



Effects of CRA Designations on LMI Lending

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Impact of Assessment Areas on LMI Lending

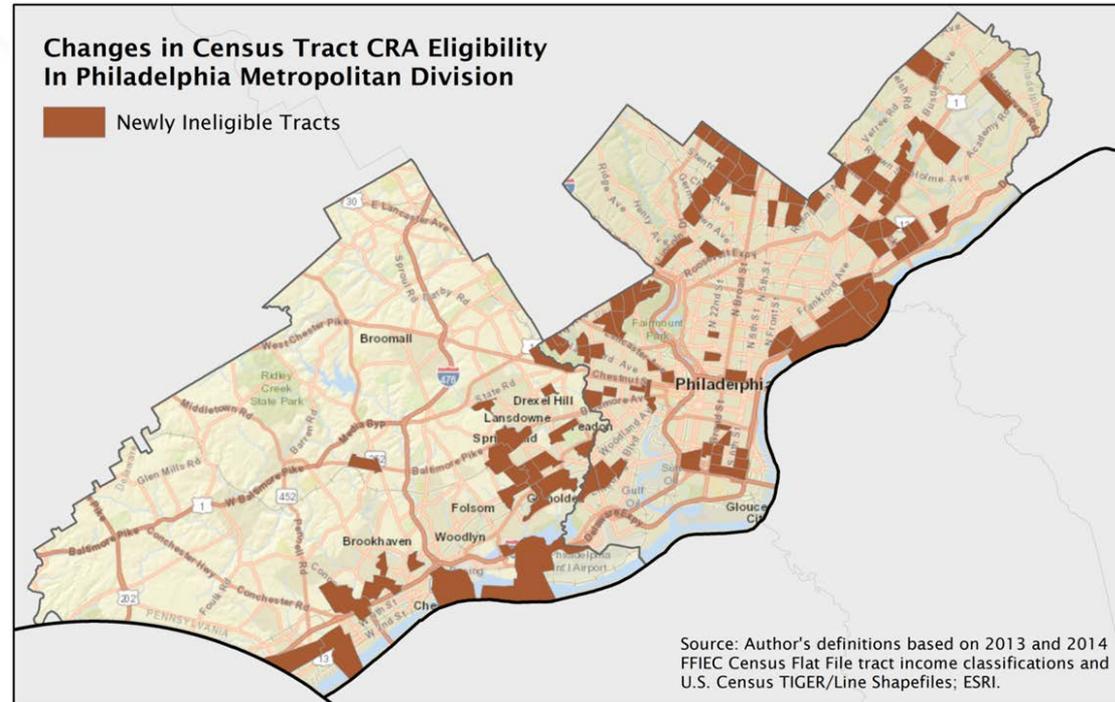


- What has been the impact of the CRA requirement for banks to make loans to LMI communities and people within their assessment areas?
- What would happen if there was no such mandate? How much would lending to LMI households and communities decline?

Background



- We examine the effects of CRA designations on LMI lending by taking advantage of the 2013 MSA/MD redefinitions.
- Exogenous policy shock allows us to isolate CRA effects:
 - 102 previously LMI tracts in Philadelphia MD became CRA ineligible
 - 549 tracts became ineligible across the nation



- ❖ Area MFI \$76,400 → \$54,200 in Philadelphia MD from 2013 to 2014, leading 102 LMI tracts to lose CRA eligibility status
- ❖ Caused by exogenous policy shock (change in area MFI), instead of changes in neighborhood conditions

