The response by financial institutions to the CRA generally has been favorable. An overwhelming number of institutions have become much more actively involved in meeting with community groups, as well as with other agents of their community. In response to the CRA protests, a pattern has emerged in which financial institutions are agreeing to undertake adjustments in their CRA performance. As previously seen, these adjustments, mostly in the form of commitments, demonstrate a willingness to work with the agencies and community residents to implement the act. A number of institutions have voluntarily entered into agreements with community organizations. Other responses by institutions are also beginning to emerge. Some financial institutions have begun to assume a new posture in relation to credit in central-city neighborhoods by undertaking projects or programs in which financial risks can be shared. Such coordination of resources has permitted institutions to undertake investments that formerly were considered to be less viable. An example of such efforts can be seen in Springfield, Massachusetts, where 11 local commercial and savings banks and two insurance companies recently re-channeled their existing efforts to revitalize the downtown Springfield area. The institutions formed a consortium and established three loan pools: a $16-million mortgage pool to finance downtown development projects ineligible for conventional financing; a $10-million pool for the acquisition and rehabilitation of a department store; and an $8-million pool to attract high-technology businesses into the downtown area. These loan pools have proven to be a catalyst in attracting a new flow of private investment into downtown Springfield.¹

Has CRA Been Effective?
The CRA encourages financial institutions to help meet the credit needs of their communities, including those of low-to-moderate income neighborhoods. Whether accomplishment of this objective merely requires more effective identification of community credit needs, or whether it will necessitate more systematic efforts, has yet to be determined. However, the act is evolving to ascertain the proper role of financial institutions in serving the credit needs of their entire community. In particular, institutions have demonstrated a willingness to increase efforts to ascertain community credit needs, as well as to make the evaluation of the availability of credit resources. These measures appear to be prerequisites to serving community credit needs and, in the future, may affect a financial institution's lending or other CRA-related activities. Some concern has been raised that the enforcement of the CRA, and other consumer banking regulations as well, may in fact be counterproductive and further reduce the availability of credit for low-income neighborhoods. In a recent study prepared for the FHBB, Gutentag and Wachter found that the regulations may help shift housing-related credit in the desired direction, but only in the short run.² Enforcement of the regulations will exacerbate the problem of urban blight because the higher costs of the regulations eventually will reduce the supply of housing-related credit. Less credit will be available, and it will be more expensive, which may disproportionally affect precisely those individuals the regulations were intended to benefit.

Conclusion
Overall, the response that has emerged to the CRA has been encouraging. A pattern of compromise between financial institutions and community groups has begun to emerge. With the encouragement of the regulatory agencies, there appears to be an increased recognition that the CRA represents an opportunity to re-examine the degree to which financial institutions can prudently help serve community credit needs.

Many of the initial implementation problems have been corrected. The regulatory agencies have become more skilled and knowledgeable in addressing CRA issues, permitting CRA-related problems to be handled more efficiently.

A number of issues obviously remain to be resolved. One area of major concern is the interpretation of the various components of a CRA assessment. For example, should an institution's CRA performance be compared with the experiences of other institutions, or should some minimum standards be used to evaluate the institution's performance? Another area of key concern is the protest process. Although much has been accomplished to expedite the handling of CRA protests, a significant amount of time and resources is still required to process some protests. The agencies will have to continue to monitor and develop additional analysis of CRA protest issues against the benefits resulting from having more extensive information. It will be the task of the regulators to examine these and other issues, balancing the objectives of solvency and profitability with that of responsibility toward the community.

Federal Reserve Bank of Cleveland Research Department P.O. Box 6387 Cleveland, OH 44101

Address correction requested
Correct as shown
Remove from mailing list

Please send mailing label to the Research Department, Federal Reserve Bank of Cleveland, P.O. Box 6387, Cleveland, OH 44101.

5. For more detailed information regarding these efforts, as well as a survey of some other development projects, see "Investing in the Future of America's Cities: The Banker's Role," Six Case Studies, prepared by the National Council on Urban Economic Development for the Office of the Comptroller of the Currency, Community Development Division.


This Economic Commentary examines the experience and responses of the individual institutions, and agencies that have worked with the CRA during the past 70 months. These include the community groups that have filed CRA protests challenging the expansion plans of financial institutions; the regulatory agencies that have issued various guidelines and policy statements to implement the act; and the financial institutions that have responded to the CRA by expanding their activities relating to community interaction and development.

This Economic Commentary also questions whether the act has been effective and details the issues and factors that may influence the role of financial institutions in community reinvestment.

Protests Lodged
The CRA offers the public an opportu-

nity to comment on the actions of financial institutions that are considered to be inconsistent with the CRA. The views stated herein are those of the author and do not necessarily those of the Federal Reserve Bank of Cleveland or of the Board of Governors of the Federal Reserve System.


