SECTION 10

CONCLUSION

A quarter century since enactment, CRA-regulated entities still lead the market in the provision of mortgage capital to lower-income people and communities, especially lower-income minorities. Detailed multivariate analysis confirms that CRA-regulated lenders originate a higher proportion of loans to lower-income people and communities than they would if CRA did not exist. Moreover, lower-income neighborhoods targeted by CRA appear to have more rapid price increases and higher property sales rates than other neighborhoods, a finding consistent with the proposition that CRA has expanded the provision of mortgage capital to these neighborhoods.

At the same time, this report documents that the impact of CRA on mortgage lending has waned in recent years, as dramatic changes in the banking and broader financial services industries have weakened the link between mortgage lending and smaller branch-based deposit gathering organizations on which CRA was based. By tapping into national and international capital markets and utilizing high speed communication and computer technology, larger banking organizations and their mortgage company affiliates have come to dominate mortgage lending. As recently as 1993, only 14 lenders made more than 25,000 home purchase loans, accounting for only 23 percent of all home purchase lending. By 2000, the 25 lending organizations making more than 25,000 loans accounted for 52 percent of all home purchase loans made that year. Several major mergers announced in 2001 suggest that the trend toward consolidation among the largest lenders continues.

The recent surge in lending to lower-income families and communities has also worked to alter the significance of CRA for lower-income lending. From 1993 to 2000, government-backed, subprime, and manufactured home lending accounted for some 63 percent of the growth of mortgage lending to lower-income households living in lower-income communities, but many organizations specializing in these types of loans are not subject to detailed CRA regulatory reviews. In combination, the rise of bank-owned mortgage companies and growth of new types of loans and new types of lenders has reduced CRA's regulatory reach. From 1993 to 2000, the number of home purchase loans made by CRA-regulated institutions in their assessment areas as a share of all home purchase loans fell from 36.1 percent to 29.5 percent.

In combination, the changing industry structure, along with the fact that CRA expanded the capacity of all industry players to better serve lower-income borrowers, has diminished the extent that CRA-regulated organizations now lead the market. Econometric analysis suggests that on average over the period 1993 to 2000, CRA may have increased the share of loans going to CRA-eligible borrowers by 2.1 percentage points (or from 30.3 to 32.4 percent). Estimates for individual years suggest, however, that the CRA impact has declined from 3.7 percentage points in 1993 to 1.6 percentage points in 2000.

CRA's impact on mortgage lending also varies from one community to the next. As a result of variations in banking industry structure, the assessment area share of home purchase loans varies from under 10 percent to more than 70 percent in the 301 metropolitan areas examined. In each of four metropolitan areas examined in detail, the assessment area share of home purchase lending is lowest in neighborhoods with greatest minority and/or lower-income households.

CRA's impact also appears to be less significant in non-metro and rural markets as well, in part because less-regulated small banks dominate in these areas and community advocacy networks are relatively weak. Even so, CRA could become a more important factor in non-metro lending in the future, as larger CRA-regulated organizations move aggressively into non-metro counties.

In addition to these broad quantitative findings, the report also presents qualitative insights gained through a series of discussion groups and in-depth interviews with federal regulators, banking and mortgage industry executives, community leaders and housing and financial policy experts. Clearly CRA has influenced the activities of bankers, mortgage lenders and community based advocacy organizations in important, but admittedly in difficult to quantify ways. For example, interviews with industry experts indicate that while CRA generally is not a driver of the business plans of regulated lenders, it is clearly a factor that influences the plans of most lenders at the margin. Moreover, as the lower-income mortgage market has become demonstrably mainstream and more competitive over the past decade, many lenders now deploy products targeted to the CRA-eligible market as part of their standard business practice.

The changing industry structure also has important implications for community based advocacy. The growing complexity of new mortgage products makes it increasingly difficult for advocacy groups to assess lending patterns in the communities they serve. Moreover, many local community groups are finding it increasingly difficult to forge productive partnerships with the newly dominant national mortgage and banking giants. Indeed, as mortgage lenders perfect new products and new methods to reach traditionally underserved markets, their need to enter into mortgage lending agreements with community-based advocacy organizations is reduced.

As a result, many smaller community groups are forging new coalitions that have the sophistication to assess the characteristics of new mortgage products and the capacity to work with large scale banking organizations. Other groups seek to expand their advocacy beyond mortgage lending, and instead focus on broader issues relating to expanding access to financial services in general. In any event, like lending institutions themselves, community groups are adjusting their activities in response to the evolving financial services sector.

Together, the quantitative and qualitative analyses demonstrate that in many important ways, CRA has not kept pace with the changing world of mortgage banking and community advocacy. This report suggests that CRA legislative and/or regulatory modernization could follow one or both of two potential reform directions. Reform could build on CRA's traditional mortgage lending focus by extending assessment areas to cover a larger share of the lending of CRA-regulated entities, and by extending CRA to include newly emerging non-bank financial services organizations that are increasingly important in lower-income communities. Alternatively, federal officials could build on CRA's traditional branch banking focus and reposition CRA to give greater emphasis to the provision of financial services to lower-income borrowers.