Impact on CRA Designations on Mortgage Lending

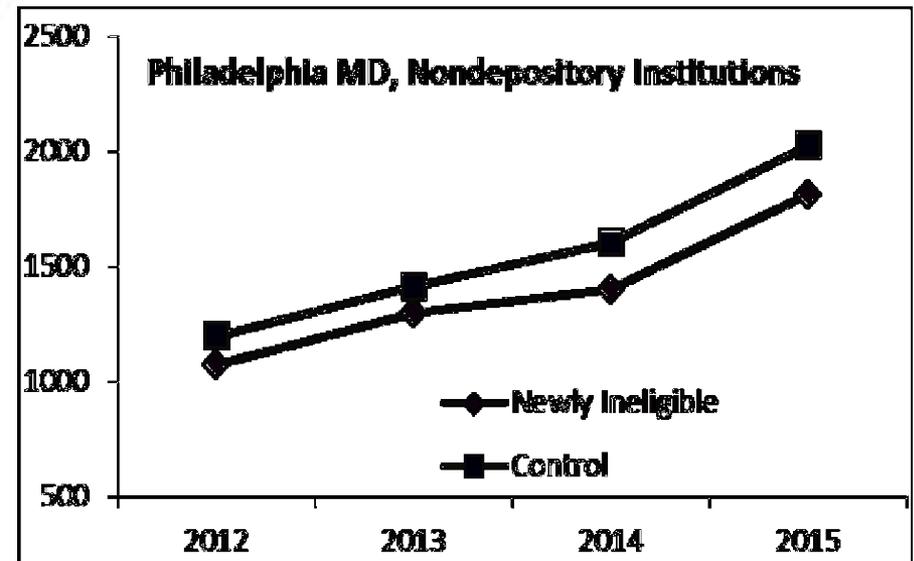
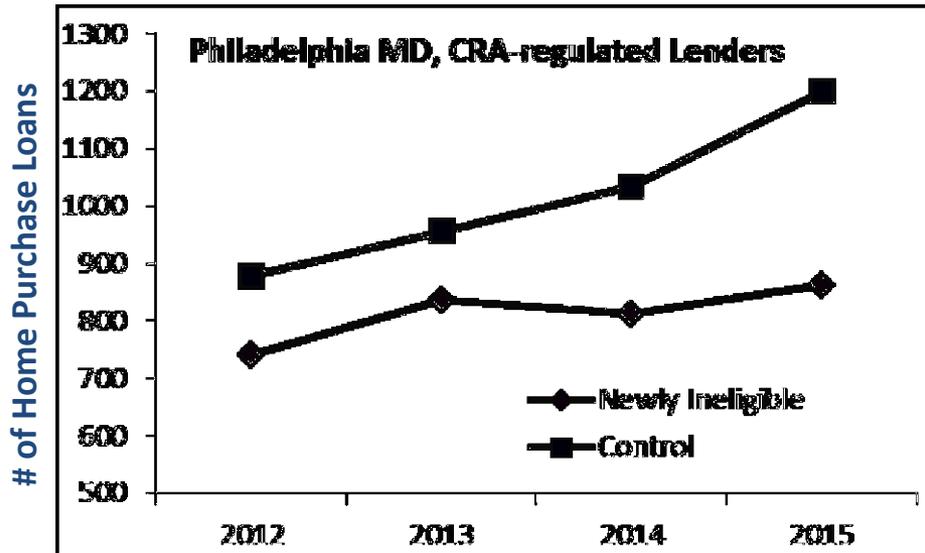
(Ding and Nakamura, 2017)



- Losing LMI status in Philadelphia MD leads to about a 10 percent or greater decrease in purchase mortgage lending by CRA-regulated lenders.
- Nonbanks help offset about half, but not all, of the decrease in purchase originations by CRA lenders.
- Losing LMI status has a larger impact among:
 - minority borrowers (minorities accounted for <50% of loans but 68% of the decline in mortgage lending)
 - borrowers no longer targeted by CRA (e.g., borrowers' income >2014 LMI threshold in newly ineligible tracts)
- Gaining LMI status has generally insignificant effects in relatively wealthier suburban neighborhoods.

