

The CRA within a Changing Financial Landscape

Robert B. Avery¹

Federal Reserve Board of Governors

Marsha J. Courchane

Charles River Associates, International

Peter M. Zorn

Freddie Mac

I. The Financial Landscape from 1977 to 2007

The financial landscape has changed significantly since the passage of the Community Reinvestment Act (CRA) in 1977. In this paper we provide an overview of how these changes have affected the coverage of the CRA, the structure of CRA-regulated institutions, and their effectiveness in meeting the goals of the CRA. By design and necessity we take a broad approach. In so doing, we hope to provide a useful contextual background for the other articles in this volume that focus on changes in the CRA's implementing regulations, and more specific aspects of the CRA, its coverage and effectiveness.

In 2007, the CRA celebrated its thirtieth anniversary. At its enactment, the CRA was a response to the perception of many that depository institutions had failed to meet the credit needs of their communities and that this failure was encouraging urban flight and the deterioration of cities. Reasons expressed for the limited access to or availability of credit included social reasons (discrimination in lending practices), economic reasons (limited information on credit; limited access to capital), and regulatory reasons (prohibitions on interstate branching and mergers; interest rate ceilings).

The intent of the CRA was not to address each and every limitation of the banking system with respect to access of credit. It had a particular focus, and Congress carefully evaluated some of the benefits provided by government to the banking community before determining that CRA coverage, which would impose some costs

on institutions, might best be applied to those receiving benefits from the federal government. At the time of its enactment, Congress determined that CRA regulations would apply only to federally insured depositories including commercial banks and savings associations (savings and loans and savings banks, henceforth S&Ls). As noted recently by Federal Reserve Chairman Ben Bernanke, "The obligation of financial institutions to serve their communities was seen as a *quid pro quo* for privileges such as the protection afforded by federal deposit insurance and access to the Federal Reserve's Discount Window."²

In 1977, households typically saved by keeping deposits in institutions covered under the newly enacted CRA. Most borrowing by households was conducted with these same institutions. The CRA-regulated depositories, in turn, were generally locally-based, and the industry was relatively unconcentrated. These characteristics have all changed dramatically in the intervening thirty years since CRA's passage.

The changes in household behavior discussed here reflect the response of individuals to an expanded array of financial services, arising primarily from the relaxation of regulations that affect institutions' offerings of products and the locations of their activities. Three changes in the financial landscape, in particular, are of note, and all of these, arguably, have encouraged or allowed financial institutions to seek economies of scale or scope in the provision of services to communities.

First, several important legislative changes freed commercial banks and savings associations from regulatory constraints in terms of the types of activities in which they could participate and the geographies in which they

¹ We thank Lemene Wakjira for her excellent work in checking the data and preparing the charts for this paper. We also thank Christopher Smith for her assistance with the tables. The views expressed in this paper are those of the authors and do not necessarily reflect the views of the Board of Governors of the Federal Reserve System or its Staff, or Freddie Mac or its Board of Directors.

² Chairman Ben Bernanke, "The Community Reinvestment Act: Its Evolution and New Challenges," (Speech at the Community Affairs Research Conference, Washington, D.C., March 30, 2007).

could operate. The first major phase of deregulation took place in the period 1979 through 1982. During these years there was a rapid increase in interest rates, driven primarily by a change in monetary policy that attempted to reduce inflation by targeting bank reserves rather than interest rates. This caused S&Ls to face negative interest rate spreads in the funding of their long-term mortgage assets. Further, Regulation Q usury ceilings on savings deposits meant that S&Ls faced disintermediation from lost deposits as households moved their deposits into higher-paying mutual fund accounts.

In an effort to improve the competitiveness of the S&Ls, two important acts were passed. The Depository Institution Deregulation and Monetary Control Act of 1980 allowed S&Ls and credit unions to offer checkable deposits and compete directly with the commercial banks for these deposits. It also phased out Regulation Q ceilings on savings deposits (over six years) and allowed payment of interest on S&L demand deposits. The 1982 Garn-St.Germain Depository Institutions Act allowed savings associations to offer money market deposit accounts and super negotiable order of withdrawal (NOW) accounts with limited checking features. Federally chartered savings associations could also make consumer and commercial loans, and offer floating and adjustable rate mortgages, expanding their permissible activities.

A decade later, the Reigle-Neal Interstate Banking and Branching Efficiency Act of 1994 permitted mergers and acquisitions of financial institutions across state lines. Reigle-Neal was passed partially as a response to the S&L crisis of the 1980s, and partially in recognition that asset size is a factor in the financial health of banks and that healthy banks positively affect the stability of the banking system.

As a result of the passage of these three acts, financial institutions gained newfound abilities to increase in both scale and scope. Commercial banks and savings associations have taken full advantage of this opportunity, and the industry has evolved substantially since 1977.

Second, the emergence of national credit repositories and the subsequent development of statistically-based credit models have led to the rapid growth of automated underwriting systems for all types of lending. This lowered the historic reliance of lenders on the local knowledge of their customer bases and provided economies of

scale in both underwriting and the assessment of credit. Both of these also encouraged industry concentration, as well as the growth of a national secondary market for mortgages and other assets.

Third, there was a rapid growth of secondary markets for financial products on both sides of the financial institution balance sheet. This had two key effects on financial institutions.³ First, because of secondary market funding, financial institutions now have more alternatives for obtaining capital and have been able, in many instances, to obtain their funding at lower cost than through deposit growth. Instead of relying primarily on a (local) deposit base for raising funds, institutions can rely on warehouse lenders and brokers for short-term capital, and can use securitization and a broad base of investors for long-term funding. Second, the secondary market allows lenders to pool loans from anywhere in the country and sell these securities through the secondary market. This increases the liquidity of lenders' assets, dramatically reduces localized variations in lending rates and the availability of credit, and reduces credit risks through geographic diversification. The growth of the secondary market, therefore, encouraged economies of scale and stimulated the growth of non-depository institutions not covered under the CRA.

These changes, in total, have led to significant alterations in the financial landscape facing the typical United States household. Since the time of the CRA's passage, households' savings/investment and borrowing options have expanded, both in terms of products and in the types of institutions offering these services. Although CRA-regulated institutions still play a dominant role in financial markets, many new, non-covered institutions have entered the marketplace. Moreover, financial institutions have grown substantially in scale. The result is that households' financial activity is increasingly conducted with institutions not covered under the CRA, and the institutions with which they do business are increasingly national in scale rather than confined to a local footprint.

These changes by themselves, of course, do not speak directly to Congress' concern that financial institutions meet the credit needs of their communities. We spend some time, therefore, considering how financial institutions' service to their communities may have changed in the face of this evolving financial landscape.

3 *The securitization of mortgages had, arguably, the largest impact on the growth of nonbank financial entities, but growth in other asset-backed securities also meant that deposit-taking was not essential for lending.*

The rest of this paper is structured as follows. We start with a brief discussion of our data and empirical approach. We then consider changes in household balance sheets (savings and borrowing behavior) since the passage of the CRA. We follow this with a discussion of market share effects, focusing on differences in deposits and lending behavior by different types of institutions, including those that are CRA-regulated and those that are not. We turn next to an examination of the measurement of CRA performance over time. Finally, we conclude with some thoughts about the current financial environment.

II. The Approach and the Data

We provide a series of charts to illustrate the effects of the changing financial landscape on CRA-regulated institutions and their success at meeting the credit needs of their communities. The charts themselves are based on data that are available for download through the Federal Reserve Banks of Boston and San Francisco. Underlying these charts and data are a series of consistent assumptions and empirical approaches that we outline in this section.

We consider all federally insured commercial banks and savings associations to be the CRA-regulated institutions. By this we mean that they must meet obligations set forth under the CRA. Generally we distinguish among the CRA-regulated institutions by separately looking at the top 25 banking organizations (top 25) as measured by total dollars of domestic deposits each year (including all the depositories and affiliates that belong to the organization), other large institutions (with “large” indicating at least \$1 billion in assets) and small institutions (where “small” indicates less than \$1 billion in assets).⁴

As envisioned at its inception in 1977 and, today, the

CRA encourages federally insured banking institutions to help meet the credit needs of their communities in a way consistent with the safe and sound operation of those institutions.⁵ The financial institution itself is given the ability to define its “community” or the areas in which its performance will be assessed. This has become known as the institution’s assessment area.⁶ For purposes of this paper we do not have access to the assessment areas as defined by each institution, so we approximate each institution’s assessment area to include the counties in which an institution, in its annual regulatory filing, reports that it has a banking office.

Under the CRA, various performance tests are applied to measure each institution’s performance, particularly in its assessment area. The performance criteria used to assess the institution are flexible, and examination for compliance focuses on both the quantity and the quality of the institution’s CRA qualifying activities.⁷ The CRA distinguishes between retail activities, regarded as the traditional business of banking, and other community development activities meant to meet the credit or revitalization needs of lower-income borrowers or lower-income neighborhoods. The regulations focus on four categories of community development, including affordable housing, community services, economic development through either small business or small farm lending, and the revitalization and stabilization of low- and moderate-income geographies. For large institutions, evaluation also provides sub-ratings on activity-based tests for lending, investment, and service.

