

Re-investing in Community Reinvestment: An Analysis of the Community Reinvestment Act and Proposals for Reform

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Abstract

The CRA requires that financial institutions serve the communities from which they draw deposits. This article reviews the background of the legislation, and makes two main recommendations: (1) expanding the eligibility requirements so that a portion of the regulations cover nontraditional financial institutions such as mutual funds and insurance companies, as well as wholesale and limited purpose banks; and (2) including positive incentives (such as relaxed regulatory restrictions, tax reductions, or direct payments) to achieve compliance or improvements in CRA ratings.

Introduction

Enacted in 1977, the Community Reinvestment Act (CRA) was designed to combat geographical discrimination by those financial institutions that systematically denied credit and other financial services to residents living in low-income and minority neighborhoods in the surrounding community. The CRA requires most financial institutions to ‘serve all areas from which they draw deposits’ (Schwartz 1998, 270). The legislation directs Federal banking regulators to consider a financial institution’s record of meeting the credit needs of the *entire* community in which the institution is chartered, before approving the bank’s applications for a bank or thrift charter, a new branch, or permission to merge, consolidate or purchase assets (Hagg, 2000). The potential delay or rejection of the bank’s application serves as the CRA’s principal enforcement mechanism. Over the years, the Community Reinvestment Act has been credited with establishing community development priorities and infrastructure within the banking industry as well as fostering relationships between bankers, local and state governments, and community-based organizations (Hagg 2000, 2).

This piece will start with a discussion of the rationale behind the Community Reinvestment Act, including an analysis of discriminatory lending and wealth inequality in the U.S. Then the second section will summarize the history of the legislation, its enforcement, and recent reforms. The third section will analyze the current debate over the Act’s efficacy as well as present and future challenges to the CRA posed by changes in the financial services industry and shifts in the political climate. The piece will conclude with policy recommendations for reforming and expanding the CRA so that it can address the challenges outlined.

Presently, the CRA is up for review in a particularly hostile political environment. In November of 1999, Congress passed the Gramm-Leach-Bliley Act, also known as the Financial Services Modernization Act, which exempts those financial institutions that have received three consecutive years of satisfactory CRA ratings from the annual review. It seems certain that the Bush Administration will be much less supportive of the enforcement and expansion of the Act than its predecessors and we may see a substantial contraction of the law's regulatory reach in the near future. In order to protect one of the only pieces of legislation that prioritizes financial access for low-income and minority communities, CRA advocates will have to be especially vigilant in their efforts to expand the Act's influence over the next couple of years.

The 1960s and 1970s: The Birth of Fair Lending Laws and the Community Reinvestment Act

'We live in an age that is redefining – and quite properly so – the role of government in the lives of our people. CRA – a law that calls for no public expenditures, little bureaucratic intervention, and local control – has become a model for this new relationship.'

(Eugene Ludwig, Former Comptroller of the Currency)

In the 1960s and 1970s, fair lending laws were introduced to combat lending discrimination based on the individual characteristics of the borrower. The 1968 Fair Housing Act (FHA) prohibits discrimination in residential real estate transactions based on race, religion, national origin, gender, handicap, or family status. The 1974 Equal Credit Opportunity Act (ECOA) prohibits discrimination in an aspect of a credit transaction (consumer, commercial, or real estate loan) based on race, religion, ethnic origin, gender, marital status, age, and receipt of public assistance.

Community reinvestment legislation was the result of community organizing in Chicago in the 1960s and 1970s against 'block-busting' and other forms of 'disinvestment' affecting many urban neighborhoods. In the minds of legendary community organizers such as Saul Alinsky, the lack of access to mortgage credit, as well as the failure of public authorities to enforce the civil rights statutes and fair lending laws mentioned above, were the principal causes of the deterioration of urban communities (Schwartz 1998, 271). Inspired by implementation of a variety of fair housing initiatives in Illinois, national organizers lobbied for regulations that would enforce federal disclosure of mortgage lending data by race and income level. Under the sponsorship of Wisconsin Senator William Proxmire, Congress passed the Home Mortgage Disclosure Act (HMDA) in 1975 requiring all federally regulated financial institutions with assets larger than \$10 million to report mortgage-lending data by census tract for all metropolitan areas. HMDA was extended indefinitely in 1987 and requires financial institutions to release information about the income and race of each mortgage applicant, the census tract of the property to

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be mortgaged, and the outcome of the mortgage application. It also requires that such lending data 'be provided to the public at a reasonable cost'(Schwartz 1998, 271-272).