Of course these two pathways to reform are not mutually exclusive, and other suggested reforms merit consideration. Indeed, Federal Regulators now are doing just that as they review the many comments generated in response to their recent Advanced Notice of Proposed Rule Making on CRA Regulations. It remains to be seen whether reform will come through this rule-making process, or whether Congress will fashion a CRA Modernization Act to complement the recent Gramm-Leach-Bliley Financial Services Modernization Act. What is certain is that now is the right time for all interested parties to consider how best to enable CRA to keep pace with the evolving financial services sector so CRA will continue to benefit to lower-income people and communities in the years ahead.

BIBLIOGRAPHY

Ahlbrandt, Jr., R.S. 1977. “Exploratory Research on the Redlining Phenomenon”, *AREUEA J*. 5: 473-81.

Avery, R.B., R.W. Bostic, P.S. Calem and G.B. Canner. 1997. “Changes in the Distribution of Banking Offices”, *Federal Reserve Bulletin* 83: 707-725.

Avery, R.B., R.W. Bostic, P.S. Calem and G.B. Canner. 1999. “Trends in Home Purchase Lending: Consolidation and the Community Reinvestment Act”, *Federal Reserve Bulletin* 85: 81-102.

Avery, R.B. and T.M. Buynak. 1981. “Mortgage Redlining: Some New Evidence”, *Economic Review.* Federal Reserve Bank of Cleveland (Summer): 18-32.

Belsky, E.S., M. Lambert and A. von Hoffman. 2000. *Insights Into the Practice of Community Reinvestment Act Lending: A Synthesis of CRA Discussion Groups.* Working Paper CRA00-1. Joint Center for Housing Studies of Harvard University: Cambridge.

Belsky, E.S., N.P. Retsinas, and R.E. Litan. 2001. *The Community Reinvestment Act After Financial Modernization: A Final Report.* U.S. Department of the Treasury.

Bentson, G.J. 1999. “The Community Reinvestment Act: Looking for Discrimination that Isn’t There”, *Policy Analysis* Cato Institute.

Board of Governors of the Federal Reserve System. 1993. *Report to Congress on Community Development Lending by Depositary Institutions.* Washington: Federal Reserve Board**.**

Board of Governors of the Federal Reserve System. 2000. *The Performance and Profitability of CRA-Related Lending*. Washington, DC.

Bostic, R.W. and B. Robinson. 2001. *Do CRA Agreements Influence Lending Patterns?* Working Paper for the Board of Governors of the Federal Reserve System.

Bradbury, K.L, K.E. Case and C.R. Dunham. 1989. “Geographic Patterns of Mortgage Lending in Boston, 1982-1987”, *New England Economic Review* Sep/Oct: 3-30.

Bradford, C. 2000. *A Profile of the Racial Patterns in Home Purchase Lending in the Baltimore Market*. Report for the Public Justice Center.

Bradford, C. and G. Cincotta. 1992. “The Legacy, the Promise, and the Unfinished Agenda,” in G.D. Squires (editor) *From Redlining to Reinvestment: Community Responses to Urban Disinvestment.* Philadelphia: Temple University Press.

Bunce, H.L. 2000. *An Analysis of GSE Purchase of Mortgages for African-American Borrowers and Their Neighborhoods.* Working Paper HF-011, Office of Policy Development and Research, U.S. Department of Housing and Urban Development.

Bunce, H.L. 2000. *The GSE’s Funding of Affordable Loans: A 1999 Update.* Working Paper HF-012, Office of Policy Development and Research, U.S. Department of Housing and Urban Development.

Bunce, H.L., and R.M. Scheessele. 1996. *The GSE's Funding of Affordable Loans.* Working Paper HF-001, Office of Policy Development and Research, U.S. Department of Housing and Urban Development.

Campen, J. 2001. *Mortgage Lending to Traditionally Underserved Borrowers and Neighborhoods in Greater Boston, 1990-2000.* Massachusetts Community and Banking Council.

Canner, G.B. and W. Passmore. 1995. "Home purchase lending in low-income neighborhoods and to low-income borrowers", *Federal Reserve Bulletin* February: 71-103.

Canner, G.B. and W. Passmore. 1997. *The Community Reinvestment Act and the Profitability of Mortgage-Oriented Banks.* Discussions Series, No.7, Federal Reserve Board of Finance and Economics.

Canner, G.B. and D.S. Smith. 1991. "Home Mortgage Disclosure Act: Expanded Data on Residential Lending", *Federal Reserve Bulletin* 77: 859-81.

Cavalluzzo, K., L. Cavalluzzo and J. Wolken. 1999. "Competition, Small Business Financing and Discrimination: Evidence from a New Survey", *Business Access to Capital and Credit,* Federal Reserve System Research Conference Proceeding, March 8-9: 180-266.

