

Community Reinvestment Act

U.S. Impact Investing Alliance | April 2020

Background

The Community Reinvestment Act (CRA) was signed into law in 1977 in an effort to reverse the longstanding practices of redlining and underinvestment in low-income communities, particularly for communities of color. Under the CRA, banks are evaluated on how well they meet the credit needs of their communities. Federal regulators – the Federal Deposit Insurance Corporation (FDIC), the Federal Reserve and the Office of the Comptroller of the Currency (OCC) – then refer to an institution’s CRA score when determining their eligibility for actions such as mergers, acquisitions and branch openings.

Importance to Impact Investing Field

Since its passage, the CRA has served as the cornerstone of the broader community development finance ecosystem, having given rise to an industry of Community Development Finance Institutions (CDFIs), for example, which banks can finance to receive CRA credit. Impact investors – those who pursue measurable social, economic or environmental outcomes in addition to financial return – often invest alongside CRA-motivated institutions. Impact investors are able to play an important role in the economic development and revitalization of communities due to the stability of the CRA market.

Ongoing Threats to the CRA

Proposed Changes to the Regulatory Framework

The CRA has not been updated since 1995, and many recognize the need for modernization given significant changes to the banking industry in the years since. But a 2019 proposal from the OCC and FDIC would overhaul the CRA’s regulatory framework in a way that many stakeholders deem harmful for low-income and underserved communities. The proposed changes would result in reduced levels of lending and investments in low-income communities, as well as less accountability to communities overall, effectively gutting the CRA of its core purpose. Specifically, the proposal would:

- Allow banks to ignore close to half of their CRA assessment areas in favor of investments in wealthier communities;
- Encourage banks to pursue a smaller number of very large deals to the detriment of smaller community-led projects, which can often be the most impactful;
- Discourage banks from investing alongside New Markets Tax Credit (NMTC) or Low-Income Housing Tax Credit (LIHTC) developers at a time when access to small business finance and affordable housing are critically important; and
- Create inconsistencies and inefficiencies, as banks and community organizations would need to understand multiple regulatory frameworks, given that the Federal Reserve does not support this proposal.

COVID-19 Pandemic

The comment period for the OCC-FDIC rulemaking is currently set to close on April 8. Given the level of uncertainty we are facing amid the global COVID-19 pandemic, the U.S. Impact Investing Alliance has called on regulators to extend the comment period until after the crisis has subsided. The health, safety and economic resiliency of American communities should be our chief priority, meaning any major changes to the regulatory framework should be forestalled in favor of stability. This is especially relevant for the CRA, given that low-income communities will be disproportionately affected by the crisis.

Recommendations for Modernization

To be clear, critical gaps certainly exist in our efforts to expand economic opportunity. So-called “banking deserts” – areas in which there are little to no financial services available to residents – continue to proliferate among rural, low-income, tribal or otherwise underserved communities. And according to the National Low Income Housing Coalition, the United States is up against a shortage of over 7 million affordable rental housing units. The CRA is a major leverage point to bridge these gaps and must be reinforced, not stripped down. We urge regulators to consider the following:

- **CRA reform should amplify community voice:** Any changes to CRA should take care to strengthen a bank’s accountability to community needs and economic development priorities. Moreover, regulators should honor the origins of the CRA and update its framework in a manner that explicitly addresses racial equity in terms of community access to financial services.
- **CRA reform should incentivize aligned impact investments:** The CRA has been an essential catalyst for activity in policies like the NMTC, LIHTC, and most recently, Opportunity Zones. CRA-motivated banks are some of the largest investors in these tax credits, lending stability to the market for other private investors. Modernization would miss the mark if it failed to ensure greater clarity and alignment between all investors in low- and moderate-income communities.

The CRA has not been updated since 1995, and there is a great deal of change to account for in the past 25 years. Even in the last 10 years, we have watched communities devastated by the Great Recession further stymied by an uneven recovery, unfairly rendering the American dream unattainable for the millions impacted. If CRA modernization only occurs once in a generation, **regulators must seize this opportunity to strengthen one of our most important tools for community revitalization.**

U.S. Impact Investing Alliance

The U.S. Impact Investing Alliance is a field building organization committed to catalyzing the growth of impact investing in the United States. Members of our boards and councils include individual and institutional investors collectively owning hundreds of billions of dollars of invested assets, in addition to asset and fund managers collectively managing trillions of dollars in assets. We define impact investing broadly to include those investments that create measurable and positive social, economic or environmental impacts. This definition includes all asset classes globally, and impact investors seek a wide range of return expectations. The Alliance convenes the Presidents’ Council on Impact Investing, a group of the heads of 19 major U.S. foundations with a shared commitment to impact investing and over \$80 billion in combined assets.