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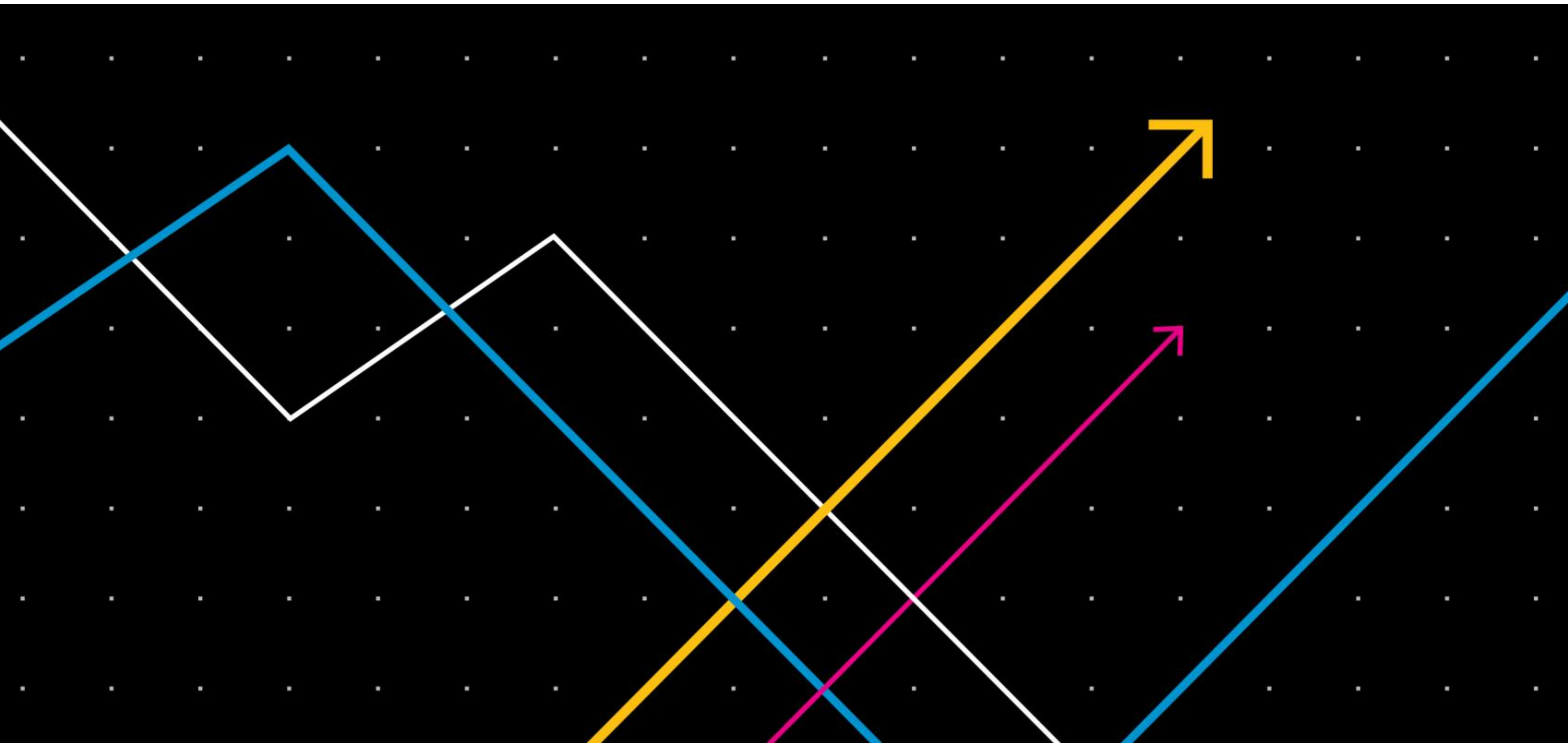

RESEARCH REPORT

Bank Lending outside CRA Assessment Areas

Laurie Goodman *Ellen Seidman* *Jun Zhu*

March 2022

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Acknowledgments

This report was funded by the National Association of Affordable Housing Lenders. We are grateful to them and to all our funders, who make it possible for Urban to advance its mission.

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Bank Lending outside CRA Assessment Areas

When the Community Reinvestment Act (CRA) was enacted in 1977, and even when the regulations were last substantially rewritten in 1995, most banks operated entirely within one state, and many had only one branch. Thus, assessing "the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods" could reasonably be accomplished by looking at the bank's lending record in the areas around its headquarters and branch offices, or "assessment areas." But the increasingly regional and national scope of bank lending, by both traditional banks and "internet" banks with few or no branches challenges that strategy. If a bank's lending "community" is essentially nationwide or in areas beyond its physical presence, should assessment of its service to that "entire community" be limited to lending in the bank's assessment areas? Should banks also be assessed on their performance outside their assessment areas and, if so, under what conditions?