Cityscape: A Journal of Policy Development and Research. 1999. *Commemorating the 30th Anniversary of the Fair Housing Act* 4(3).

Collins, M., M. Carliner and D. Crowe. 2001. *Examining Supply-side Constraints to Low-Income Homeownership.* Working Paper LIHO-01.5. Joint Center for Housing Studies of Harvard University: Cambridge.

Dedman, B. 1988. "The Color of Money", *Atlanta Journal-Constitution* May: 1-4.

Evanoff, D.D. and L.M. Segal. 1996. "CRA and Fair Lending Regulations: Resulting Trends in Mortgage Lending", *Federal Reserve Bank of Chicago Economic Perspectives* 20(6): 19-46.

Federal Reserve Bank of Dallas *A Banker's Quick Reference Guide to CRA.* http://www.dallasfed.org/htm/pubs/pdfs/ca/quickref.pdf.

Fishbein, A. J. 1992. "The Ongoing Experiment with Regulation from Below: Expanded Reporting Requirements for HMDA and CRA", *Housing Policy Debate* 3(2): 601-636.

Galster, G.C. 1992. "Research on Discrimination in Housing and Mortgage Markets: Assessment and Future Direction", *Housing Policy Debate* 3(2): 639-83.

Galster, G.C. 1999. "The Evolving Challenges of Fair Housing Since 1968: Open Housing, Integration, and the Reduction of Ghettoization", *Cityscape: A Journal of Policy Development and Research* 4(3): 123-138.

General Accounting Office. 1995. *Community Reinvestment Act: Challenges Remain to Successfully Implement CRA.* GAO/GGD-96-23.

Goering, J. and R.Wienk. 1996. *Mortgage Lending, Racial Discrimination, and Federal Policy.* Washington, DC: The Urban Institute Press.
Goldberg, D. 2000. "The Community Reinvestment Act and the Modernized Financial Services World", *ABA Bank Compliance* January/February: 13-19.

Gruben, W.C., J. Neuberger, and R.H. Schmidt. 1990. "Imperfect Information and the Community Reinvestment Act", *Federal Reserve Bank of San Francisco Economic Review* 3: 27-46.

Gunther, J.W., K. Klemme and K.J. Robinson. 1999. "Redlining or Red Herring?" *Southwest Economy* May/June: 8-13.

Guttentag, J.M. 1992. "When Will Residential Mortgage Underwriting Come of Age?" *Housing Policy Debate* 3(1):143-156.

Herbert, C. 2001. *An Assessment of the Availability and Cost of Financing for Small Multifamily Properties* prepared for Dr. J.L. Gardner, U.S. Department of Housing and Urban Development.

Holmes, A. and P. Horvitz. 1994. "Mortgage Redlining: Race, Risk, and Demand", *Journal of Finance* 49: 81-99.

Housing Assistance Council. 1997. *Housing for Families and Unaccompanied Migrant Farmworkers*.

Housing Assistance Council. 2000. *The State of Rural Housing*.

Hula, R.C. 1991. "Neighborhood Development and Local Credit Markets", *Urban Affairs Quarterly* 27(2): 249-67.

Hutchinson, P.M., J.R. Ostas, and J.D. Reed. 1977. "A Survey and Comparison of Redlining Influences in Urban Mortgage Lending Markets", *AREUEA Journal* 5: 463-72.

Hylton, K.N. and V.D. Rougeau. 1996. "Lending Discrimination: Economic Theory, Econometric Evidence, and the Community Reinvestment Act", *Georgetown Law Journal* 85: 237-288.

Immergluck, D. 1999. *Unfinished Business: Increases in African-American Home Buying and Continuing Residential Segregation in the Chicago Region.* Chicago: Woodstock Institute.

Immergluck, D. and G. Smith. 2001. *Bigger, Faster… But Better? How Changes In The Financial Services Industry Affect Small Business Lending in Urban Areas.* Discussion Paper for the Brookings Institution Center on Urban and Metropolitan Policy.

Inside Mortgage Finance Publications, Inc. 1999. *Mortgage Market Statistical Annual for 1999.*

Johnson, S.A. and S.K. Sarkar. 1996. "The Valuation Effects of the 1977 Community Reinvestment Act and its Enforcement", *Journal of Banking and Finance* 20: 783-803.

Joint Center for Housing Studies of Harvard University. 2001. *The State of the Nation's Housing.*

Lacker, J.M. 1995. “Neighborhoods and Banking”, *Federal Reserve Bank of Richmond Economic Quarterly* Spring: 14.

LaCour-Little, M. 1999. “Discrimination in Mortgage Lending”, *Journal of Real Estate Literature* 7(1): 15-49.

Lea, M.J. 1996. “Innovation and the Cost of Mortgage Credit: A Historical Perspective”, *Housing Policy Debate* 7(1): 147-174.

Lipman, B.J., S.J. Newman and J.M. Harkness. 2001. “Paycheck to Paycheck: Working Families and the Cost of Housing in America”, *New Century Housing* 2(1). Center for Housing Policy/ National Housing Conference.

