What is the Community Reinvestment Act and Fair Lending Policy?

Zachary Meagor

Sol Price School of Public Policy: University of Southern California

PPD 439: Housing and Community Development

Professor Jennifer Thomas

September 17, 2025

What is the Community Reinvestment Act and Fair Lending Policy?

President Carter and the Congress enacted the Community Reinvestment Act (CRA) in 1977 to encourage financial institutions to assist the credit needs of low and moderate-income (LMI) communities. The CRA aimed to combat the negative effects of redlining, the discriminatory lending practice whereby banks refuse mortgages to areas with high minority populations (Fishbein, 1993). One main intention of the CRA is to reduce discrimination in the banking system, so borrowers get treated fairly no matter their background or income level (Fed Communities, 2024). The CRA requires banks to "make credit available to LMI individuals and areas, small businesses, and small farms," (Federal Reserve Bank of Philadelphia, 2018). The Board of Governors of the Federal Reserve System (FRB), the Federal Deposit Insurance Corporation (FDIC), and the Office of the Comptroller of the Currency (OCC) enforce the CRA by examining individual banks and rating them in publicly available reports (Fed Communities, 2024).

Fair lending policies complement the CRA by making it unlawful to discriminate against protected classes in housing transactions. These originate from the Equal Credit Opportunity Act (ECOA) and the Fair Housing Act (FHA). Protected classes under fair lending policies include race, color, religion, sex, national origin, marital status, and age (Federal Reserve Bank of Philadelphia, 2018). Enforcement agencies include the Consumer Financial Protection Bureau (CFPB), the Department of Justice (DOJ), Department of Housing and Urban Development (HUD), the FDIC, the Federal Reserve, and the Federal Housing Finance Agency (FHFA). Evidence of discrimination leads to referrals of banks to the DOJ or HUD, and the bank's CRA rating may decrease. The CRA and fair lending policies both serve to prevent discrimination against historically underprivileged communities and support better access to credit in LMI areas.

Historical Context

Starting in 1935, the Home Owners' Loan Corporation collaborated with financial institutions to create maps that rated neighborhoods across the United States for mortgage lending risk. Private lenders utilized the maps to determine where to lend mortgages, leading to "neighborhood discrimination," or denial of mortgages based on the applicant's place of residence rather than their income or creditworthiness (Fishbein, 1993). In addition, white neighborhoods had property covenants which banned home ownership by racial minorities. These redlining practices segregated racial minorities and low-income residents into blighted areas of American cities (Ludwig, 2009). Although Congress explicitly banned lending discrimination in the ECOA of 1974 and the FHA of 1968, inner cities still lacked access to credit by the mid-1970s (Ludwig, 2009). Racial discrimination persisted because minority loan applicants experienced higher loan denial rates even when controlling factors such as income, overall wealth, or employment status (Ludwig, 2009). Another issue was that banks experienced information barriers due to the absence of bank branches in redlined neighborhoods. This market failure prevented banks from finding attractive opportunities for loans in these communities (Ludwig, 2009). A political rationale for passing the CRA was that banks had an obligation to improve credit access since they had access to low-cost deposit insurance from the FDIC and inexpensive credit from Federal Reserve Banks and Federal Home Loan Banks (Ludwig, 2009). The Community Reinvestment Act was passed into law as part of the Housing and Community Development Act of 1977 to direct funds into underserved areas, restrain unwarranted redlining, and overall rebuild the inner city to reverse urban blight.

Enforcement of CRA

The Federal Reserve Board, the FDIC, and the OCC oversee banks for CRA compliance, and each regulator has a CRA website listing the banks' CRA ratings and performance evaluations (Federal Reserve, 2024). These agencies consider multiple factors in rating a bank's fulfillment of community credit needs. Factors include whether the banks invest in affordable housing projects, provide credit counseling to assist LMI individuals in avoiding foreclosure, and invest in LMI areas defined as majority-minority, disaster-stricken, or otherwise underserved neighborhoods (Fed Communities, 2024). Regulatory agencies also measure each bank's lending to individual borrowers of diverse income levels and businesses of various sizes (Fed Communities, 2024).

According to an evaluation report (2009) by the former OCC comptroller Eugene Ludwig, four examination models are used depending on the business model and size of the financial institution:

> The first model is a basic assessment for small retail institutions, which measures four lending ratios. A second type of examination is applied to large retail businesses, which consists of rigorous tests to evaluate lending, investment, and service. The third model is given to wholesale or limited-purpose community institutions. Those institutions are permitted to select the criterion under which they are to be evaluated: community development (CD) lending, CD investments, and/or CD services. The fourth model is the "strategic plan" examination, available to firms of any size, where an institution determines its own lending, investment, or service performance standards. (p. 89)

Each evaluation considers the context and characteristics of the institution, such as its products, business model, competitors, and demographic features of the assessment area (Ludwig, 2009). Regulators utilize a four-level rating scale: Outstanding, Satisfactory, Needs to Improve, and Substantial Noncompliance.