The three federal banking regulators—the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation (FDIC), and the Federal Reserve Board—are revising the CRA regulations and are considering how to evaluate lending outside assessment areas. A certain amount of activity outside assessment areas is already considered, especially with respect to community development lending and investments, but the rules are ambiguous and inconsistently applied. And "retail lending" (i.e., the home mortgage, small business, and consumer lending that makes up the bulk of a CRA evaluation) is rarely considered. This can generate unrepresentative examination results, especially for internet banks that have a single assessment area surrounding their home office.

Before examining policy recommendations, it is important to understand the amount of lending outside assessment areas banks are doing and where they are doing this lending. In this report, we look at banks' retail lending outside assessment areas, both in relation to how important this lending is to the banking institution and how important this lending is to communities. We also look at how well banks serve low- and moderate-income (LMI) borrowers and neighborhoods inside and outside their assessment areas. We conduct this analysis for both mortgage lending and small business lending.

We find that many banks are doing a significant amount of lending outside assessment areas, but this lending is not geographically concentrated. We also find that banks do more mortgage lending to LMI borrowers and LMI neighborhoods inside assessment areas than outside them. Similarly, banks do more small business lending in LMI areas and to businesses with revenues under $1 million inside assessment areas than outside them. We conclude that there is a strong argument for banks that do more than a certain amount of lending outside assessment areas to be subject to a single nationwide test on this type of lending. Moreover, lending outside assessment areas is important in several states, especially for small business lending, and often, only a few banks account for the bulk of a state's lending outside assessment areas. We conclude that there is a reasonable case for evaluating some banks' performance outside assessment areas in certain states.

At both the national and state levels, we consider how to cover the largest amount of lending outside assessment areas, measured as a share of loans, while subjecting the smallest number of institutions to additional evaluations. Our recommendations reflect what we believe to be the best combination of loan and institutional coverage.

In this report, we detail how much banks are engaging in mortgage and small business lending outside assessment areas. We quantify the importance of this lending to the banks and its importance to communities. We first look at mortgage lending, and then we turn to small business lending. We then draw common threads from both analyses and propose policy solutions.

Data

We rely on two data sources: 2019 Home Mortgage Disclosure Act (HMDA) data and 2019 Federal Financial Institutions Examination Council (FFIEC) CRA loan files. The HMDA data give us information on mortgage lending by originating institution at the census tract level. In 2019, all institutions with more than $47 million in assets that made more than 25 closed-end loans (or more than 500 open-end loans) were required to report under HMDA, which gives us excellent mortgage coverage. Our small business data come from the FFIEC CRA files, which provide a small business origination summary for each institution. Moreover, the FFIEC CRA files show the assessment areas for each CRA-covered institution, information that is critical for both the home mortgage analysis and the small business analysis.[1]

To determine lending inside and outside banks' assessment areas and to combine the empirical results on small business and mortgage lending, we need to match the lenders in the HMDA file with the lenders in the FFIEC CRA file. We apply a waterfall method. We first match lenders using the Replication Server System Database. For unmatched lenders, we then match by the tax ID, followed by their name. Out of 695 lenders in the FFIEC CRA files in 2019, we matched 626 lenders with unique HMDA IDs.[2]

We use “total assets” from each bank’s 2019 call report to identify bank size. In our sample, 23 banks have assets above $100 billion, 90 banks have assets between $10 and $100 billion, 398 banks have assets between $1.25 and $10 billion, 93 banks have assets between $500 million and $1.25 billion, and 22 banks have assets up to $500 million. The last category has few institutions (all of which were voluntary reporters) and is excluded from the analysis. We use 604 institutions for both the mortgage lending analysis and small business analysis (table 1).[3]

Home Mortgage Lending

Nationwide Lending outside Assessment Areas

We first calculate the share of lending outside assessment areas by bank size, defined as total loans outside assessment areas divided by total loans for all institutions in each size category. The largest banks do 13 percent of their lending outside assessment areas, while all categories of banks with assets up to $100 billion do 28 to 30 percent of their lending outside assessment areas (table 1). This differential likely reflects the fact that the largest banks have much larger assessment areas, covering much of the county.