Listokin, D and E.K. Wyly. 2000. “Making New Mortgage Markets: Case Studies of Institutions, Home Buyers, and Communities”, Housing Policy Debate 11(3): 575-644.

Litan, R.E., N.P. Retsinas, E.S. Belsky and S. White Haag. 2000. *The Community Reinvestment Act After Financial Modernization: A Baseline Report.* U.S. Department of the Treasury.

Litan, R.E., N.P. Retsinas, E.S. Belsky, G. Fauth, P.Leonard and M. Kennedy. 2001. *The Community Reinvestment Act After Financial Modernization: A Final Report.* U.S. Department of Treasury.

Matasar, A.B. and D.D. Pavelka. 1998. “Federal Banking Regulators’ Competition in Laxity: Evidence from CRA Audits”, *International Advances in Economic Research* 4(1): 56-69.

McArdle, N. 1999. *Outward Bound: The Decentralization of Population and Employment* Working Paper W99-5. Joint Center for Housing Studies of Harvard University: Cambridge.

Megbolugbe, I.M. and M. Cho. 1993. “An Empirical Analysis of Metropolitan Housing and Mortgage Markets”, *Journal of Housing Research* 4(2): 191-224.

Munnell, A.H., L.E. Browne, J. McEneaney and G.M.B. Tootel 1992. *Mortgage Lending in Boston: Interpreting HMDA Data.* Working Paper 92-7, Federal Reserve Bank of Boston.

Munnell, A.H., G.M.B. Tootel, L.E. Browne and J. McEneaney. 1996. “Mortgage Lending in Boston: Interpreting HMDA Data”, *The American Economic Review* 86(1): 25-53.

National Association of Homebuilders. 2001. Comments on Advance Notice of Proposed Rulemaking regarding CRA. Letter from David Crowe, Senior Staff Vice President. October 18.

National Community Reinvestment Coalition. 2001. Comments on Advance Notice of Proposed Rulemaking regarding CRA. Letter from Josh Silver, Vice President of Research and Policy. October 2.

National Rural Housing Coalition. 2000. *Opening Doors to Rural Homeownership: Outcomes from the National Rural Housing Coalition Rural Homeownership Symposium*. http://www.nrhcweb.org/rapozareport.pdf.

National Training and Information Center. 1997. *The Devil's in the Details: An Analysis of Federal Housing Administration Default Concentration and Lender Performance in 20 U.S. Cities.*

National Training and Information Center. 2001. Comments on Advance Notice of Proposed Rulemaking regarding CRA. Letter from Joe Mariano, Executive Director. October 15.
Perle, E.D., K. Lynch and J. Horner. 1993. "Model Specification and Local Mortgage Market Behavior", *Journal of Housing Research* 4(2): 225-43.

Phillips, R.F., R.P. Trost and A.M. Yezer. 1994. "Bias in Estimates of Discrimination and Default in Mortgage Lending: The Effects of Simultaneity and Self-Selection," *The Journal of Real Estate Finance and Economics* 9(3): 197-216.

Phillips, R.F. and A.M. Yezer. 1996. "Self Selection and Tests for Bias and Risk in Mortgage Lending: Can You Price the Mortgage if You Don't Know the Risk," *Journal of Real Estate Research* 11(1): 87-102.

Pogge, J. 1992. "Reinvestment in Chicago Neighborhoods: A Twenty-Year Struggle", in G.D. Squires (editor) *From Redlining to Reinvestment: Community Responses to Urban Disinvestment.* Philadelphia: Temple University Press.

Rachlis, M.B. and A.M. Yezer. 1993. "Serious Flaws in Statistical Tests for Discrimination in Mortgage Lending," *Journal of Housing Research* 4(2): 315-336.

Scheessele, R.M. 1998. *HMDA Coverage of the Mortgage Marke*t. Working Paper HF-007, Office of Policy Development and Research, U.S. Department of Housing Development.

Schill, M.H. *Legislative and Regulatory Efforts to Promote Community Reinvestment and Fair Lending.* Unpublished Working Paper.

Schill, M.H. and S. Friedman. 1999. "The Fair Housing Act of 1988: The First Decade", *Cityscape: A Journal of Policy Development and Research* 4(3): 57-78.

Schnare, A.B. 2001. *The Impact of Changes in Multifamily Housing Finance on Older Urban Areas.* A Discussion Paper for the Brookings Institution Center on Urban and Metropolitan Policy and the Joint Center for Housing Studies of Harvard University.

Schwartz, A. 1998. "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.

Schwartz, A. 1999. "From Confrontation to Collaboration? Banks, Community Groups, and the Implementation of Community Reinvestment Act Agreements", *Housing Policy Debate* 9(3): 631-662.

Schwartz, A. 2001. "The Past and Future of Community Reinvestment Act Agreements", *Housing Facts and Findings* 2(1).

