-5. Federal Reserve Bank of Boston (April).** Examines effect on small business borrowers as small banks with a small business loan emphasis are absorbed into larger, more diversified lenders that tend to focus less on small business lending. In research based on the experience of New England banks, finds that many large acquirers do not maintain the small business loan portfolios of their smaller target banks.

16. **Matthew Purdy and Joe Sexton. 1995. "Bank-Poor Communities Are Forced to Improvise,"** ***New York Times*****, Sept. 11, at A1.** Describes the "parallel universe of low-level finance" evolving in low-income communities in New York City to address the lack of traditional banking services as a consequence of consolidation of the banking industry and the steady closing of bank branches over the last decade. Parallel universe includes loan sharks, check-cashing establishments and pawn shops, as well as communal, nonprofit organizations like lending circles, neighborhood credit unions, and revolving loan funds. Cites statistics of the Public Advocate's office that Washington Heights had one bank branch for every 22,000 people, one-third the level in Manhattan's wealthiest neighborhoods; that the number of New York City branches had declined by 81, or 7.5 percent, from 1978 to 1992, with the sharpest losses in the Bronx and Brooklyn where 50 branches have closed since 1978.

17. **Jonathan A. Scott and William C. Dunkelberg. 1999. "Bank Consolidation and Small Business Lending: A Small Firm Perspective," in Jackson L. Blanton, Alicia Williams, and Sherrie L.W. Rhine, eds.,** ***Business Access to Capital and Credit: A Federal Reserve System Research Conference Held in Arlington, VA, March 8-9, 1999,*** **pp.328-361.** Using the 1995 Credit, Banks and Small Business survey conducted by the National Federation of Independent Business, examines the experience of 3600 small firms in their most recent attempt to locate financing for their businesses, in order to assess the impact on credit availability and terms for the 25 percent of these firms that experienced a merger or acquisition of their major bank. In the 1995 survey, banks were asked whether their principal financial institution had been bought out or absorbed by another, with a follow-up questions regarding how the change affected the firm. Researchers conclude that consolidation of a firm's bank did not impair credit availability, and some weak evidence suggests that credit availability may even have been enhanced. They also find no significant adverse effect on interest rates or loan-to-value ratios. However, they find increased probability that the bank will require use of additional financial services as a condition of the loan, and higher fees on other bank services, which explains higher frequency of shopping for a new bank by firms experiencing a merger.

18. **U.S. Small Business Administration, Office of Advocacy. 1998.** ***The Impact of Bank Mergers and Acquisitions on Small Business Lending*****. www.sba.gov/ADVO/stats/marpt.html** Report of SBA conference on October 6, 1997 presenting five research papers addressing the dynamic effects of bank mergers and acquisitions (with estimates of external effects, as well, in Berger's paper). (Berger, Saunders, Scalise and Udell, "The Effects of Bank Mergers and Acquisitions on Small Business Lending;" Kolari and Zardkoohi, "The Impact of Structural Change in the Banking Industry on Small Business Lending;" Keeton, "Do Bank Mergers Reduce Lending to Businesses and Farmers;" Peek, "The Effects of Interstate Banking on Small Business Lending;" and Strahan and Weston, "Small Business Lending and the Changing Structure of the Banking Industry."

19. **Philip E. Strahan and James Weston. 1996. "Small Business Lending and Bank Consolidation: Is There Cause for Concern?,"** ***Current Issues In Economics and Finance*** **2(3). Federal Reserve Bank of New York (March).** Finds that the preponderance of evidence suggests that a decline in the presence of independently owned, small banks does not necessarily have an adverse impact on the credit available to small businesses. While small banks hold more small business loans as a percentage of total assets than do large banks, the largest banks currently hold more than one-third of all small business loans, and the share of small banks' assets invested in small business loans has risen over the past two years. Second, finds that small banks owned by large banking companies hold fewer small business loans than do independent banks, suggesting that the costs of providing credit to small borrowers are lowest in small banking companies. If this is true, then at least some small banking companies should survive the wave of consolidation and continue to serve the credit needs of small businesses. Finally, banks involved in mergers, on average, hold more small business loans two years after the merger, suggesting that further research on long-run effects of bank mergers on small business loans is necessary, as the call report data becomes available.

20. **Gary Whalen. 1995.** ***Out-of-State Holding Company Affiliation and Small Business Lending*****. Economic and Policy Analysis Working Paper 95-4. Office of the Comptroller of the Currency (September).** Examines small business lending levels, prices, and margins for a sample of banks in Illinois, Kentucky, and Montana to compare small business lending patterns of bank subsidiaries of out-of-state holding companies (OSHCs) with that of independent banks and subsidiaries of holding companies headquartered in-state. Based on data reported in bank and thrift call reports for June 30, 1993, the first to include small business lending data as required by the Federal Deposit Insurance Corporation Improvement Act of 1991. Looks only at data for states that confined commercial banks to operating within a single county so that small loans made by each bank could be associated with a particular geographic area for purposes of analysis. Finds that the volume of small business lending by OSHC subsidiaries compares favorably with both independent banks and in-state bank holding companies; OSHCs do not systematically discourage small business borrowing through loan pricing; small loan rates at OSHC bank subsidiaries generally are lower than those at other types of banks, and small loan marginal costs are higher, so that independents do not appear to be at a competitive disadvantage relative to OSHC subsidiaries because their marginal loan costs are typically below, and their margins typically exceed, those at either class of holding company subsidiary.

21. **Arthur E. Wilmarth, Jr. 1995. "Too Good To Be True? The Unfulfilled Promises Behind Big Bank Mergers,"** ***Stanford Journal of Law, Business & Finance*** **2: 1-69 (Fall).** Examines consolidation trend in the banking industry since 1980, arguing that consolidation has not improved the efficiency of the banking industry, has had a negative impact

on competition and service to consumers and small businesses, and has increased systemic risk. With respect to competition and service to consumers, finds that large, out-of-state banks charge significantly higher service fees, show less financial support for local charitable and civic organizations, and make significantly fewer small business loans in comparison with community banks, which are more likely to make "relationship loans" that do not meet credit-scoring and other standardized underwriting measures. Offers suggestions to mitigate adverse effects.

Appendix A

V. The Future of Federal Community Reinvestment Policies

1. **George J. Benston. 1997. "Discrimination in Mortgage Lending: Why HMDA and CRA Should Be Repealed," *Journal of Retail Banking Services* 19(3):47-57 (Autumn).** Argues for repeal of HMDA and CRA, finding that rationales of discrimination and redlining behind enactment of CRA and HMDA are invalid; that discrimination can be better addressed through ECOA, and distressed neighborhoods can be better helped through multifaceted resources than by lending initiatives alone; that CRA and HMDA impose burdensome operating and reporting costs; and that CRA in fact negatively affects borrowers and distressed neighborhoods. Suggests that CRA draws borrowers away from banks that would serve them to banks offering subsidized loans to fulfill CRA obligations; discourages banks from entering distressed neighborhoods; and ignores bank expertise by requiring all banks to lend to members of specified groups.

2. **John P. Caskey. 1994. *Fringe Banking: Check-Cashing Outlets, Pawnshops, and the Poor*. New York: Russell Sage Foundation.** Documents the history of pawnbroking and commercial check cashing, the dramatic increase in the number and use of these "fringe banks" in the United States beginning in the 1980's, and the critical role they play in the financial system by providing credit and payment services to millions of low- and moderate-income households that rarely interact with the formal banking system. Four major themes derived from the study. (i) Households without financial savings that utilize fringe banks for basic financial services pay more for those services than households that maintain financial savings and use mainstream financial institutions. (ii) The 1980's boom in fringe banking and the increased segmentation of consumer financial markets reflect falling standards of living of many lower-income households and consequent reduced ability to save, combined with deregulation of interest rates and increased competition in the financial services markets resulting in elimination of previously cross-subsidized services such as low-cost, small-balance deposit accounts, and closing of unprofitable or marginally- profitable branches, many of which were in low-income areas. (iii) A significant share of pawnshop and check cashing outlet customers use these institutions out of choice rather than practical necessity because they believe the services are worth the fees. (iv) Insufficient resources are devoted to regulating and monitoring fringe banking markets, despite similarities such as consumer lack of sophistication or access to information that justify regulation in the mainstream banking market. Finds that the majority of fringe bank customers have low or moderate incomes ($9,000-$17,000 per year), have a high school education or less, are mostly between the ages of 18 and 30, and that a disproportionate percentage are African-American or Hispanic. Finds that pawnshops provide small, fast loans primarily to customers with bad credit histories, low incomes, high debt-to-income ratios, or unstable employment patterns that exclude them from unsecured loans; and that check-cashing outlets mainly serve customers who value their convenient locations, hours, and speed and who do not have bank accounts or who have insufficient funds in their accounts to permit them to cash their paychecks. Makes several CRA-related policy suggestions with respect to ensuring that savings and payment services are available in all communities. These include the following. (i) Acknowledging that the CRA assessment criterion based on an institution's record of opening and closing offices in low-income communities may be counterproductive by making bankers unwilling to open offices in these communities in the first place, suggests alternative that all banks, wherever they are located, demonstrate a commitment to assist in economic development efforts in low-income communities through, for example, joining a consortia of banks that jointly capitalize and operate a branch in an underserved area; and that regulators permit banks that voluntarily open branches in low-income areas to close those branches if they are insufficiently profitable. (ii) Separate availability of services from issue of promoting business and housing credit, which might be addressed by establishment of a community credit union or other solutions less costly than a full-service bank branch. (iii) Allow check-cashing outlets to function as agents for banks and take deposits, thereby permitting people who live in communities without bank branches to obtain bank payment and deposit services locally, while saving banks the cost of establishing a full-service branch. (iv) Have federal government provide basic financial services through post offices (which existed in the U.S. from 1910 to 1966), permitting customers to open savings accounts, make third-party payments, invest funds in government treasury bills and bonds, and possibly be part of a regional ATM network, but not offer checking accounts.