Table 1 also shows the share of total lending and the share of total lending outside assessment areas for each bank size group. Each of these two latter groups of numbers will add to 100 percent. Banks with assets above $100 billion provide 52 percent of total lending and only 33 percent of lending outside assessment areas, again reflecting their broad assessment areas. The banks with assets between $10 and $100 billion make 26 percent of all mortgage loans and do 37 percent of all lending outside assessment areas.

TABLE 1

Home Mortgage Lending outside Assessment Areas

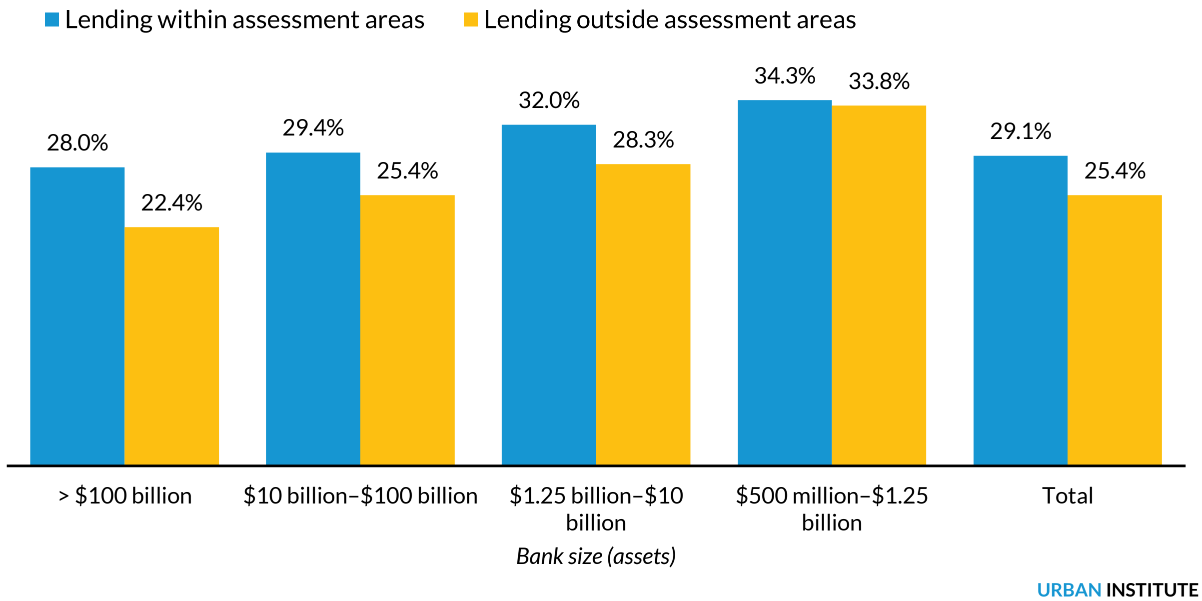
	Bank Size (Assets)				
	> $100 billion	$10 billion–$100 billion	$1.25 billion–$10 billion	$500 million–$1.25 billion	Total
Number of banks	23	90	398	93	604
Share of mortgages outside assessment areas	13.3%	29.4%	28.4%	29.6%	20.9%
Share of total mortgage loans	52.1%	26.3%	20.3%	1.4%	100.0%
Share of total mortgage loans outside assessment areas	33.3%	37.1%	27.7%	2.0%	100.0%

Source: Urban Institute calculations from 2019 Home Mortgage Disclosure Act data and 2019 Federal Financial Institutions Examination Council Community Reinvestment Act loan files.

Figure 1 shows the share of LMI lending within and outside banks' assessment areas. We define LMI mortgage lending as lending to borrowers who make less than 80 percent of the area median income or borrowers in LMI areas (census tracts with a median income less than 80 percent of the area median income). Banks do more LMI lending in communities within their assessment areas than they do outside their assessment areas. For example, for banks with assets above $100 billion, 28 percent of loans inside assessment areas are made to LMI borrowers or LMI neighborhoods, versus only 22 percent of loans outside assessment areas. Especially because we know that bank lending in LMI neighborhoods and to LMI borrowers lags overall mortgage lending, this disparity in LMI lending inside and outside assessment areas supports explicit evaluation of lending outside assessment areas.[4] We next turn to strategies for that evaluation.

FIGURE 1

Home Mortgage Lending for Low- and Moderate-Income Borrowers within and outside Assessment Areas



Source: Urban Institute calculations from 2019 Home Mortgage Disclosure Act data and 2019 Federal Financial Institutions Examination Council Community Reinvestment Act loan files.

Nationwide Threshold Analysis

We begin by conducting a threshold analysis to evaluate, for each bank in our dataset, the share of the bank's home mortgage loans made outside the bank's assessment area and the number of such loans. We are looking for a combination of loan share and the number of loans that will, for all banks taken together, capture the most lending outside assessment areas, while imposing additional CRA evaluations on few institutions.