As a practical matter, assessing the full range of these performance distinctions is beyond the scope of this article. We primarily focus, therefore, on traditional lending activities, particularly residential mortgage and small business finance, for which geographic data

4 Unlike the top 25, the large and small institutions are defined only in terms of the institution itself and not the entire organization to which they belong. Top 25 organizations are separated out because they are the organizations most likely to seek regulatory approval for acquisitions or mergers for which their CRA rating is relevant. The further distinction between institutions under or over \$1 billion in assets is chosen because institutions above that level are generally subject to a different CRA performance evaluation. In practice, this distinction has been determined by the “current” value of such assets, but in our charts we use an inflation-adjusted threshold normalized to the price level at the end of 2007 for substantive consistency.

5 For an overview of the history of the CRA, see Griffith L. Garwood and Dolores S. Smith, “The Community Reinvestment Act: Evolution and Current Issues,” *Federal Reserve Bulletin* (vol. 79, April 1993), pp. 251-67. For a discussion of recently proposed and current regulations, see Robert B. Avery, Glenn B. Canner, Shannon C. Mok, and Dan S. Sokolov, “Community Banks and Rural Development: Research Relating to Proposals to Revise the Regulations that Implement the Community Reinvestment Act,” *Federal Reserve Bulletin*, (vol. 91, Spring 2005), pp. 202-235, available at www.federalreserve.gov/pubs/bulletin.

6 Assessment areas are self-defined geographies drawn to include census tracts, counties, or metropolitan statistical areas (MSAs) that encompass an institution’s deposit-taking facilities, such as its branches and, if applicable, its automated teller machines (ATMs).

7 We provide information that reflects the quantity of lending and change over time in activities, but we do not attempt any discussion of the quality of performance.

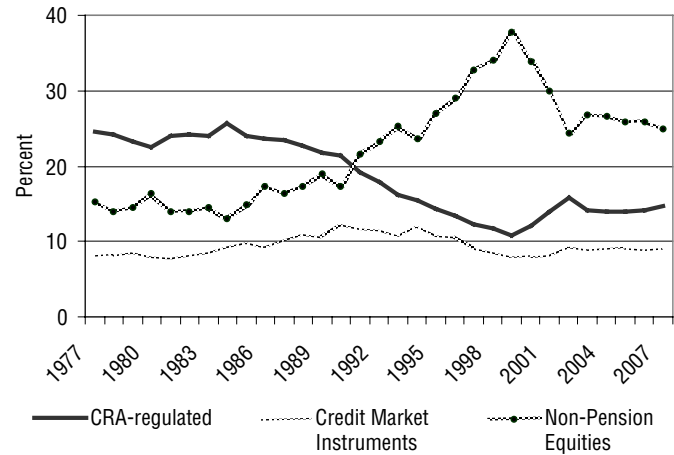
reporting is mandated for most institutions under the CRA. Within such lending, we look at the percentage of loans made to borrowers in low- and moderate-income (LMI) census tracts. This approach mimics a common performance measure used by CRA examiners. For residential mortgage lending, we also include in our measure loans to LMI borrowers, regardless of whether they reside in LMI geographies.⁸

The CRA generally measures performance in a flow rather than stock framework. That is, it considers the flow of deposit-taking and lending activity within a year when assessing performance, not the stock of liabilities and assets on institutions' year-end balance sheets. Nonetheless, data limitations force us to use a combination of stock and flow measures in creating our charts and tables. We provide data on deposit-taking and lending activity over the thirty-year period since the passage of the CRA (1977 through 2007), which are by necessity of a stock nature. We give a considerable focus to mortgage lending, both because of its importance and the ready availability of the Home Mortgage Disclosure Act (HMDA) data. HMDA data are provided on a flow basis (yearly originations), but are available only from 1990 through 2007. We also provide information on small business and farm lending that has been reported on a flow basis for the larger CRA-regulated institutions since 1996.

III. Changes in Household Behavior

Over the past 30 years, households have been presented with many savings and lending alternatives. As financial regulations have changed, so too has households' behavior evolved. While we cannot fully document all of the changes over the past three decades in terms of the proliferation of savings and lending vehicles, we do provide information on some select assets and liabilities of households. In Exhibits 1 - 3, we present information on stocks of household financial assets, including checkable and savings deposits (Exhibit 1), and outstanding stocks of consumer loans (Exhibit 2) and mortgage debt (Exhibit 3).

Exhibit 1
Shares of Households' Financial Assets



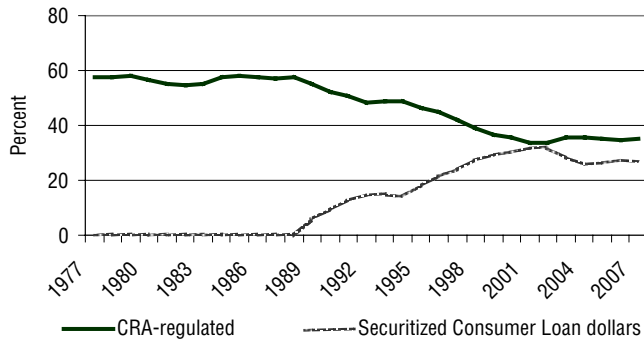
Consumer deposits are important for the CRA for two reasons. First, as suggested earlier, deposit insurance is often viewed as the *quid pro quo* for the CRA. Second, consumer deposits play a role in the performance tests for CRA examinations.

In 1977, at the time of the enactment of the CRA, households held 25 percent of their financial assets in the form of checking, time and savings deposits in CRA-regulated institutions. The household share of financial assets held in such institutions has declined substantially since that time (see Exhibit 1), reaching a low of 11 percent in 1999 and then rebounding somewhat to 15 percent in 2007.⁹ Some of this decline may have resulted from the expanding array of other deposit-type vehicles available to consumers from non-CRA-regulated institutions. Households' shares in credit market instruments (about one-third of which are money market mutual funds), for example, rose by about one percentage point over this period. Most of the decline, however, appears to stem from a switch in households assets toward the holding of non-deposit-type vehicles. In particular, the holdings of non-pension equities (including direct stock holdings and mutual fund shares) rose from 15 percent of households' financial assets in 1977 to a peak of 38 percent in 1999, and then declining to 25 percent in 2007.

⁸ Census tract income categories are determined by the ratio of a census tract's median family income to the median family income of the relevant surrounding area as measured at the last Decennial Census. The categories are: 0-49 percent (low), 50-79 percent (moderate), 80-119 percent (middle), and 120 percent or more (upper). Similar categories are used to classify individual residential mortgage borrowers based on their income (as reflected in the mortgage underwriting) compared to a contemporaneous measure of the median family income of the surrounding area as estimated by the Department of Housing and Urban Development.

⁹ Exhibit 1 provides the share of Household sector financial assets held as deposits (and other financial assets) from the Federal Reserve Board's Flow of Funds, Table B.100e. The deposit figure was adjusted to exclude credit union deposits obtained from Flow of Funds Table L115. The Household sector in the Flow of Funds accounts includes nonprofit organizations such as foundations and universities.

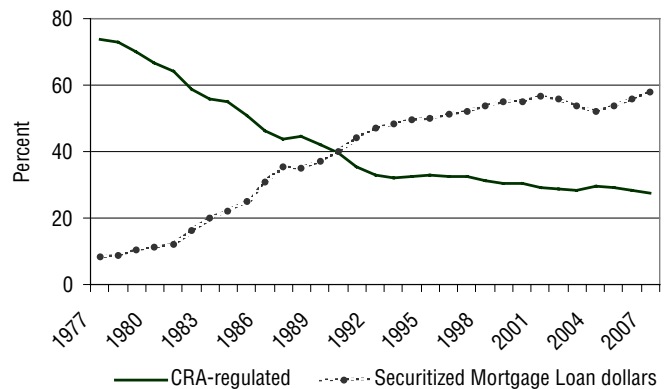
Exhibit 2
Dollar Holdings of Consumer Loans



During this same period, households changed considerably the types of institutions from which they hoped to borrow, particularly when they sought consumer loans and mortgages. For example, the share of U.S. consumer debt outstanding (as measured in dollars) held at commercial banks and savings associations fell from 57 percent in 1977 to 35 percent by the end of 2007 (Exhibit 2).¹⁰ During that same period, the share of consumer loans securitized remained at zero until 1989, increased to reach a level of 27 percent in 1998, and has remained at roughly that same level.

Exhibit 3 provides equivalent information on the change in mortgage debt.¹¹ The share of U.S. home mortgage debt outstanding held at commercial banks and savings associations fell from nearly three-fourths (74 percent) in 1977 to only slightly more than one-fourth (28 percent) by the end of 2007. At the same time, the percent of home mortgage debt outstanding that was securitized in the secondary market through the use of either mortgage-backed securities (by the government-sponsored enterprises (GSEs)—Fannie Mae and Freddie Mac) or privately through asset-backed securities increased from only nine percent in 1977 to 58 percent in 2007.

