CRA: Essential Legislation for Promoting Affordable Homeownership to Underserved Communities

The Community Reinvestment Act (CRA) is a U.S. federal law designed to encourage commercial banks and savings associations to help meet the credit needs of borrowers in all segments of their communities, including low- and moderate-income (LMI) neighborhoods. The CRA, passed during President Jimmy Carter's administration in 1977, was primarily intended to combat the practice of redlining, which significantly inhibited (predominately minority) LMI families from becoming homeowners and achieving other socioeconomic milestones.[1] Banks are subject to regular evaluations of their CRA performance by their regulators. The results of these evaluations are made public.

Redlining is an unethical practice that puts services (financial and otherwise) out of reach for residents of certain areas, largely based on race or ethnicity. It can be seen in the systematic denial of mortgages, insurance, loans, and other financial services based on location rather than an individual's qualifications and creditworthiness. Notably, the policy of redlining is felt the most by residents of minority neighborhoods.[2]

CRA and Affordable Homeownership

The CRA is critically important for promoting home mortgage lending to traditionally underserved populations, including narrowing the growing inequalities in wealth and income. A societal obligation remains to rectify the devastating impacts of redlining that persist as formidable handicaps to building equity and economically advancing large segments of the nation's population. CRA is one of the best tools for fulfilling these obligations.[3]

Although the CRA has been the subject of debate since its enactment, it has been shown to overcome market failures in LMI communities and has fostered competition among banks in serving these areas, resulting in larger volumes of lending as well as the addition of liquidity to the market. Regulated depository institutions have created innovative products that help to meet the credit needs of LMI borrowers, including flexible underwriting and servicing techniques and credit counseling.[4]

CRA is Part of the Solution to Responsible Lending

The CRA can be well-positioned to help overcome the separation between the prime and subprime markets by enhancing competition from banks and thrifts. Marrying these two markets could improve market efficiency, and thus reduce racial discrimination, and speed the correction of other market failures. Competition from banks and thrifts can help to drive out abusive practices and improve price transparency. However, given the large role played by independent mortgage companies and brokers, bank and thrift competition under the CRA alone is not enough to drive out bad practices. Further federal regulation also is necessary to combat abusive practices.[5]

Under the CRA, lenders know that other banks will be making loans to a community, reducing all institutions' liquidity risk, speeding the gathering and dissemination of information, and producing information that can be used by all lenders. Lending by responsible originators to low-income communities has increased under the CRA, and such responsible lending has not led to the kind or extent of excessively risky activity undertaken outside of the CRA's purview.[6]

Treasury Secretary Janet Yellen put it most succinctly when she was president of the San Francisco Federal Reserve Bank:

> *There has been a tendency to conflate the current problems in the subprime market with CRA-motivated lending, or with lending to low-income families in general. I believe it is very important to make a distinction between the two. Most of the loans made by depository institutions examined under the CRA have not been higher-priced loans, and studies have shown that the CRA has increased the volume of responsible lending to low- and moderate-income households.*[7]

Continued on Page 2

Mortgage-Backed Securities (MBS) and the CRA

MBS are a valuable tool that help banks meet their CRA obligation. They are popular because they are widely available, typically government- and/or agency-backed, and can provide positive CRA consideration. In some markets, they are one of the *only* options for banks that seek to support affordable housing for traditionally underserved populations. MBS help make affordable housing loans available, which is a significant component to increasing affordable homeownership for LMI people, many of which are minority borrowers. Agency-targeted MBS have increased access to affordable housing and investment liquidity in a safe and sound manner. This, in turn, can help minority borrowers build wealth *and* pass on generational wealth.

Federal Reserve research points out that the CRA has and can continue to promote home mortgage lending to LMI borrowers and communities. Federal Reserve economist Daniel Ringo found that when a census tract gained eligibility as a LMI tract due to a metropolitan area boundary change, lending by a single bank increased between 2% and 4%. Also, bank lending increased further over time as banks intensified their efforts in these newly eligible LMI tracts.[8]

About CCM and the CCM Community Impact Bond Fund
(f/k/a the CRA Qualified Investment Fund)

Community Capital Management, Inc. (CCM) is an investment adviser registered with the Securities and Exchange Commission. Headquartered in Fort Lauderdale with employees in Boston, Charlotte, the New York City area, and Southern California, CCM was founded in 1998 and manages over $3 billion in assets. The firm believes a fully integrated portfolio — one that includes environmental, social, and governance (ESG) factors — can deliver strong financial performance while simultaneously having positive long-term economic and sustainable impact. CCM's strategies utilize an innovative approach to fixed income and equity investing by combining the positive outcomes of impact and ESG investing with rigorous financial analysis, an inherent focus on risk management, and transparent research.

Within our fixed income portfolios, impact customization provides investors the opportunity to direct their capital to support specific geographies (also known as place-based impact investing) or to one or more of our 18 impact themes. For more information, please visit: www.ccminvests.com.

The CCM Community Impact Bond Fund (f/k/a the CRA Qualified Investment Fund) has assisted approximately 500 banks with access to CRA-qualified investments, in a safe and sound manner, through over 1,500 CRA examinations since 1999. These banks range in size and sophistication from the largest money center banks to small community banks. In over two decades, CCM has invested approximately $10.5 billion in vital community development investments on behalf of banks and other impact investors.

[1] *https://shelterforce.org/2019/08/15/dont-diminish-the-importance-of-homeownership-in-cra-reform/*
[2] *https://www.investopedia.com/terms/r/redlining.asp*
[3] *ibid*
[4] *https://www.frbsf.org/community-development/files/community_reinvestment_emerging_from_housing_crisis.pdf*
[5] *ibid* [6] *ibid* [7] *ibid* [8] *ibid*