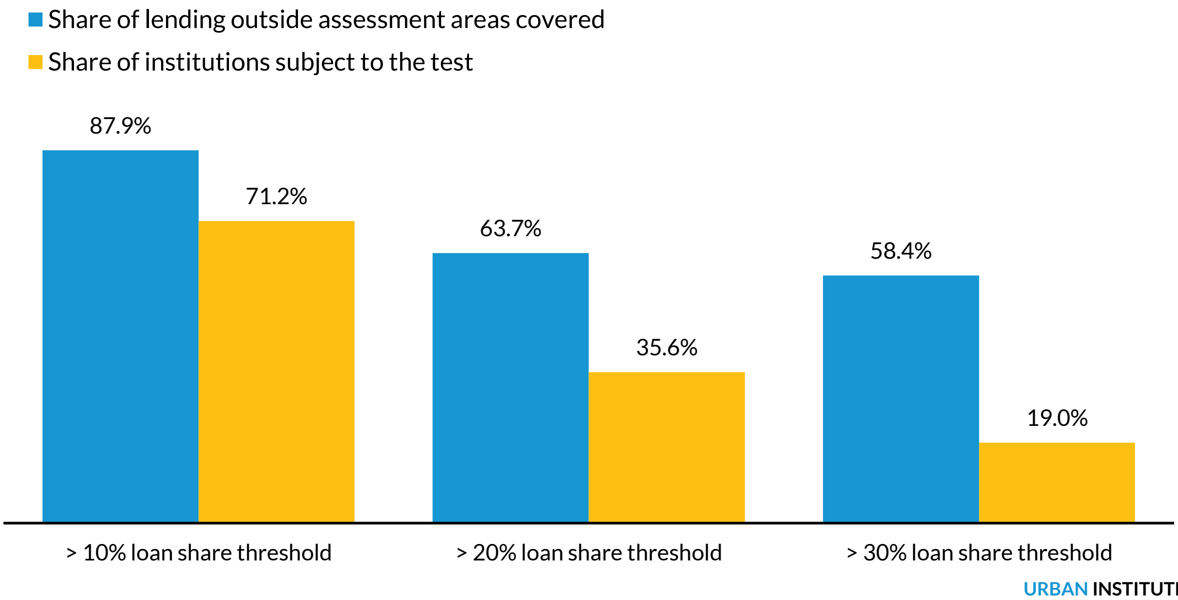
We consider a combination of two types of lending thresholds:

- The **loan share threshold** includes banks that do at least 10 percent, 20 percent, or 30 percent of their home mortgage lending outside assessment areas.
- The **loan count threshold** includes banks that make at least 100 or 250 home mortgages outside assessment areas each year.

Figure 2 looks at the trade-off between the share of lending outside assessment areas covered and the share of institutions included. For example, if we use a 10 percent loan share threshold, we cover 87.9 percent of lending outside assessment areas and pick up 71.2 percent of the institutions. If we use a 20 percent loan share threshold, coverage declines to 63.7 percent of the loans, but the measure would also impose a burden on fewer institutions (35.6 percent of the banks).