Exhibit 3
Dollar Volume of Home Mortgage Debt Outstanding



The trends observed in the CRA-regulated institutions' share of consumer and mortgage loans likely are due to two key factors. The first is that, beginning in the 1980s and throughout the next two decades, institutions not covered under the CRA increasingly entered into competition with depositories for all forms of household borrowings (and savings). One such example is credit unions. Compared with commercial banks and S&Ls, the role of credit unions in the financial landscape remains relatively small. Moreover, they are not the largest competitors of CRA-regulated institutions. They remain interesting, however, because they have federally insured deposits but are not covered under the CRA. The data indicate that credit unions have increased their share of household deposits (increasing from four percent in 1977 to almost ten percent in 2007) and home mortgage lending (rising from about one-half of one percent of mortgage assets in 1977 to three percent in 2007). However, the credit union share of consumer lending simultaneously declined from 14 percent in 1977 to nine percent in 2007.

The second key factor that explains changing patterns in loans to households is the rapid growth in loan securitization. The secondary market dramatically increased the investor base for these assets, and reduced the relative importance of a deposit base for purposes of funding loans to consumers. In the mortgage market, for example, the rapid growth in volume and liquidity of the mortgage-backed securities (MBS) issued by Freddie

¹⁰ The data for this exhibit come from the Federal Reserve Data Release Table G19, also part of the Flow of Funds, table L222, lines 1, 6, 7 and 10. All consumer debt as measured in these data is owed by the household sector.

¹¹ The data for this exhibit come from the Flow of Funds Table L218, lines 1, 11, 12, 18 and 19. Home mortgage debt is calculated as all residential mortgage debt, including 1-4 family and farm houses. Home equity loans are included in these data. Most home mortgage debt is owed by the household sector (about 94 percent in 2007).

Mac and Fannie Mae has meant that wholesale lenders, through a broker network, can originate loans to distribute as securitized assets. Under this model, mortgage lenders need not rely at all on traditional checkable or savings deposits for funding, but rather can borrow the funds needed to make loans using a line of credit from a warehouse lender, originate mortgages, combine and sell them into secondary market securitized pools, and use these proceeds to repay the line of credit. This method of interjecting capital into the credit market effectively bypasses the localized deposit collection and lending activity model that was central to mortgage funding at the time of the CRA's passage in 1977.

It is likely that all of these changes have had both significant and subtle impacts on lending and deposit-taking by CRA-regulated institutions. In the next section, we explore how these changes may have impacted institutions of different size classes in different ways.

IV. Changes in the Structure of Financial Institutions

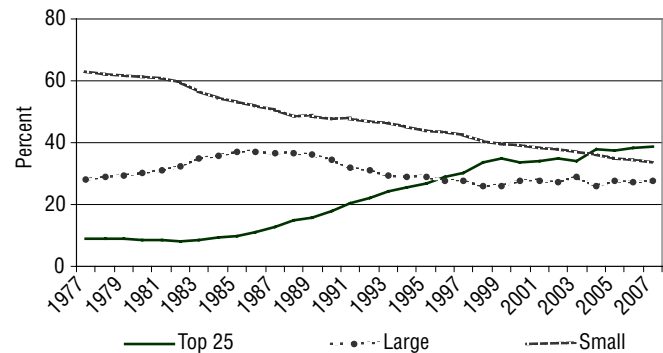
Like households, financial institutions were also responding to changes in both the legislative and regulatory environments that allowed for growth and consolidation across the country. To illustrate some of these changes, we provide a series of charts that show the changing market share of CRA-regulated institutions grouped by asset size.

A. Offices and Deposits

In order to look at market shares, we need to define a unit of measure for the financial institution. One such measure, the "office," is generally used as the unit of accounting for depositories covered under the CRA and other regulations.¹² Deposits held by an institution must be assigned to a particular office, and the office location is used to define the geographic reach of the institution within their self-defined assessment area. This is critical not only to the Lending Test under CRA examinations, but also to the branch Service Test where particular focus is paid to offices in LMI neighborhoods.

One way to track the localized focus of institutions, therefore, is to consider trends in the average number of offices per institution—the greater the average number per institution, the more widespread (less localized) the activity. In 1977, fully 54 percent of the nation's 18,834 federally-regulated commercial banks and savings associations were unit institutions—that is, they had a single location, with a single office, and no branches.¹³ By 2007, however, the share of unit institutions had fallen to only 24 percent (out of 8,605 federally insured banking institutions). The last 30 years, moreover, have led to the concentration of assets among the largest institutions. In 1977, for example, there was an average of 3.5 offices per institution. By 2007, this figure had more than tripled to 11.5 offices per institution.

Exhibit 4
Market Share of Offices

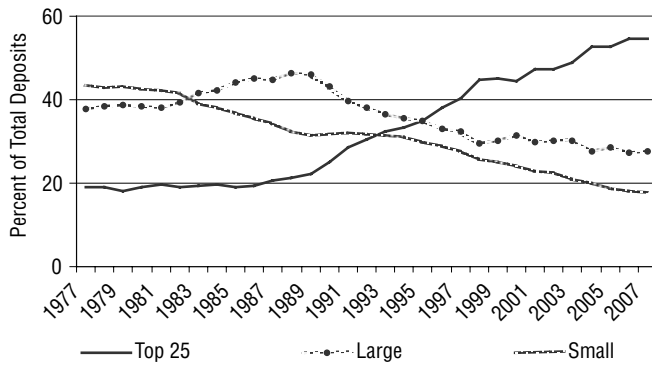


The increasing concentration of the banking industry is illustrated by trends in the market shares of offices owned by institutions of different size classes as shown in Exhibit 4. Beginning in the mid-1980s, the share of offices held by the top 25 organizations steadily increased while the share of offices held by small institutions declined. Clearly, the top 25 institutions have commanded an increasing share of offices as they have grown more geographically dispersed in their activities. Interestingly, we do not observe a dramatic drop in the share of offices of the large institutions, which is consistent with the considerable share of banking activity these institutions retain in the United States.

¹² While state law sets the definition of what constitutes an office, generally it includes the institution's self-defined main office and any branches (but not stand alone automated teller machines or ATMs). An institution with four branches operates a total of five offices.

¹³ The information here (and in Exhibits 4, 5 and 6) is based on annual June 30th Summary of Deposits (Federal Deposit Insurance Corporation (FDIC)) and Thrift Financial Reports (Office of Thrift Supervision (OTS)) offices filings. Data since 1994 are available at <http://www2.fdic.gov/hsob/hsobRpt.asp>. Data for earlier years are based on the authors' calculations using information from the national archives and Federal Reserve Board records. Data include offices in U.S. territories.

Exhibit 5
Market Share of Deposits



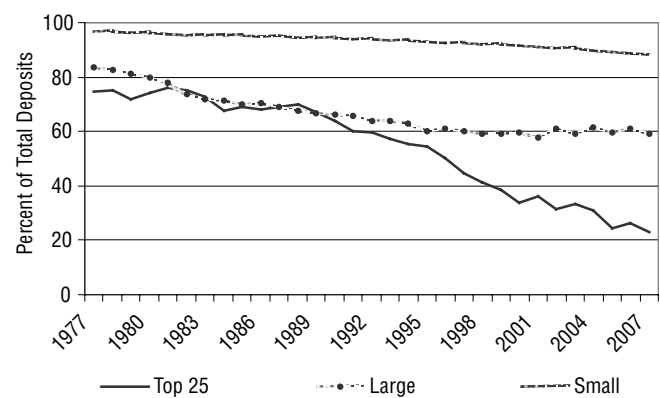
Trends in the concentration of deposits mirror those of offices. As evidenced in Exhibit 5, the market share of total deposits held by top 25 CRA-regulated organizations grew significantly from under 20 percent in 1977 to over 50 percent by 2007. At the same time, from 1977 to 2007 the share of deposits held by small institutions fell from over 40 percent to under 20 percent. The largest institutions have been getting larger, and the industry is, therefore, becoming more concentrated.

The growth in the size of CRA-regulated institutions over the past 30 years was accompanied by a more geographically dispersed focus of these same institutions. Depositories were largely locally-based at the time of the CRA's passage in 1977, consistent with the CRA's focus on allocating lending within a geographic market. However, as noted above, deposits became increasingly concentrated in larger institutions over the past 30 years. Accompanying this increase was a reduction in the share of deposits that institutions collected in the same MSA as their main office. This latter trend is illustrated in Exhibit 6.

In 1977, all three groups of institutions (by asset size) collected the vast majority of their deposits in the same MSA as their main office. This largely remained true of small institutions through 2007. However, the share of deposits collected in the MSA of their main office for large institutions declined consistently, and the share for the top 25 depository organizations declined from over 80 percent in 1977 to under 25 percent in 2007. Some of this decline is an artifact of the decline in the number of institutions relative to offices (thus fewer main offices). However, most of the decline reflects a real

increase in geographic reach of larger institutions, much of it expanding across state lines. In 1977, for example, there were no nationwide depository institutions. By 2007, most of the top 25 organizations had truly become national organizations, drawing deposits (and lending) in markets across the United States.

