OHIO CDC
association

Don't Gut the Community Reinvestment Act

You may have heard the term "redlining," a practice started in the 1930's to describe the discriminatory act of marking off neighborhoods, using a red marker or pen on a map, where banks would deliberately avoid lending based on race, ethnicity, or religion. The results are unfortunately well known and are still with us today. In fact, a recent study confirmed that 74% of neighborhoods marked off and declared hazardous in the 1930's are low-to-moderate (LMI) income today.

Not until civil rights activists led the national fight in 1977 to pass the Community Reinvestment Act (CRA), were banks required to invest in the communities they serve. CRA is now at risk of being dismantled allowing for modern-day redlining.

CRA requires lending to poor communities, and banks are evaluated on their lending practices. Forty-plus years later, we can say with confidence that the CRA has made significant improvements to provide access to credit. The law has led lenders to make billions of dollars worth of loans and investments in underserved communities for affordable housing, small businesses, and economic development.

We may be taking a trip back in time reversing hard fought progress. On January 9, the Office of the Comptroller of the Currency (OCC) led by Trump appointee Comptroller Joseph Otting released a proposal to dramatically revamp the regulations behind the CRA. The Federal Deposit Insurance Corporation (FDIC) joined the OCC, and the Federal Reserve is not in agreement. There's much to be concerned with in the 240-page proposed technical rule, but three issues demonstrate its danger to communities throughout Ohio.

How it counts – Banks are currently assessed on the goal of serving all communities where they do business. The proposed rule would institute an overly simplified scoring system (known as single metric) that would disregard whether the lending needs of the local community are being served by the banks. It incentivizes large deals over access to loans for LMI mortgages and small businesses.

Where it counts – The new rating system would allow banks to disregard up to 50% of their assessment area and still get a passing grade — something that isn't possible under current CRA regulations. This is an invitation to a modern form of redlining where one can envision bank investments deployed in gentrifying neighborhoods while disinvesting in historically disenfranchised neighborhoods.

What counts – It dramatically and irresponsibly expands what activities would be eligible for CRA credit to investments unrelated to the intent of CRA. For example, the building of stadiums or luxury boxes in many cases would count toward CRA and would in effect diminish small business and mortgage lending. Eligible activities would no longer be required to primarily benefit LMI communities departing from the CRA's original intent.

Capital is the fuel for the American dream. Without access to capital dreams of homeownership go unfulfilled, businesses don't open, and our Main Streets deteriorate. To get a sense of what's at stake, the National Community Reinvestment Coalition (NCRC) estimates that in Ohio, just a modest decrease of 10% in CRA lending would result in a $975 million loss in home and small business lending over a fiveyear period. That's nearly $1 billion exiting out of Ohio communities for every 10% reduction in CRA lending.

Why is this happening especially so soon after communities across Ohio are still dealing with the ravages of the great recession's foreclosure crisis? It's very telling that the proposal is being led by Comptroller Otting, the former CEO of OneWest Bank, an institution that was forced to settle discriminatory lending practices. When he ran OneWest, government records show only one percent of home purchase loans went to African Americans and three percent to Latinos, even though the bank was headquartered in Southern California home to Los Angeles where 49% of the population is Latino. Otting has a history of dismissing local communities and their needs.

Banks and community organizations such as ours agree that the CRA needs to be modernized and strengthened. Modernized so it reflects the way mobile and online banking has reshaped the industry and strengthened so that it truly reflects community economic needs. This version of reform is not the answer.

This proposal guts CRA and effectively takes us toward a modern form of redlining. We need to encourage robust investment in struggling communities and not rig the system against them yet again.

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To learn more about the CRA proposal go to https://ncrc.org/treasurecra/