After the HMDA was passed, community reinvestment advocates quickly realized that mandated disclosure of lending data would not be sufficient to stop disinvestment without a mechanism through which they could exert direct pressure on financial institutions. Based on the premise that such regulated institutions have a 'continuing and affirmative obligation' to meet local credit needs, they lobbied for a community reinvestment law that would hold each institution accountable for their lending performance and investment in local communities (Schwartz 1998, 272).

The resulting legislation required each depository institution to go through a periodic evaluation by Federal banking regulators that assessed 'the institution's record of meeting the credit needs of its entire community, including low and moderate-income neighborhoods, consistent with the safe and sound operation'(Pub.L.No.95-128) of the institution.¹ The law further directs banking regulators to take the results of the CRA assessment into account when evaluating a given institution's applications for the following purposes:

- a Federal bank or thrift charter
- FDIC deposit insurance for a state bank or thrift
- permission to establish a branch
- permission to relocate a home office or branch
- permission to merge, consolidate, or purchase assets or assume liabilities of another regulated financial institution. (Pub.L.No.25-128)

If the institution's most recent CRA assessment points to problems in their CRA record, the regulators are empowered, but not required, to delay or reject the application.

The CRA also endows community organizations with the legal ability to publicly challenge any of the above transactions as well as negotiate agreements with the given institution, thereby including an element of 'regulation from below' (Schwartz 1998, 270). The CRA and the HMDA have become crucial instruments of local, regional, and national movements to expand access to credit and financial services. However, there is much debate surrounding whether or not the legislation utilizes the most effective mechanism for promoting investment in community development among commercial institutions. Some question whether positive incentives for investment would not be more effective while others criticize the law as too vague and difficult to enforce. These critiques will be analyzed in a later section on the 1995 reforms to the law.

The Rationale for the CRA

Unlike the other fair lending laws, the 1977 Community Reinvestment Act (CRA) was designed to address geographical discrimination on the part of financial institutions that were failing to meet the credit needs of the communities in which they had been chartered (Evanoff and Segal 1996, 20). Specifically, CRA advocates hoped that the Act would combat a practice commonly known as ‘redlining,’ in which the decision whether or not to approve a loan application is based on, or significantly influenced by, the location of the property without appropriate consideration for the qualifications of the applicant or the value of the property (Evanoff and Segal 1996, 24-25). Although there seems to be little evidence that redlining fully explains lending patterns in low-income neighborhoods, a series of studies of mortgage application denial rates across low-income and minority areas suggest that minority neighborhoods do suffer from disproportionately higher rates of application rejection. Specifically, Canner and Smith (1991) found that neighborhoods with less than 10 percent minority rates had a denial rate of approximately 12 percent in 1990 while areas with 80 percent or more minority residents experienced a denial rate of approximately 24 percent (Canner and Smith 1991, 872-873). In addition, data from the 1993 National Survey of Small Business Finances (NSSBF) demonstrate that black-owned small businesses are up to two-and-a-half times as likely to be denied for loans as white-owned firms (Blanton, Williams and Rhine 1999, 8-9). Large disparities appear to persist even after controlling for differences in credit records as well as various firm and owner characteristics (Blanchflower, Levine and Zimmerman 1998, 12-13).

In addition, by expanding access to financial services that enable low-income clients to accumulate assets, the CRA plays an important role in closing the widening wealth gap in the U.S. In 1995, the top 5 percent of the income scale held 60 percent of net worth² in the country and while the bottom 60 percent of households held less than 5 percent of total net worth (Carney and Gale 1998, 2). According to Carnie and Gale (1998), 45 percent of black families and 49 percent of those on public assistance do not have basic transaction accounts. When controlling for other factors, not having a transactions account is correlated with substantial reductions in the probability of owning a home, owning a vehicle, and of having positive net financial assets (Carnie and Gale 1998, 13).³ By ‘banking’ the many unbanked residents in lower-income communities, the CRA helps to redress asset inequality in the U.S.