Shlay, A.B. 1988. "Not in That Neighborhood: The Effects of Population and Housing on the Distribution of Mortgage Finance within the Chicago SMSA", *Social Science Research* 17:137-163.

Shlay, A.B. 1989. “Financing Community: Methods for Assessing Residential Credit Disparities, Market Barriers, and Institutional Reinvestment Performance in the Metropolis”, *Journal of Urban Affairs* 1: 210-23.
Shlay, A.B. 1999. “Influencing Agents of Urban Structure: Evaluating the Effects of Community Reinvestment Organizing on Bank Residential Lending Practices”, *Urban Affairs Review* 35(2): 247-78.

Shlay, A.B., I. Goldstein and D. Bartlett. 1992. “Racial Barriers to Credit: Comment on Hula”, *Urban Affairs Quarterly* 28(1): 126-40.

Stegman, M.A., K. Thompson Cochran and R. Faris. 2001. *Creating a Scorecard for the CRA Services Test: Strengthening Basic Banking Services Under the Community Reinvestment Act.* Working Paper for a Forum convened by the National Community Reinvestment Coalition.

Strauss, L.R. 1999. “Credit and Capital Needs for Affordable Rural Housing”, in J.N. Belden and R.J. Wiener (editors) *Housing in Rural America: Building Affordable and Inclusive Communities.* Thousand Oaks: Sage.

Thomas, K.H. 1998. *The CRA Handbook*. New York: McGraw-Hill.

U.S. Census Bureau. 2001. *Construction Statistics.* http://www.census.gov/const/www/index.html

U.S. Department of Agriculture. 1997. *Credit in Rural America.* Rural Economy Division, Economic Research Service, U.S. Department of Agriculture.

U.S. Department of Housing and Urban Development. 1997. *Survey of Mortgage Lending Activity 1997.*

U.S. Department of Housing and Urban Development. 2000. *Economic Analysis for the Secretary’s Final Rule on HUD’s Regulation of the Federal National Mortgage Associations (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac).*

U.S. Department of Housing and Urban Development. 2000. *FHA Comptroller’s Annual Report to the Commission on FHA Business Activity.*

U.S. Department of the Treasury and the U.S. Department of Housing and Urban Development. 2000. *Curbing Predatory Home Lending: A Joint Report*.

The Urban Institute. 1998. *Mortgage Lending Discrimination: A Review of Existing Evidence.* Report prepared for the Office of Policy Development and Research, U.S. Department of Housing and Urban Development.

The Urban Institute. 1999. *A Study of the GSE’s Single Family Underwriting Guidelines*, Report for the Office of Policy Development and Research, U.S. Department of Housing and Urban Development.

Vermeer, K. and J. Louie. 1996. *The Future of Manufactured Housing.* Joint Center for Housing Studies of Harvard University: Cambridge.

Wachter, S.M. and I.F. Megbolugbe. 1992. “Racial and Ethnic Disparities in Homeownership”, *Housing Policy Debate* 3(2): 333-370.

Wilson, H.O. and J.H. Carr. 1999. “Impact of Federal Interventions on Private Mortgage Credit in Rural Areas” in J.N. Belden and R.J. Wiener (editors) *Housing in Rural America: Building Affordable and Inclusive Communities.* Thousand Oaks: Sage.

Yinger, J. 1998. “Evidence on Discrimination in Consumer Markets”, *Journal of Economic Perspectives* 12:23-40.

Zinman, J. 2001. *The Causes and Real Effects of Credit Constraints: Evidence from the Community Reinvestment Act*. Unpublished Working Paper. Massachusetts Institute of Technology.

