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Remarks before the

National Community Reinvestment Coalition

“The Community Reinvestment Act in Perspective”

February 14, 2022

Thank you for the opportunity to be with you today.

As many of you know, reducing inequality is a top priority for me and the Office of the Comptroller of the Currency (OCC). One important step in doing so is strengthening and modernizing the regulation implementing the Community Reinvestment Act (CRA) to expand financial access and inclusion for low- and moderate-income (LMI) communities.

In the not-too-distant future, the OCC, Federal Reserve, and Federal Deposit Insurance Corporation (FDIC) will release a joint CRA Notice of Proposed Rulemaking (NPR). It will reflect the herculean efforts of staff from all three banking agencies, who have been working around the clock for months, building off each of their many years of practical experience with the CRA and thinking about how to make it better.

Before the NPR is released, though, and everyone goes into comment mode on the nitty-gritty details, I believe now is a good time to take a step back: to remind ourselves of the CRA’s roots, reflect on where we are today, and consider where we need to go.

The CRA’s History

When the CRA was enacted in 1977, it was one of a series of landmark laws in which Congress sought to reverse decades of discrimination in many areas. The CRA was designed to complement the Equal Credit Opportunity Act and the Fair Housing Act, and to help address discriminatory lending and disinvestment that all too often had left urban, often minority

communities, without fair access to credit and financial services. The CRA encouraged banks and thrifts to serve, in a manner consistent with safe and sound operations, the entire communities in markets where they were chartered to do business. Such services could not be limited to deposit-taking, as many banks at that time took deposits but did not lend or provide other banking services to those communities.

Discriminatory practices had been widespread for decades, including in government. The “redlining” maps that epitomized the era were, in fact, *created* by the federal government.¹ Red lines marked neighborhoods – typically those home to Black, Hispanic, and other minority or poorer households – deemed by federal agencies as high credit risks. For example, the Home Owners’ Loan Corporation (HOLC) was established in 1933 by the federal government to help refinance home mortgages in default. The HOLC created and used color-coded maps to gauge the relative risk of lending in some areas, and typically, delineated as “hazardous,” areas with large minority populations, poorer households, and older housing stock.² As a result, many banks did not lend in these “redlined” areas, even as they took deposits from them and invested those deposits in other communities. Potential borrowers in these neighborhoods either could not get or had to pay much more for loans for home mortgages, for repairing their homes, and for starting and operating small businesses – tools critical for accumulating generational wealth. The lack of available credit in these communities often resulted in block after blighted block of homes and businesses in need of revitalization.

The passage of the CRA in 1977 was meant to help address these injustices. In the years and decades following its adoption, the CRA had the intended effect of increasing lending in

¹ [Community Reinvestment Act of 1977 | Federal Reserve History](#).

² Richard Rothstein, *The Color of Law: The Forgotten History of How Our Government Segregated America* (New York: W.W. Norton & Company, 2017).

low- and moderate-income neighborhoods, enabling borrowers in these communities to have fair access to credit to better their lives. Despite that progress, however, over time it became clear that further improvements were needed. In December 1993 the federal banking agencies issued a proposal to improve the CRA regulation and examination process which the agencies finalized in 1995, addressing concerns that implementation of the CRA had become more procedural than substantive, while also noting successes of the CRA in expanding credit to all segments of society. As a result of those changes, CRA loan commitments increased significantly. Again, however, over time areas needing further improvement emerged and, as I will discuss next, the need for a stronger CRA has become clear. While there have been several attempts in the intervening years to address these issues, the stars did not align across the agencies, community organizations, and the banking industry until recently.

The Persistence of Disparities and Gaps in Wealth and Economic Opportunities

Banks have made substantial investments of CRA dollars in LMI communities over the past four decades to the benefit of LMI individuals, small businesses, and communities. Nonetheless, significant disparities continue to exist in many LMI areas and are most prevalent for Black, Hispanic, and Native American communities and borrowers across our nation.

