Insights Into the Practice of Community Reinvestment Act Lending

A Synthesis of CRA Discussion Groups

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by

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Introduction

The United States Congress passed the Community Reinvestment Act (CRA) in 1977 to encourage financial institutions to make loans in low- and moderate-income[1] neighborhoods in amounts commensurate with the needs of those communities, but it had limited effect until the last ten years when the amount of such lending increased significantly.[2]

To understand the reasons for this increase, determine the impact of the CRA on lending in low- and moderate-income neighborhoods and identify possible ways to measure that influence, during the first half of 2000 the Joint Center for Housing Studies of Harvard University convened a series of discussion groups comprised of individuals who have studied or have direct knowledge of lending in low- and moderate-income neighborhoods.

This report summarizes the information and opinions gleaned from these discussion groups. It is part of a larger study of the effectiveness of the CRA undertaken by the Joint Center for Housing Studies. This synthesis is not intended to be a comprehensive report on the history of community lending, but instead reflect the ideas shared by industry experts participating in the discussions. The report is organized into five sections. The introductory section provides basic information pertaining to the discussion groups and the CRA. The second section traces the events, most of which occurred in the late 1980s and early 1990s, which promoted an increase in community reinvestment lending. Section three reflects the views of the members of the discussion group on the transition from the mortgage lending approach of community reinvestment to the broader concept of community development. The fourth section explores the factors--such as size and location of lending institutions--which the discussion group participants felt exercised an influence on community lending practices.

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[1] Low- and moderate-income is defined as income equal to or less than 80 percent of mean income for a given area.
[2] Evanoff, Douglas D. and Siegal, Lewis M. 1996. "CRA and Fair Lending Regulations: Resulting Trends in Mortgage Lending." Federal Reserve Bank of Chicago Economic Perspectives 20 (6)19-46.

The final section records the discussants views on the recent and future trends in community reinvestment, particularly the impact of subprime lending and the recently passed Gramm-Leach-Bliley Act.

Discussion Groups

From February to April, 2000 the Joint Center for Housing Studies held eleven discussion groups in four cities, three each in Atlanta, New York, San Francisco, and two in Washington, D. C. The groups ranged in size from six to fifteen participants, totaling over 100 industry experts (see table A for meeting details). The Joint Center elected to conceal the identities of the participants to allow free discussion of the issues related to community reinvestment.

Each of the discussion groups was made up of people in a particular type of occupation related to community lending, either financial institution officer, banking regulator, community advocate, or housing researcher. The financial officers, in the main, were community reinvestment officers from larger banks subject to regulation under the CRA. Smaller financial institutions were not well represented in the attendance of the sessions but participants did discuss their views of how the act as 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 low- and moderate-income communities or organizations directly engaged in housing and community development. Regulators were officers of one of the four agencies[3] of the federal government charged with enforcing the CRA. Housing Researchers included academics well versed in mortgage lending and housing markets from both public and private institutions.

[3] As mentioned above, the agencies are the Office of the Comptroller of the Currency (OCC), the Federal Deposit Insurance Corporation (FDIC), The Office of Thrift Supervision (OTS),and the Federal Reserve Board (FED).

Table A - Discussion Groups

Date	City	Participants
March 13, 2000	New York	Financial Institution Officers
March 13, 2000	New York	Examiners/Government Regulators
March 13, 2000	New York	Community Advocates
March 19, 2000	Washington DC	National Community Advocates
March 20, 2000	Washington DC	Housing Researchers
March 21, 2000	Atlanta	Financial Institution Officers
March 21, 2000	Atlanta	Examiners/Government Regulators
March 21, 2000	Atlanta	Community Advocates
April, 17, 2000	San Francisco	Financial Institution Officers
April, 17, 2000	San Francisco	Examiners/Government Regulators
April, 17, 2000	San Francisco	Community Advocates

In New York, the discussion groups were comprised of executive officers of large banks with national operations, leaders of local community organizations, and government officials charged with regulating banks under the CRA. In Atlanta and San Francisco, the groups were comprised of representatives of regional banks, regional CRA regulatory agencies, and community groups. In Washington, D.C., the discussants were representatives of national organizations that lobby in favor of the CRA lending in low- and moderate-income communities.

Discussion Topics

The members of the Joint Center discussion groups explored a number of topics related to mortgage and other forms of lending to low- and moderate-income people. Some of this information will help frame other portions of the broader study on CRA and low- and moderate-income mortgage lending.

Those topics include:

- a chronology of events that spurred low- and moderate-income lending increases
- the impact of the CRA on businesses and communities and how it could be measured
- perceived effects of influences other than the CRA on increasing the amount of loans to low-income borrowers and areas
- perceptions of the CRA by lenders, regulators and community groups.
- changes and variations in the enforcement of the CRA
- changes in the market, such as the growth of mergers and subprime lending that have affected or will affect CRA examinations and performance

Main Findings

A number of key findings that emerged from the discussion groups illuminate the influences on community reinvestment, especially of CRA. There was broad consensus that:

- The Community Reinvestment Act has led to increases in lending to low- and moderate-income borrowers and communities and to significant changes in the behavior of many federally regulated financial institutions.
- The CRA, passed in 1977 to ensure that lending institutions serve low- and moderate-income customers, for several years had little effect on lending patterns but early on did result in testing of new products to reach low and moderate income markets and the creation of some bank consortia.
- Lending to low- and moderate-income people began to increase significantly in the late 1980s.
- Many events directly and indirectly related to the CRA caused the financial industry to change its behavior.
- Prompted by new laws and regulatory procedures, bank officers and regulators began to collect and release more precise information about mortgage lending--including the race of applicants and borrowers.
- Community advocates and investigative reporters used this data to publicize patterns of discrimination in lending and pressure banks to change their lending practices.
- Two dramatic enforcement actions taken by government officials in 1989--the rejection of the merger request of the Continental Bank of Chicago on CRA grounds and the suit

against the Decatur Federal Savings and Loan Association of Atlanta for violating fair lending laws--helped convince the financial industry to increase loans to low- and moderate-income customers.