FIGURE 2

Home Mortgage Lending, by Loan Share Threshold

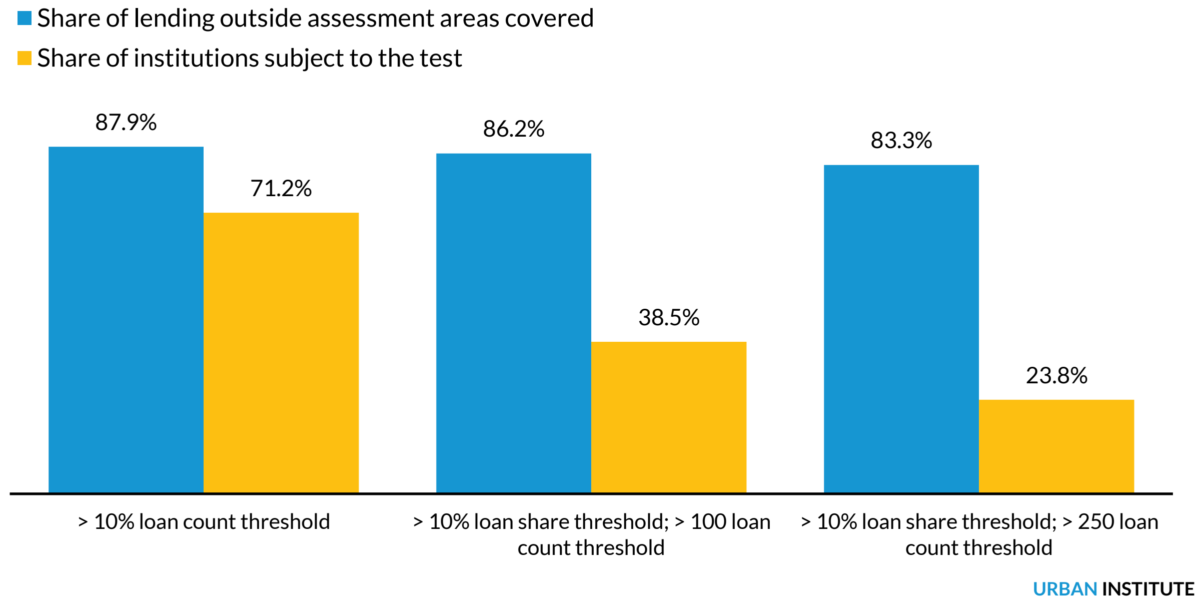


Source: Urban Institute calculations from 2019 Home Mortgage Disclosure Act data and 2019 Federal Financial Institutions Examination Council Community Reinvestment Act loan files.

We next consider adding a loan count threshold that, in conjunction with the loan share threshold, covers most lending outside assessment areas but minimizes the number of institutions subject to the test. The loan count threshold also eliminates evaluations of institutions for which there is insufficient information to assess their lending patterns. Figure 3 first reiterates the fact that if we use a 10 percent loan share threshold, we capture 87.9 percent of the loans and 71.2 percent of the banks. If we require that the bank make at least 100 home mortgages outside its assessment areas to be subject to the test, we reduce the share of covered loans only marginally (from 87.9 percent to 86.2 percent) but reduce the number of covered institutions considerably (from 71.2 percent to 38.5 percent). If we raise the loan count threshold to 250, the test would cover 83.3 percent of the loans but only 23.8 percent of banks. That is, 144 of the 604 banks in our sample would be subject to this test.

FIGURE 3

Home Mortgage Lending, by Loan Count Threshold



Source: Urban Institute calculations from 2019 Home Mortgage Disclosure Act data and 2019 Federal Financial Institutions Examination Council Community Reinvestment Act loan files.

Thus, combining the share of lending and loan count outside assessment areas is more efficient than using share of lending outside assessment areas alone. For example, combining a 10 percent lending share with a 250-loan minimum covers a higher share of loans outside assessment areas with fewer banks included than does a 20 percent lending share with no loan count threshold.

Table 2 shows how much of the market is included for each bank size category if we apply (1) a loan share threshold of more than 10 percent and (2) a loan count threshold of more than 250 loans. For the banks with assets above $100 billion, the test would cover 75.3 percent of loans outside assessment areas but only 52.2 percent of institutions (12 banks). As bank size declines, the share of institutions covered declines as well. For banks with assets between $1.25 and $10 billion, the test would cover 82.4 percent of the institutions' lending outside assessment areas but include only 21.9 percent of the institutions (40 banks). Overall, the proposed test would capture 83 percent of all banks' home mortgage lending outside assessment areas while subjecting only 144 banks to the test.

In terms of loan count, the proposed test would cover 437,550 of the 524,971 loans outside assessment areas in the 2019 HMDA data. For the smallest banks (with assets between $500 million and $1.25 billion), the test would cover only 60 percent of the loans, but the number of loans made is small. In table 1, we showed that loans by these smaller banks compose only about 2 percent of lending outside assessment areas.

TABLE 2

Effects of a Dual Threshold for Home Mortgage Lending

	Bank Size (Assets)				
	> $100 billion	$10 billion–$100 billion	$1.25 billion–$10 billion	$500 million–$1.25 billion	Total
Share of lending outside assessment areas	75.3%	92.8%	82.4%	60.0%	83.3%
Share of banks included if >10% and >250 rule is used	52.2%	44.4%	21.9%	10.8%	23.8%
Number of banks	12	40	87	10	144
Total number of loans outside assessment areas	174,478	194,508	144,961	10,284	524,971
Number of loans outside assessment areas included	131,428	180,553	119,402	6,167	437,550

Source: Urban Institute calculations from 2019 Home Mortgage Disclosure Act data, 2019 Federal Financial Institutions Examination Council Community Reinvestment Act loan files, and Federal Deposit Insurance Corporation call reports from the fourth quarter of 2019.

Note: The ">10% and >250 rule" indicates a loan share threshold of more than 10 percent and a loan count threshold of more than 250 loans.

