CRA and Community Development Lending

Contact: Mike Townsend, ABA Public Relations (202) 663-5471 or mtownsend@aba.com

Banks play a vital role in community development.

- Historically, banks were the first businesses in a new town and provided the necessary capital for building homes, businesses and schools.
- Today, banks still provide capital for many community programs and development.
- Thousands of commercial banks work with community and non-profit groups on projects throughout the country.
- Some banks have developed financial education and outreach projects for children as well as educational opportunities for adults to learn about homeownership.
- Other assistance that banks provide for community development includes low-interest loans for revitalization projects and often, outright donations.
- Many banks also offer scholarships to improve educational opportunities.

Banks are leaders in community development lending.

- The Community Reinvestment Act (CRA) requires banks to lend to their entire market areas and, if necessary, have a strategy for lending in low- and moderate-income neighborhoods.
- CRA applies to all banks and savings associations, regardless of size. Notably, credit unions are not required to meet any community reinvestment requirements.
- Banks care a great deal about their communities and would be involved whether or not CRA was a law.
- Community development is more than a loan. It often requires technical assistance, collaborative relationships with community groups and government agencies, flexible credit policies and long-term commitments.
- CRA data shows that small business loans are heavily concentrated in cities and their suburban outliers, as is the bulk of the U.S. population and the number of businesses. The majority of small farm loans were extended to farms located in rural areas. [1]
- Overall, more than 52 percent of the number of reported small business loan originations (about 37 percent measured in dollar amount of loans) and 61 percent of the number of reported small farm loan originations (about 68 percent measured in dollar amount of loans) were extended to firms with revenues of $1 million or less.[1]

CRA ratings show that the vast majority of banks meet or exceed requirements for community reinvestment.

- Regulators rate the great majority of depository institutions as having either “Outstanding” or “Satisfactory” CRA performance.
- Among the 751 institutions reporting for 2015, 629 institutions reported community development lending activity.[1]

CRA and Community Development Lending

(continued)

- As in previous years, in 2015, lenders with assets that met or exceeded the mandatory reporting threshold ($1.221 billion in 2015) extended the vast majority of reported community development loans.[1]
- Overall, lenders reported over $87 billion in community development loans in 2015, a 16 percent increase over 2014 and continuing a steady rate of growth since 2011.[1]

Background:

Passed in 1977, the CRA directs banks to help meet the needs of low- and moderate-income neighborhoods consistent with safe and sound banking practices. Federal regulatory agencies are responsible for assessing every bank's performance in meeting the needs of its community. The act carries no civil or criminal penalties, but banks that don't live up to CRA standards risk being denied applications for federal charters, mergers, acquisitions, etc.

Sources:

[1]*Findings from Analysis of Nationwide Summary Statistics for 2014 Community Reinvestment Act Data Fact Sheet,* FFIEC (Aug. 2015). Retrieved from: https://www.ffiec.gov/hmcrpr/cra_fs15.htm