Exhibit 6
Concentration of Deposits in same MSA as Main Office



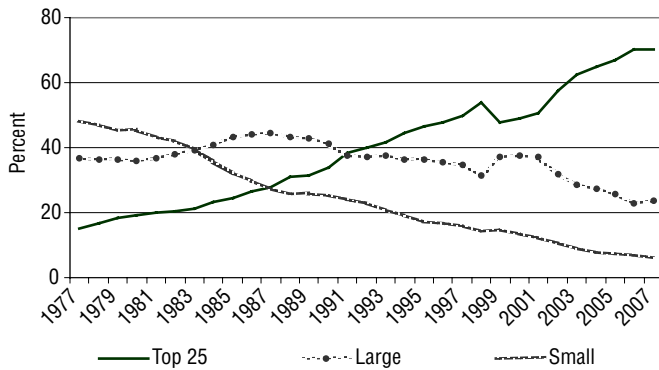
Collectively these changes in industry structure have had significant implications for the CRA. When originally passed, the CRA was designed for an institution operating in a single urban market and for an environment with a large and diverse set of financial institutions. As just shown, this model no longer applies to much of the marketplace which is increasingly dominated by a small number of very large institutions that operate in many different markets.

B. Lending Activities

Not surprisingly, the concentration in deposit collection over the past 30 years has been associated with increased concentrations in consumer lending. Exhibit 7 shows the share of consumer loan dollars held by depositories of different size classes over the period 1977 through 2007.¹⁴ Again, we see rapid growth in the dominance of the top 25 organizations, from holding 15 percent of consumer loan dollars in 1977 to holding 70 percent in 2007. This was accompanied by a concomitant decline in the share of consumer loan dollars held by small institutions, from nearly 50 percent in 1977 to under ten percent in 2007.

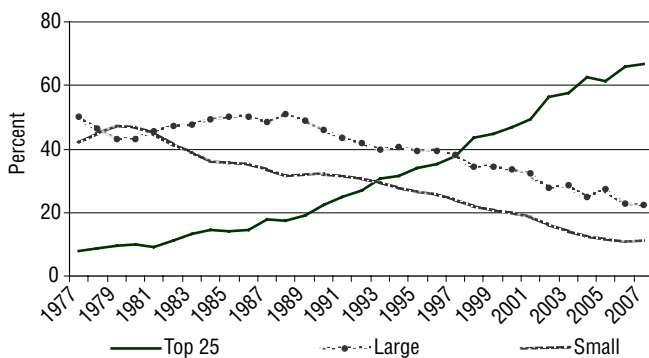
14 The information in Exhibits 7 and 8 is calculated from end-of-year Call Report (commercial banks and some savings banks) and Thrift Financial Reports (S&Ls and other savings banks) data. Some data for the late 1970's and early 1980's had to be imputed by the authors because of changes in the information collected in the reports.

Exhibit 7
Market Share of Consumer Loan Dollars



Similar trends are apparent in the shares (in dollars) of single-family (one- to four-unit) residential mortgage lending held by institutions of different size classes (Exhibit 8). Again, we see dramatic growth in the share of mortgage dollars held by the top 25 CRA-regulated organizations, accompanied by declines in the shares held by both large and small institutions.

Exhibit 8
Market Share of 1-4 Family Home Mortgage Dollars

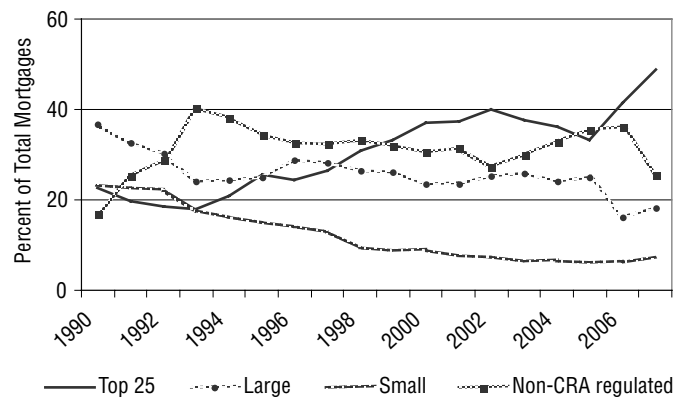


Not only has mortgage lending among depositories become more concentrated over the past 30 years, the share of mortgages originated by institutions not covered by the CRA has increased. We track this trend using HMDA data, which allow us to consider changes using a flow concept (originations) that is arguably more consistent with the focus of the CRA than the stock concepts thus far discussed. Unfortunately, the

use of HMDA restricts us to going back only to 1990; before that point HMDA reporting only applied to CRA-regulated institutions.

Exhibit 9 shows the share of total mortgage originations for the top 25 organizations, large institutions, small institutions, and institutions not covered by the CRA.¹⁵ Non-covered institutions include independent mortgage companies and credit unions. The increasing share of mortgage originations by the top 25 organizations is quite evident, as is the declining share of originations by small institutions. Among mortgages originated by CRA-regulated institutions, therefore, mortgages increasingly are originated by depositories with a large (often national) footprint.

Exhibit 9
Mortgages Originated by Institution Type



Also evident is the dramatic increase in the share of originations by non-CRA-regulated institutions in the early 1990s, from 17 percent in 1990 to a high of 40 percent in 1993. Since then, while the share of mortgage originations by these institutions has trended somewhat downward, it has generally remained over 30 percent.

The rise in the importance of mortgage originations by non-CRA-regulated institutions was coincident with the rise in importance of securitization (as shown in Exhibit 3) and the increasing role of subprime lending, a large share of which originated with independent mortgage companies. Regardless of its cause, the increased role of mortgage originations by non-covered institu-

¹⁵ Data are calculated based on single family, first lien mortgage loan originations reported annually under HMDA. Data here, and in other exhibits using HMDA data, are based on loans rather than loan dollars and exclude loans in U.S. territories and those for which geographic data are missing. Lien status is only reported since 2004. Prior to that year, we assume a threshold of loan size above and below \$50,000 in 2007 real dollars to distinguish first and junior lien loans. HMDA data include originations only by depositories with offices in an MSA and distinguish between loans extended directly and those extended by a subsidiary or affiliate of the depository. Depositories with assets below \$30 million are not required to report. Exhibit 9 includes loans extended by subsidiaries and affiliates when computing institution or organization loans.

tions reflects an important trend. At the time of the CRA's passage, CRA-regulated institutions with local footprints originated the vast majority of mortgages. Since then, and especially starting in the mid-1990s, institutions not subject to CRA regulations increasingly originated mortgages in competition with CRA-regulated institutions. Increasingly, therefore, mortgage lending expanded out of the reach of CRA regulation, although this trend shows signs of reversing with the collapse of the subprime mortgage sector in 2007.

The CRA does not, however, focus only on mortgage lending. Regulatory changes to the CRA in 1995 placed increased emphasis on performance measures related to small business and small farm lending, defined as loans of \$1 million or less for small business and \$500,000 or less for small farm.¹⁶ Data on this lending from 1996 through 2007 are shown in Exhibit 10.

in Exhibits 7 and 8). In contrast, the market share of the dollars outstanding of small business and farm loans for the top 25 rose only from 24 to 32 percent over the same period. Moreover, the absolute share of the small business and farm market of the top 25 was only about one-half their share of the consumer and mortgage loan market in 2007. Clearly, small business and farm lending makes up a decreasing relative percent of the lending by top 25 institutions, while growing to a relatively larger role among small institutions.

V. Changes in CRA Performance Measures

CRA performance can be assessed across many dimensions. All CRA-regulated institutions are judged on their lending activity. The Lending Test includes measures for many types of loans, including home mortgage, small business, and small-farm loans. Larger institutions also receive ratings for service and investment activities.¹⁷ The Service Test evaluates institutions' retail banking delivery systems and institutions' community development services, innovativeness and responsiveness. The Investment Test considers qualified investments with assessment area community development as their primary purpose. All these tests are combined into an overall CRA rating.

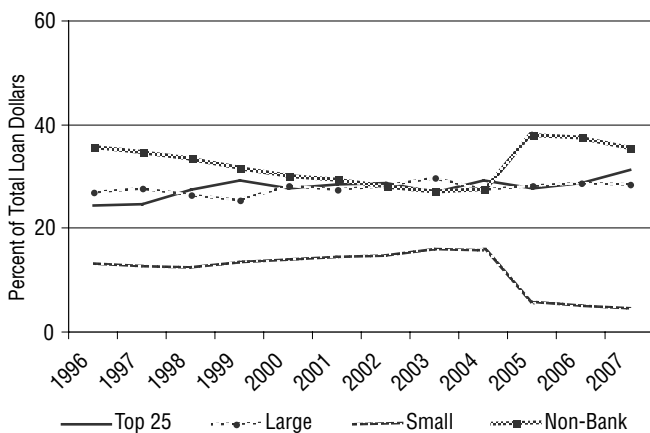
Tracking trends in CRA performance tests can provide useful insights into how well the law is working, a topic we pursue in this section. We focus on four quantitative metrics of performance. First we consider a metric related to the Service Test. Next, we turn to two metrics related to the Lending Test—lending in LMI areas and lending in and out of the institution's assessment area. Finally we look at institutions' overall CRA ratings.

