Community Reinvestment Act

A Guide to How it Can Be Used by Community Organizations

The Community Reinvestment Act (CRA) is a federal law that requires banks to "meet the credit needs" of their entire service areas including low income neighborhoods. Banks, however, must do this "within the confines of sound banking practices". CRA, in other words, does not require banks to make loans to people who have bad credit histories or who do not have enough income to pay the loan back.

Meeting the credit needs of low income neighborhoods can at times be difficult because there are, in fact, legitimate barriers to doing this. For this reason CRA encourages banks to seek new and creative solutions.

The CRA requires that a bank's upper management make meeting these obligations a high priority. Banks that fail to make sufficient effort may get in trouble with the federal regulators.

CRA can open doors that might otherwise be shut. It can help organizations working in distressed neighborhoods to obtain access to a bank's upper management for the purpose of engaging in a conversation about collaborative efforts that can help the bank better meet the credit needs of a low income community.

HOW TO USE CRA AS AN ADVOCACY TOOL

- CRA can be an effective tool to encourage a particular bank to undertake specific activities BUT only if what you are asking for will objectively (i) help that bank to better meet the credit needs of the low income neighborhoods within its service area and (ii) the activity falls within the confines of sound banking practices.
    - In other words, CRA works best in situations where there is no good objective reason for the bank not to participate (given the requirement of CRA that banks actively seek innovative ways to better meet the credit needs of low income neighborhoods).
- Before engaging in a conversation with a bank it can be helpful to learn more. Information about a bank's performance can be obtained by viewing recent "Home Mortgage Disclosure Act" (HMDA) statements. Banks are required to make these statements available to members of the public upon request.
- Prior to meeting with a bank, consider preparing materials that you can use to help communicate your ideas.
- Next, contact the bank and ask for a meeting with someone in upper management.
- If a particular bank refuses to talk to you after several reasonable attempts on your part, or, if the bank talked to you but rejected your ideas without good reason, a letter can be written to the bank's "public comment file" (required to be kept by CRA).
- A copy of that letter can be sent to the relevant federal regulatory agency (often the United States Comptroller of the Currency).
- The federal regulators will usually try to then contact both the person that wrote the letter and the bank to get more information.
- Such letters could potentially get a bank into CRA trouble. Using this tactic makes banks nervous because the regulators have the power to drop a bank's CRA rating from "satisfactory" to "needs improvement" thus making life more difficult for them. If the rating drops regulatory approval for even routine requests by a bank becomes difficult to obtain.

CONCLUSION: This, then, is how CRA can be used. There is no magic. If someone wants something from a bank they simply have to ask. If the bank ignores the request or rejects it without a good reason a statement can be submitted to the bank's "public comment file" with a copy to the relevant federal regulator. The feds will often follow-up on such comments which can put pressure on the bank in question. CRA can thus help open the bank's door.

FOR MORE INFORMATION:

- The Federal Financial Institutions Examination Council's CRA Website
- The Federal Reserve Board's CRA Website
- The Comptroller of the Currancy's CRA Website