APPENDIX 1

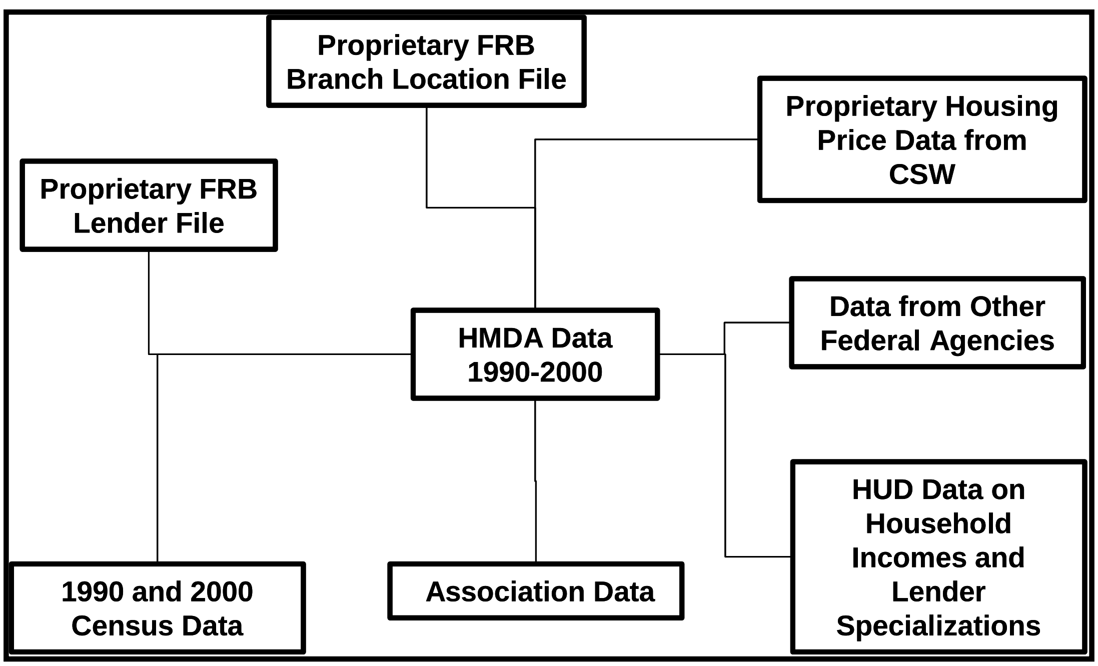
METHODOLOGY

The empirical work reported here extends previous Joint Center research done in cooperation with the U.S. Department of Treasury and The Brookings Institution (Belsky *et al.*, 2001). The research utilizes the Joint Center Enhanced HMDA Database that combines loan-level data on borrower characteristics, with information about the ownership structure of the organization that originated the loan, and the characteristics of the census tract and the metropolitan area where the property is located.

Building on these empirical analyses and drawing on the in-depth interviews and focus group discussions, the report examines the differing roles played by community groups in meeting the credit needs of the communities they serve, as well as the ways that bankers and mortgage lenders are adjusting their operations to meet their CRA obligations. It also presents information on the diversity of CRA's impact within and across metropolitan area markets, as well as the impact of CRA in non-metropolitan America.

A. Quantitative Analysis: The Joint Center Enhanced HMDA Database

The data foundation for the analyses in this report is a coordinated set of information merged from eight important data sources. It expands core loan and loan application information directly available through HMDA to provide a more detailed characterization of applicants, borrowers, lenders, and property locations. The component data sources of the Joint Center's Enhanced HMDA Database are described below.



Home Mortgage Disclosure Act Data: The core data used to complete the statistical tests and to support important parts of the analysis elsewhere in the report is information submitted by financial institutions under the Home Mortgage Disclosure Act (HMDA) of 1977. As currently amended, the financial institutions subject to the HMDA requirements include: depository institutions and their affiliates, savings and loan corporations, credit unions, and non-depository mortgage lenders. The HMDA reports include information about loan applicant race and income, and about the geographic location of the property included in the application.

Federal Reserve Board Lender and Branch Location Files: The Federal Reserve Board (FRB) maintains two research databases that are also critical elements of the foundation database for this research. The FRB lender file contains information that facilitates aggregation of individual HMDA reporters into commonly-owned or -controlled institutions that can be analyzed as integrated units. The FRB branch location data are the source of assessment area definitions used in the analyses presented here. As a reasonable approximation to true assessment areas, this report assumes that if a lending entity subject to CRA has a branch office in a particular county, then that county is part of that entity's assessment area. Loans made in counties where the lending entity does not have a branch office are assumed to have been originated outside of that entity's assessment area.

Other Sources: Other information on metropolitan area and neighborhood characteristics was linked to the HMDA loan-level data to assess the way economic, demographic, and housing market trends influence lending. These include:

HUD Data: This report uses data developed by the U.S. Department of Housing and Urban Development to classify loans based on both the income of the loan applicant and the income of the census tract where the property is located, relative to the overall median income for the Metropolitan Statistical Area (MSA). In addition, HUD prepares an annual listing of particular HMDA reporters that specialize in subprime or manufactured home lending. The HUD lender specializations were also appended to the core HMDA records in the database.

Census Data: The report also utilizes data from the 1990 Census (such as the age of the housing stock) as control variables, and combined 1990 and 2000 Census data on census tract population to produce growth indicators for each of the 45,000 census tracts included in the analyses.

Proprietary Housing Price Data: Case Shiller Weiss, Inc. (CSW) maintains house price indices for small areas within major metropolitan areas. CSW provided tract-level house price changes for Los Angeles, Chicago, and Boston, which were linked to the HMDA records to analyze whether or not CRA has affected the rate of change of house prices in these areas.

Other Data: Rounding out the database, the report uses data from the U.S. Bureau of Labor Statistics to measure metropolitan area unemployment rates. Data from the National Community Reinvestment Coalition (NCRC) on existing CRA agreements between community groups and lenders was also linked to the database, as were the National Association of Home Builder's (NAHB) estimates of the share of homes in an MSA that are affordable to a median income household. These estimates were used to measure spatial variation in housing affordability.