1980s: Weak Enforcement of the CRA

Many people believe that prior to the 1990s, the enforcement of fair lending laws such as the CRA was ‘generally unaggressive’ (Evanoff and Segal 1996, 20). The original legislation set out 13 criteria for bank regulators to use in annual evaluations. These criteria were process-based in that they focused on bank efforts to

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attract lower-income customers rather than actual institutional results in fair lending. CRA regulators could not hold institutions accountable for the performance of their community programs but merely rewarded banks for putting them in place. Weak evaluation and implementation criteria prevented the legislation from achieving its stated purpose. In addition, during the 1980s, the Reagan Administration did little to improve the Act and, if anything, restricted its reach through neglect.

1990s: Strengthening the CRA through Regulatory Reform and Political Will

During the 1990s, several regulatory reforms strengthened mechanisms of CRA enforcement. In 1991, the Equal Credit Opportunity Act (ECOA) was amended to require bank evaluators to refer discrimination cases to the Department of Justice instead of handling them independently, signaling that the government intended to prosecute these cases more aggressively in the future. In addition, the Home Mortgage Disclosure Act (HMDA) was amended in 1988, 1989, and 1991 to provide Federal banking regulators and the general public with lending data on a regular basis. Also in 1991, the Federal Housing Enterprises Financial Safety and Soundness Act placed the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation under an affirmative obligation 'to facilitate financing of low and moderate-income housing' (Evanoff and Segal 1996, 23). All of these various amendments of the fair lending laws set the stage for a long-awaited reform of the CRA's assessment and compliance guidelines.

In 1994, an interagency task force set out to clarify guidelines for compliance with the CRA, which both financial institutions and community advocates had always criticized as too vague. The task force specified the following 3 forms of illegal discrimination in lending:

- overt discrimination
- disparate treatment, such that the lender treats applicants differently based on inherent attributes such as race, gender, or national origin; and
- disparate impact, such that the lender applies a certain practice uniformly to all loan applicants, which has a discriminatory effect and 'cannot be justified by business necessity.' (Evanoff and Segal 1996, 21)

In 1995, the federal government issued new regulations for enforcing the CRA. These regulations replaced the original 13 criteria that focused on documentation of bank procedure to recruit lower-income clients. The new regulations required that bank evaluators assess institutions based on their actual service delivery and lending performance (Schwartz 1998, 272). The revised regulations dictated separate compliance examination tests for three types of financial institutions: large retail, small retail, and wholesale or limited purpose institutions. A single institution could have one geographical assessment area or many, depending on the reach

of its services. With the recent removal of restrictions on interstate banking, one bank could have various CRA assessment areas across the country (Haag 2000, 28). These new guidelines went into effect in July of 1997 for smaller institutions with less than \$250 million in assets and in July of 1998 for larger institutions (Dahl, Evanoff and Spivey 2000, 7).

The new CRA regulations included compliance tests in three areas: lending, investment, and service. After the assessment, bank regulators were directed to assign institutions one of five grades, ranging from outstanding to substantial noncompliance, in each compliance area. The lending test is disproportionately weighted in determining the institution's overall compliance rating. The focus of each of the compliance tests is on institutional performance and results in each of the areas. These tests evaluate such data as the number and total amount of loans in the institution's assessment area(s), the dollar amount of investments in community development ventures, and the distribution of bank branches across low-income areas. Preliminary research suggests that the 1995 reform has been relatively successful in shifting the emphasis of CRA examinations to performance, rather than documentation of existing programs (Immergluck 1998, 23). Whether or not this shift will actually translate to an expansion of credit and services in low-income and minority communities remains to be seen.

Current Debate over the Efficacy of the CRA

Fair lending laws such as the CRA have received criticism from both the financial services sector and community advocates since their inception. Community advocates argue that the CRA legislation is inadequate or inadequately enforced and that financial institutions continue to divert capital from deposits away from low-income communities, resulting in a lack of access to financial services for those most in need. Representatives from the banking industry argue that loan applicants receive fair treatment and that legislation such as the CRA enforces 'credit allocation that could adversely affect bank safety and soundness' (Evanoff and Segal 1996, 19). They assert that the CRA is basically a tax and credit redistribution scheme that shifts bank capital to lower-income markets that are less profitable. However, other representatives from the private sector claim that the CRA has uncovered new profitable lending opportunities at opportune times when demand in traditional lending markets has stagnated. Evidence on the profitability of CRA ventures has been mixed. Canner and Passmore (1996) found no evidence of lower levels of profitability at financial institutions specializing in lower-income markets once start-up costs had been incurred. In contrast, Esty (1995) evaluated the performance of Chicago's South Shore Bank, which has been portrayed as the model community development bank that adheres to both financial and social objectives, and found the bank's financial performance to be below industry standard (Evanoff and Segal 1996, 27-28). Harrison (1999) also demonstrates that CRA lending can lead to a decrease in institutional profitability (Dahl, Evanoff and Spivey 2000, 4).