A. The Service Metric

One of the questions asked under the CRA is how well regulated institutions are serving their communities. One commonly used CRA Service Test metric is

Exhibit 10

Dollars of Small Business and Farm Loans held by Depositories

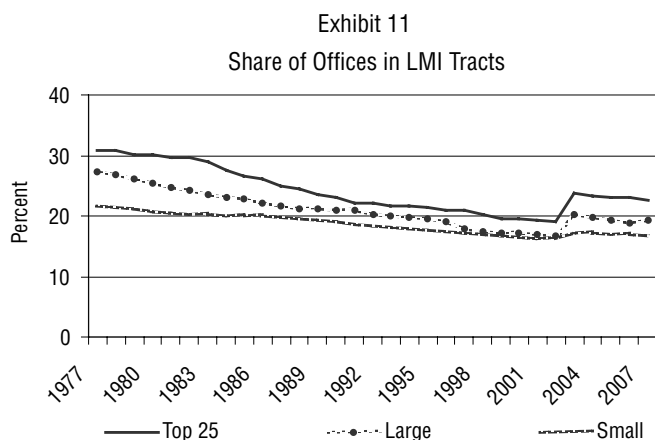


Market trends in small business and farm lending look markedly different from those of consumer and mortgage lending. The top 25 market share of consumer loan dollars outstanding rose by over one-half from 1996 to 2007, and almost doubled for home mortgage loan dollars outstanding over the same period (earlier shown

¹⁶ Starting in 1996, larger institutions were required to report annually on their small business and small farm loan originations by census tract. Larger institutions for this purpose were defined to be those with over \$250 million in assets or over \$100 million in assets and part of an organization with over \$1 billion in assets. These regulations were amended in 2005 to require reporting only of institutions with \$1 billion or more in assets (although smaller institutions can, and do, report voluntarily). Unfortunately smaller depositories are not required to report small business and farm origination data, so it is impossible to discern market trends from the flow data. However, since 1993 all-sized institutions have been required to report balance sheet data on small business and small farm loan dollars outstanding using the same loan definitions as the origination data.

¹⁷ Larger institutions, for this purpose, were defined to be those with over \$250 million in assets or over \$100 million in assets and part of an organization with over \$1 billion.

the percentage of offices in LMI tracts. The trends in this percentage between 1997 and 2007 are shown in Exhibit 11.¹⁸



Trends in the LMI share of offices do not seem to vary significantly with asset size of institution. As is clear, however, the percent of CRA-regulated institutions' offices in LMI census tracts decline modestly throughout the 30-year period. There is a striking increase in this share in 2003, but this likely reflects the change in definition of the LMI census tracts in that year, as well as, possibly, the increased activity by depositories in lower-income areas as credit standards were relaxed.

Interpreting the decline in the share of deposits or banking offices in LMI census tracts as a reflection of the CRA may be problematic. Of concern, there were roughly an equal proportion of banking offices and population in LMI census tracts in 1977, but by 2007 the office share was lower than the population share (20

percent versus 26 percent). On the other hand, however, the absolute number of banking offices in LMI census tracts increased by 25 percent over the 30 years since CRA's passage.

Thus, the decreased share of LMI offices reflects higher office growth in middle- and high-income tracts rather than office closures in LMI areas. Moreover, the growth of offices into these non-LMI census tracts may have actually increased the ability of institutions to serve their communities. In particular, the relaxing of state branching laws that allowed institutions to increase their geographic reach may have allowed institutions with main offices in commercial districts, which were nominally LMI but sparsely populated, to expand into the residential communities where their LMI and other customers lived.

B. The Mortgage Lending Metric

The CRA was meant to encourage institutions to meet the lending needs of borrowers in their assessment areas, and particularly those of LMI neighborhoods and LMI borrowers. Lending tests look at both metrics separately, but for ease of exposition we have combined these two lending activities and refer to this as LMI lending.

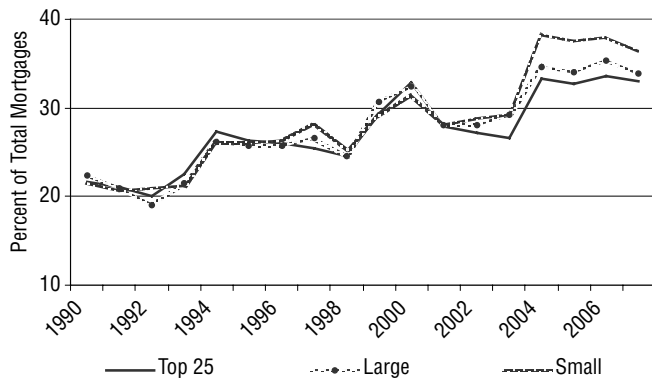
Exhibit 12 uses HMDA data to provide the LMI shares of mortgage originations over time.¹⁹ As was the case with offices, these data show a trend that is largely undifferentiated by type of institution. Unlike offices, however, there is a fairly consistent upward trend in the percent of LMI lending by CRA-regulated institutions over this period, albeit the trend seems largely to have leveled out after 2004.²⁰

¹⁸ These data are drawn from the Summary of Deposits and Thrift Financial Reports information used for Exhibits 4-6. Each office was geocoded and placed in both a 1990 and 2000 census tract based on its geographic coordinates. We excluded from the calculations all offices in census tracts with less than 1,000 people in urban areas and 500 people in rural areas. These offices are disproportionately in central business districts with deposit figures reflecting business not personal accounts. The 2000 census tract designation was used to classify offices into an LMI income class for reporting years 2003 through 2007. The 1990 tract designation was used to classify offices for all previous years. In practice, 1980 tract classifications were used under the CRA for reporting years 1982 to 1991 and 1970 tracts for 1977 to 1981. A number of rural areas were not assigned tracts in the 1980 and 1970 Census; consequently we chose to use the 1990 tract designation for this period.

¹⁹ CRA evaluation includes mortgage purchases as well as mortgage originations. We focus on originations here but provide data on purchases as well in the linked website data file. Data definitions are the same as those used in Exhibit 9.

²⁰ There is some "lumpiness" of the data due to the fact that LMI income classes for census tracts are changed only every ten years and are sensitive to MSA boundaries. This accounts for much of the increase in LMI lending from 2003 to 2004 when MSAs based on the 2000 Census were introduced (a similar pattern is evident in 1994 which MSAs based on the 1990 Census were first used). Exhibit 12 shows data for both LMI borrowers and census tracts. If the data are limited to LMI census tracts, CRA-regulated institutions in total originated about ten percent of their loans in LMI tracts in 1994 versus 17 percent in 2007, figures that support the view of an increased amount of LMI lending.

Exhibit 12
Share of LMI Mortgage Lending



As a consequence, LMI borrowers and tracts are receiving a greater share of the mortgage activity of CRA-regulated institutions, while contributing a reduced share to these institutions' deposit base. Moreover, these trends start from a point where the case could be made that LMI customers were underserved. For example, the 1990 Census shows that 16 percent of all owner-occupied single-family homes were in LMI tracts, versus a ten percent overall average LMI-tract share for CRA-regulated lenders in 1994. By 2007, the average CRA-regulated lender share of loans in LMI tracts had risen to 17 percent, a figure equal to the 2000 Census percent of owner-occupied single-family homes in LMI tracts. Arguably, therefore, there has been a positive high-level trend in CRA performance.

However, while there appears to be strong evidence that LMI mortgage customers have enjoyed an expansion of service from CRA-regulated lenders in the last 15 years, it is not clear how much of this, if any, can be attributed to the CRA. While CRA-regulated lenders increased the share of their LMI mortgages from 26 percent in 1994 to 34 percent in 2007, non-CRA regulated institutions increased their share of lending to such customers by a similar amount, from 29 percent to 35 percent. Moreover, within CRA-regulated organizations,

the growth in LMI share (from 27 percent in 1994 to 35 percent in 2007) was somewhat greater in subsidiary/affiliate lending, which is only voluntarily considered for CRA evaluation, than it was for lending directly done by CRA-regulated depositories (26 percent to 33 percent).