3. **Jane W. D'Arista and Tom Schlesinger. 1993. *The Parallel Banking System*. Briefing Paper, Economic Policy Institute.** Seminal paper coining the title phrase, the authors propose establishing a Financial Industry Licensing Act requiring all financial firms to be licensed and making it possible to apply uniform regulations to all institutions engaged in a given financial activity, regardless of institutional classification. In particular, authors argue that in addition to other public policy concerns, the rise of the parallel system has eroded the role of U.S. banks in financial intermediation and destabilized the nation's credit markets as it gains control of an increasing percentage of our assets, but without the safety and soundness oversight of banks and outside the reach of the Federal Reserve's leverage to manage and control monetary policy. Warns that other financial restructuring proposals focused on loosening restrictions on banks to increase their profitability, while ignoring the parallel banking industry, only pose greater threat to the deposit insurance fund. See also D'Arista, "No More Bank Bailouts" (1991) (detailing public guaranty reforms to complement the foregoing licensing proposal, including replacing the various public guarantee programs with a system of insuring the aggregate savings of individuals up to a certain amount, regardless of where they are placed).

4. **Financial Services Education Coalition. *Helping People In Your Community Understand Basic Financial Services*.** Resource guide for teaching basic financial services and helping people understand EFT '99, which refers to the law that direct deposit for most Federal payments by January 2, 1999.

5. **Federal Reserve Board Governor Edward M. Gramlich. 1998. "Examining Community Reinvestment." Remarks at Widener University, Chester, Pennsylvania (November 6).** Finds that some empirical and a great deal of anecdotal evidence suggests that the CRA has been successful and important in effecting increases in small business, small farm, and mortgage lending to low and moderate income individuals; acknowledges critics of CRA; and suggests the need for systematic evaluative evidence on four questions: (i) how serious and how pervasive are discriminatory patterns in lending, by income and by race, since such patterns are the supposed premise of the law; (ii) would it make more sense to find and prosecute lending discrimination directly; or to impose CRA requirements on all institutions (instead of just those contemplating mergers), or on noncompliant institutions; (iii) what are the properties of the loans -- are they incremental or not, caused by CRA or not? Are the loans repaid at normal rates, are the interest rates on the loans subsidized, and to what degree? Exactly who gains and loses how much from these loans?; and (iv) has the small

business and community development lending stimulated neighborhood economic development in low income areas, and have the mortgage loans improved neighborhood housing integration.

6. **Jeffrey W. Gunther. 1999. "Between A Rock and A Hard Place: The CRA – Safety and Soundness Pinch,"** ***Economic and Financial Review*** **(Second Quarter). Federal Reserve Bank of Dallas.** Argues that compliance with CRA may be in conflict with compliance with safety and soundness standards in that (i) CRA rewards aggressive banking strategies while the goal of safety and soundness exams is containment of risk; and (ii) in the face of financial problems and the need for financial retrenchment, banks may be faced with inferior CRA ratings in order to facilitate financial recovery.

7. **Jeffery W. Gunther, Kelly Klemme, and Kenneth J. Robinson. 1999. "Redlining or Red Herring?"** ***Southwest Economy*** **3 (May/June). Federal Reserve Bank of Dallas www.dallasfed.org/htm/pubs/swe/5_6_99.html.** Argues that limited competition, information barriers, and coordination problems that contributed to the redlining that the CRA was intended to address have been relieved by developments in the financial services marketplace such that the CRA is no longer needed to ensure credit to neglected neighborhoods. Argues that increased lending to low-income neighborhoods and borrowers in recent years is attributable to increased lending by lenders not covered by CRA, which have devoted a growing proportion of their loan portfolios to low-income neighborhoods and borrowers, and not to the impetus of the CRA.

8. **Keith N. Hylton & Vincent D. Rougeau. 1998.** ***The Community Reinvestment Act: Questionable Premises and Perverse Incentives*****. Center for New Black Leadership (January).** Advocates shift from existing enforcement mechanisms of the CRA, arguing that they create inadequate or perverse incentives, such as discouraging banks from moving into inner-city, minority communities, to system of subsidies such as tax deductions for individuals who purchase homes in certain communities and for contributions to community development funds or firms, which would create positive incentives for community investment efforts; or attempts to deal directly with root causes of economic decline in inner-city communities. Also rejects three identified premises underlying the CRA: that banks should lend in the communities where they receive deposits; that banks' failure to do so is a result of discrimination against minority groups; and that the economic decline of inner-city, minority communities is due in substantial part to the lending policies of banks. Cites previous legislative proposals such as the American Community Renewal Act of 1996, Rep. J.C. Watts (R-Okla.) and Rep. Jim Talent (R-Miss.): would create 100 "renewal communities" based on the existence of poverty and economic distress and would offer incentives such as tax credits, regulatory relief and low-interest loans to businesses and individuals who invested in these neighborhoods. Investments would satisfy CRA obligations.

9. **Keith N. Hylton and Vincent D. Rougeau. 1996. "Lending Discrimination: Economic Theory, Econometric Evidence, and the Community Reinvestment Act,"** ***Georgetown Law Journal*** **85:237 (December).** Concludes that there are plausible discriminatory processes or mechanisms that might have generated the credit allocation pattern that motivated the CRA, but recommending a shift to a subsidy approach in which lenders that comply with the CRA are treated favorably while others are unaffected.

10. **Daniel Immergluck. 1999d. "Faulty Foundations, Deficient Data: Comments on Two Articles on CRA from the Federal Reserve Bank of Dallas." (September).** Woodstock Institute. Reviews and refutes articles by Jeffrey Gunther, cited above. With respect to the premise that market forces and not the CRA have been responsible for gains in mortgage lending to lower-income people and neighborhoods, responds that the CRA is not independent of the market, but complements and encourages private-sector activity by encouraging banks to take a second look at lower-income communities; that competition has not solved problems of access to credit, and in particular, discrimination has not been eliminated; and lending by mortgage companies is influenced not only by CRA but also by the fair lending laws. With respect to conflict with safety and soundness concerns, challenges the premise that safety and soundness concerns restrict banks from being active lenders, or that the CRA requires them to be active lenders. Instead, suggests that the CRA encourages a proportion, rather than any fixed amount, of loans be in lower-income communities, and can also be satisfied through service activities. Argues that the Dallas Fed article gives no example of a case where a bank with safety and soundness problems was pushed into deeper difficulties due to pressure from CRA examiners. Discusses flaws in theory and methodology.

11. **Michael Klausner. 1995. "Market Failure and Community Investment: A Market-Oriented Alternative to the Community Reinvestment Act,"** ***University of Pennsylvania Law Review*** **143:1561- 93 (May).** Examines market imperfections affecting low-income neighborhood credit markets that would justify CRA, including costs of obtaining credit-related information and information externalities, to find that CRA exacerbates rather than addresses these imperfections. Argues for a market-oriented alternative in the form of a system of "tradable CRA obligations." Under this proposal, banks would be assigned an annual quota of CRA-qualified loans, which might be a specified percentage of assets or deposits, and would include loans to residents, businesses and projects in low-income neighborhoods, designated by median incomes as under current CRA regulations. A bank could meet its quota by either originating or holding qualified loans, buying them from another lender, or lending through a consortium. Potential advantages include: promotion of specialization and information efficiencies, internalization of neighborhood externalities, resulting in more value per dollar lent than untargeted and uncoordinated lending, reliance on market forces to allocate loans in low-income neighborhoods, reduction of enforcement and compliance costs.