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CRA advocates claim that private market failure causes disinvestment in lower-income areas. One can imagine that providing credit to lower-income neighborhoods would produce positive externalities, which, ‘... from a societal perspective, generate a total return greater than that received by the providers of the credit’ (Evanoff and Segal 1996, 19). While this fact may provide an economic rationale for providing credit to lower-income markets, it does not necessarily justify providing this credit through the banking system. When analyzing the effectiveness of the CRA, it becomes important to question whether the banking industry is the best mechanism for the implementation of community reinvestment.

Evidence of CRA Impact

There are a variety of studies that analyze mortgage-lending data from the Home Mortgage Disclosure Act (HMDA) in order to determine whether or not the CRA is associated with increased lending to minority and low-income households. The use of mortgage application denial rates as an indicator of good performance under the CRA is controversial. Commercial banks reject the idea that the fact that denial rates for minority applicants are much higher than for their white counterparts is at all indicative of discrimination. Their representatives claim that any difference in the two rates is due to an objective evaluation of creditworthiness, income, assets, employment history, debt burden, and loan to value ratio. Schwartz (1998) demonstrates that, once he removes those institutions, such as mortgage banks, that are not subject to CRA assessment from a 1994 HMDA data set, those ‘banks with [CRA] agreements post a significantly lower denial rate index than banks without agreements for black mortgage applicants (2.5 vs. 3.13, significant at the .05 confidence level)’ (Schwartz 1998, 283). In addition, those institutions with CRA agreements have significantly larger market shares of mortgage approvals for disadvantaged households and neighborhoods.

Another approach is to look at those financial institutions that recently experienced consolidation or some kind of merger to see if, as a result, their portfolios have larger shares of low-income residential loans. Given that the principal point of intervention by CRA regulation is during the consolidation process, comparing those institutions that are consolidating to those that are not may reveal some information about the impact of the CRA regulations on institutions’ lending portfolios. Although bank consolidation appears to be consistently associated with decreased residential lending in general, national aggregate data indicate that the portfolio share of consolidating institutions dedicated to low-income lending increased, indicating a possible positive impact of CRA requirements on these institutions (Avery et al 1999, 82).

There is much less information available on the effects of CRA regulation on the availability of banking services, such as saving and investment accounts, in low-income and minority areas. The Community Reinvestment Act (CRA) was born

out of a community movement for increased access to mortgage credit. This movement helped to create a public database of mortgage lending data through the Home Mortgage Disclosure Act (HMDA). As a result, many of the evaluations of the CRA measure the impact of the legislation on mortgage lending and neglect many of the other services that institutions may or may not be providing under the auspices of the CRA. Those studies that do evaluate the availability of other services focus on the number of banking offices open in a given low-income area. Given the increased number of services offered by ATMs and other non-branch delivery systems, the number of open offices is not likely to be a reliable indicator of available services.

More research regarding the effects of the CRA legislation itself on the distribution of branch and non-branch-based services for low-income and minority clients, is needed. As we shall discuss in a later section, savings and asset accumulation opportunities seem to be a crucial yet neglected component of banking services for the poor. By focusing somewhat exclusively on the need for credit, CRA regulators may be ignoring the role that the CRA can play in addressing the large inequalities in wealth described by Melvin and Oliver (1990).

Present and Future Challenges to Community Reinvestment

Changes in both the banking industry and financial service delivery in general may threaten the effectiveness and relevance of the Community Reinvestment Act (CRA). The consolidation of the banking industry and the deregulation of interstate banking and branching and other financial activities challenge the 'local nexus' of CRA enforcement and reduce the fraction of financial institutions that are accountable to the law's requirements.

In addition, the following two trends in the financial marketplace currently restrict 'the reach and effectiveness of the CRA regime:' (1) The proliferation of non-branch delivery systems for banking products and services, including internet banks, electronic commerce, mail, and telephone, has meant that decreasing numbers of people obtain financial services from providers that are subject to CRA requirements. (2) The deregulation of interest rates and other banking services, increased competition in the financial services industry, and technological innovation has resulted in a transfer of financial assets out of those depository institutions covered by the CRA to insurance providers, mutual funds, pension funds, and finance companies (Haag 2000, 55).