- The strong desire of banking officials to merge with other institutions and fear that their merger applications would be rejected because they failed to comply with the CRA prodded them to make their institutions comply with the CRA.
- Affordable housing and under-served area goals established by the Congress led Freddie Mac and Fannie Mae to increase their purchases of mortgages to low- and moderate-income areas and borrowers, making it possible to sell such loans on the secondary market.
- A number of large banks have achieved economies of scale that have allowed them to become efficient in issuing CRA-type loans.
- Certain large lending institutions have moved beyond mortgage lending to low-and moderate-income customers--the original purpose of the CRA--and entered into community development lending for community projects and small businesses.
- Recent disclosures of small business and community lending data and the assessments of CRA performance have begun to encourage lenders to increase these forms of lending.
- The increasing complexity and volume of community lending has led to new organizational structures--such as community development departments in banks-- and new relationships--including, in some cases, partnerships between such former antagonists as community groups and banks.
- Large banks now use community development financial intermediaries (CDFIs), as brokers of deals in low-income communities.
- Some banks compete to achieve the highest CRA ratings from government regulators, although most are content to receive a passing grade.
- Small and rural banks are less active than large institutions in the CRA field of lending.
- Corporate culture, particularly as exemplified by senior management, influences the number of loans which financial institutions offer to low- and moderate-income borrowers and the seriousness with which they take CRA grades.
- The standards by which government CRA examiners award different level grades vary from place to place.

- Lending institutions in recent years have expanded their operations in the fast-growing area of subprime lending, but many of the companies engaged in this kind of lending are not subject to CRA regulation.
- Many fear that the recently passed Gramm-Leach-Bliley law will prove burdensome to financial institutions and community groups attempting to carry out community development deals.

The Growth of Community Reinvestment Lending

The CRA

In 1975 the Congress took its first tentative step toward curbing the practice, known as redlining, in which financial institutions refuse to make loans in certain neighborhoods based on the racial composition of those areas or the age of their housing stock.[4] That year the Congress passed the Home Mortgage Disclosure Act (HMDA). The act had no enforcement provisions, it merely called for banks and savings-and-loan associations with substantial assets to make available to the public itemized statistics pertaining to the home loans issued within their metropolitan area.

Two years later the Congress attempted to strengthen the effort against redlining by passing the Community Reinvestment Act (CRA) as Title VIII of the Housing and Community Development Act of 1977. The law directed four financial regulatory agencies (the Federal Reserve Board, the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Federal Home Loan Bank Board (since replaced by the Office of Thrift Supervision) to assess financial institutions' "record of meeting the credit needs of its entire community, including the low- and moderate-income neighborhoods, consistent with the safe and sound operation of such institution" and consider the record when deliberating whether to approve applications for branches, federal charters, deposit insurance, or mergers.

Early on, the regulatory agencies developed regulations which required that each bank and savings-and-loan produce a CRA statement that laid out its procedures for determining the credit needs of its primary lending areas and its plans for meeting them. The regulatory

[4] Fishbein, Allen. "The Ongoing Experiment with 'Regulation from Below': Expanded Reporting Requirements for HMDA and CRA." Fannie Mae, 1992.

agencies were instructed to carry out examinations of lending institutions' CRA records on a regular basis and consider their performances on the examination in considering whether to approve any application submitted by the lender.

Under regulations issued jointly by the four federal regulating entities, examiners were to use twelve assessment factors to judge compliance with the CRA. These twelve factors were divided into five performance categories that regulators could use to evaluate the efforts of lenders in community reinvestment. The categories were 1) ascertainment of community credit needs; 2) marketing and types of credit offered and extended; 3) geographic distribution of opening and closing bank offices; 4) discrimination and other illegal credit practices; and 5) community development activities.[5] The assessment factors became more important as CRA regulation evolved.

Through much of the 1980s, most members of the Joint Center's discussion groups agreed, the CRA had limited effect. Banks and thrifts, they noted, still made few loans in low- and moderate-income neighborhoods. Regulators enforced the provisions of the CRA inconsistently. Lending officers did not worry about receiving CRA approval, according to the discussants, because almost all financial institutions passed their CRA exams. The chief progress that took place during this period, according to discussants from New York City and Atlanta, was that a few banks and mortgage consortia began to assign staff and organize departments to carry out low- and moderate-income lending, setting the stage for future activity.

Over the last ten years, all participants in the discussion groups agree, financial institutions substantially increased the amount of funds they lent in low- and moderate-income neighborhoods. By the late 1990s, banking regulatory officers had created more consistent and rigorous exam processes. Officers of lending institutions in turn took the regulatory examinations more seriously, worked to improve CRA performance, and expanded the community reinvestment operations within their institutions. The lending officers learned new methods of mortgage lending and offered novel loan products designed to reach the low- and moderate-income market. Lenders and community advocates began to work together as partners. It is clear that regulatory officials, community advocates, and officers of a

[5] Fishbein, Allen. "The Ongoing Experiment with 'Regulation from Below': Expanded Reporting Requirements for HMDA and CRA." Fannie Mae, 1992.

significant number of lending institutions have come to take the CRA seriously and act to fulfill its goals.

What caused the people involved in implementing the CRA to change their attitudes and policies? According to the discussants, several factors that emerged in the late 1980s led lending institutions to increase the amount of business in low- and moderate-income communities. Some of these factors are directly related to the CRA and its enforcement mechanisms. But many other events and circumstances are not directly related to the CRA--even though they complemented or reinforced its provisions.

The factors that spurred community reinvestment lending fall into three, somewhat overlapping categories: 1) the collection, dissemination, and publicizing of mortgage lending data; 2) increasing governmental enforcement of the CRA, and 3) changes in the banking and housing finance industry, especially the growth of large banks and the increase in mortgage purchases by Fannie Mae and Freddie Mac.

Collection and Dissemination of Data

The release of information about mortgage-lending practices contributed to the increase in lending in low- and moderate-income neighborhoods.

The Financial Institution Reform and Recovery Act (FIRREA), a comprehensive law that was passed in 1989 to reorganize the thrift and banking industry after the crisis of the savings-and-loans, strengthened the Home Mortgage Disclosure Act (HMDA). Provisions of FIRREA expanded the types of mortgage lending entities covered by the act and for the first time required financial institutions to record and report information about loan applications and borrowers, including their race, sex, and income.[6] The 1989 act also converted the CRA ratings to four categories, outstanding, satisfactory, needs to improve, and substantial non-compliance. Furthermore, the FIRREA required government officials to release expanded HMDA data and the CRA ratings to the public.

In the spirit of the new FIRREA provisions, the Federal Reserve Board began, during the early 1990s, to release aggregated HMDA data in new forms such as data tapes of information. Consultants and even financial institutions then began to disseminate the

[6] The number of financial institutions covered under HMDA were expanded again in 1991 and 1992.

compiled HMDA information in computerized formats, making it accessible to people who never before received data in this form.