12. **Jeffrey M. Lacker. 1995. "Neighborhoods and Banking,"** ***Economic Quarterly*** **81(2): 13-38 Federal Reserve Bank of Richmond (Spring).** Reviews the economic literature to conclude that there is no adequate empirical evidence of bank lending discrimination against neighborhoods (as opposed to individuals) or of any other identifiable market failure to warrant imposing CRA responsibilities on banks. Conclusions premised on assumption that CRA loans and investments are not economically viable, and therefore constitute redistribution program of subsidized lending in low-income neighborhoods. Looking at the activities of a sample community development organization, Neighborhood Housing Services of Boston, suggests that such organizations do a better job than banks ever could at community development lending. Advocates support of community development through direct governmental funding of CDFIs and other mechanisms created by the Community Development Banking Act, rather than subsidies drawn from banking institutions.

13. **Robert E. Litan with Jonathan Rauch. 1997.** ***American Finance for the 21st Century*****. U.S. Department of the Treasury (November 17).** Report evaluating the U.S. financial system as directed under the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994. Sketches a model for financial regulation in the 21st century based on

government's role to promote competition, safety, and access; and the changes in the financial marketplace represented by information technologies and the digitization and globalization of finance, and modern financial instruments and institutions. Posits that the Depression shaped a twentieth-century model that has relied on market segmentation and failure prevention, often pursued using very broad measures. Argues that in today's "quicksilver marketplace," tying the hands of institutions will put a damper on innovation and imperil markets instead of protecting them (as demonstrated by the savings and loans crisis of the 1980s); that financial market regulation should construct a foundation, not a cage for markets; and that the model for the next century needs to emphasize instead competition and innovation, and failure containment, pursued by more targeted means. Based on the premise that periodic upsets in financial markets are inevitable, recommends measures for containment of risk by making the market less vulnerable, rather than preventing the failure of each and every institution, with the goal of making failures less dangerous for the system as a whole and doing without federal government/taxpayer blanket guarantees against loss. With respect to the role of government in ensuring access in the financial marketplace, argues that while marketplace competition serves consumers well, some poorer neighborhoods and citizens may be left behind, just when digital media offer the capacity to bring more services to more people than ever before. Finds that existing measures (CRA and HMDA) have worked well. Litan and Rauch indicate that even the most conservative estimates suggest that the CRA has helped funnel substantial volumes of credit to less advantaged areas; and that even as bank and thrift share of the total mortgage market has fallen in recent years, their share of mortgage loans in low- and moderate-income areas has risen. Suggests that the CRA's greatest contribution has been a change in the psychology of lending, leading lenders as a routine part of business to ask whether they are paying attention to poor as well as to wealthy neighborhoods. However, suggests that more targeted approaches are needed as the marketplace evolves and traditional lenders are elbowed aside. In addition to the broad mandate of the CRA that encourages conventional lenders to reach out to overlooked clients and aims at entire neighborhoods, federal policy also needs to operate through more specialized types of lenders such as CDFIs that know how to reach the neediest borrowers and how to succeed where ordinary commercial finance cannot easily thrive. The other frontier for federal policy is ensuring access to depository and payment services. Suggests that implementation of the statutory mandate for federal payments by electronic funds transfer may provide the opportunity for bringing households presently without bank accounts (15 percent of American households) into mainstream finance, and the ambit of affordable and reliable payment and deposit services.

14. **Eugene Ludwig, Comptroller of the Currency. 1997. "Remarks before the Director's Roundtable." San Francisco (July 15).** Recognizes the value CRA has added to underserved communities and advocates opening discussion on how to extend the principles underlying the CRA to other parts of the financial services industry, without imposing a "CRA-type responsibility in a rigid, one-size-fits-all way." Noting that in 1990, nonbanks held a larger share of the nation's financial assets than commercial banks and thrifts combined, questions logic of applying CRA-type responsibility to only one segment of the financial services industry. Cites examples of how this might be done (but endorsing none), including nonbank partnerships with CDFIs through co-investments, contributions to lending pools, etc.; for parallel banks to establish and fund a National Reinvestment Bank, which would provide a capital base for CDFIs; making insurance coverage more accessible and affordable. (remarks closely follow many ideas set forth in Pinsky & Threlfall article, discussed below).

15. **Jonathan R. Macey and Geoffrey P. Miller. 1993. "The Community Reinvestment Act: An Economic Analysis," *Virginia Law Review* 79:291-348 (March).** Reviews CRA, post-1989 revisions, to find that the 1989 amendments requiring ratings disclosure changed the law from a vague statement of principle without much real-world effect to a statute with teeth, and concluding that the law does more harm than good in its attempt to address revitalization of deteriorated inner-city neighborhoods. Criticizes the statute on multiple ideological and pragmatic grounds. First, rejects the ideology of localism underlying CRA, finding that banking is no longer in fact a local industry, as a result of changes permitting interstate banking and branching and evolution of information processing and communication technologies that have weakened ties that connect banks with their local communities, and that this movement away from localism has been beneficial for consumers in improving banking service, and for banks in enhanced asset diversification and economies of scale. Second, concept of banks "draining" credit out of local communities is inappropriate, finding no reason why credit should be different from any other commodity, and shipped from one area where it is in surplus to another where there is a deficit, which ultimately benefits the locality in which the credit is generated, in the form of higher interest rates, etc. Third, finds no basis for idea that banking charter carries with it an obligation to return credit to a bank's local community, particularly in light of the erosion of the bank monopoly over transaction accounts once provided by the banking charter, as a result of elimination of interest rate ceilings and competition for deposits from mutual funds and other nonbank firms. Fourth, the statute imposes a discriminatory tax on banks and savings associations, which are thereby weakened relative to other financial institution lenders such as pension funds, life insurance companies, consumer finance firms, mortgage banks and credit unions; and imposes differentially high costs on institutions serving depressed communities, banks trying to expand or reposition themselves in the market, and wholesale, trust and private banks, whose businesses do not lend themselves to community lending. Fifth, the statute interferes with safety and soundness by requiring banks to make loans or provide services that are not profitable, by impeding the merger process that contributes to an efficient market structure, and by reducing a bank's ability to diversify its asset portfolio through lending outside its local geographic area. Sixth, it imposes inordinate compliance costs, in the form of direct expenses and disruption, imprecision of standards, and public relations efforts; and the improper influence of activist groups. Finally, finds inappropriate the conversion of the community reinvestment purpose of the statute to the targeting of particular ethnic or gender groups, philanthropic giving, and hiring of minority employees. Argues that the statute ultimately perversely discourages banks from entering low-income markets in order to avoid CRA mandates. Finds that the statute has been politically popular despite the foregoing drawbacks because it benefits organized political interest groups including community activist organizations, small businesses and small farms and the banking agencies themselves. Argues in the alternative for market-driven initiatives, describing several possibilities proposed by others: lending clubs on the model of "kehs" in the Korean-American community, low-income community credit unions, offering of lifeline banking by grocery stores and other retailers.

16. **Craig E. Marcus. 1996. "Beyond the Boundaries of the Community Reinvestment Act and the Fair Lending Laws: Developing a Market-Based Framework for Generating Low- and Moderate-Income Lending," *Columbia Law Review* 96:710-58 (April).** Finds that low- and moderate-income communities continue to lack adequate banking services in terms of branch access and credit availability, despite the billions of dollars committed to lending in these communities pursuant to the CRA, and despite the fair lending laws; that this result is consistent with nondiscriminatory, profit-maximizing behavior by banks; and that the theoretical fusing together of community disinvestment and racial discrimination has hindered an effective solution to either problem. Argues for market-based incentives based on restricted access to the secondary markets. Specifically, suggests requiring that Fannie Mae and

Freddie Mac purchase loans from banks only in blocks that contain a minimum percentage of low- and moderate-income loans originated within a bank's assessment area. Thus, in order to sell its mortgage loans to Fannie Mae or Freddie Mac, a bank would have to originate enough low- and moderate-income loans to meet the percentage required to sell a block, or else be forced to hold its loans until maturity. This would also create an incentive for banks to enlarge their assessment areas to include more of the low- and moderate-income areas around their branches (rather than less, as under the current law), because only loans originated within its assessment area would count toward satisfying the percentage requirement in each block of loans. Block system would also be an effective tool to expose banks that are not doing such lending, to be investigated for actual evidence of racial discrimination by the Justice Department. Success of proposal premised on evidence that loans made by high-rated banks are not riskier than those made by banks with lower CRA ratings, suggesting that increased low- and moderate-income lending is a realistic possibility. Other market-based incentives mentioned but rejected for various reasons are reduced tax rates on income from CRA loans or tax incentives to invest in Community Development Banks or other CRA-type programs; and greenlining.

17. **Richard D. Marsico. 1995. "Fighting Poverty Through Community Empowerment and Economic Development: The Role of the Community Reinvestment and Home Mortgage Disclosure Acts,"** ***New York Law School Journal of Human Rights*** **12 Part Two:281-309 (Spring).** Recognizing the limits of the "traditional" approach to CRA enforcement, of challenges to bank merger applications and negotiation of lending agreements (namely limits on the scope of the laws, underenforcement by the regulatory agencies under the previous regulatory regime, and the dependency it creates on outside institutions), argues that community groups can more effectively use the CRA and HMDA to create and support CDFIs. Argues that CDFIs present a superior tool for fighting poverty by developing the economic infrastructure of low-income communities and promoting community self-determination rather than dependence on banks and other outside institutions.