These disparities and the pandemic's disproportionate impact on minority, rural, and other vulnerable communities have contributed to a wide gap in financial well-being between Black, Hispanic, and White households. Less than two-thirds of Black and Hispanic adults report that they are doing "okay financially," compared with 80 percent of White adults.³ Black and Hispanic households are around five times more likely to be unbanked as White households.⁴

³ Federal Reserve, "Report on the Economic Well-Being of U.S. Householders in 2020 - May 2021."

⁴ FDIC's *How America Banks* biennial survey found that 13.8 percent of Blacks, and 12.2 percent of Hispanic households compared with 2.5 percent of White households were unbanked.

And in rural areas, where banks have fewer traditional branches, residents face similar challenges with limited access to financial services, lower incomes and wealth, and higher unemployment. In Indian Country, the need for financial access and CRA investments is especially great, with one analysis finding a \$50 billion unmet need on tribal lands for infrastructure to build a better quality of life for Native Americans.⁵

These disparities have also persisted with regards to wealth. Studies have shown that the wealth gap between Black and White Americans in modern times is roughly the same as it was more than 50 years ago before the passage of the Civil Rights Act of 1964.⁶ In both 2016 and 1962, average wealth for White families was almost seven times greater than that of Black families. Because wealth opens doors to economic opportunities – such as by financing college and post-secondary educations, home purchases, small business, medical and other emergencies – the persistence of racial wealth inequality is a significant barrier to advancement for families of color, their communities, and their future generations.

On the local level, Black borrowers in Black-majority neighborhoods often face markedly higher interest rates on business loans, lower bank branch density, less local banking concentration in home mortgages, and less small business growth.⁷ Communities of color across the nation have generally had less access to banks, credit unions, and mortgage lenders, and other neighborhood amenities than majority White majority areas. The cities of Baltimore, Detroit, Oakland, and Philadelphia, in particular, have among the widest gaps.⁸ The lack of traditional financial institutions in Black and Hispanic neighborhoods often leaves minority borrowers with

⁵ KeyCorp data on Indian Country, presented during the OCC-Project REACH Native American Subcommittee webinar titled, “Financing Native Homeownership in Indian Country,” January 26, 2022.

⁶ Ibid.

⁷ Brookings Report, “An analysis of financial institutions in Black-majority communities: Black borrowers and depositors face considerable challenges in access banking services,” November 2, 2021.

⁸ Ibid.

little choice other than to turn to high-interest financial services – such as check cashers and payday lenders.

Perhaps most worrisome, some challenges appear to be not just persistent, but possibly getting worse. One recent study found that in 2020, the mortgage denial rate was 84 percent higher for Black applicants than White applicants, an increase of 10 percentage points since 2019, and Black homeownership had fallen to 44 percent from 49.7 percent in 2004.⁹ In addition, Black entrepreneurs and small business owners often face barriers to the credit needed to start, operate, and grow their businesses. One study found that Black-owned businesses were about twice as likely to be denied credit even after controlling for differences in creditworthiness and other factors, suggesting that credit access could be linked to racial discrimination.¹⁰

Thus, despite the clear, positive impacts that the CRA has had over the past several decades, LMI communities and communities of color continue to face significant barriers to full access to financial services and participation in the economy. As I will discuss next, changes in the banking system have added urgency and other dimensions to the need to update the CRA.

How a Modernized CRA Can Help

To put forward a rule that strengthens and modernizes the CRA to address these inequities, I committed the OCC to working on an interagency basis with the FDIC and the Federal Reserve.¹¹ Our interagency discussions have been guided by our experiences implementing the CRA and a strong collective commitment to improving it. The Federal

⁹ Zillow Research, “Black Mortgage Applicants Denied 84% More Often than White Borrowers,” January 13, 2022.

¹⁰ Blanchflower, Levine and Zimmerman (2003) cited in Brookings Report, “An analysis of financial institutions in Black-majority communities: Black borrowers and depositors face considerable challenges in access banking services,” November 2, 2021.