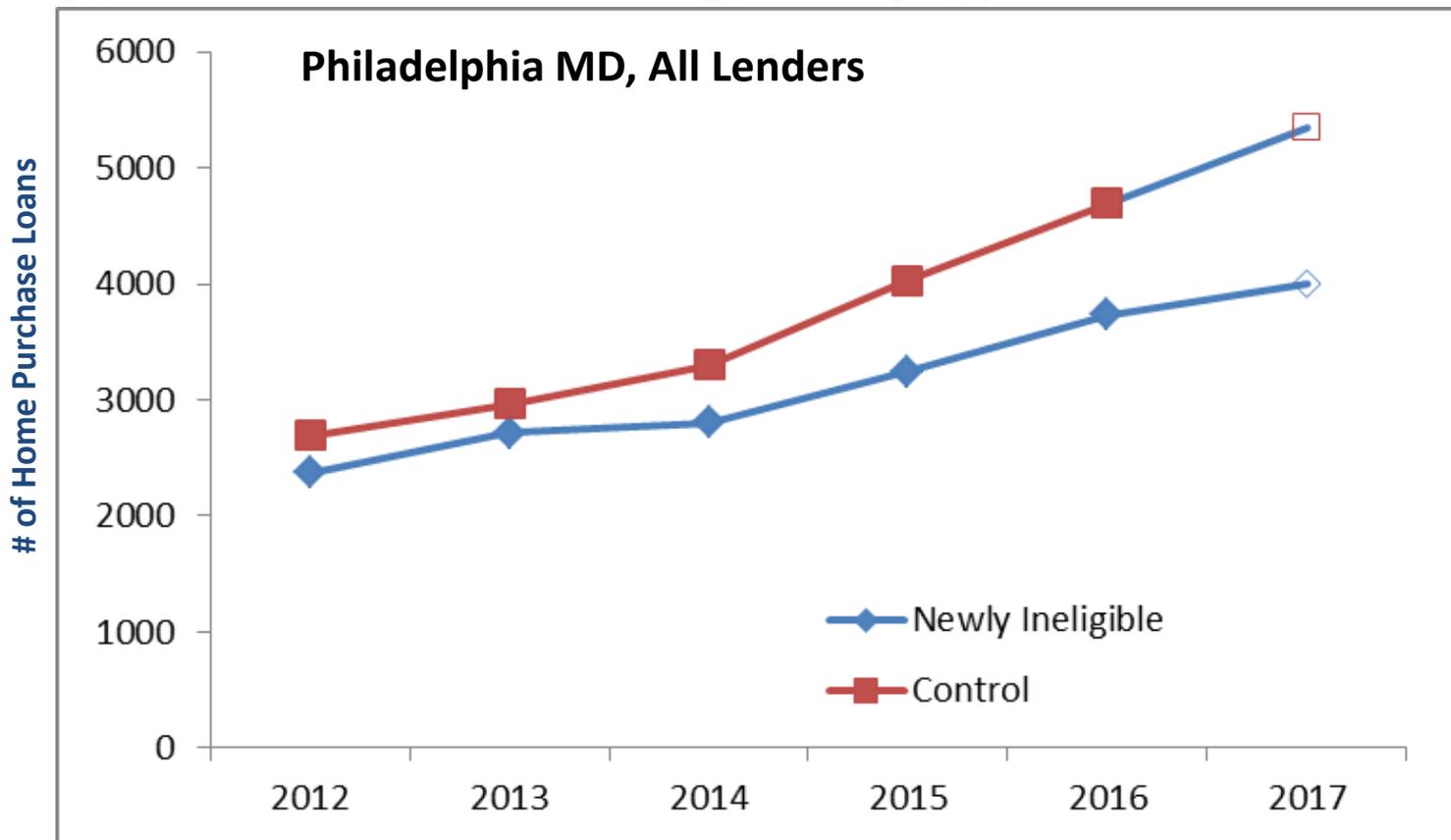
Impact on Mortgage Lending

(Ding and Nakamura, 2017)



Source: Authors' calculation based on HMDA data and FDIC SOD data

Impact on Mortgage Lending



Source: Authors' calculation based on HMDA data; LMI status changed for some tracts from 2016–2017

Impact on Small Business Lending

(Ding, Lee, and Bostic, 2018)



- Losing CRA eligibility:
 - About 3.3 fewer loans originated per tract (**5.8%** of pre-2014 mean)
 - About 2.4 fewer loans per tract (**9.3%** of pre-2014 mean) to smaller firms
 - Larger effects in inner-city (principal cities) neighborhoods
- Results are quite robust:
 - Based on a national sample, instead of Philadelphia MD only
 - Consistent when using a different study period (2003–2004)
 - Consistent when alternative control groups are used (different income ranges/buffers)

Implications for Assessment Areas



- CRA designation matters: CRA-regulated lenders were quite responsive to the CRA incentive.
 - Additional evidence: mortgage lending increased after previously nonmetro tracts were added to bank assessment areas after 2004 (Ringo, 2017)
- However, CRA covers only a fraction of the market:
 - 1993, 41% of mortgage loans covered by CRA review
 - 2006, 26% of mortgage loans covered by CRA review (Essene and Apgar, 2009)
 - 2016, ~30% of mortgages were in banks' AAs (Goodman, et al., 2018)
 - Two driving forces: increased lending by nonbanks; out of AA lending by CRA regulated lenders
- How can we define assessment areas to better achieve the CRA's goal of encouraging banks to lend, invest, and provide service to LMI neighborhoods?