2. Thomas Buynak is an economic analyst, Federal Reserve Bank of Cleveland. The views stated herein are those of the author and do not necessarily those of the Federal Reserve Bank of Cleveland or of the Board of Governors of the Federal Reserve System.
be unresponsive to the credit needs of the community. Nationally, approximately 100 CRA protests have been filed alleging fail-
ures of financial institutions on CRA grounds; most of these have been lodged by community organizations. Although the pro-
tests have been widely publicized, few have occurred in Boston, New York City, Philadelphia, Cleveland, Toledo, Detroit, St. Louis, Chicago, and Minneapolis.

Community groups were somewhat har-
mered in their initial efforts to utilize the CRA by their unfamiliarity with the opera-
tions of regulatory and financial institutions. Following this period of uncertainty, various strategies were developed by community groups to use the act more effectively. A major outgrowth of these campaigns has been the filing of well-documented protests. Such protests have given community groups leverage in seeking CRA concessions from financial institutions.

Protesting groups seem to have little com-
plaints regarding the technical application of the act. A financial institution is required to adopt a CRA statement, maintain public CRA files, and display a CRA notice in its offices. The CRA statement provides a definition of the area that comprises the institution’s community; a list of the prin-
cipal activities of the credit that the institution has chosen to serve; and a list of any signed comments received from the public on the institution’s financial record of serving the credit needs of its community. The CRA statement also includes information on the availability of the institution’s CRA state-
ment. Some community groups have been critical of the lack of initiative taken by financial insti-
tutions to incorporate unreviewed, but sug-
gested, items into their CRA statements. In-
stitutions have been encouraged, for example, to include meeting with local community groups as one of their marketing programs on the availability of credit services.

One of the most difficult aspects of thecontri-
to the availability of credit services. These assessments are taken into con-
sideration in determining the adequacy of the agency’s overall assessment and in its in-
stitution’s application for a charter, branch, office relocation, deposit insurance, merger, or acquisition. The agencies in fact may deny an institution’s application if it is judged not to comply with the substantive provisions of the CRA. Furthermore, since the CRA ex-
tends to virtually every operation of an insti-
tution, an institution may be forced to ame-
2. The discrimination between commitments and condi-
tions hinges primarily on the fact that without a commit-
tment, an application on otherwise would be denied. nage a financial institution’s application, the agencies must evaluate the merits of CRA objections and take those found to be meritorious into account when consid-
ering an institution’s application.

The CRA assessment or examination con-
prises eight key considerations: The assess-
ment of the institution’s performance in serving the credit needs of the community; the pre-screening and pre-approval of loan applications; an institution’s CRA performance focuses on several factors enumerated in the regu-
lations; these items have been incorporated into uniform examination procedures that were issued shortly after the CRA was im-
plemented. An institution’s CRA record system also has been issued for consistent interpretation of ratings assigned to various performance levels. Although this uniform interpretation system has been viewed as important from the perspective of the other parts of the consumer examination.

Since an institution is assessed in the same way in many other complaints. These include a failure of in-
stitutions to advertise the availability of housing-related credit in low-to-mod-
erate-income neighborhoods; a low level of in-
volvement in the Small Business Association (SBA) loan program; excessive restrictive mortgage underwriting policies; high credit payment requirements; and insufficient CRA training for loan officers.

Regulatory Response

Implementing the CRA has been more difficult for regulatory and financial institu-
tions than for the CRA authorizing agencies. Although the agencies have issued numerous guidelines and regulations, setting explicit weights to, nor design an explicit regulatory framework that would limit an institution’s responses to local credit needs. A significant aspect of the CRA is the requirement that the agencies consider each institution’s CRA performance focuses on several factors enumerated in the regulations; these items have been incorporated into uniform examination procedures that were issued shortly after the CRA was im-
plemented. An institution’s CRA record system also has been issued for consistent interpretation of ratings assigned to various performance levels. Although this uniform interpretation system has been viewed as important from the perspective of the other parts of the consumer examination.

Since an institution is assessed in the same way in many other complaints. These include a failure of in-
stitutions to advertise the availability of housing-related credit in low-to-mod-
erate-income neighborhoods; a low level of in-
volvement in the Small Business Association (SBA) loan program; excessive restrictive mortgage underwriting policies; high credit payment requirements; and insufficient CRA training for loan officers.

CRA Assessment Factors

The following list comprises a few of the factors that regulators consider in a CRA assessment:

- Activities undertaken by an insti-
tution to ascertain community credit needs, including the extent of the institution’s awareness of available credit services;
- An institution’s origination or pur-
chase of loans for the purpose of con-
mortgages, housing rehabilitation, home improvements, and small farms within its community;
- An institution’s geographic distribution of its institution’s community credit needs;
- A community groups' evaluation of the institution’s community credit needs;
- A community groups' evaluation of the institution’s community credit needs;
- A community groups' evaluation of the institution’s community credit needs;
- A community groups' evaluation of the institution’s community credit needs;