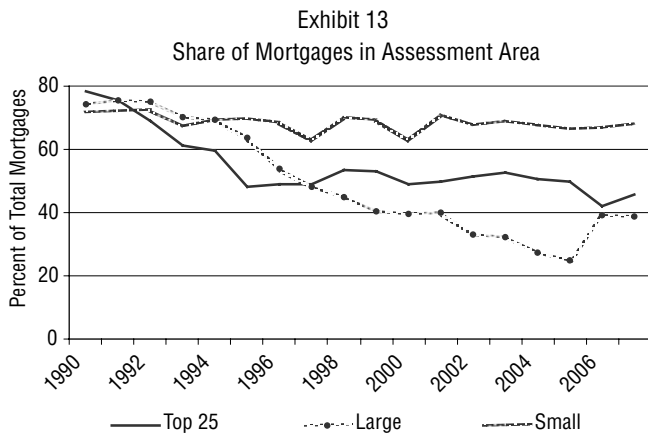
The similarity of changes in the share of lending going to LMI customers for lenders facing different regulatory environments suggests that either the growth of LMI lending stems from market rather than regulatory forces, or that other regulatory forces beyond the CRA may have played a role. One such regulatory change that might have contributed to the growth of LMI lending by non-CRA regulated lenders over this period was the enactment of affordable housing goals for Fannie Mae and Freddie Mac by the Congress in the mid-1990s.

Similar to the quantitative lending activity requirements under the CRA, albeit not so deeply targeted, Fannie Mae and Freddie Mac face annual percentage of business requirements on their purchases of mortgages that serve LMI borrowers, borrowers in underserved areas, and special affordable populations.²¹ Mortgages that satisfy CRA requirements qualify under the affordable housing goals, and may be counted toward these requirements if purchased by Fannie Mae or Freddie Mac. However not all mortgages counting toward the affordable housing goals satisfy CRA requirements or are originated or purchased by CRA-regulated institutions. So, although the CRA and the affordable housing goals of Fannie Mae and Freddie Mac both encourage LMI lending, some of this activity may occur outside CRA reporting channels.²²

We next turn to the share of mortgage lending that institutions do within their own assessment areas. CRA requirements pertain primarily to activities within institutions' assessment areas, so an increase in the share of activity outside assessment areas is of potential concern. Exhibit 13 illuminates this aspect of CRA performance.

21 Underserved areas are currently defined in metropolitan areas to be census tracts with median incomes less than or equal to 90 percent of area median income, or tracts with minority population greater than or equal to 30 percent and median incomes less than or equal to 120 percent of area median income. Slightly more flexible guidelines apply for underserved rural areas. Special affordable populations are currently defined as borrowers with incomes less than or equal to 60 percent of area median income, or borrowers with incomes less than or equal to 80 percent of area median income that are located in a census tract that has a median income that is less than or equal to 80 percent of area median income.

22 The growth patterns of LMI lending raise some interesting questions that we can only note, but not answer here. Looking at the market as a whole (all HMDA lenders), all of the increase in the incidence of LMI lending from 1994 to 2007 resulted from an increase in lending to borrowers in LMI tracts (10 percent in 1994 to 17 percent in 2007). There was no increase at all (indeed a modest decrease) in the incidence of lending to LMI borrowers who were not in LMI tracts. Further, the difference in the growth in the incidence to LMI tracts and LMI borrowers outside such tracts would have been even larger if measured to 2006 before the collapse of the subprime market. On the surface this evidence suggests that LMI tracts were previously underserved and have now caught up. Yet there was very little change in the percentage of owner-occupied units in LMI tracts from 1990 to 2000 censuses. If the 2000 Census data on owner-occupancy does not reflect the potentially strong growth of housing in LMI areas post-2000, it is possible that these areas may remain underserved.



We find that small institutions have continued to originate a fairly large share of mortgages within their assessment areas (around 70 percent). Not surprisingly, however, the growth in the size of the top 25 organizations is associated with a decline in the percent of mortgages they originate within their assessment areas. In particular, the top 25 organizations fell from almost an 80 percent share in 1990, to originating only 46 percent of their mortgages within their assessment area after 1994. The share of lending in assessment areas also declined for large institutions, dropping from slightly over 70 percent in 1990 to less than 30 percent in 2005. Since then, however, there has been a surge back up to nearly 40 percent in lending in assessment areas among large institutions in 2006 and 2007.

The concentration of activity among larger CRA-regulated institutions (as shown in Exhibit 9 earlier) raises a potential concern because a reduced share of mortgage activity in assessment areas accompanies it (as shown in Exhibit 13). To further explore this concern, we turn in Exhibit 14 to a comparison of LMI mortgage lending by institutions within and outside their assessment areas.²³ Ideally, from a CRA perspective, the share of LMI lending in assessment areas will be greater than or equal to the share of LMI lending out of assessment areas. There is, therefore, potential reason for some concern if the opposite is the case.

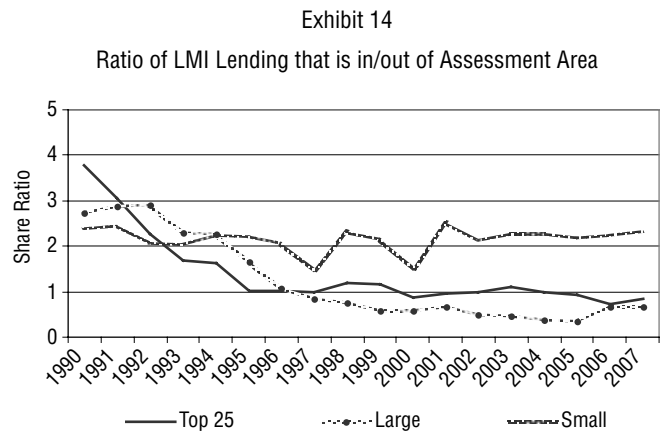


Exhibit 14 shows that small institutions generally perform well by this metric, consistently providing LMI mortgage lending within their assessment areas at rates twice that outside their assessment areas. In contrast, top 25 and large institutions show a decline in this metric throughout the mid-1990s. Since the mid-1990s, the top 25 have leveled off to a ratio where their LMI lending rates are about equal within and outside their assessment areas. In even starker contrast to small institutions, large institutions now originate LMI mortgages at a lower rate within compared to outside their assessment areas.

Overall, therefore, trends among different-sized institutions almost balance each other out. In particular, the increase in the share of lending going to LMI customers from all CRA-regulated institutions lending within their assessment areas (27 percent in 1994 to 34 percent in 2007) is virtually the same as the change in the share of such lending outside their assessment areas (26 percent in 1994 to 33 percent).

Potentially troubling, nonetheless, is the dramatic decline in mortgage lending within assessment areas by the top 25 and large institutions. By this view, increased concentration has reduced overall mortgage lending within assessment areas, arguably reducing the coverage of the CRA. Moreover, because much of the out-of-assessment area lending is associated with affiliates of the larger institutions, it may not be subject to scrutiny under the CRA.

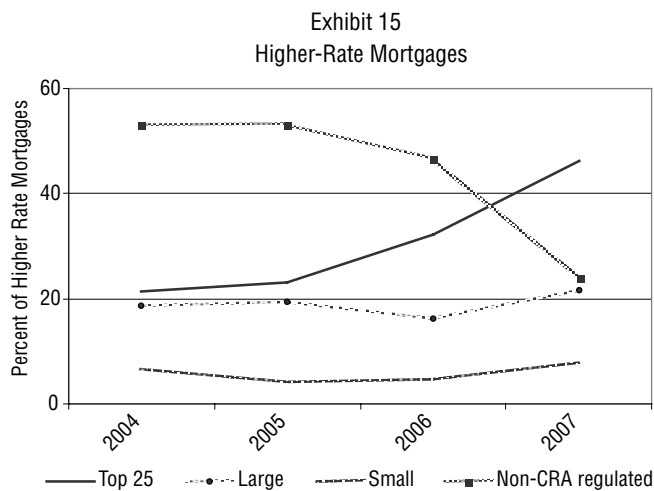
²³ Direct lending by depositories is counted as being in the assessment area in our analysis if the loan is originated in a county in which the depository has an office. Loans originated by affiliates or subsidiaries of depositories are counted as being in an assessment area if they are originated in a county in which any depository member of the same organization (e.g. bank holding company) has an office. In practice, institutions have discretion in how they treat loans originated by non-depository subsidiaries or affiliates under the CRA, and may choose to count or not count such loans.

C. Higher-Rate Mortgage Lending

Since 2000 there has been a dramatic increase in mortgage originations by subprime lenders. Much of this activity has been conducted by independent mortgage companies, which are not depository institutions and so not subject to the CRA. Disproportionately, these lenders originate loans at rates substantially higher than those offered by prime lenders.

Considerable regulatory scrutiny has been directed towards these higher-rate loans, generally defined as loans originated above the HMDA rate-spread reporting threshold.²⁴ It has been a particular focus within the context of the CRA, because higher-rate mortgages disproportionately appear to be originated in LMI census tracts. The CRA's intent has been to promote LMI lending within assessment areas. However, the intent has never been to encourage LMI lending only at higher-rates than borrowers with higher incomes, or in higher income communities, can obtain.

Exhibit 15 provides the distribution of the higher-rate mortgage originations across CRA-regulated and non-CRA-regulated (independent mortgage banks and credit unions) institutions. The data needed to assess higher-rate mortgage lending are reported in HMDA only starting in 2004, so the time series is necessarily short.