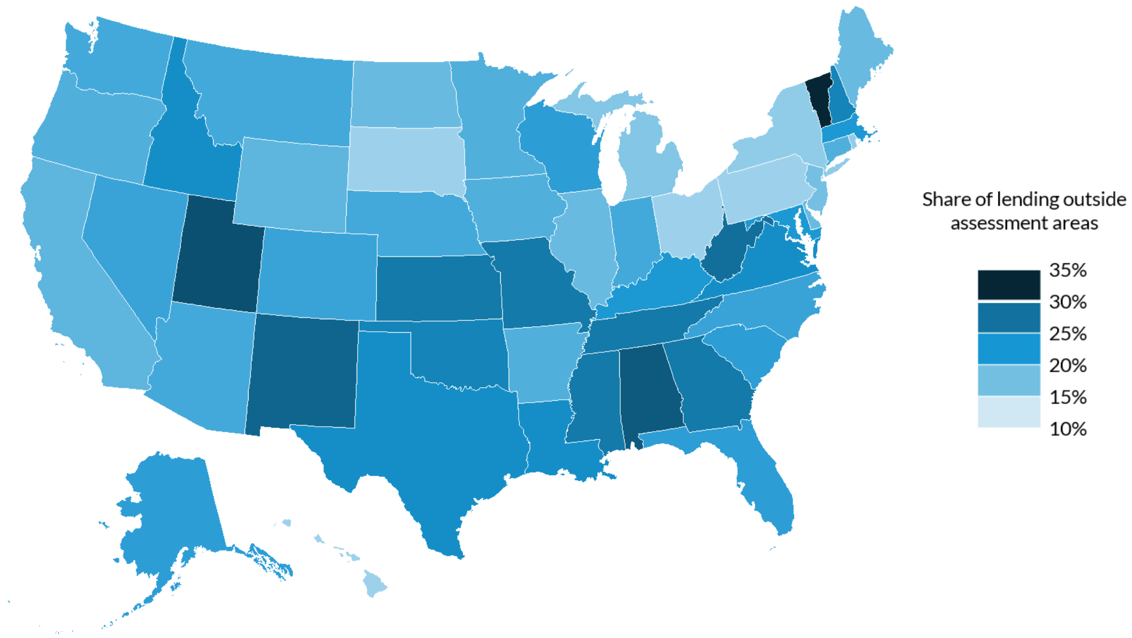
State-Level Lending outside Assessment Areas

In addition to an overall test for lending outside assessment areas, we consider whether there should be a more granular test. The rationale for such a test would be that a bank's lending, although outside the bank's assessment area, is important to the community. But how do we define community? Few banks do concentrated lending in areas outside their assessment areas. After examining bank lending activities at different geographic levels, we conclude that the minimum granularity for a test should be the state level.[5]

We look at how important mortgage lending is at the state level. Figure 4 shows the share of mortgage lending outside assessment areas for each state; state reliance on this lending varies from 14 percent in Pennsylvania to 35 percent in Vermont. Appendix table A.1 lists these shares for each state.

FIGURE 4

Mortgage Lending outside Assessment Areas in Each State



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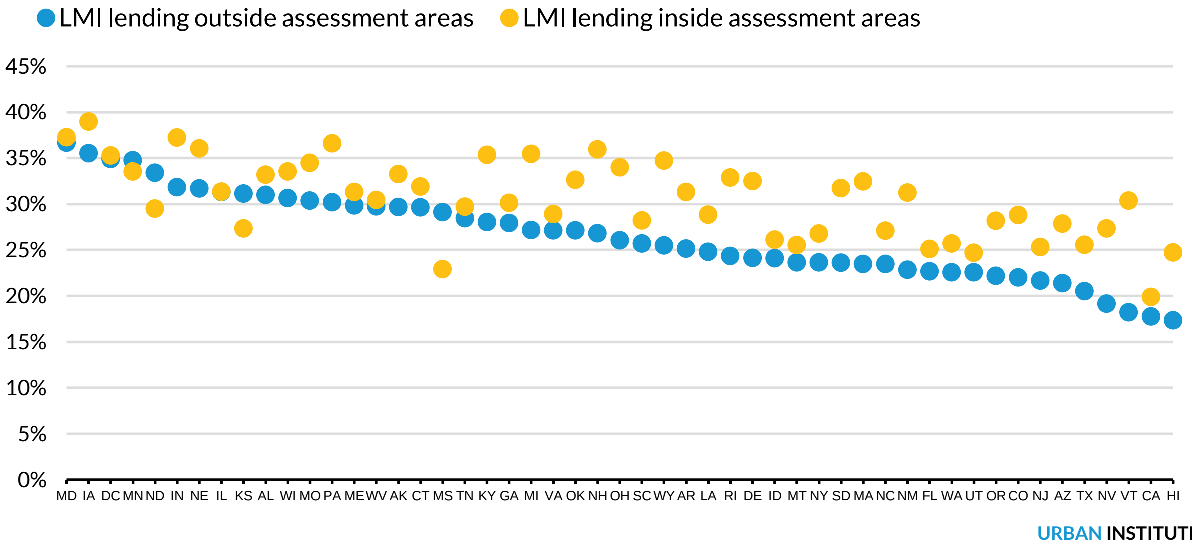
Source: Urban Institute calculations from 2019 Home Mortgage Disclosure Act data and 2019 Federal Financial Institutions Examination Council Community Reinvestment Act loan files.