18. **National Community Capital Association (NCCA). 1997.** ***Financial Modernization and the Poor Conference: A Report and Transcript*****, Proceedings from National Community Capital Association's Conference held on October 24, 1997, in Washington, D.C.** Proceedings of three panels: (i) How is financial modernization changing the roles and responsibilities in the financial services industry? (ii) How is financial modernization affecting low-income and low-wealth people? (iii) Should public policy change to adapt to the changing relationship between the financial services industry and poor people? Conference panelists Karen Shaw Petrou, Margaret Cheap, Janet Thompson, John Caskey, John Taylor, Michael Barr, Allen Fishbein, Douglas Woodruff, Moises Loza; and keynote speaker Julie Williams. Discusses issues including effects of credit scoring, sub-prime lending, electronic funds transfer legislation and the effect it will have on the "unbanked," technological innovations in financial services, effect of closings of neighborhood branches on local economies, effect of consolidation among financial services providers and proposed financial modernization legislation, leveling the playing field by applying CRA-type regulation to all institutions that derive taxpayer benefit.

19. **Office of the Comptroller of the Currency. 1999. "Decision of the Office of the Comptroller of the Currency on the Application to Charter CIBC National Bank, Maitland, Orange County, Florida." (July 9).** Application of Canadian Imperial Bank of Commerce, Toronto, Ontario, Canada to charter a new full-service national bank that would provide its unsecured consumer loans and other products and services through the establishment of kiosks located in grocery stores equipped with deposit-taking ATMs, computer terminals connected to the bank's internet website, and toll-free telephone connections to the bank's representatives. In reviewing CRA considerations in connection with the charter application, the OCC rejected the view that the bank's assessment area for purposes of the CRA should be based on its nationwide operations via the Internet. Instead, the OCC approved the bank's plan to designate its assessment areas based on its headquarters location and on the locations of its deposit-taking ATMs at banking kiosks. Thus, the initial assessment area for the new national bank would be the Orlando MSA, where it would locate its headquarters and initial banking kiosks; and that additional areas would be designated in other areas in Florida and in other states as new kiosks were placed. The OCC based its decision on the regulatory language (12 C.F.R. § 25.41(c)(2)) requiring delineation of assessment areas to "include geographies in which the bank has its main office, its branches, and its deposit-taking ATMs, as well as the surrounding geographies in which the bank has originated or purchased a substantial portion of its loans." OCC also concludes that the proposed banking kiosks are not branches within the meaning of 12 U.S.C. § 36(j) (which means that opening of a new kiosk will not trigger the CRA review attendant upon establishment of a branch facility).

20. **Office of Thrift Supervision. 1998. "OTS Grants State Farm Federal Thrift Charter." Press Release and Approval Order No. 98-115 (Nov. 12).** Press release accompanying order approving application of State Farm Mutual Automobile Insurance Company, the largest automobile, property, and casualty insurance company in the country, to establish a thrift institution. The new thrift, State Farm Financial Services, F.S.B., was to be based in the State Farm headquarters complex in Bloomington, Illinois, would also operate in the St. Louis area, and eventually expand operations throughout Illinois and Missouri and eventually to Arizona and other states. The thrift planned to offer a full range of banking services, including taking deposits and making various types of home mortgage, auto, and home equity loans, by direct mail and through its nationwide network of independent agents to its insurance customers. While the approval order said nothing about the issue, the press release states that the thrift's CRA assessment area will be the Bloomington-Normal MSA in central Illinois, but set forth a framework of additional CRA responsibilities. The thrift had committed to make $195 million in loans to low- and moderate-income borrowers in the states served during the first three years of operation, and had set a long-term goal of CRA-related loan commitments and activities equal to the greater of 5 percent of the thrift's assets or the amount of deposits generated from low- and moderate-income persons. The thrift agreed to review, for each state it enters, the extent of insurance agent participation in the distribution of its credit products and how that would affect the thrift's CRA and fair lending performance; agreed to provide CRA and compliance training to State Farm field coordinators and officers, hired a director of residential lending experienced in community development activities; planned to participate in a variety of community organizations and programs; agreed to create a national community advisory council at the time its operations expand beyond the initial three states; and agreed to submit to OTS a quarterly analysis of the disposition of loans by race, income, and geography, as well as the price, terms, and conditions of granted loans.

21. **Mark Pinsky and Valerie Threlfall. 1996.** ***The Parallel Banking Industry and Community Reinvestment*****. National Association of Community Development Loan Funds (now National Community Capital Association).** Premised on CRA and fair lending laws having been successful and essential to creating investment in low-income communities, argues for extending community reinvestment obligations to the parallel banking industry, defined as comprising insurance companies, pension funds, mutual funds and finance companies. Rationale that these "parallel

banks" perform almost all of the same core functions as banks, operate with significant taxpayer subsidy through their reliance on conventional bank lines of credit and near-equal access to federal protections and emergency loans, and cause significant risk to the financial system because of lack of corresponding safety and soundness requirements.

22. **Ellen Seidman. 1999. "Challenges in Measuring CRA Performance." Remarks by Ellen Seidman, Director, Office of Thrift Supervision, at the Fair Lending and CRA Colloquium, Newport, Rhode Island. (June 17).** Discusses three issues concerning measuring an institution's CRA performance: definition of an institution's assessment area, quantity of lending, investment, or service activities, and quality of activities. Outlines OTS approach to defining assessment area for thrifts that use non-branch delivery systems, with the goal of assessing performance throughout the markets in which the thrift does business, and not just in its main office assessment area. Specifically, Seidman states that "[a]pplicants for a thrift charter that propose to engage in nationwide or super-regional home mortgage or multi-product consumer lending to the retail public through non-traditional means with a single main office or branch must demonstrate the capacity to achieve satisfactory performance of its CRA obligations in lending, investment and services (1) by at least adequately addressing the needs in its main office assessment area, given the performance context of its operations in that area, (2) by showing that the prospects for its retail products penetrating low- and moderate-income markets in the regions it reaches outside its assessment area are favorable, and (3) by demonstrating that its community development lending, qualified investments and community development services provide appropriate levels of benefit to appropriate markets throughout the scope of its thrift operations." Notes that this rule was used in the recent application of State Farm to acquire a thrift institution, and that CRA evaluation of State Farm's thrift will be limited to the MSA surrounding its Bloomington, Illinois headquarters only initially; in the future OTS will evaluate the institution's performance in other states and regions as its operations expand there. Presents other alternatives considered by the banking agencies to adjust the idea of community underlying the definition of an institution's assessment area. (1) Expand eligibility for the community development test from wholesale and limited purpose banks to a larger variety of nontraditional institutions. This test evaluates community development lending, investments, and services in the institution's assessment area as well as the broader statewide or regional area that includes the assessment area, or beyond, and could accommodate nationwide deposit or lending activities. (2) Expand regulatory definition of assessment area to include areas where an institution gathers a substantial amount of its deposits or makes a substantial portion of its loans. (3) Customer-based assessment areas, based on the location of customers, rather than branch locations, analagous to the statutory assessment area provided for institutions that serve military personnel or their dependents. (4) Use the strategic plan option, which permits an institution to develop its own plan, in consultation with community representatives, for helping to meet community credit needs. Also addresses issues relating to qualitative measurement of CRA performance (credit for purchases of loans may lead to purchase and sale of the same loans over and over among CRA-covered institutions, leading to lending credit but not more dollars in communities, rewarding the smaller "large" institutions, attempt to have Federal Reserve Board amend Regulation B by removing the prohibition against collecting race, gender, and national origin information on other than real estate loans); and quantitative measurement of CRA performance (properly administered risk-based pricing can broaden the market and improve homeownership opportunities, bringing mainstream lenders into lower tiers of the credit market that until now have had to rely on very high-priced, often predatory, alternative institutions).

23. **Michael Sherraden and Neil Gilbert. 1991. *Assets and the Poor: A New American Welfare Policy.* M.E. Sharpe.** Introducing the idea of the Individual Development Account (IDA).