The exhibit shows that until 2006 the largest share of the higher-rate mortgages came from institutions not subject to the CRA. During this same period, not surprisingly, small institutions originated a smaller share of higher-rate loans and top 25 organizations and large institutions originated a proportionately larger share.²⁵

In 2007, however, the subprime market collapsed and 169 lenders (almost all non-CRA-regulated) stopped reporting in HMDA.²⁶ This led to a dramatic decline in the volume of higher-rate mortgage lending (not shown), as well as a decline in the share of higher-rate mortgages originated by institutions not covered under the CRA.

From a CRA perspective, the 2007 changes are, arguably, welcome news. In particular, CRA-regulated institutions, rather than those outside the CRA regulatory structure, are increasingly responsible for the origination of higher-rate loans. Because of this, CRA-regulated institutions, and regulators, may have an increasing opportunity to strike the appropriate balance on how best to serve borrowers in this market niche.

D. Small Business and Farm Lending

Larger institutions are subject to lending performance tests related to their small business and small farm lending. Examiners typically use similar tests to those used for mortgage lending, comparing LMI to total lending and lending within and outside of assessment areas. However, unlike with mortgage lending there is no direct analog to a LMI borrower for a business, so typically only the business' location is used to determine its LMI status.

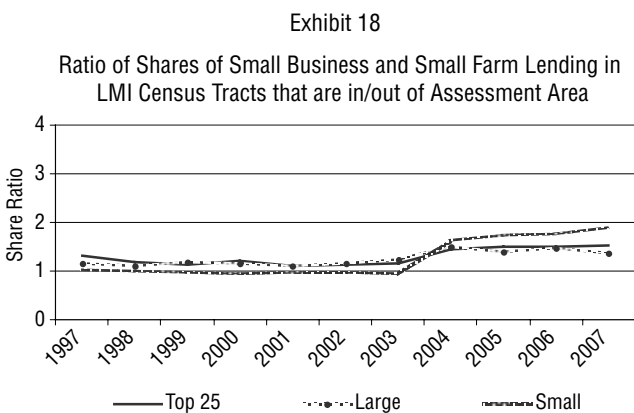
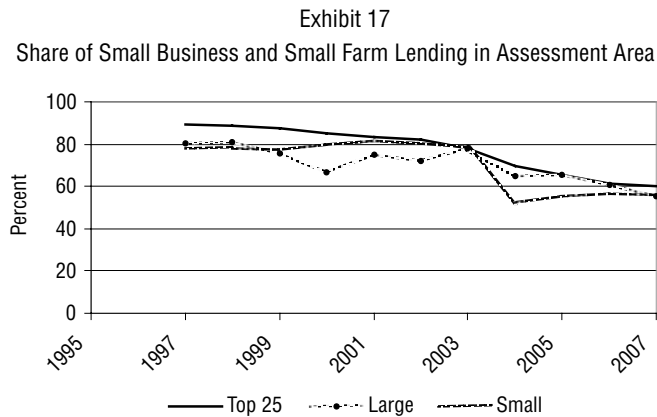
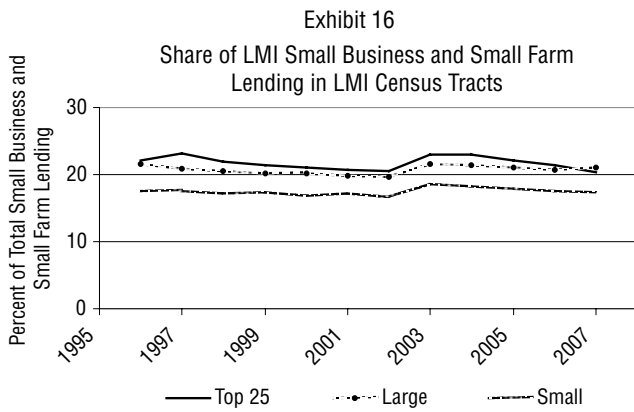
Exhibits 16, 17 and 18 present data on small business and small farm loan originations for the period 1996 to 2007, using the same metrics as used for mortgages in Exhibits 12, 13 and 14. Exhibit 16 shows overall trends in LMI lending over the period; Exhibit 17 presents evidence on lending in- and out-of-assessment areas; and

24 HMDA requires the reporting of first lien loans where the annual percentage rate is 300 basis points more than a comparable Treasury rate. See Robert B. Avery, Kenneth B. Brevoort, and Glenn B. Canner, "The 2006 HMDA Data," *Federal Reserve Bulletin*, (vol. 93, December 2007), pp. A73-A109 for an example of the discussion of the HMDA higher-rate loans.

25 There have been arguments made in the media that some inappropriate high rate lending may have stemmed from CRA-related pressure to lend to LMI customers. However, in 2006, at the height of the subprime boom, 43 percent of the loans by non-CRA regulated lenders to LMI customers were high rate, as compared to 39 percent of CRA-regulated lenders lending outside their assessment areas and only 18 percent for CRA-regulated lenders lending within their assessment areas. On the other hand, the overall incidence of LMI lending across these three groups was about the same. This suggests that differences in the overall incidence of high rate lending did not stem from a differential focus on LMI customers by CRA-regulated institutions, but rather from the choice of product offered to such customers.

26 See Robert B. Avery, Kenneth B. Brevoort, and Glenn B. Canner, "The 2007 HMDA Data," *Federal Reserve Bulletin* (December 2008).

Exhibit 18 gives the relative propensity for LMI lending for assessment area versus non-assessment area loans.²⁷



The data for small business loans show a somewhat different pattern than those shown for mortgage loans. Exhibit 16 shows a largely constant level of LMI lending over the ten-year period, although there is, arguably, a slight decline among top 25 institutions. In-assessment area lending shows a clear decline for all-sized institutions, especially so starting in 2004 (Exhibit 17). CRA-regulated institutions show an equal propensity toward LMI lending both in- and out-of-assessment areas through 2003. Starting in 2004, however, institutions originate a higher share of LMI loans in their assessment areas.

Overall, these trends are small in comparison to those for mortgages and there are significant differences by size of institution. Of potential concern is the reduction in in-assessment area lending by CRA-regulated institutions. Mitigating this, however, is the fact that in-assessment area lending shares are higher than those for mortgage lending. Moreover, the within-assessment area LMI lending rate shows a relative increase at precisely the time when in-assessment shares decline, explaining why overall LMI lending shows almost no trend. On the basis of these trends, therefore, arguably there is little reason for focus or concern regarding the small business and farm lending performance of CRA-regulated institutions.

E. Overall CRA Ratings

Finally, we turn to an analysis of overall CRA ratings. Under the revised final CRA regulation that became effective July 1, 1995, as under the earlier regulation, CRA-regulated institutions are to be assigned one of four statutory ratings. Every institution’s rating—either Outstanding, Satisfactory, Needs to Improve, or Substantial Noncompliance—is posted and includes a written evaluation explaining the rating.²⁸ The public release of this information about CRA performance continues to be an important aspect of the regulations. The CRA rating is especially important because the regulatory agencies consider an institution’s CRA record when evaluating its application for deposit insurance, or for a charter, branch or other deposit facility, office relocation, merger or acquisition. For our analysis, therefore, we focus on the Outstanding and less than Satisfactory (Needs to Improve or Substantial Noncompliance) CRA ratings—the former

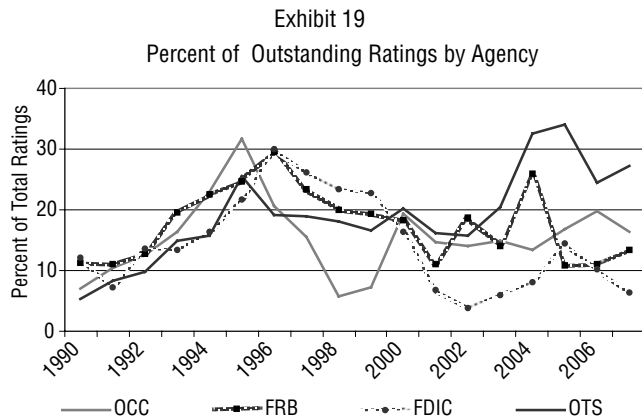
27 Unlike mortgage loans, the figures in Exhibits 16-18 are based on loan dollars rather than loans. Many very small business loans reported in the CRA data are in reality credit card loans issued to business owners. In order to not give these loans too much weight, the figures are dollar rather than loan-weighted.

28 Ratings information is available at <http://www.ffiec.gov/cra/ratings.htm>.

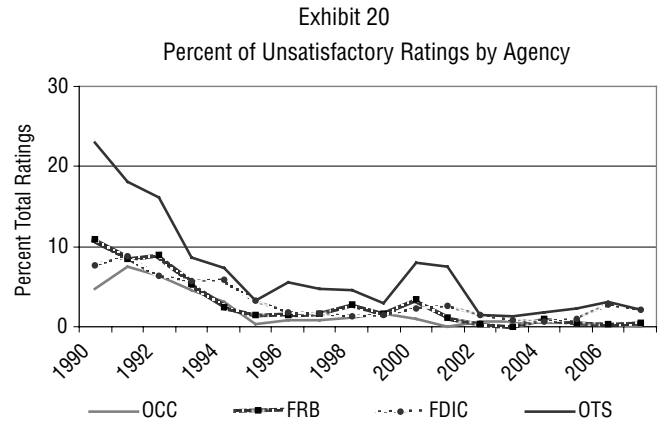
because it implies the least difficulties for institutions, the latter because it implies the most.