B. A Note on HMDA Data Quality

This report relies heavily on HMDA data to illustrate mortgage lending trends. HMDA data have been collected since 1977, but because they were not reported at the loan-level by non-depository lenders until 1993, the discussion focuses on the 1993-2000 period. Even over this period, however, HMDA data have a number of limitations. Perhaps most critical is the fact that HMDA's coverage of the mortgage market changed over the 1993-2000 period. One source of this differential coverage is the fact that although non-depository lenders were first required to report in 1993, some subset either did not do so, or did so haphazardly for several years. Consequently, HMDA data are likely to overstate somewhat actual lending growth for the 1993 to 2000 period.

Potentially more serious is the fact that the change in reporting requirements may differ by lender type, based on the specialization of each type of lender. Therefore, some of the growth in lending to lower-income households relative to that for higher-income households could simply reflect differential reporting if lenders specializing in lower-income lending increased the reliability of their reporting over the period.

Finally, regulations governing collection of HMDA data have not kept pace with the changing structure of the industry or the characteristics of new mortgage products. In particular, HMDA does not collect any information on loan pricing and loan characteristics needed to assess the implications of the rapid growth of alternative mortgage products.

Counterbalancing these limitations is the fact that HMDA is a large and fairly rich microlevel data source at the individual loan application level. No other data source affords the opportunity to analyze lending patterns and trends by borrower income, race/ethnicity or gender in such detail. Further, HMDA loans are geo-coded to census tracts, allowing a rich exploration of the impact of CRA on lending in lower-income, minority, or other historically underserved market areas. These strengths and limitations also suggest the importance of disaggregating the results by lender and borrower characteristics in an effort to control for reporting differentials across the various mortgage industry segments. As part of a careful research design, HMDA data can support a rich, and ultimately very insightful, empirical assessment of the trends in mortgage lending.

C. Qualitative Research

Discussion Groups: Between February and April 2000, the Joint Center for Housing Studies held eleven discussion groups with over 100 experts in four cities, three each in Atlanta, New York, San Francisco, and two in New York (Belsky *et al.*, 2001). Each of the discussion groups was made up of people in a particular type of CRA-relevant occupation: financial institution officers, banking regulators, community advocates, or housing researchers. The financial institution representatives, in the main, were community reinvestment officers from larger banks subject to regulation under CRA. Smaller financial institutions were not well represented in these sessions but participants did discuss the views of how CRA influenced small and large financial institutions. The community advocates were representatives of organizations that lobby and use political pressure to improve access to capital for borrowers from lower-income communities or organizations directly engaged in housing and community development. Regulators were officers of one of the four agencies of the federal government charged with enforcing the CRA. Housing experts included academics well versed in mortgage lending and housing markets.

In-Depth Interviews: In addition to the discussion groups, the Joint Center also conducted in-depth interviews with more than 100 individuals in the Baltimore, Birmingham, Chicago and Los Angeles metropolitan areas, as well as in rural Colorado. These interviews examined CRA in the context of the changing organization of the mortgage industry, the growth of new affordable lending tools, and the resulting changes in the provision of credit to lower-income people and communities. In this regard, the interviews looked beyond the direct effect of CRA on the lending activities of CRA-regulated institutions, to explore potential indirect effects of CRA on the broader mortgage industry that may result from the diffusion of CRA best practices.

The five areas where interviews took place are reflective of the diversity of the urban and rural landscape in America, as well as the diversity of CRA activities and the mortgage finance industry. At the same time, because of the unique features of the five areas, each was selected in order to highlight the impact of CRA on lower-income lending patterns in a specific type of market.

Baltimore: Baltimore is representative of many larger, older, industrial cities of the Northeast and Midwest that have been plagued by a weak economy, slow growth of population and jobs, and serious neighborhood blight. Interviews in Baltimore focused on the interplay between CRA lending and the emerging subprime market in meeting the credit needs of lower-income people and communities. A recent HUD report documented the unusually high incidence of foreclosures in Baltimore's rapidly growing subprime market, a trend that has galvanized sentiment to address potentially abusive practices in this segment of the industry.

Birmingham: Birmingham is notable for being the headquarters' city for several large regional banks that operate in the South. In recent years, these banks have been challenged by the expansion of lending by independent mortgage companies that fall outside of CRA's regulatory reach. Despite these changes, or perhaps because of the competitive challenge offered by the new entrants, Birmingham lenders have increased their focus on lending to lower-income borrowers. Detailed interviews examined how Birmingham has maintained a strong regional banking presence while other metropolitan areas have lost their regional banks to mergers and acquisitions lead by out of region institutions.

Chicago: Building on decades of activism, Chicago's network of strong community-based organizations has been able to negotiate and largely to maintain sweeping CRA agreements with Chicago banking institutions. Interviews in Chicago focused on how the CRA agreements evolved, how they are being monitored, and how they have influenced relationships among lenders, regulators, and community groups.

Los Angeles: With major national depositories, mortgage companies, affiliates of other large bank holding companies, and major independent mortgage companies, all competing head-to-head in a large market, Los Angeles was a good place to explore in-depth the relationship between lower-income lending and the changing structure of the mortgage industry. Typical of many growth markets, independent mortgage companies continue to hold a significant share of the market compared with the national average, but so do in area depositories. At the same time, affordability problems make lending to lower-income families a challenge to all lenders in the marketplace.