24. **Southern Finance Project. 1995. *Reinvestment Reform in an Era of Financial Change*. (April).** Advocates increased support for community credit needs by creating a National Reinvestment Fund (NRF) financed with mandatory investments by all private nonbank financial institutions. The NRF would capitalize the growth of existing CDFIs and provide seed capital for new CDFIs; and provide credit enhancements, financial guarantees and policy coordination for federal loan-guarantee programs. The NRF would be administered by the Federal Reserve System and managed on a regional level by the 12 Federal Reserve Banks. Guarantee privatization would be implemented through a new Federal Credit Guaranty Corporation. Fund-supported CDFIs would supply capital, credit and other services, including the labor-intensive direct portfolio lending necessary in distressed communities and targeted investment areas. Proposal is based on and details the premise that nonbank financial institutions are thriving as a result of public subsidies and safeguards and use of the services of the highly regulated banking industry, but with no corresponding community obligations or prudential oversight. Includes extensive tables that detail the distribution of financial sector assets. Supports prudential oversight of these nonbank financial institutions through a Financial Industry Licensing Act, described in D'Arista and Schlesinger, 1993.

25. **Gregory D. Squires, "Community Reinvestment: An Emerging Social Movement," Chapter 1 in *From Redlining to Reinvestment: Community Responses to Urban Disinvestment*, ed., Gregory D. Squires (Philadelphia: Temple University Press, 1992).** Traces the history of community reinvestment as a social movement, including the development of home finance policy since World War II, the role of race in mortgage lending, and the evolution and impact of the HMDA and the CRA; and describes developments in the economy and financial marketplace, including deregulation, concentration, homogenization, and globalization, that are resulting in the "commodification" of lending, the next challenge to community reinvestment efforts in the home finance marketplace. Refers to structural changes in the political economy of home finance resulting in the treatment of housing and housing-related services as commodities in the service of maximizing private profitability in lending, such that the availability of housing credit is dependent less and less on the supply and demand specifically for mortgage loans and increasingly on the supply and demand for credit in international markets generally, so that housing consumers in American cities may have to compete with Brazilian coffee producers and Japanese computer manufacturers as well as U.S. real estate developers and tobacco growers for credit. Posits that rational, market-based, profit-seeking behavior by lenders will still discourage mortgage and related business lending in the most depressed communities even if race and other non-risk related factors are eliminated, and therefore will not meet the social need for housing finance. Suggests that, as with the decline of cities, the growth of suburbs, and the concomitant racial concentration in urban housing markets, reinvestment is not an ecological inevitability or natural outcome of market forces; but will require conscious choices just as the FHA made conscious choices in its early years to protect white neighborhoods.

26. **Gregory D. Squires and Thomas J. Espenshade, eds. 1997. *Insurance Redlining: Disinvestment, Reinvestment, and the Evolving Role of Financial Institutions*. Urban Institute Press.** Addresses discrimination in the homeowners insurance market based on race of applicants or racial composition of neighborhoods.

27. **Michael A. Stegman. 1999.** ***Savings and the Poor: The Hidden Benefits of Electronic Banking*****. Washington, D.C.: The Brookings Institution.** Chronicles the evolution of EFT'99, the Federal law requiring electronic payment of Federal benefits beginning January 2, 1999, from a government cost-savings measure to a movement to help working families join the financial mainstream, and as an impetus for more asset-based social policies. Explores the impetus for EFT'99, how technology is changing the organization and delivery of financial services, the convergence in delivery system methods used by mainstream financial institutions and fringe banks, and challenges and opportunities for EFT'99, including attributes of the Electronic Transfer Account ("ETA") to be offered to the unbanked for receipt of their benefits. Discusses individual development account ("IDA") programs that offer savings incentives for the poor (in contrast to savings incentives that operate through the tax system and so have little effect on the poor whose lower marginal tax rates provide little incentive for participation); and the potential benefit these programs provide in tandem with welfare reform that lets recipients keep assets without losing their welfare eligibility status. Advocates a four-point policy agenda to help EFT'99 realize its potential: (i) states should add a direct deposit option to their electronic benefit transfer ("EBT") programs for recipients of emergency cash assistance; (ii) the CRA should be strengthened to support the transition to electronic benefits transfer; (iii) the Federal government should regulate fees for cashing government checks and accessing federal benefits through voluntary (non-ETA) accounts; and (iv) Congress should enact a nationwide program of IDAs funded on the mandatory side of the Federal budget, as are Roth IRAs and 401(k) retirement plans.

28. **Lawrence H. Summers, Deputy Secretary of the Treasury. 1998.** ***Building Emerging Markets in America's Inner Cities*****. National Council for Urban Economic Development, Washington, D.C. (March 2).** Outlines the Administration's three-prong approach to improving access to capital in distressed inner city communities: the revitalized CRA, the CDFI Fund, and targeted tax incentives. Summers posits that experience has shown that private financial markets fail when it comes to the very poor -- that market psychology and other barriers tend to artificially restrict the flow of capital to certain neighborhoods or to minority groups; and that mechanisms are needed to "revive the power of the market for low-income families." First, presenting recent HMDA data and statistics on CRA commitments, Summers touts the revitalized CRA as establishing a new paradigm in community regeneration strategies, in which public sector and nonprofit organizations "work shoulder to shoulder with mainstream banks and other financial institutions to bring affordable credit and private sector investment to distressed districts and transform their prospects." In particular, cites 1996 HMDA data revealing that conventional home mortgage lending to African-Americans increased 67.2 percent, lending to Hispanics increased 48.5 percent, and lending to low- and moderate-income areas increased 37.9 percent, in a period in which the entire market grew only 18 percent. Second is the CDFI Fund, created in 1992, under which 80 CDFIs have been awarded over $75 million in grants, loans, equity investments and technical assistance, and noting that these CDFI awards would be leveraged 3-4 times in the short term alone; and under which 92 Bank Enterprise Awards, worth $30 million, had been made to insured depository institutions that had increased their investments in CDFIs or increased their direct lending and other services to low-income communities. Summers compares CDFIs to a "niche venture capital firm" that "deploys its superior knowledge of an emerging market niche to invest and manage risk better than other investors. CDFIs are often 'early birds' or 'market scouts' who see the market potential of overlooked customer segments. . . . But like other frontier investors, CDFIs cannot survive unless they find paying customers. They must make loans and investments that are repaid. And, in the end, they must aim to be supplanted. By definition, CDFIs' customers are not yet fully served by the market. But the end goal is always to change the psychology of the marketplace to catalyze more investment by the private sector." Third, Summers outlines the Administration's use of targeted tax incentives including "brownfields" tax incentives, Empowerment Zones, wage credits to employers for hiring families coming off welfare and others, and making low-income housing tax credits permanent.

29. **Peter P. Swire. 1993. "Safe Harbors and a Proposal to Improve the Community Reinvestment Act,"** ***Virginia Law Review*** **79:349-82.** Responds to Professors Macey and Miller's critique of the CRA (see Addendum) by proposing a regulatory "safe harbor" for banks and their holding companies from CRA enforcement as a means to increase community investment while reducing bank compliance costs and minimizing misallocation of credit. Proposes that a bank or bank holding company that met certain CRA investment criteria, through substantial investments in community development banks and other qualifying investments, be exempt from CRA examinations and have its applications subject to review under the CRA receive automatic favorable treatment. Argues that while other alternatives offer some supplemental benefits, the CRA, with adoption of a safe harbor, is a preferable means to achieve the goals of eliminating redlining, preventing racial discrimination, and increasing investment in low- and moderate-income communities. For example, argues that the CRA is preferable to direct government expenditures, because banks are in the business of making loans and are in a better position than the government to make local investment decisions; tax programs are difficult to establish effectively; and antidiscrimination suits are unsuited to achieving the corrective and affirmative goals of the CRA.

30. **Anthony D. Taibi. 1994. "Banking, Finance, and Community Economic Empowerment: Structural Economic Theory, Procedural Civil Rights, and Substantive Racial Justice,"** ***Harvard Law Review*** **107:1465-1545).** Finding that the CRA debate sets up a false dichotomy between healthy communities and a profitable financial industry (at 1490), or between fairness and market efficiency (at 1511), argues for a "community empowerment" public policy paradigm to guide financial industry policy and structure. Rejects the idea that deregulation and internationalization of banking and finance is "efficient" and, in the long run, good for everyone, in favor of structural approaches that favor local communities and challenge the basic assumptions underlying economic policy. Argues that one programmatic step in this direction is support for community development financial institutions (although finding the Clinton administration CDFI proposal deficient and potentially harmful in several respects), which could go a long way towards laying the groundwork for such change.

31. **Lawrence J. White. 1993. "The Community Reinvestment Act: Good Intentions Headed in the Wrong Direction,"** ***Fordham Urban Law Journal*** **20(2):281-92 (Winter).** Argues that CRA is fundamentally flawed whether CRA lending is or is not profitable. Argues that either the law is redundant because serving local communities is profitable, and so banks will do it anyway, or else banks must "cross-subsidize" unprofitable CRA-induced services with above-normal profits from other services. Argues that increased competition in the financial services industry is erasing any above-normal profits "elsewhere" to fund the cross-subsidy, so that banks will either shirk their CRA responsibility or incur overall losses; that in the long run, the CRA is a disincentive from locating or remaining in unprofitable communities, and that technological changes resulting in a global economy make CRA emphasis on localism anachronistic and ultimately self-defeating.