As a result, one of the principal challenges to effective enforcement of the CRA is how to define the geographical assessment area of those institutions that deliver financial services through these non-branch systems. Regulated financial institutions are directed to define their assessment areas to correspond to metropolitan statistical areas (MSAs) or contiguous counties, cities, or towns and to include

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complete ‘geographies in which the bank has its main office, its branches, and its deposit-taking ATMs, as well as the surrounding geographies in which the bank has originated or purchased a substantial portion of its loans’ (12 C.F.R. 25.41). CRA advocates claim that this statutory language includes areas where institutions dispatch agents or conduct business through electronic means. However, thus far, most Federal banking regulators have not made use of such a broad interpretation in their assessments. The other crucial challenge is the issue of expanding the definition of institutions covered by the CRA to include those non-depository organizations that are beginning to dominate the market.

Political Threats to the CRA

With the recent change of Administration, congressional forces that have opposed the Community Reinvestment Act for some time may gain a louder voice. The departure of President Clinton signals the loss of one of the Act’s most influential advocates. In particular, Senator Philip Gramm, Chair of the Banking Committee, may capitalize on Clinton’s exit by proposing various legislative amendments to dismantle some of the more powerful aspects of the law.

In November of 1999, the U.S. Congress passed the Gramm-Leach-Bliley Act, which permitted affiliations between depository institutions, securities firms, and insurance companies (Haag 2000, 2). Given that securities firms and insurance companies are not covered by the CRA, this legislation may have important implications for financial services in low-income and minority communities. In addition, the law dictated that small banks and savings and loan associations that had received an outstanding rating at their most recent CRA assessment would not receive an assessment more often than once every five years.⁴ This stipulation may jeopardize consistent community investment on the part of smaller financial institutions.

It is clear that community reinvestment advocates will have to gear up their efforts to promote and expand the reach of the CRA if they expect the legislation to survive the near future in its present form. The next section proposes various strategies for strengthening the Community Reinvestment Act. Although the present political climate makes expansion of the Act somewhat unlikely, it is crucial that CRA supporters push such an agenda at this point in time, so that the legislation does not lose ground over the next few years.

Policy Recommendations for Further Reform of the Community Reinvestment Act (CRA)

Various policy recommendations for future CRA regulatory reform emerge from this discussion. While the 1995 reforms made progress towards a clearer definition of CRA compliance and stronger enforcement of the new regulations, recent

trends in the financial marketplace make further reform of the regulations necessary. The following is a summary of recommendations for further reform, some of which will be described in more detail below.

1. *Expand eligibility for the new compliance tests beyond wholesale and limited purpose banks to include a larger group of nontraditional financial organizations.* By expanding the CRA eligibility standards to cover institutions that capitalize rather than merely provide loans and other services, policymakers can make use of new pressure points for increased investment in community development. These non-bank institutions are becoming increasingly more important actors in all financial markets.

2. *Expand the regulatory definition of the assessment area to include communities in which an institution gathers a significant amount of its deposits or grants a significant portion of its loans.* These assessment areas should be based on communities where customers, rather than banking offices, are located (Seidman 1999).

3. *Promote the use of the strategic plan option, which gives banks more flexibility while making them more accountable to community representatives as well as regulators.* Advocates believe that if the evaluation criteria come from the institution itself, there will be more opportunity for enforcement and transparency.

4. *Expand the regulations to include positive incentives for CRA compliance.* Rewards for compliance or improvements in CRA ratings could include relaxed regulatory restrictions, tax reductions, or direct payments to incentivize banks to invest in distressed urban communities (Hylton and Rougeau 1998).

5. *Expand the service compliance test so that it gives explicit credit for institutional provision of savings and asset accumulation mechanisms for low-income clients.* More weight must be given in CRA assessments to the provision of innovative banking services. The regulations could be reformed to give the service test more weight in the calculation of the overall CRA compliance rating. Regulators should at least look very favorably upon bank participation in such low-income savings efforts as the Individual Development Accounts (IDA) program and the Electronic Transfer Accounts (ETAs) for public benefits recipients (see below).