The changes in gathering and releasing mortgage data placed potentially embarrassing information in the hands of a growing number of community advocates. The public release of race and loan applicant data in particular, participants in every discussion group declared, had a dramatic impact on the lending industry. Community groups and the local news media, the discussants explained, used the HMDA race and loan data to highlight what they said were discriminatory lending patterns in certain communities. "Community groups began to place pressure on banks to invest in low- and moderate-income areas using HMDA," a New York bank regulator observed. "As pressure mounted, banks staffed up and began to build an infrastructure to do these type of loans."

Lenders were particularly afraid that criticism on racial grounds would threaten their standing in the community and their ability to expand their business. "The Board of Directors of all the banks," a participant from a New York community group explained, "were fearful of the negative headlines and publicity. What got everyone's attention was the race issue and not wanting to be associated with racial discrimination."

Bank officers from each of the discussion group cities echoed this conclusion, underscoring the increased attention low- and moderate-income lending received when it became equated with racial issues in the early 1990s. A participant in the Washington D.C. group explained, "The addition of public HMDA data gave the media and community advocates tangible factoids to feed the public about lending. This changed the message, because now lending patterns were documented and available in statistical terms."

The reporting of race and loan data in the news media added fuel to the fire. The disclosure of HMDA data inspired numerous articles about lending practices, especially redlining. "The CRA may not have been a large driver in residential mortgage lending," a New York regulator commented, "but the use of HMDA data has been."

In 1988 and 1989 the Atlanta Journal-Constitution published *"The Color of Money*," a series of reports by reporter Bill Dedman that described the patterns of lending in the Atlanta region that favored whites over blacks. Community advocates in the Washington and Atlanta discussion groups asserted that this series-- which won a Pulitzer Prize in journalism --spurred local organizations to protest, increased media coverage of racial discrimination in lending,

and spurred lending officers to increase the number of loans to African-Americans and other minority groups.

Another highly publicized study, *Mortgage Lending in Boston: Interpreting HMDA Data*, issued by the Federal Reserve Bank of Boston in 1992, had a similar impact. The study found that the rate of denial of loan applications for blacks was much higher than for whites with similar qualifications. This report spawned extensive media coverage of the disparity between minority and white mortgage rejection rates and drew further attention to lending practices.

Articles such as "The Color of Money" that announced discrimination in lending and provoked public debates on the issue, the discussants noticed, worried members of the boards of financial institutions about protecting the reputation of their corporations. A single detrimental article in the Wall Street Journal, participants in a few groups observed, could deliver a serious blow to an institution's public image. "Lenders care about what the Wall Street Journal writes about your lending institution. It's a big deal," one Atlanta lending officer said.

As more detailed lending data became available and more accessible, the Joint Center discussion groups reported, community groups and lenders found new ways to use the information. This took time: loan officers from New York recalled that it took four years after the passage of FIRREA before the leaders of community groups realized the potential uses of the information. The number of firms selling HMDA-based reports proliferated, and community advocates used the data to make points in the media and elsewhere about financial institutions' lending records. When it became apparent that lenders reacted to negative publicity, some discussants observed, an increasing number of community organizations used the new data to criticize bank performance. One discussant observed, "Community groups became more sophisticated in using the data. There was a shift from bullhorns to data analysis."

The number of community-based organizations that lobbied for CRA type of loans increased. New groups were formed with the sole purpose of improving fairness in lending. A political advocate from Washington noted, "Groups that had never before looked at all at the CRA were suddenly weighing in on it."

The community organizations, according to lending officers and other discussants, lead the campaign to pressure lenders to take their CRA responsibilities seriously. "Community groups, a lender in New York concluded, "drove loans to low- and moderate-income communities."

The media attention to HMDA racial data, discussion group participants explained, raised fears among lending institution officers that banking regulators or community groups would sue them on the grounds of violating fair lending laws. As one regulator in San Francisco noted, "Fair lending [litigation] terrifies lenders."

On the other side, lending officers reported that their institutions began to use the new HMDA data to set lending targets and track the number and precise location of their community development loans. The officers of banks interested in competing for this type of loan now used this information to trace the degree to which they and their competitors had penetrated low- and moderate-income markets and formulate strategies for expanding the number of customers for CRA-type loans.

Government Steps Up Oversight

As the decade of the 1980s drew to a close, according to the Joint Center discussion groups, federal government officials stepped up their oversight of the CRA thereby pressuring officers of lending institutions to increase the number of loans to low- and moderate-income customers.

A major turning point, according to the discussants, was the decision in 1989 of the Board of Governors of the Federal Reserve Bank to deny a merger request by the Continental Illinois National Bank and Trust Company of Chicago on the grounds that the bank had not met its obligations under the CRA[7]. This was the first time regulators had denied a bank's application to merge because it had failed to comply with the CRA. Prior to the Continental Bank decision, lending officers in Atlanta recalled, "lenders obeyed the letter of the law without a true understanding of the spirit of the law."

Afterwards, the members of the discussion groups observed, officers of lending institutions worried that federal regulators would restrict mergers unless the banks complied

[7] The Continental bank was under receivership by the FDIC at the time of the merger request denial and may have led some banks to discount the importance of CRA in the rejection of the merger application.

with the CRA. They also worried, according to the participants, that community groups would wage campaigns against mergers, and that the negative publicity would influence government regulators to rule against them or dissuade officials of other institutions from joining forces with them. Many lending officers concluded, the discussants asserted, that in order to merge with or acquire other institutions without lengthy delays, costly conditions, or fear of rejected applications, they needed to earn at least a satisfactory, if not an outstanding, CRA rating.

As a result, many participants in the discussion groups argued, the strategy of consolidations and mergers pursued by national and regional banks has had an enormous impact on CRA lending. A wide variety of lending officers, federal regulators, and community advocates believed that large banks pursued high ratings in order to smooth the way for future mergers or acquisitions. A lending officer from San Francisco explained, "An outstanding [CRA] rating is insurance against being put into an un-mergable category." In New York, where large national banks have consolidated their companies, the participants revealed, banks competed for low- and moderate- income borrowers and areas. A New York lender claimed that "mergers have resulted in hundreds of agreements for community groups."

In contrast, in areas where fewer banks are interested in merging, there has been little or no competition for CRA type lending. Lending institutions competed for the CRA market far more in metropolitan Charlotte, North Carolina, (where Bank of America is headquartered), banking regulators from Atlanta observed, than they did in metropolitan Atlanta. Similarly, small banks which have not sought to merge lacked the incentive to compete in the CRA market.