Figure 5 shows that the LMI share of loans inside assessment areas is higher than the LMI share of loans outside assessment areas in 46 of the 50 states plus the District of Columbia. Consistent with our national-level findings, banks do more LMI home mortgage lending inside their assessment areas than outside their assessment areas at the state level, too. We conclude it is appropriate to consider evaluating banks at the state level when lending outside assessment areas is important to the state.

FIGURE 5

LMI Share of Home Mortgage Loans inside and outside Assessment Areas at the State Level



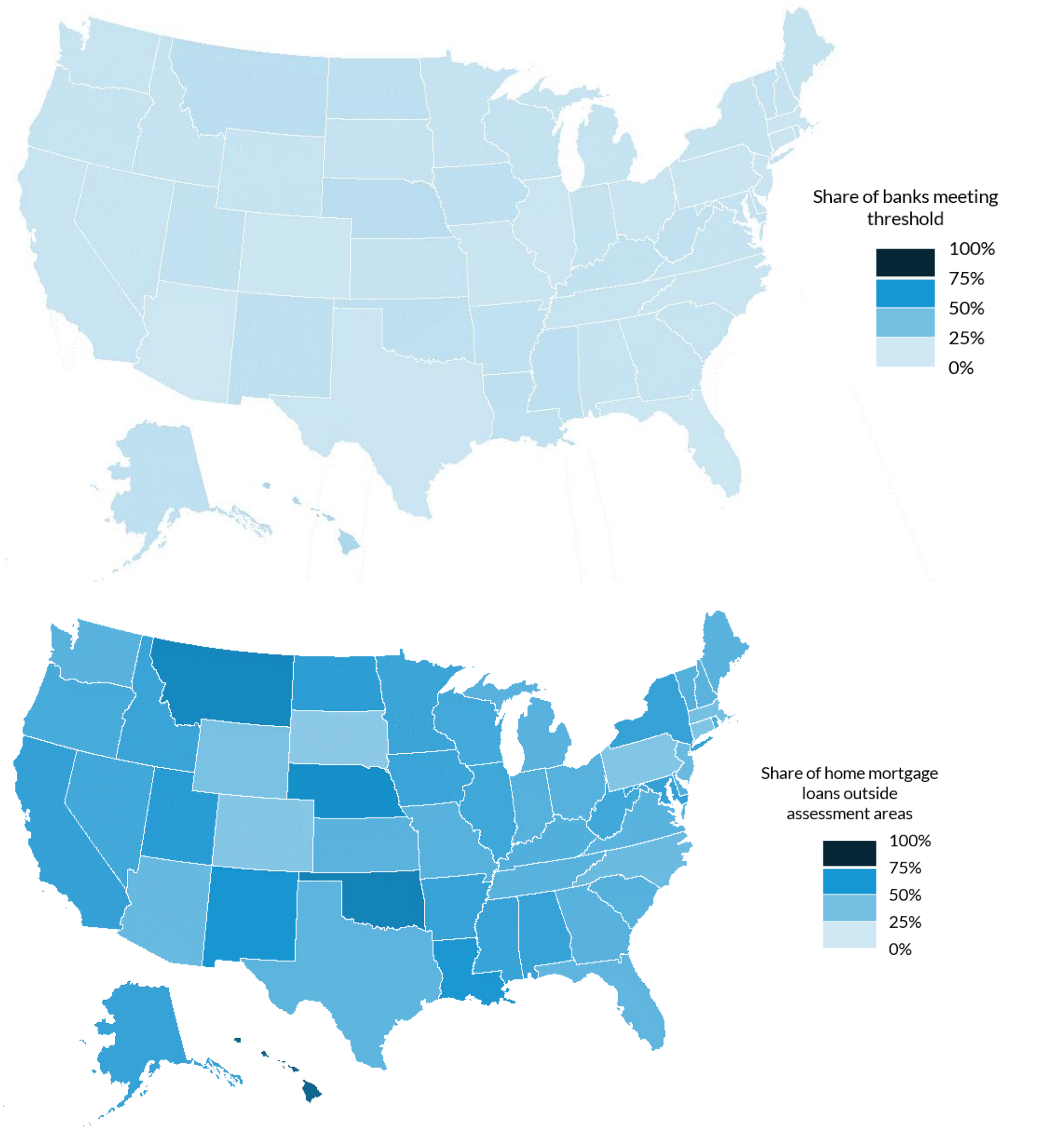
Source: Urban Institute calculations from 2019 Home Mortgage Disclosure Act data and 2019 Federal Financial Institutions Examination Council Community Reinvestment Act loan files.
Note: LMI = low- and moderate-income.