¹¹ OCC News Release 2021-76.

Reserve's Advance Notice of Proposed Rulemaking published in September 2020 has served as the basic framework.¹²

Several overarching objectives are guiding our efforts to update the CRA this time. From my perspective, it is important that revised CRA regulations result in increased levels of CRA activity to help address the persistent disparities noted earlier. At the same time, we need to ensure that banks are engaging with and being responsive to *local* stakeholders and the local needs of LMI communities, not just applying one-size fits all solutions. In short, the new CRA regulations should ensure more and better CRA investments.

Second, I believe it is important that we increase the clarity, consistency, and transparency of our CRA supervisory expectations and standards regarding which activities are eligible for CRA credit, and how eligible activities are evaluated and assessed. This should allow banks to move more quickly and with greater confidence when making CRA investments.

Finally, we need to update the CRA standards to reflect changes in the business of banking, in particular the increased use of mobile and internet delivery channels.

This last point warrants some elaboration. Banks today serve and invest broadly in communities across the nation. They lend in communities well beyond the specific, branch-focused areas they served when the CRA was enacted in 1977. At that time, thousands of community banks served smaller, geographically-contained areas. Today, while many community banks continue to have this local focus, others are being acquired by larger banks or merging with peers. Industry consolidation is concentrating banking assets in the hands of fewer and larger banking institutions. And home mortgage lending is dominated by a few banks and

¹² See objectives summarized in the Federal Reserve's ANPR, 85 Fed. Reg. 66410 (Oct. 19, 2020).

nonbank institutions lending nationwide, including internet banks with few or no branches serving a wide geography.¹³

Under the current CRA rules, the CRA performance of most internet banks who serve customers across the country must be focused only on where they are headquartered or have deposit taking ATMs. This internet-based business model did not exist – nor was it envisioned – when the federal banking agencies made significant updates to our CRA regulations in 1995, just two years after the source code for the internet was first released to the public.

In addition, banks that have traditionally relied on a large network of brick and mortar branches to serve customers are increasingly closing branches to save costs and refocus on online and mobile banking. From 2010 to 2021, banks closed 15,500 branches, and throughout this period, majority Black census tracts were less likely to have a bank branch than non-majority Black neighborhoods.¹⁴

Together, these trends have resulted in lending patterns that warrant addressing. For example, recent analysis by the Urban Institute shows how much more CRA-eligible mortgage and small business lending banks do in LMI areas that are inside their CRA assessment areas than they do in LMI areas outside their assessment areas, which results in credit needs of underbanked LMI areas often going unmet.¹⁵

Studies like this, and other factors, have helped to convince banking regulators and stakeholders that it is insufficient to continue to evaluate bank CRA performance solely on a branch-based model. This leaves too many underserved communities in need of investment and

¹³ Urban Institute, Housing Finance Center, page 1, “Should the Community Reinvestment Act Consider Race?” January 2022.

¹⁴ Brookings: “An Analysis of Financial Institutions in Black-majority communities: Black borrowers and depositors face considerable challenges in access to banking services.” November 2, 2021

¹⁵ Housing Finance Policy Center, Urban Institute, data and conclusions presented January 26, 2022, in webinar hosted by National Association of Affordable Housing Lenders/The Center for Community Lending (“Bank lending outside CRA assessment areas”).

financial access. Broadening our evaluation of banks' CRA performance to more appropriately reflect the communities the banks serve – including rural areas and Indian country – is necessary to live up to the core promise of the CRA.

Conclusion

Our joint NPR to strengthen and modernize the CRA will be released for public comment in the not-too-distant future. I encourage all stakeholders to review it and submit comments. All comments will be carefully reviewed and considered as the banking agencies work together to draft a final rule.

Remembering our history and being open and honest about the challenges facing us today can help guide us as we move forward. I am confident that by working together – and with input from interested stakeholders like all of you – the OCC, the Federal Reserve, and FDIC can strengthen and modernize the CRA regulations in a manner that can meet the challenges of today and tomorrow.