The same year that Continental Bank's merger application was rejected, federal government officials took another strong action to encourage financial institutions to increase low- and moderate-income lending. In 1989 the U.S. Department of Justice sued the Decatur Federal Savings and Loan Association of Atlanta for violating the fair lending laws (which stem from the Fair Housing Act and the Equal Credit Opportunity Act). The parties in 1992 obtained a consent decree in which Decatur Federal agreed to pay $1 million in damages to the victims of discriminatory lending practices and take measures to correct their lending practices.

Lending officers, according to the discussants, concluded that the Decatur Federal law suit and consent decree signaled that federal banking regulators had adopted a tough new policy towards banks in the area of fair lending. Indeed, at about the same time, regulators at the Federal Reserve Bank in Boston launched an investigation of whether the Shawmut Bank had violated fair lending laws and suggested that the bank not attempt to merge until the investigation was completed. As a result, several discussants said, the Decatur Federal case helped persuade officers at many financial institutions to become more aggressive in offering and approving low- and moderate-income type of loans.

Members of Congress, several discussion group participants noted, pushed federal officials to tighten their regulation of the CRA. In this regard, the discussants especially recognized the actions of Senator William Proxmire of Wisconsin (the original author of CRA), who held a number of highly publicized hearings on the CRA and pushed hard to include fair lending provisions in FIRREA. “In 1989 alone," recalled one participant, "there were six hearings on the CRA on Capitol Hill.”

In response to political pressure from Congress, according to the discussants, federal regulators systematized and increased their supervision of low- and moderate-income lending. Regulators for the first time in 1989 released to specific lending institutions the detailed results of the twelve standard exam assessment factors of the CRA. Lending officers could now use the assessment criteria to measure their own performance in making loans to low- and moderate-income customers and compare it to that of their peers.

In 1991 federal regulators began to release to the public the results of their examinations of lending institutions' compliance with the CRA. Although some participants felt the change was not important, others believed that leading banks tried to earn high CRA grades to prevent objections to possible future mergers and acquisitions and more general damage to their reputations. *Nonetheless, participants regarded the public release of race and loan HMDA data as a more important factor in the increase in low- and moderate-income lending.*

After the regulators began to release CRA grades in 1991, several group participants suggested, they enforced the act more strictly. Up to that time few lenders had failed the CRA exam. Now, as one regulator put it, “less than Satisfactory Ratings for lending institutions increased from a very small percentage to almost ten percent….”

In the mid-1990s the Clinton administration tightened the CRA regulations still further. Discussion group participants say that in 1995 and 1996, federal examiners adopted new ways to examine the practices of lending institutions. Examinations were now contingent on financial institution size. For larger banks, the examination was organized into comprehensive test divided into three parts, lending, investment, and service. Each part of the new test measured innovation and access to products. Banks were also now required to disclose their loans outside metropolitan areas. The participants reported that the lenders then responded by setting lending goals that would earn high grades on the CRA examinations.

The regulators' new CRA examination practices also required financial institutions to release small business and community development loan data, greatly expanding the kinds of loans that banks were required to disclose. Many lenders in the discussion groups, however, were skeptical that the new reporting requirements obtain records of the kinds of loans that best define "community development" and "small business." Because the test does not reflect how banks currently conduct their business, one Atlanta lender said, the regulations do not capture many small business deals.

Changes in Banking, Housing Finance, and the Economy

Participants in the Joint Center discussion groups indicated that changing conditions in the banking and mortgage industries encouraged lending institutions to increase the credit they extended to borrowers in loans in low- and moderate-income neighborhoods.

The savings and loan crisis of the late 1980s, many participants believed, indirectly played a role by giving officers of lending institutions an incentive to merge. After many savings and loans associations closed, officers in large banks hoped to survive by merging with other institutions. (The recently passed Reigle-Neal law facilitated this strategy by easing restrictions on interstate banking). But as described above, when the bank officers applied for permission to merge or acquire other banks, regulators enforced the CRA and compelled the lending officers to extend more of the CRA-type of loans.

The expansion of secondary market products that lenders could use to reach lower income populations, some discussants pointed out, also paved the way for increase in low- and moderate-income lending. In 1992, in conformance with the recently passed Federal Housing Enterprises Financial Soundness and Safety Act, the government-sponsored

mortgage corporations, Freddie Mac and Fannie Mae, implemented a policy of increasing their purchases of mortgages to low- and moderate-income borrowers, borrowers in underserved areas, and borrowers for affordable housing projects. This enabled banks, according to the discussants, to increase their volume of low- and moderate-income loans that they could then sell to Fannie Mae and Freddie Mac. The sale of the mortgages freed the banks to use their capital to make more loans to low- and moderate-income customers (Nonetheless Fannie Mae and Freddie Mac still will not purchase such CRA-type loans as below-market-rate mortgages, requiring the lending institutions to hold them in their portfolios).

The mergers, acquisitions, and consolidations in the banking industry led to the emergence of larger lending institutions that had greater ability to carry out CRA lending. Operating at regional or national levels, according to the discussion group participants, these large banks developed economies of scale and specialized in certain markets. Some banks now only handled mortgage loans, while others dealt with large-scale commercial lending. Many participants noted that banks looked beyond their traditional lending markets to find new customers. During the 1990s, the participants asserted, the larger banks had more funds to lend to people in low- and moderate-income communities. Thus, a New York lending officer concluded, "Consolidation (of the lending industry) has been good for communities [because] there are much larger pools of capital available today." Although, some participants opined that these larger entities, although more liquid than previous smaller institutions, are less responsive to local needs and less likely to assume leadership responsibilities in certain communities due to their larger size.

As financial institutions gained experience in issuing mortgages to low- and moderate-income customers, group participants reported, they became more efficient in the CRA kind of business. According to the participants, banks lowered the costs of issuing these kinds of mortgages by improving their methods of processing mortgage originations and making technological improvements in their operations. As lending officers came to understand the low- and moderate-income market better, they were able to assess the risks of potential loans more accurately and reduce the risk of default for their institutions. Participants also noted that the insurance offered by private mortgage companies gave bank officers confidence to

offer loans with higher loan to value (LTV) and debt to income ratios, that is the kind of loans often associated with low-income borrowers.

As to whether the different types of CRA loans were profitable, opinions among discussion group participants varied.[8] Several of the group participants stated that financial institutions gradually realized that mortgage lending to low- and moderate-income customers could be profitable. At first, an Atlanta lending officer said, lenders felt that high LTV mortgage loans were bad business. Although they are less profitable and take more effort than other types of loans, the officer concluded, the original assumption "has proven to be untrue." Others held that several factors, including the CRA, originally inspired lenders to do business in low- and moderate-income areas, but it was the profitability of the loans that induced lenders to continue making them. As another Atlanta banker put it, “The CRA is not driving the CRA lending, profitability is...Bankers recognized that there were untapped market opportunities in low- and moderate-income lending.”