A rating below Satisfactory allows regulatory agencies to levy sanctions on the financial institution. The agency may deny or delay applications for the expansion of a bank branch, a merger, or the acquisition of another bank (Federal Reserve, 2024). Corporate activities are restricted, and the bank must provide a plan to regulators detailing how they will improve their CRA compliance (Fleet, 2010). A low CRA rating also harms a bank's reputation and may deter borrowers from conducting business with the bank (Federal Reserve Bank of Philadelphia, 2018).

Enforcement of Fair Lending Policies

The regulatory agencies responsible for enforcing fair lending policies under the Equal Credit Opportunity Act and the Fair Housing Act include the CFPB, the DOJ, HUD, the FDIC, the Federal Reserve, and the FHFA. These agencies analyze and measure financial institutions' lending practices to protected classes, especially racial minorities, and areas where minorities comprise at least half of the population (Federal Reserve Bank of Philadelphia, 2018). Regulators review pricing data, denial rates, and underwriting standards. Instances of discrimination lead to referrals to the DOJ or HUD and resulting sanctions such as fines, restitution to borrowers, policy changes, or the creation of oversight agreements (Department of Justice, 2025). These may coincide with a decrease in CRA ratings because the illegal denial of credit often harms LMI areas (Federal Reserve Bank of Philadelphia, 2018). Private parties can also file lawsuits under ECOA and FHA.

Evaluation of CRA

Many studies find that the CRA has been mostly effective in supporting credit access to LMI communities and redlined areas. Lending to LMI and minority borrowers increased faster than lending to higher-income borrowers in the mid-90s (Ludwig, 2009). The Joint Center for Housing Studies at Harvard University found that “CRA lenders originated more home purchase loans to LMI communities and captured a greater proportion of the LMI loan market than they would have without the CRA,” (Ludwig, 2009). Studies show that CRA lending is profitable though less compared to standard loans (Ludwig, 2009). Regulators refute the claims that the CRA forces banks to lend high-risk loans or follow lending quotas to LMI borrowers (Federal Reserve, 2024). The law requires that CRA lending pencils, so the fact that it remains profitable demonstrates the mutual benefit of gains for the bank and credit access for underserved communities.

However, some reform is necessary to modernize CRA to fit the context of serving LMI areas in the 21st century. First, the CRA does not apply to nonbank financial institutions such as independent mortgage banks or credit unions. The latter institutions hold more financial assets than traditional banks, so a reformed CRA should apply to them to ensure widespread coverage over the financial services sector (Ludwig, 2009). Another potential reform is requiring nonbank financial institutions to support community development initiatives. They could be required to provide financial assistance for affordable housing and public facility projects or offer financial advisory and support to local community development nonprofits (Ludwig, 2009).

Conclusion

The legacy of redlining, lending discrimination, and financial exclusion reinforced urban decline and racial segregation, but both the CRA and fair lending policies have played critical roles in ameliorating these issues by expanding credit access in LMI communities. Through enforcement mechanisms such as publicly available ratings, delays or denials of bank expansion, fines, and restitutions, regulators have bolstered social responsibility in banking. Fair lending laws complement the CRA by providing additional protection against discrimination. Although the CRA has mostly proven to be effective, gaps remain due to the growing role of nonbank financial institutions that fall outside its scope. Updating the CRA to address these economic changes would strengthen its ability to combat inequality in credit access and ensure that financial institutions continue to invest in underserved communities.

References

Board of Governors of the Federal Reserve System. (2024, March 28). What is the Community Reinvestment Act (CRA)? Board of Governors of the Federal Reserve System. Retrieved from https://www.federalreserve.gov/consumerscommunities/cra_about.htm

Federal Reserve Bank of Philadelphia. (2018, Summer). Five things to know about the Community Reinvestment Act and fair lending laws [Infographic]. Federal Reserve Bank of Philadelphia. Retrieved from https://www.philadelphiafed.org/-/media/frbp/assets/community-development/articles/five-things-to-know-about-the-community-reinvestment-act-and-fair-lending-laws-infographic.pdf

Fed Communities. (2024, September 26). CRA: Building stronger communities. Fed Communities. Retrieved from https://fedcommunities.org/cra-building-stronger-communities/

Fishbein, A. J. (1993). *The Community Reinvestment Act after fifteen years: It works, but strengthened federal enforcement is needed.* Fordham Urban Law Journal, *20*(2). Retrieved from https://ir.lawnet.fordham.edu/ulj/vol20/iss2/4/

Fleet, C. S. (2010). *CRA and consumer protection issues in banking applications.* Consumer Compliance Outlook. Retrieved from https://www.consumercomplianceoutlook.org/2010/first-quarter/cra-and-consumer-protection/#:~:text=Applicants%20are%20best%20positioned%20to,efforts%20to%20achieve%20corrective%20action

Ludwig, E. A. (2009). *The Community Reinvestment Act: Past successes and future opportunities.* Federal Reserve Bank of San Francisco. Retrieved from https://www.frbsf.org/wp-content/uploads/cra_past_successes_future_opportunities1.pdf

U.S. Department of Justice, Civil Rights Division. (2025). Fair lending enforcement. U.S. Department of Justice. Retrieved from https://www.justice.gov/crt/fair-lending-enforcement