STATEMENT FOR THE RECORD

“THE COMMUNITY REINVESTMENT ACT: DOES THE NEW PROPOSAL UNDERMINE THE LAW’S PURPOSE AND INTENT?”

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Thank you for the invitation to provide this statement for the record: "The Community Reinvestment Act: Is the OCC Undermining the Law's Purpose and Intent?" I am the Sussman Professor of Real Estate and Professor of Finance at The Wharton School of the University of Pennsylvania. Together with co-authors, I have researched and written scholarly papers on the Community Reinvestment Act.

An historical perspective on the CRA can bring clarity to the current state of the CRA and help forge a more contextual path forward that stays true to the Act's purpose and intent. The proposal of the OCC and FDIC, while responsive to some of the CRA's challenges in the modern context, could reverse the gains in community reinvestment brought about by the CRA due to the proposal's focus on summary metrics, which do not adequately address the nuanced time and place characteristics that must underpin effective community reinvestment.

The CRA calls upon banks to address the credit needs of communities in which they operate. Today, community engagement and responsiveness are needed more than ever. The CRA was originally enacted in response to the entrenched credit disparities across and within communities, rooted in a deep history of government-endorsed discrimination in the form of redlining. These historical inequalities persist today and manifest in the built environment. Today, once-redlined neighborhoods continue to lag behind non-redlined areas on key economic indicators, such as homeownership rates and house values (see Krimmel and Wachter). The negative effects of redlining have become more muted since 1980. This is consistent with the effectiveness of the CRA as anti-redlining legislation.

The CRA, while not perfect, has been a mechanism for effective bank engagement with communities to reverse vicious cycles of neighborhood decline**.** As discussed in Guttentag and Wachter and Ling and Wachter, a market failure in the form of a self-perpetuating feedback loop, due to the lack of mortgage lending itself, can put neighborhoods at risk. The CRA incentivized community lending which has now become an important component of banking and, in many cities, a source of funding for revitalization.

Today, the CRA can be an important tool to address the significant problem of urban inequality. . As homeownership rates have fallen to 50 year lows for minority households and rental prices continue to rise, viable options in low- to moderate-income neighborhoods and communities of color have narrowed. Cities, not-for-profits, and banks , incentivized by the CRA, across America are working toward solutions..

While the data that the OCC/FDIC proposal calls for would clearly be helpful going forward in furthering our understanding of the role of community lending in successful community revitalization, it would be better to have the research in advance of reliance on these new metrics—research on how adopting such metrics would impact actual lending. The Federal Reserve Board is conducting this research now. It is crucial to have results to plan the way forward without precipitously acting to minimize the key factors that have led the CRA to be an important component of successful inclusive and sustainable community reinvestment.

References

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