On the other hand, lending officers from New York felt that special mortgage lending with high risks, below-market interest rates, or waived fees or insurance has not been profitable. They felt that banks subsidized these CRA loan products out of the profits earned by the institutions' other business transactions. The extra effort needed to staff and finance the mortgage deals, they explained, cost the banks more than traditional deals. Some group participants doubted that this type of lending would continue without the CRA. Lending officers did not believe, the participants added, that new loan products for small businesses and community development projects offered the same return on banks’ capital and time as did traditional loans.

Finally, according to the discussion group participants, the prosperous condition of the national economy encouraged lending institutions to increase the number and amount of loans in low- and moderate-income neighborhoods. A member of a community group in Atlanta observed, “A vigorous economy made CRA lending appear to be a ‘lower risk’ proposition for lenders.” In other words, the large profits earned in the booming economy allowed lending officers to accept riskier loans and lower interest rates on mortgages. The lower rates and higher risk thresholds have favored heretofore marginal borrowers and helped increase

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[8] The Board of Governors of the Federal Reserve System, mandated by Congress under the Gramm-Leach-Bliley Act of 1999, recently issued a report, “The Performance and Profitability of CRA-Related Lending,” on this subject.

lending in low- and moderate-income communities. At the same time, prosperity also improved the economic situation of members of minority groups which in the past have been neglected by mortgage lenders, and thereby increased the numbers of people in these groups who are eligible for housing loans. Good times, it seems, help poor and working class people get housing in many ways.

From Mortgage Lending to Community Development

The discussion groups organized by the Joint Center were intended to uncover the role of the Community Reinvestment Act in increasing lending to low and moderate-income borrowers. The discussants revealed a complex system of activities which has produced new organizations, new departments within existing lending institutions, and new relationships between the groups involved in community reinvestment. In the same period, lending in low-income and moderate-income neighborhoods expanded beyond mortgages--the original concept of community reinvestment--to include other types and combinations of loans. These special products include, community development loans and loans for small business development.

Beyond Mortgages

Members of the Joint Center discussion groups noted that the CRA was expanded in 1995 and 1996 to require that financial institutions collect and release data on loans other than mortgages in low- and moderate-income neighborhoods. One type of credit operation that has emerged in the last several years has become known as "community development lending." According to discussion group participants, a growing number of national and regional banks have been offering packages of large loans that are part of comprehensive projects--often involving community groups and community development financial intermediaries--designed to rebuild impoverished communities. These special CRA loans products often include incentives not present in traditional mortgage lending such as high loan to value ratios or below market rate products. Today, one New York lending officer asserted, “When you are talking about CRA lending, you are talking about community development lending. The focus is on doing complex, innovative and competitive business.” Loan officers from Atlanta reported that a number of “CRA” departments responsible for issuing mortgages to low- and

moderate-income customers have changed their name to “community development” departments.

Although originally focused on mortgages, the CRA, according to the Joint Center discussants, inspired lending institutions to move into community development loans. Atlanta regulators think that the requirement for innovative loans in the CRA exam pushed loan officers towards “community development lending.” Lending officers from New York said that the enforcement of the CRA forced them to be more creative and led them to adopt a series of new community development products. New York regulators agreed that earning an “outstanding” CRA rating has become progressively more difficult, also pushing banks to offer the new products.

Many discussion group participants believed that if the CRA were to be repealed, that banks would continue to offer mortgages to low- and moderate-incomes, but that the innovative community development loans would disappear. Some loan officers from San Francisco felt that regulators already had ceased to emphasize community development products in the CRA examinations and instead looked more at volume than creativity in loans. Yet a few participants disagreed, stating their opinion that community development lending would survive in the absence of the CRA.

Opinions varied as to how profitable the community development loans were and are. Lenders in Atlanta specified that deals that involved a federal subsidy (i.e., the Low Income Housing Tax Credit) were profitable. A lender in New York added, “Other subsidy programs are very important to lenders conducting CRA lending. It reduces the risk and defrays the cost of the loans.” Lenders from New York and Atlanta, however, agreed that although some community development lending deals are profitable, capital could more efficiently be deployed in other forms of lending. The New Yorkers insisted that these types of loans take more effort than others and that without the CRA, their banks would leave the community development lending business. Representatives of community groups in San Francisco took the middle ground, saying that banks in their city viewed community development lending as “okay business, but not good business.”

Loans to small businesses are another type of loan which the CRA now requires lending institutions to report. According to the discussants, they have become quite popular among lending officers working in low- and moderate-income areas. “ The pattern of the last

five years, one New York community advocate averred, is that "banks are much more ready to come up with economic development packages (small business loans) as opposed to community development [loans]." The CRA now requires lending institutions to report their transactions of credit to small businesses, and nonprofit community development organizations have instituted small-business lending programs. In addition, regulators from San Francisco noted, the Small Business Administration now actively encourages banks to issue small business loans to members of racial minority groups.

Lending officers in the discussion groups stated that small business loans are more profitable than other types of community development loans and that the portion of their community development lending devoted to small business development is increasing. Atlanta lenders noted, however, that because small business loans are not secured by real estate, they can be riskier than mortgages.

Lending officers, bank regulators, and community advocates all agreed that the required methods of reporting loans to small businesses did not accurately measure all types of small-business loans which their companies made. Lending officers from San Francisco felt that, much like mortgage lending ten years ago, small business lending is not yet regulated in a consistent and predictable manner. Representatives of community groups, for their part, observed that the official data pertaining to small-business loans was difficult to understand.

New Organizational Relationships and Structures

As new types of loans have been added, the community development credit system changed and grew more complex over the last decade. Participants in all the discussion groups stated that as financial institutions made capital available to low- and moderate-income borrowers, they improved their relationships with community organizations. A New York lender claims that CRA helped to "refine banks' relations with community groups." "Community groups have taught bankers a whole new way of business," a representative of a community organization in Atlanta claimed. "There is a new mentality that the CRA can be profitable, that is why large banks are buying mortgage companies" One reason for the improved relations was that some community groups carried out customer outreach and mortgage counseling programs which relieved banks of some of the costs of lending to low- and moderate-income individuals.

This shift seems particularly pronounced in New York. One New York lending officer noted that in the early 1980s financial institutions rarely met with community groups, but now banks in search of community development projects pursue them to make deals. Members of community groups from New York agreed. One said "At first, in order to get attention, we had to press the banks. Today the banks come to us…."