Each CRA-regulated institution is assigned a primary federal banking agency regulator that conducts its CRA exam. The Office of the Comptroller of the Currency (OCC) is primary regulator of commercial banks with national bank charters, including most of the top 25. The Federal Reserve Board (FRB) is the primary regulator of state-chartered commercial banks that are members of the Federal Reserve System. The Office of Thrift Supervision (OTS) is the primary regulatory authority over most savings associations, and the Federal Deposit Insurance Corporation (FDIC) has primary authority over state-chartered, non-FRB-member commercial banks and some federally-chartered savings banks.

Exhibit 19 provides information, by regulatory agency, on those institutions receiving Outstanding ratings from 1990 – 2007. The exhibit shows that, since 2000, a considerably larger share of OTS-regulated institutions has received Outstanding ratings as compared to FDIC-regulated institutions.



Regulatory agencies also differ in the percent of less than Satisfactory CRA ratings they give. Exhibit 20 indicates that a small share of institutions continues to receive either Needs to Improve or Substantial Noncompliance ratings, but that the share of those with poor ratings (since 1995 when the regulation changed) is marginally highest for OTS-regulated institutions.



It is not only the regulatory supervision process that varies with CRA ratings. The size of the institution also seems to matter. Exhibits 21 and 22 present information parallel to that in Exhibits 19 and 20, but separated by size of institution rather than regulatory agency. The largest organizations (top 25) clearly perform best as measured by their share of Outstanding ratings, and their differential above large and small institutions increased substantially starting in 2003. Arguably this reflects the importance that the largest institutions place on good performance ratings in an effort to reduce CRA impediments to mergers or acquisitions.

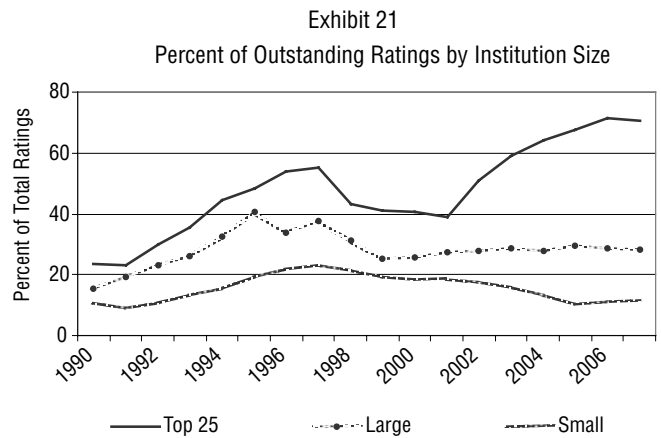


Exhibit 22

Percent of Unsatisfactory Ratings by Institution Size

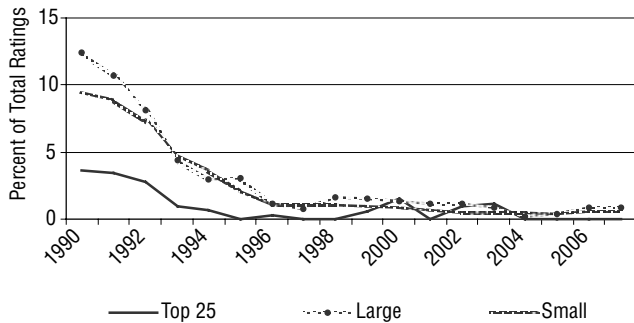


Exhibit 22 shows that the top 25 institutions have historically been less likely to receive unsatisfactory ratings. Since 1996, however, there has been little difference in the unsatisfactory rate across institution size, with levels generally ranging under one percent. This may reflect “satisficing” behavior on the part of depositories, ensuring that they at least do not receive an unsatisfactory rating given the increased public scrutiny of CRA performance.

VI. Concluding Comments

Since the passage of the CRA in 1977, the financial market has evolved in several ways that have potentially critical implications for the CRA. First, the share of financial activity covered under the CRA has declined substantially. This occurred for two key reasons: (1) the growth of financial institutions not covered by the CRA, and (2) the reduction in in-assessment area activity by the larger CRA-regulated institutions. Second, the footprint of financial institutions has increased dramatically. No longer is financial activity largely locally-based. Instead, institutions that operate across several states, if not nationally, conduct most financial activity. Third, there has been an increase in LMI lending, although much of this occurs outside of assessment areas and it is debatable how responsible the CRA is for this trend.

We leave it to others to fully assess the implications of these changes for the CRA. We note, however, that today we are arguably in the midst of the most dramatic financial changes of the past several decades. We conclude, therefore, with some observations of how these changes may affect CRA-regulated institutions.

First, we expect to see that CRA-regulated institutions

will regain market share. This reflects several recent changes. Independent, non-chartered investment banks no longer exist—they have either merged with depositories, or become bank-chartered institutions. The collapse of the subprime mortgage sector means that institutions not covered under the CRA have lost significant market share. Finally, with the current credit and liquidity crisis, borrower confidence has fallen to historic lows, and the importance to households of keeping deposits in federally insured institutions has grown. These trends, arguably, will all serve to give the CRA increased leverage and importance.

Second, we expect increased concentration among CRA-regulated institutions. The current financial crisis has already led to a number of mergers and acquisitions, and we expect this trend to continue. The impact of this trend on the overall performance of CRA-regulated institutions is far from certain. On a positive note, as concentration among CRA-regulated institutions has increased, so too, arguably, has overall CRA performance (although, as we have noted, such trends are less apparent in small business lending and may be due to other market forces). Potentially troubling, however, is that increased concentration in mortgage lending, if historical trends continue, could reduce the overall share of in-assessment area mortgage lending, arguably reducing the impact of the CRA. Further, much of the lending of larger institutions—even if done in assessment areas—has been done through affiliates rather than directly by depositories and thus may be subject to a different degree of regulatory scrutiny. How these forces balance out will determine whether CRA regulations have an increased or decreased impact on the marketplace.

Finally, underwriting standards have tightened significantly in primary, secondary, and mortgage insurance markets, likely significantly reducing the share of higher-rate mortgage originations. This may mean that there is less access to credit for LMI borrowers and in LMI neighborhoods. If that trend is observed, the importance of the CRA may increase as it mandates focus on these otherwise less well served areas. This may be abetted by the changes to the affordable housing goals for Fannie Mae and Freddie Mac included in the Housing Economic Recovery Act of 2008, which more closely align the purchase goals of Fannie Mae and Freddie Mac with those of the CRA. ■

Robert B. Avery is a senior economist in the Division of Research and Statistics at the Board of Governors of the Federal Reserve System. Prior to rejoining the Board of Governors in 1994 he was a professor at Cornell University. His work at the Federal Reserve focuses on supervisory issues related to community affairs and bank supervision. He is a coauthor of a number of recent studies in these areas including the Federal Reserve's Congressional Report on Disparate Impact in Credit Scoring, and Federal Reserve Bulletin articles on the 2004, 2005, 2006 and 2007 HMDA data and revisions to the CRA in 2005. He also designed the Federal Reserve's fair lending HMDA screening program and its loan sampling system for small bank safety and soundness examinations. He has a BA from the University of Pennsylvania and a PhD from the University of Wisconsin.

Marsha J. Courchane is vice president at Charles River Associates and heads their financial economics practice. Dr. Courchane specializes in financial institution analyses for regulatory reviews and in support of litigation. She is a leading expert in the areas of mortgage and consumer lending and has worked with many of the largest lenders in the United States. Her client work and research focus on fair lending, affordable lending, credit scoring and the origination, pricing, and securitization of mortgages.

Dr. Courchane held a number of academic and professional positions prior to her consulting experience including serving as director of Financial Strategy and Research at Freddie Mac and as senior financial economist at the OCC. She has published in several journals including the *Journal of Real Estate Research*, *Journal of Economics and Business*, *Housing Policy Debate*, *Applied Economics*, *Journal of Housing Research*, *Journal of Real Estate Finance and Economics*, *Canadian Journal of Economics and Property Management*. She serves on the editorial board for the *Journal of Housing Research*, the *Journal of Real Estate Research* and for the *International Journal of Housing Markets and Analysis* and referees for several journals. She serves as the executive vice president of the American Real Estate and Urban Economics Association from 2008 – 2013 and was elected to the American Real Estate Society Board of Directors in 2008.

Peter Zorn is currently vice president of Housing Analysis and Research at Freddie Mac, where he has been employed since 1994. Prior to his work at Freddie Mac Zorn, was an associate professor in the department of Consumer Economics and Housing at Cornell University. He has a PhD in Economics from the University of California, Davis, and a BA in History from Marlboro College.