32. **Woodstock Institute. 1999. Letter from Malcolm Bush, President, Woodstock Institute and Convenor, Chicago CRA Coalition, to John D. Hawke, Chair, Federal Financial Institutions Examination Council (February 22).**
Argues that traditional definitions of assessment areas based on branch locations are inadequate and undermine the intent of the CRA by not taking into account that financial institutions now serve large, often multi-state areas, and that an increasing volume of bank services are delivered outside of bank branches by e-commerce, bank-by-phone, bank-by-mail, and ATMs. In particular, points out American Express Centurion Bank, a credit card company that does the majority of its lending outside of its assessment area, the Salt Lake City MSA, made 16 percent of all small business loans in the U.S. in 1996, and is the largest small business lender in the Chicago market; and State Farm, which plans to develop a national market for financial services through its 16,000 insurance agents. Together with the National Community Reinvestment Coalition, the Chicago CRA Coalition proposes that assessment areas comprise wherever a financial institution has a significant share of the loan market or deposits (.05 percent) and/or the number of loans/deposits represents a large portion of the institution's total portfolio.

Appendix A

Addendum: Profitability of CRA Lending

1. **Robert B. Avery, Raphael W. Bostic, Paul S. Calem, and Glenn B. Canner. 1996. "Credit Risk, Credit Scoring, and the Performance of Home Mortgages,"** ***Federal Reserve Bulletin*** **82:621-48; 639-47 (July).** Examines how mortgage lenders assess credit risk, including use of credit scores, and how credit risk relates to loan performance. Assesses the performance of loans made through nontraditional underwriting practices and affordable home lending programs. Finds that the faster increase in conventional mortgage lending to low- and moderate-income borrowers than in lending to other groups suggests that affordable home loan programs may be having an effect in MSAs.

2. **Bear, Stearns & Co., Inc. 1997. "Securities Backed by CRA Loans: A New Product for Mortgage and Asset-backed Investors," Mortgage Research (October 2).** Research that underlies Bear, Stearns' CRA loan securitization transactions. Analyzes CRA loan programs with respect to borrower demographics, underwriting criteria and loan attributes in comparison with agency conforming, home equity, and VA vendee loans; and analyzes historical prepayment experience of $1.88 billion First Union CRA loans originated between 1990 and 1996 in five states. Concludes that as a result of low mobility rates of low-income borrowers, combined with a tendency for CRA loans to have favorable financing rates, small balances, high LTVs, and be primarily for first-time purchase transactions, CRA loans tend to have a slower rate of prepayment based on housing turnover, and CRA borrowers are less sensitive to refinancing opportunities than agency borrowers. Concludes that CRA-backed securities offer investors prepayment stability that improves the convexity of CRA-backed transactions.

3. **Board of Governors of the Federal Reserve System. 1993.** ***Report to the Congress on Community Development Lending by Depository Institutions*****. Washington, D.C. (October).** Compares risks and returns to insured depository institutions of residential, small business, and commercial lending in low-income, minority, and distressed neighborhoods with the risks and returns on such lending in other communities. Salient findings include the following. (i) Relationships between neighborhood income or neighborhood racial or ethnic composition and lending risk are inconclusive. (ii) Neighborhood income and racial or ethnic characteristics that may affect the rate of nonperforming loans rarely seem to affect profitability directly, suggesting that depository institutions adjust other components of profits to offset credit losses; and effects of neighborhood characteristics on profitability generally are small relative to the effects of the characteristics of the borrower, the loan, the lender's portfolio, and the region. (iii) Studies of FHA and Freddie Mac default rates suggest that loans to residents of low-income neighborhoods are riskier than loan to residents of high-income neighborhoods, while analysis of nonperforming loans held by depository institutions suggests there is no connection between neighborhood income and risk. Differing findings may reflect different portfolios and management techniques (e.g., high loan-to-value mortgages insured by FHA, or statistically-based risk control used by FHA and Freddie Mac as compared to risk management based on statistical measures combined with relationships and information about borrowers and neighborhoods based on local presence); (iv) finds that the influence of the minority composition of a neighborhood on risk or profitability is weak and inconsistent, when other determinants of risk and profitability are accounted for.

4. **Paul S. Calem and Susan M. Wachter. 1998. "Community Reinvestment and Credit Risk: Evidence from an Affordable Home Loan Program." (April) Unpublished Paper.** Examines performance of over 2000 home purchase loans originated between 1988 and 1994 by a major Philadelphia bank under a flexible lending program. Assesses long-term delinquency in relation to neighborhood housing market conditions, borrower credit history scores, and other factors. Finds that likelihood of delinquency declines with the level of neighborhood housing market activity, is greater for borrowers with low credit history scores and those with high ratios of housing expense to income, and when the property is unusually expensive for the neighborhood where it is located. Suggested strategies for reducing credit risk based on these results include tightening of lending standards based on borrower credit history or by improved methods of screening borrowers with weakness in credit records; placing increased emphasis on evaluations of appraisal risk or by developing improved property valuation methods; and collaborative community reinvestment efforts focused on targeted neighborhoods, which might help to create active housing markets in those neighborhoods.

5. **Glenn B. Canner and Wayne Passmore. 1997. *The Community Reinvestment Act and the Profitability of Mortgage-Oriented Banks*. Federal Reserve Board Finance and Economics Discussion Series 1997-7. Washington, D.C.: Federal Reserve Board.** Examines the relative profitability of commercial banks that specialize in mortgage lending in lower-income neighborhoods or to lower-income borrowers using three different empirical techniques, and finds that lenders active in lower-income neighborhoods and with lower-income borrowers appear to be as profitable as other mortgage-oriented commercial banks.

6. **Griffith L. Garwood and Dolores S. Smith. 1993. "The Community Reinvestment Act: Evolution and Current Issues," *Federal Reserve Bulletin* 79:251-67.** Finds that anecdotal evidence suggests that losses on CRA lending do not differ significantly from losses on other product lines, and that paperwork burden is overstated. Touts success of CRA at stimulating reinvestment and productive public-private partnerships in urban and rural communities, while often helping financial institutions compete for new customers and generate profitable business. Suggests that the law's lack of specificity, while a source of frustration, is the law's most important strength, leaving the question of how an institution can reach out to its entire community up to the institution and its community to determine.

7. **Judith Havemann. 1998. "A Hand Up, Via Homeownership; North Carolina Group Given $50 Million to Aid Working Poor," *The Washington Post* (July 24).** Reports the Ford Foundation's $50 million grant to Self-Help, a North Carolina nonprofit organization, to help low-income families buy homes. Under the program, banks (BankAmerica Corp., Chase Manhattan Corp., NationsBank Corp., Banc One Corp., and Norwest Corp.) would make CRA loans that would be sold to Self-Help. Using the Ford Foundation funds, Self-Help, in turn, would insure the loans against losses and sell them to Fannie Mae. Fannie Mae committed to purchase $2 billion in loans, which it would then pool for sale as mortgage-backed securities. The banks would use the capital from sale of the loans to make more affordable housing loans. Susan Berresford, President of the Ford Foundation, quoted as stating that an important goal of the grant will be to test whether low-wealth families that have been denied mortgages in the past can manage monthly mortgage payments, and thereby lay the groundwork for opening up lending policy nationwide.

8. **Michael LaCour-Little. 1998. "Does the Community Reinvestment Act Make Mortgage Credit More Widely Available? Some New Evidence Based on the Performance of CRA Mortgage Credits." Citicorp Mortgage, Inc. (May 4). Unpublished Paper.** Examines performance of CRA mortgage loans using data from a geographically diversified portfolio of $374 million of first mortgage loans originated by a single lender following Clinton administration reform of CRA regulations (from 1993-1996 and observed through year-end 1997). During the review period, the lender substituted judgmental underwriting standards for automated credit scoring methods for loans in low-to-moderate income census tracts or loans to low-to-moderate income borrowers. Study finds that approximately half of the total loan volume, or $187 million, reached borrowers who would not have qualified for credit under the credit scoring rule. Comparing performance of this portfolio with a control group of similar high LTV loans in which neither borrower nor neighborhood is low-to-moderate income, study finds default risk of 2.32 percent for LMI loans, as compared to 0.36 percent for non-LMI, control group loans, with slightly lower prepayment risk in the LMI loan group. No conclusion as to whether apparent pricing differentials equalize ultimate yields. (also included in Part II).