The representatives of community organizations from different cities offered a variety of opinions about the reasons for the marked alteration of business lending practices between lending institutions and local groups. The New Yorkers felt that competition between banks might have inspired lending officers to let money flow more freely towards community projects. Members of community groups in San Francisco pointed to a flurry of mergers--with the attendant need for good ratings from CRA regulators--and the ability of their organizations to work with banks on community development projects. Delegates from community groups in Atlanta argued, however, that the new relationship was superficial and temporary, and that profit still motivated lending officers the most.

At the same time, according to the Joint Center discussants, banking regulators and community groups have begun to cultivate a relationship. Regulators from San Francisco said that community groups now approach them on a regular basis, seeking input into the regulation process. On the other hand, community advocates in Atlanta reported, regulators often contact community organizations in search of success stories and for tours of projects in low-income neighborhoods.

As community reinvestment has grown and evolved, new organizations have joined the field. Many of the discussion participants noted that large banks were carrying out much of their community development business with community intermediaries (CIs) or community development financial institutions (CDFIs). CIs are groups that can act as brokers between the banks and low-income communities and have a mission in rebuilding impoverished and blighted communities. The CDFIs, which include such large organizations as Shorebank, Low Income Housing Fund, and Self-Help, provide a vehicle for aggregating loan products of sufficient size for the bank to deem worthwhile. CIs, which include such national entities as the Local Initiative Support Corporation ,the Enterprise Foundation and the Neighborhood Reinvestment Corporation, also played a large role in building a bridge between community

organizations and lending resources. The lending officers expressed confidence in the expertise of these intermediaries in both lending and community development.

Indeed some lending officers felt that working with intermediaries was preferable to working directly with community groups. " Community groups are not the places we are going to meet our lending requirement," a New York lending officer commented, "Twenty-five years ago, the focus was on relationship with community groups, today they are just part of the process." For their part, some members of community groups felt that the intermediaries created another layer of bureaucracy between them and the source of capital to be used to help their communities.

A few discussion group participants observed that changes in low- and moderate-income lending practices sparked the creation of mortgage consortia in some metropolitan areas. These groups were designed to pool resources from a number of financial institutions for use in community development projects. They acted as a loan intermediaries between local charter banks and community development customers. Some of these groups have proven extremely successful in increasing loan volume and capital to low- and moderate-income borrowers. Some of them, such as the Atlanta Mortgage Consortium (AMC), seemed to have succeeded only for a short time. Some discussants suggested that larger banks borrowed the loan innovations from the structure of the consortium and then applied them to their own lending streams, in effect, putting the consortium out of business. As banks grew through mergers, often these regional banks were able to meet and surpass the lending volume of the original local lending consortia.

Despite the evolution of the system, representatives from several community groups were skeptical that financial institutions were permanently committed to community development. "Many banks have put community development infrastructures in place," one Atlanta community group participant commented, "but in essence, banks and community organizations are dating. They have not crossed the threshold from dating, to going steady." Another community advocate from Atlanta added, "The CRA has not altered banking behavior over the long-term. The CRA has brought about a temporary, not systematic or cultural change in the banker's thought and decision making processes."

Influences on Community Lending

A number of other disparate factors--besides those discussed above--influenced the practice of community lending, as described by the participants in the Joint Center discussion groups. The volume and effectiveness of low- and moderate-income lending were affected by the size and location of banks, the culture of financial institutions, and the ways in which CRA regulators evaluated lending institutions.

Small Banks

Although most of the lending officers in the Joint Center discussion groups came from large financial institutions, they and the other participants differentiated between the kind of CRA lending carried out by large and small financial institutions. According to the participants, most large banks have organized departments with large staffs devoted to handling loans and community development projects for low- and moderate-income customers. New York lending officers explained that large banks were able to take on large amounts of the CRA type of business because of their high lending volumes, capacity to hold loans in portfolio, and concessionary terms on certain products. Some of these lenders went on to say that the presence of many large banks with extensive capital resources encouraged competition in the low- and moderate-income lending field. The discussants observed, however, that such competition occurred only in places such as New York where a significant number of bank headquarters were located.

The result, in the words of one New York lending officer, was that, "the price of admission to the CRA world is high, [and] small banks are at a distinct disadvantage in New York City." Although advocacy groups sometimes target small banks on the grounds that their interests should be aligned with the community, according to the discussants, small banks were unable to compete with large financial institutions that could capture most of the community development market and profit from their CRA loans. Regulators from New York and Atlanta conceded that most small banks could not afford CRA departments and that often they did not even have a full time person devoted to the kind of loans required by the act. Therefore, as regulators from New York pointed out, these banks must focus on mortgage lending rather large community development deals. When large national banks issued loans outside their traditional coverage area, a loan officer explained, they competed

with smaller, local institutions. "A large bank from somewhere else may be able to offer less expensive products than the local community bank." Yet another lender from New York disagreed, saying that small bank officers enjoy the advantages of "understanding the clientele and already doing many loans that are community based."

The discussants differed somewhat on the attitude of small banks toward the CRA examinations. A regulator from New York noted that many of the smaller lenders received a "need to improve" rating, but made no effort to earn a higher rating. Regulators from San Francisco thought that small banks often wanted good CRA grades, but lacked the resources to achieve them. They also pointed out that many small banks could achieve an "outstanding rating" simply by serving the community that they would normally serve. Yet, some of the lending officers, particularly from Atlanta, worried that regulators and the CRA examination did not take into account the specific problems faced by small lending institutions.

Rural Banks

The members of the Joint Center discussion groups suggest that the kind of lending to low- and moderate-income customers that the CRA was supposed to encourage does not occur as much in rural areas as it does in cities. According to the discussion groups, rural financial institutions tend to be small and locally based. Rather than offer specialized loan products, they concentrated on mortgage lending which is what, according to Atlanta regulators, they "know how to do."

Rural bank officers, the discussants from Atlanta explained, did not pay much attention to the regulatory CRA examination because they worried about survival first and the CRA second. The advocates from Washington asserted that local politics and the presence or absence of community groups often determined whether rural banks offered CRA loans. Lending officers thought that urban and large banks conformed to CRA requirements more than small rural banks because they received more attention from federal regulators and the news media.

Atlanta's lending officers offered different perspectives, however. One stated that the CRA requirements did cause concern to small rural lenders. Others argued that customers in the rural banks' areas qualified as the kind of low-and moderate-income population that the CRA is meant to serve.