Extending the Reach of the CRA

Extending the reach of the CRA to include non-bank institutions is particularly crucial now that mutual funds, pension funds, insurance companies, and finance companies hold more than two-thirds of Americans' long-term savings and investments as compared to less than one-third in the mid-1970s, and now serve as the primary source of credit for many American households and businesses (Pinsky and Threlfall 1996). In order to expand the CRA to cover these institutions, the regulations must include mechanisms for participation as well as requirements

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that are tailored to these kinds of organizations. New regulations could require such institutions to:

- Target a minimum portion of their total lending at affordable rates to low to moderate-income households
- Offer savings instruments such as mutual and/or pension funds that are tailored to low to moderate-income households (these instruments could be modeled after Individual Development Accounts, or IDAs, which are matched savings accounts for individuals receiving Temporary Assistance to Needy Families or the Earned Income Tax Credit)
- Participate in community development through partnerships with CDFIs and/or the sponsorship of investments, loans, lending pools, or socially responsible investment funds

Working on the Capitalization Side

Another approach would involve holding those large secondary market participants, such as Fannie Mae and Freddie Mac that capitalize loans by purchasing them in blocks, accountable to CRA requirements. One important barrier to low-income loan provision by financial institutions is the lack of funds available for capitalization due to the refusal on the part of investors to purchase such 'high-risk' liabilities. Marcus (1996) proposes requiring institutions such as Fannie Mae and Freddie Mac to purchase loans from banks in blocks that include a minimum portion of low to moderate-income loans originated within the banks' CRA assessment areas (Marcus 1996). This requirement would: (1) encourage banks to recruit enough lower-income loans to be able to sell them in the secondary market and (2) ensure that capital is available to fund such loans.

Focusing on Services

As evidenced by the domination of mortgage lending as a topic in the CRA evaluation literature, the legislation and its new performance-based enforcement, in which the lending test receives disproportionate weight, emphasizes the importance of credit provision over other banking services. However, access to savings and investment opportunities remains limited in low-income areas. Scholars such as Michael Stegman (1999), argue that the CRA must focus more on institutional provision of these services. Stegman points out that the Debt Collection Improvement Act of 1996, which requires that all periodic Federal payments other than tax refunds be made via electronic funds transfer (EFT) by January 2, 1999, provides a crucial opportunity for increasing banking services to low-income individuals. The Debt Collection Improvement Act (commonly referred to as EFT '99) requires the creation of an Electronic Transfer Account (ETA) for any public benefits recipient that does not have access to a bank account. Stegman (1999) asserts that, if combined with a financial literacy campaign and a national individual development account (IDA) savings initiative, EFT '99 could begin to help the working poor to

accumulate savings and become financially self-sufficient (Stegman 1999, 150). It is crucial that the EFT⁹⁹ is linked to the CRA such that financial institutions receive CRA credit for providing ETAs, IDAs, and other low fee/no-fee depository and payment services.

Conclusion

The Community Reinvestment Act (CRA) of 1977 was one of the first pieces of legislation to hold the banking industry responsible for serving all neighborhoods in their communities. The principal flaws in the legislation involved vague guidelines for compliance and therefore poor enforcement. Because the legislation was produced by a movement in favor of increased mortgage credit for low-income and minority communities, it also gave disproportionate weight to mortgage lending, to the exclusion of other important financial services. The reforms of 1995 helped to address some of these issues. But now the Act faces new challenges in the form of a restructuring banking industry, increased deregulation and decentralization of services, and, most importantly, political threats from the Senate and new Administration. In order to meet these challenges, policymakers and Federal banking regulators must redefine and expand the locus of CRA intervention, before the changes in the financial and political landscape undermine the Act's regulatory reach.

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Endnotes

1 Pub. L. No. 95-128, Title VIII, 91 Stat. 1147 (Oct. 12, 1977), codified at 12 U.S.C. 2901-2901 (as amended).

2 For the purposes of this study, net worth was defined as the value of all assets excluding social security and pensions, minus liabilities.

3 Melvin and Oliver (1990) define net financial assets as ‘financial assets normally available for and used as sources to command future resources’ (137-138). NFA excludes home equity, which is not considered a particularly liquid asset that can be easily cashed in in times of need.

4 Financial Services Modernization Act: Community Reinvestment Act Amendments in the Gramm-Leach Act,’ <http://www.senate.gov/~banking/conf/craamd.htm>