9. **David C. Ling and Susan M. Wachter. 1998. "Information Externalities and Home Mortgage Underwriting," *Journal of Urban Economics* 44:317-332.** Tests the Lang and Nakamura (1993) hypothesis that lower rates of lending in lower-income neighborhoods may be a result of lack of information or coordination among lenders in neighborhoods where there are few property sales, i.e., information externalities, which may make these neighborhoods appear riskier than others. This perception may lead to self-fulfilling risk due to a withdrawal of lending. To test whether the probability of loan acceptance is positively related to the number of recent sales in a neighborhood, as well as to past rates of appreciation, examines conventional home mortgage lending in Dade County (Miami), Florida, for the year 1990. Analysis based on a combination of HMDA data on characteristics of mortgage loan applicants and loan dispositions; 1990 census data on census tract population and housing stock characteristics; and data on house price appreciation and the number of sales in each census tract derived from the Florida Department of Revenue's 1992 property tax records, which include the two most recent selling prices and dates for all properties sold between 1971 and 1992, as well as other property-specific characteristics. Uses an accept/reject model in which the lender's decision to extend credit is a function of expected risk and return, and includes borrower and neighborhood racial and ethnic variables as well as neighborhood risk characteristics in order to test for discrimination, and variables for recent price appreciation and sales volume to test for impact of neighborhood information externalities. Finds no significant relationship between lending decisions and neighborhood racial or ethnic composition when variables that proxy for neighborhood risk are included; but does find that increases in recent house price appreciation and in the number of recent sales in the neighborhood do increase the probability of acceptance. Concludes that information externalities at the census tract level do explain a significant proportion of the variation in loan acceptance rates.

10. **David Malmquist, Clifford Rossi, and Fred Phillips-Patrick. 1997. "The Economics of Lending to Low-Income Mortgages," *Journal of Financial Services Research* 11.** Finds that while low-income lending is more costly, lenders are compensated with higher revenues, making profits similar for both low- and high-income lending.

11. **Larry Meeker and Forest Myers. 1996. "Community Reinvestment Act Lending: Is It Profitable?," *Journal of Financial Industry Perspectives*, Federal Reserve Bank of Kansas City (December).** Examines profitability differences between CRA and conventional home mortgage lending programs through survey of 97 large institutions located in metropolitan areas prior to CRA revisions. Only 2 percent of survey respondents said their CRA lending was

unprofitable, though 74 percent found it to be less profitable or substantially less profitable than their conventional lending. Divided responses into two categories: lenders who reported their CRA lending was at least as profitable as their conventional lending, and those who reported it was not. Authors then examined income, expenses, and other related information to identify factors that might account for differences between the groups. Variables identified by respondents as affecting profitability were revenues (loan fees and interest rates); expenses (transaction costs, including origination and servicing costs); extent to which lender absorbed fees (appraisal, title search, credit check, filing fees, and other administrative costs associated with making residential loans); reliance on government guarantees, community groups, or lending consortia to reduce credit risk; and degree of relaxation of underwriting criteria. Salient findings include the following. (i) Lenders with more profitable CRA loan programs were more likely to treat their CRA lending as they did their conventional lending, giving up a smaller portion of their fees, less willing to cut interest rates on CRA loans, and keeping origination and servicing costs near that for conventional lending. (ii) Nearly all lenders loosened their credit standards on CRA loans without appreciable increases in loan losses. (iii) All respondents, regardless of profitability group, indicated that losses on their CRA loans were comparable to losses on their conventional loans, though institutions with less profitable CRA programs reported higher delinquency rates, possibly since managing delinquencies translates into higher transaction costs.

12. **Edwin S. Mills and Luan Sende Lubuele. 1994. "Performance of Residential Mortgages in Low- and Moderate-Income Neighborhoods,"** ***Journal of Real Estate Finance and Economics*** **9(3):245-60.** Concludes that performance of portfolio of low-to-moderate income mortgage loans not significantly different from more typical lender portfolios.

Appendix B

CRA and Related Primary Source Materials

STATUTES AND RELATED REGULATIONS

Community Reinvestment Act of 1977, Pub. L. No. 95-128, Title VIII, Oct. 12, 1977, 91 Stat. 1147, codified at 12 U.S.C. §§ 2901-2907 (as amended).

Regulations:
12 C.F.R. Part 25 (Office of the Comptroller of the Currency).
12 C.F.R. Part 345 (Federal Deposit Insurance Corporation).
12 C.F.R. Part 563e (Office of Thrift Supervision).
12 C.F.R. Part 228 (Federal Reserve Board).

Rulemaking:
Community Reinvestment Act Regulations, Joint Notice of Proposed Rulemaking, 58 Fed. Reg. 67,466 (Dec. 21, 1993).
Community Reinvestment Act Regulations, Joint Notice of Revised Proposed Rulemaking, 59 Fed. Reg. 51,232 (Oct. 7, 1994).
Community Reinvestment Act Regulations, Joint Final Rule, 60 Fed. Reg. 22,156 (May 4, 1995).

The Home Mortgage Disclosure Act, Pub. L. No. 94-200, Title III, Dec. 31, 1975, 89 Stat. 1125, codified at 12 U.S.C. §§ 2801-2810 (as amended).
Regulations:
12 C.F.R. Part 203.

Other Statutes:

Financial Institutions Reform, Recovery, and Enforcement Act of 1991 ("FIRREA"), Pub. L. No. 101-73, Title XII, §§ 1211(b), 1212(b), 103 Stat. 524-26, 527, codified at 12 U.S.C. §§ 2803, 2906, respectively (expanding HMDA reporting to include race, gender, and annual income of loan applicants as well as loan application disposition; and requiring public disclosure of CRA evaluations and ratings).

Bank Enterprise Act of 1991, Pub. L. No. 102-242, Title II, § 232, 105 Stat. 2308, codified at 12 U.S.C. § 1834 (insured depository institutions that do business in economically distressed communities can earn assessment credits for application against their deposit insurance premiums).

Federal Housing Enterprises Financial Safety and Soundness Act, Pub. L. No. 102-550, Title XIII, §1312, Oct. 28, 1992, 106 Stat. 3945, codified at 12 U.S.C. § 4501 (requiring that HUD set goals for Fannie Mae and Freddie Mac purchases of mortgage loans to low- and moderate-income homebuyers and for homes located in central cities and other underserved areas).

Community Development Banking and Financial Institutions Act of 1994, Pub. L. No. 103-324, Title I, 108 Stat. 2160, codified at 12 U.S.C. §§ 4701-4718 (creating $382 million fund to provide federal financial matching support for CDFIs) (including Bank Enterprise Award Program) (also known as the Riegle Community Development and Regulatory Improvement Act of 1994).

INTERAGENCY QUESTIONS AND ANSWERS
Interagency answers to questions pertaining to particular provisions of the CRA regulations.

www.ffiec.gov/cra/qa/default.htm

Federal Financial Institutions Examination Council. "Community Reinvestment Act; Interagency Questions and Answers Regarding Community Reinvestment." 64 Fed. Reg. 23,618 (May 3, 1999).

Notice and Request for Comment, "Community Reinvestment Act; Interagency Questions and Answers Regarding Community Reinvestment," 62 Fed. Reg. 52,105 (Oct. 7, 1997).

Notice and Request for Comment, "Community Reinvestment Act; Interagency Questions and Answers Regarding Community Reinvestment," 61 Fed. Reg. 54,647 (Oct. 21, 1996).

INTERAGENCY INTERPRETIVE LETTERS
Interagency interpretive letters in response to public inquiries about the CRA.

www.ffiec.gov/cra/letters/default.htm
Interpretive letters issued between 1995 and 1998 available on-line.

LEGISLATIVE HISTORY

Community Credit Needs: Hearings on S. 406 Before the Senate Committee on Banking, Housing and Urban Affairs, 95th Cong., 1st Sess. (1977).

H.R. Conf. Rep. No. 643, 95th Cong., 1st Sess. (1977).

Community Reinvestment Act: Hearings Before the Senate Committee on Banking, Housing and Urban Affairs, 100th Cong., 2nd Sess. (1988).

Provisions Aimed at Strengthening the Community Reinvestment Act: Hearings Before the Senate Committee on Banking, Housing and Urban Affairs, 100th Cong., 2nd Sess. (1988).

Discrimination in Home Mortgage Lending: Hearings Before the Senate Committee on Banking, Housing and Urban Affairs, 101st Cong., 1st Sess. (1989).

Conference Report on the Financial Institutions Reform, Recovery and Enforcement Act of 1989, H.R. Conf. Rep. No. 54, 101st Cong., 1st Sess. (1989).

Secondary Mortgage Markets and Redlining, Hearing Before the Subcommittee on Consumer and Regulatory Affairs of the Senate Committee on Banking, Housing, and Urban Affairs, 102nd Cong., 1st Sess. (1991).

Status of the Community Reinvestment Act, S. Rep. No. 121, 102nd Cong., 2nd Sess. 25 (1992).

Community Development Financial Institutions: Hearings Before the Subcommittee on Financial Institutions Supervision, Regulation and Deposit Insurance of the Committee on Banking, Finance and Urban Affairs, House of Representatives, 103rd Cong., 1st Sess. 531 (1993).