The large national and regional banks, the discussants avowed, do not carry on much business with low- and moderate-income customers in rural areas. According to New York regulators, such financial institutions have little motivation to do so they earn more approval from regulators and the public at large by offering CRA loans in their main assessment areas. One regulator says, "When ninety percent of your assets are where the examination is focused, you tend to ignore the other ten percent."

Corporate Culture

A wide array of lending officers asserted that the corporate culture of a bank heavily influenced whether that institution vigorously pursued an outstanding CRA rating. This theme was repeated by lenders in New York, Atlanta and San Francisco. The banking regulators from Atlanta agreed, saying that the opinions and traditions of a bank's board of directors defined its role in a community. They pointed out that bank boards of directors were much more likely today to have members who belonged to racial minorities or had direct ties to community development organizations. A community advocate from San Francisco further stated that community advocates were able to discern a bank's commitment to the CRA by the extent to which the bank's chief executive officer participated in the negotiations over community development projects.

CRA Examinations

Since one would logically assume that the enforcement of the CRA influenced the patterns of lending to low- and moderate-income customers, the Joint Center asked the members of the discussion groups their opinions of the CRA examinations. As stated above, the act authorizes four regulating organizations, the Office of the Comptroller of the Currency (OCC), the Federal Deposit Insurance Corporation (FDIC), The Office of Thrift Supervision (OTS) and Federal Reserve Board to examine lending officers of financial institutions to assess the degree to which the institutions have complied with the CRA.

The regulators who participated in the Joint Center discussion groups asserted that to determine whether a bank abided by the CRA in good faith, they looked to see whether its officers understood the regulation; knew the difference between types of lending; and assigned personnel to carry out the provisions of the act. The process was not necessarily a

harsh one: regulators from Atlanta stated that they often turned to lenders for guidance about methods of carrying out the CRA. Members of all discussion groups believed that the regulators applied the four ratings in a meaningful way; for example, they said, there was a large difference between the satisfactory and outstanding ratings.

According to participants in most of the discussion groups, the CRA examination did not concern many lenders, either large or small. Many participants stated that often bank officers considered passing the examination to be a business expense. Regulators in Atlanta admitted to their desire to ensure that a lender get through the examination process smoothly. The discussants unanimously agreed that most institutions did not want a "less than satisfactory" rating, some tried to obtain an outstanding rating, but most banks were content to receive a passing grade or the often sought after "high satisfactory." "Most banks try for a 'B' or 'satisfactory' grade," Atlanta regulators explained. "Banks want to be able to say, ' We didn't have to spend as much money as you to achieve a B CRA grade.'"

According to several participants, however, a significant number of financial institutions attempt to achieve an "outstanding" CRA grade. The reasons the discussants gave vary. One pointed to the "ego" of senior management as a reason that lenders strive to achieve the top grade, even as that achievement becomes more difficult. Similarly, a lending officer from Atlanta said that such lenders work for outstanding CRA grades because, "We want to be the best (CRA lender) in the area." Or, some discussion group participants believed, corporate largess may be the reason lenders work for an outstanding rating.

The desire to maintain a good public reputation, others believed, motivated some lenders to work for the highest CRA ranking. A regulator in the San Francisco group explained, "the California (lending) market is so competitive that a bank can use a good CRA rating as a marketing tool." Regulators from New York agreed, adding "Banks are often compared to their peer banks. An outstanding rating raises a bank's profile in the community."

Participants in the discussion groups were almost unanimous in the belief that the standard for achieving an outstanding rating rose over time. "What was innovative in 1995, remarks a regulator from San Francisco, "is not novel today." Other regulators from San Francisco believed that the ratings "bar" rose with the size of a lender's assets. A New York regulator observed that the banks that complained the most about the CRA examination were

those that earned the highest grades. He believed that it has become increasingly difficult and costly for banks to receive an outstanding grade. Indeed, the some discussants revealed that although many banks will work hard to maintain an "outstanding" CRA rating if they already have one, some banks with the potential of moving to that level are leery of newly receiving "outstanding", because of the increased exertion needed to maintain this improved rating.

In addition, many participants in the discussion groups stated that the regulators did not use a consistent standard in assessing CRA performance, especially in regard to the satisfactory and outstanding grades. Banking regulators tried to compare similar types of banks when examining banks, but there was no one simple formula, benchmark or series of steps. When pressed about how to get an outstanding rating, for example, regulators from Atlanta responded that "there was no 'clear' way to get one." According to the discussion group participants, regulators gave credit to institutions that did well on both the quantitative and qualitative aspects of the CRA examination, had been leaders in civic projects, and worked well with community organizations.

The regulators in the discussion groups acknowledged that the CRA examination varied from place to place. They also contended that since banking regulators had adopted numerical measures taken from better data than before, the examinations had become more uniform—an assertion that lending officers from San Francisco disputed.

Recent and Future Trends in Community Reinvestment

Subprime Lending

The members of the discussion groups reported that lending institutions have in dramatic fashion recently expanded their operations in the area of subprime lending--the provision of credit to mortgage borrowers with past credit problems who otherwise might not qualify for loans. The interest rates on subprime loans are usually higher than that of conventional loans because banks assume that customers run a higher risk of defaulting on their mortgages. The discussants agreed that this type of lending was and is profitable although it carries higher risks than the prime lending market.

The participants in the discussion groups agreed that specialist mortgage companies were the source of growth in the volume of subprime lending. These mortgage companies

were often not regulated, nor are they subject to the restrictions that financial institutions covered by the CRA are.

Lending officers in Atlanta and San Francisco thought that most large lending institutions were wary of getting directly involved in the subprime market because of the high risk of these loans and the possibility of receiving bad publicity for working in this field. Regulators in San Francisco thought bank officers wanted to keep their subprime business as far as possible from the regulated portions of their business.

Many participants believed that prime lenders have been buying subsidiaries who deal in subprime mortgage lending. Although the newly acquired mortgage companies were not covered by the CRA and therefore not subject to regulator scrutiny, their parent organizations are. Perhaps this is why lending officers in Atlanta said that owning a subprime operation caused "headaches." A few large banks, according to one Atlanta banker, recently integrated their subprime affiliates into their main organization in order to gain more control of their lending practices.

Participants in the discussion groups agreed that lenders engaged in prime rate mortgage lending experience competition and reduced margins, while the subprime market is still relatively untapped and potentially lucrative. "The success that some lenders have in making profitable secure subprime loans motivates other lending organizations to venture into emerging markets," an Atlanta lending officer explained. "However, many banks do not see a market, profit, or the CRA need to get into subprime lending. The risk is greater, and lenders feel that they cannot make loans that are that high of a risk without charging higher interest rates."