Rural Colorado: Representative of the diversity of non-metropolitan America, rural Colorado's counties range from depressed agricultural areas, to more prosperous ranching, recreation, and retirement areas. Many rural areas suffer from limited access to financial services, while rural borrowers often face higher rates and less favorable terms than their urban counterparts. In addition to examining how CRA operates in a rural context, Colorado also helps to illustrate how national-level trends in mortgage lending and banking are playing out in diverse rural areas.

Identifying Individuals to Interview: The approach used to select interview candidates was designed to reach a knowledgeable set of individuals reflective of the diverse range of participants in mortgage lending and community development and advocacy. During an initial visit to each of the five areas targeted for in-depth review, Joint Center researchers identified key trends in mortgage lending and met with a series of key informants in each area to develop a diverse list of those banking and mortgage lending industry officials, community leaders, and government officials with greatest knowledge about CRA issues in their area. This process was supplemented with discussions with key contacts, including focus groups participants, in an effort to ensure that the list of potential study participants represented the diversity of organizations and individuals involved in CRA-related issues in each market area included in this study.

Based on this initial process, a team of Joint Center researchers examined published and internet resources to gain a better understanding of each potential participant, the organization that they represented, and their role in CRA-related matters. Special tabulations of HMDA data were used to ensure that mortgage industry officials represented a diverse mix of representatives of both large national- and regional-scale lenders, as well as representatives of smaller institutions. In addition, Joint Center staff reviewed 100 CRA examinations for all lenders interviewed, and many other lenders in each market, to better understand the interview candidates. This included a review of the characteristics of the organization, its record in community lending, investment and provision of banking services, and their efforts to partner with community-based organizations. For smaller banks, interviewees were typically the CEO or President. For larger organizations, interviews were typically conducted with the person or persons responsible for CRA compliance activities.

Similarly, community advocates interviewed for this study ranged from large multi-service organizations and grassroots advocacy organizations, to smaller Community Development Corporations. Interviews typically consisted of meeting with the Executive Director of these organizations, often with other senior staff most knowledgeable about CRA-related matters.

In all, over 100 interviews were conducted from June through September 2001. Responses documented are consensus views unless otherwise noted and represent an effort to distill reactions and opinions on a range of issues related to the past, present and future of CRA, compliance activities, community reinvestment more broadly, mortgage lending, and banking in general. To encourage a more frank discussion of the issues, each participant was informed that their comments would be ‘on background’, and that no specific comment would be attributed to any particular respondent. At the same time, much of the information discussed also was present in the public domain through newspaper accounts and other publicly available sources. Only in cases where public sources of information are widely available does the report discuss the activities of specific organizations.

Advisory Committee: Finally, the analysis presented in this report benefited from an Advisory Committee established by the Joint Center for Housing Studies (membership detailed in appendix 2). The Committee included senior officials from bank regulatory agencies, as well as nationally recognized experts drawn from the housing and mortgage finance industries, and national and local non-profit community development and advocacy organizations. The Committee met three times during the course of the study, including an initial meeting to discuss project scope and methodology, and a second time to discuss preliminary findings from the group discussions and to review the selection of the metropolitan and rural areas for in-depth interviews. At its third and final meeting, the Advisory Committee reviewed and commented on a draft of the final report. In addition, numerous Advisory Committee members submitted detailed written comments.

APPENDIX 2

ADVISORY COMMITTEE MEMBERS

Malcolm Bush
President, Woodstock Institute

Diane M. Casey
President and CEO, America's Community Bankers

James Chessen
Chief Economist, American Bankers
Association

Fritz Elmendorf
Vice President, Communications, Consumer Bankers' Association

Deborah Goldberg
Director, Neighborhood Revitalization
Project, Center for Community Change

Ron Grzywinski
Chairman of the Board, ShoreBank
Corporation

Kenneth Guenther
Executive Vice President, Independent Community Bankers of America

Bart Harvey
Chairman and CEO, Enterprise Foundation

John D. Hawke Jr.
Comptroller of the Currency, Office of the Comptroller of the Currency

David Holland
CEO, Boston Federal Savings Bank

Ellen Lazar
Executive Director, Neighborhood
Reinvestment Corporation

Paul Murski
Chief Economist, Independent Community Bankers of America

Benson Roberts
Vice President of Policy, Local Initiatives Support Corporation

Ellen Seidman (formerly)
Director, Office of Thrift Supervision

Stephanie Smith
Strategy and Business Development
Executive for Consumer and Small
Business E-Commerce
Bank of America

John E. Taylor
President and CEO, National Community Redevelopment Coalition

Keith Todd
Executive Secretary, Federal Financial
Institutions Examinations Council

Stockton Williams
Legislative and Policy Advisor, Enterprise Foundation

Mark Willis
Executive Vice President, Community
Development, Chase Manhattan Bank