Community Investment Practices of Mortgage Banks: Hearings Before the Subcommittee on Consumer Credit and Insurance of the House Committee on Banking, Housing and Urban Affairs, 103rd Cong., 2nd Sess. (Sept. 21, 1994).

Community Investment Practices of Credit Unions: Hearings Before the Subcommittee on Consumer Credit and Insurance of the House Committee on Banking, Housing and Urban Affairs, 103rd Cong., 2nd Sess. (1994).

H.R. Rep. No. 193, 104th Cong., 1st Sess. (1995).

Appendix C

Federal Banking Regulators and Other Governmental Sources

Board of Governors of the Federal Reserve System
www.federalreserve.gov
www.federalreserve.gov/community.htm (CRA website)
20th and C Streets, N.W.
Washington, D.C. 20551
202-452-3000
Public Affairs 202-452-3205
Publications 202-452-3245
Community Affairs 202-452-2412

Federal Reserve Bank of Atlanta
www.frbatlanta.org
404-521-8500
Community Affairs 404-521-7103

Federal Reserve Bank of Boston
www.bos.frb.org
617-973-3000
Publications/Public and Community Affairs 617-973-3095

Federal Reserve Bank of Chicago
www.frbchi.org
312-322-5322
Community Affairs 312-322-8232
Public Affairs/Publications 312 322-5115

Federal Reserve Bank of Cleveland
www.cleve.frb.org
216-579-2000
Community Affairs 216-579-2846
Publications 216-579-3079

Federal Reserve Bank of Dallas
www.dallasfed.org
214-922-6000
Community Affairs 214-922-5377
Public Affairs 214-922-5286

Federal Reserve Bank of Kansas City
www.kc.frb.org
816-881-2000
Community Affairs 816-881-2476

Federal Reserve Bank of Minneapolis
www.mpls.frb.fed.us
612-204-5000
Community Affairs 612-204-5060

Federal Reserve Bank of New York
www.ny.frb.org
212-720-5000
Community Affairs 212-720-8129

Federal Reserve Bank of Philadelphia
www.phil.frb.org
215-574-6000
Community and Consumer Affairs 215-574-6458

Federal Reserve Bank of Richmond
www.rich.frb.org
804-697-8000
Community Affairs 804-697-8447
Publications 804-697-8108

Federal Reserve Bank of St. Louis
www.stls.frb.org
314-444-8444
Community Affairs 314-444-8646

Federal Reserve Bank of San Francisco
www.frbsf.org
415-974-2000
Community Affairs 415-974-2978

Federal Deposit Insurance Corporation
www.fdic.gov
550 17th Street, N.W.
Washington, D.C. 20429
202-393-8400
Division of Compliance and Consumer Affairs 202-942-3662

Federal Financial Institutions Examination Council
Includes access to CRA regulations, CRA national aggregate reports, CRA ratings, interagency questions and answers, interpretive letters, examination procedures, links to other CRA sites.
www.ffiec.gov
www.ffiec.gov/cra
2100 Pennsylvania Avenue, N.W.
Washington, D.C. 20037
202-634-6526
CRA Help Line 202-872-7584
HMDA Help Line 202-452-2016

Office of the Comptroller of the Currency
www.occ.treas.gov
www.occ.treas.gov/crainfo.html
United States Department of the Treasury
250 E Street, S.W.
Washington, D.C. 20219
202-874-5000

Office of Thrift Supervision
www.ots.treas.gov
www.ots.treas.gov/community.html
United States Department of the Treasury
1700 G Street, N.W.
Washington, D.C. 20552
202-906-6000
Compliance Policy 202-906-6000
Community Affairs 202-906-7857

United States Census Bureau
www.census.gov

United States Department of Housing and Urban Development (HUD)
www.hud.gov
Publications: HUD USER
www.huduser.org
P.O. Box 6091
Rockville, MD 20849
1-800-245-2691

United States Department of the Treasury
Office of Community Development Policy
CDFI Fund www.treas.gov/cdfi
United States Government Accounting Office
www.gao.gov

United States House of Representatives

Committee on Banking and Financial Services
www.house.gov/banking
202-225-7502

United States Senate
Committee on Banking, Housing and Urban Affairs
www.senate.gov/~banking
202-224-7391

United States Small Business Administration
www.sba.gov

Appendix D

Non-Governmental Organizations

Center for Community Development
American Bankers Association
1120 Connecticut Avenue, N.W.
Washington, D.C. 20036
Judith Knight, Director 202-663-5359
Fax 202-663-7541

Association of Community Organizations for Reform Now (ACORN)
www.acorn.org
739 8th Street, S.E.
Washington, D.C. 20003
202-547-2500

Center for Community Change
www.communitychange.org
1000 Wisconsin Avenue, N.W.
Washington, D.C. 20007
202-342-0567
Deborah Goldberg

Center for Neighborhood Technology
www.cnt.org
2125 West North Avenue
Chicago, IL 60647
773-278-4800
Fax 773-278-3840
Scott Bernstein

Coalition of Community Development Financial Institutions
www.cdfi.org
924 Cherry Street, Second Floor
Philadelphia, PA 19107-2411
215-923-5363
Fax 215-923-4755

Community Reinvestment Fund
www.crfusa.com
2400 Foshay Tower
821 Marquette Avenue
Minneapolis, MN 55402
1-800-475-3050

Consumer Bankers Association
www.cbanet.org
1000 Wilson Blvd, Suite 3012
Arlington, VA 22209
703-276-1750
Fax 703-528-1290

Economic Policy Institute
www.epinet.org
1660 L Street, N.W., Suite 1200
Washington, D.C. 20036
202-775-8810
Fax 202-775-0819

Enterprise Foundation
www.enterprisefoundation.org
10227 Wincopin Circle, Suite 500
Columbia, MD
410-964-1230

Essential Information
www.essential.org/El.html
P.O. Box 19405
Washington, D.C. 20036
202-387-8030

Fair, Isaac and Company, Inc.
www.fairisaac.com
1-800-999-2955
Home mortgage and small business credit scoring services.

Financial Markets Center (formerly Southern Finance Project)
www.fmcenter.org

P.O. Box 334
Philomont, VA 20131
540-338-7754
Fax 540-338-7757
E-mail finmktctr@aol.com
Tom Schlesinger

Ford Foundation
www.fordfound.org
320 East 43 Street
New York, NY 10017
212-573-5000
Fax 212-351-3677

Local Initiatives Support Corporation (LISC)
www.liscnet.org
733 Third Avenue, 8th Floor
New York, NY 10017
212-455-9800

National Community Capital Association
www.communitycapital.org
924 Cherry St., 2nd Floor
Philadelphia, PA 19107-2411
215-923-4754
Mark Pinsky

National Community Reinvestment Coalition
www.youthlink.net/ncrc
733 15th Street, N.W., Suite 540
Washington, D.C. 20005
202-628-8866
John Taylor, Executive Director
Josh Silver, Vice President and Director of Research and Publications

National People's Action
810 N. Milwaukee Avenue
Chicago, IL 60622-4103
312-243-3038
Gale Cincotta, Executive Director

National Training and Information Center
810 N. Milwaukee Ave.
Chicago, IL 60622-4103
312-243-3065 (or 3035)
Gale Cincotta, Executive Director

Neighborhood Reinvestment Corporation
www.nw.org/nrc
1325 G Street, N.W., Suite 800
Washington, D.C. 20005
202-376-2400
Publications 202-376-3215

PCI Services, Inc.
www.pciwiz.com
30 Winter Street, 12th Floor
Boston, MA 02108-4720
617-350-6700

RTK NET (Right to Know Network)
www.rtk.net
1742 Connecticut Avenue, N.W.
Washington, D.C. 20009
202-234-8494
Free modem access to HMDA data through the internet and a bulletin board system.

Self-Help
www.self-help.org
P.O. Box 3619
Durham, NC 27702-3619
919-956-4400 ext.429

Woodstock Institute
www.nonprofit.net/woodstock
407 S. Dearborn Avenue, Suite 550
Chicago, IL 60605
312-427-8070
Malcolm Bush, President
Daniel Immergluck, Senior Vice President

BIBLIOGRAPHY

EXPLANATION:
A roman numeral in the margin corresponds to the section of Appendix A for which the item is included in a selected bibliography, as follows:

I: Lending Patterns in Central Cities in the 1990s
II: Effects of CRA Regulatory Reform
III: CRA Commitments
IV: Impact of Bank Mergers and Acquisitions on Lending
V: Future of Federal Community Reinvestment Policy
A: Addendum: Profitability of CRA Lending

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IV Avery, Robert B., Raphael W. Bostic, Paul S. Calem and Glenn B. Canner. 1997. "Changes in the Distribution of Banking Offices," *Federal Reserve Bulletin* 83 (September):707-25.

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I Bates, Timothy. 1997. "Unequal Access: Financial Institution Lending to Black- and White-Owned Small Business Start-ups," *Journal of Urban Affairs* 19(4):487-95.

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