In fact, a community development advocate from Washington asserted, banks buy affiliates for profit, not for CRA credit. The regulations leave it to the lender's discretion to include or exclude each of their affiliates in the CRA examination. Since bank officers are not required to report the operations of these subsidiaries, some participants argued, they do not consider the CRA foremost when deciding whether to buy affiliates.

Regulators in Atlanta believed that much of the growth of the mortgage industry was caused by an interest in earning fees rather than interest rates. Because they can now sell a large portion of their mortgage portfolio on the secondary market, most banks do not hold

fixed rate mortgages. Therefore, they generate much of their profits from the fee for originating the loan.

There were large differences of opinion between lenders and regulators on the one hand and community groups on the other on the subject of subprime lending. Community groups by and large see subprime lending as synonymous with “predatory” (unfairly targeting and charging high fees to uninformed customers). “There is a huge difference between banks and mortgage companies,” a member of an Atlanta community group declared. “Banks care about their community reputation, while mortgage companies care only about profit.” Community advocates in San Francisco worried that some CRA regulators might consider subprime lending as a form of community development lending.

Lending officers and regulators, on the other hand, believed that charging high prices for risky loans is a fair way to extend credit to those otherwise unable to obtain it. “Banks are in a Catch-22,” one Atlanta lender commented, “Regulators tell banks that they should be able to price based on risk, but the market reality causes lenders to walk a tight rope. Community groups will accuse banks of gouging customers through risk based pricing.” In fact, advocates from the Washington, D. C. discussion group complained that as yet there was no adequate way to obtain statistical information to assess the actual risk associated with subprime lending.

The discussion group participants agreed that without any intervention, the subprime market is likely to grow. Banks are now taking on more risk than they have in the past, they said. Participants in a few of the groups argued that many of the borrowers of subprime loans would have actually been eligible for a prime rate loan. Many lenders pointed to the significant need for homebuyer education in the community.

The Future Impact of the Gramm-Leach-Bliley Act

In late 1999, the Congress passed the Gramm-Leach-Bliley Act (GLBA), a law intended to modernize the banking industry by repealing the Glass-Steagall Act that forbade mergers of banks, finance and insurance companies, and securities companies. GLBA requires public disclosure of loan agreements between banks and community groups (a “sunshine” provision), and requires small financial institutions (with under $250 million in assets) to undergo a CRA examination only once in a four or five year period (depending on

the type of bank) instead of annually as currently required. Non-banking entities, such as insurance companies, now likely to be part of large financial holding companies, are not covered under CRA.

The participants in the Joint Center discussion groups weighed what they thought the probable impact of the act would be on community development forms of lending. The participants indicated that the White House and Congress would dictate how the Gramm-Leach-Bliley Act would be implemented and that its effect on community reinvestment depends as much on the formulation of new banking regulations as it did on the law itself.

With the exception of a few community advocates, most participants in the discussion groups thought that the regulations in Gramm-Leach-Bliley Act could prove to be burdensome to financial institutions and community groups. They cited the requirements for more paperwork and public disclosure of contract details as potentially harmful. The perception of the extent of the effect on low- and moderate-income lending, however, varied.

A number of participants, especially the regulators, thought that the new banking law might hinder CRA deals between banks and community groups. Regulators in San Francisco said, "Sunshine provisions will have a chilling effect on community development because [community groups] will have to show how they spend all the money that banks give them. This will weaken their bargaining position vis-à-vis lenders so they will lower their demands and promise less." Community groups in San Francisco argued that banks were already more reluctant to agree to low- and moderate-income lending projects. "'Sunshine' will cause extortion by community groups to decrease," a lending official from Atlanta predicted. "Community groups are already beginning to show signs of fragmenting." "The new legislation may highlight the perception that community groups are arm twisters," another Atlanta lender explained, "while regular banking customers are just good business people. Community groups may be held to a different standard than banks."

Others thought that the information provided by the disclosure of agreements required by the Gramm-Leach-Bliley Act will lead banks and community groups to standardize their CRA-motivated agreements. They were unsure, however, whether the standardization of loans would mean more or less capital flowing to communities. Many participants thought that lenders will feel pressure to match other lenders' agreements with community groups. A community advocate in Atlanta agreed and said that disclosure could provide a new tool to

groups who approach banks for deals. A lending officer thought that "There are items in the banks' agreements with community groups that would be detrimental for both parties. It might give community groups a standard contract and decrease the position of the bank to negotiate agreements."

Several participants felt that the recently passed banking modernization legislation will affect how small banks abide by the CRA. Since banking CRA regulators are not allowed to examine small banks for four or five years, regulators in New York and Atlanta worried that small banks will ignore community reinvestment until immediately prior to the examination. One Atlanta regulator expressed the fear that a small lender faced with a poor record over the five year period might respond, "'Don't look at what I was doing four years ago, look at what I did last year.'" Other regulators pointed out, however, that many of these institutions are not primarily concerned with the CRA currently, so that the impact on CRA lending may be negligible.

New bank holding companies are expected to be formed under the provisions of the Gramm-Leach-Bliley Act, which raises the possibility that bank assets would be moved out of the jurisdiction of CRA regulators. Discussion group participants in Atlanta and Washington, D. C. thought such a migration of assets will likely occur, but bankers in San Francisco were more skeptical. The regulators from San Francisco felt that any shifting of funds would be done not to avoid the CRA, but to lower taxes. Although regulators expressed concern that the new larger financial institutions, comprised of a collection of small and large banks, could "be a regulation nightmare." They feared that it will be difficult to determine where various components of the holding companies are located.

Finally, under the new law insurance companies may own and operate banks and may expect them to merge into the large banking holding companies. Considering this, one representative of a New York community group thought "the insurance industry may have already begun to comply with the CRA regulations" in expectations of possible future mergers and scrutiny (Although "CRA like" activities of companies not covered under the current CRA are not permitted to be evaluated under Gramm-Leach-Bliley). Members of community groups from San Francisco, however, reported being unable to persuade insurance companies to address the needs of low- and moderate-income home buyers.

It is important to note that the regulation of low- and moderate- income lending under CRA takes place against a backdrop of continual and sometimes rapid change in the economy and the financial sector. Along with GLBA, forces such as globalization, and rapid technological advancement will significantly alter the financial industry in the coming years. Although not discussed in detail during our discussions, these changes will dramatically affect the implementation of CRA.