State-Level Threshold Analysis

At the state level, we ask whether a bank's lending outside assessment areas is important to the state—that is, does the bank's lending outside assessment areas compose an important share of that lending in the state?[6] Consistent with our national-level thresholds, we also propose a combination of a loan share and a loan count threshold. We consider banks whose lending constitutes more than 5 percent of a state's lending outside assessment areas and that make at least 100 mortgage loans outside assessment areas annually for that state. Figure 6 shows that this represents a very small share of banks in each state (ranging from 0.5 percent in Arizona to 11 percent in Hawaii) but covers a significant amount of lending outside assessment areas (ranging from 23 percent in Colorado to 75 percent in Hawaii).

FIGURE 6

State-Level Threshold Analysis for Home Mortgage Lending



Source: Urban Institute calculations from 2019 Home Mortgage Disclosure Act data and 2019 Federal Financial Institutions Examination Council Community Reinvestment Act loan files.

How large a burden would this impose on institutions? Table 3 shows that 43 banks would be subject to the test and that each tested bank would be subject to an average of 5 state tests. This would disproportionately affect the largest banks; 8 would be covered for an average of 11 tests apiece. Overall, this analysis would cover 40 percent of all loans outside assessment areas, and the 43 tested banks would be subject to the test in an average of 5 states.[7]

TABLE 3
State-Level Threshold Analysis Summary for Home Mortgage Lending

	Bank Size (Assets)				
	> $100 billion	$10 billion–$100 billion	$1.25 billion–$10 billion	$500 million–$1.25 billion	Total
Number of banks	23	90	398	93	604
Number of loans	1,309,249	660,756	510,208	34,778	2,514,991
Number of loans outside assessment areas	174,478	194,508	144,961	10,284	524,231
Number of banks meeting state thresholds	8	14	19	2	43
Average number of states per bank meeting thresholds	11	5	2	1	5
Loans outside assessment areas within the threshold as a share of total lending outside assessment areas	46.4%	48.9%	22.9%	9.5%	40.1%

Source: Urban Institute calculations from 2019 Home Mortgage Disclosure Act data, 2019 Federal Financial Institutions Examination Council Community Reinvestment Act loan files, and Federal Deposit Insurance Corporation call reports from the fourth quarter of 2019.

Small Business Lending

In this section, we look at small business lending outside assessment areas. Small business lending is defined as loans of $1 million or less; it includes loans to small businesses, commercial and industrial loans, loans secured by nonfarm or nonresidential real estate, and lines of credit on business credit cards, both the drawn and undrawn amount.[8]

Nationwide Lending outside Assessment Areas

Table 4 contains a landscape snapshot of this lending; overall, 33 percent of banks' small business lending is outside assessment areas. The table shows that, just as for mortgage lending, the largest banks make a smaller share of their small business loans outside assessment areas. That is, banks with assets above $100 billion make 26 percent of their small business loans outside assessment areas. For banks with assets between $10 billion and $100 billion, the share is 46 percent, and for banks with assets between $1.25 billion and $10 billion, the share is 64 percent. The largest banks have large, nearly nationwide assessment areas, so the share of lending outside assessment areas is smaller.

Small business lending is even more concentrated than mortgage lending; the 23 largest banks, with assets above $100 billion, make 76 percent of all small business loans. The 113 banks with assets above $10 billion make 86 percent of all small business loans. This high concentration likely reflects the fact that the largest banks are more involved in credit card lending, which constitutes a significant part of the balances for small business lending, though the data do not allow us to assess the share of small business lending represented by credit cards. If we look solely at lending outside assessment areas, the concentration declines but is still high. The 23 largest banks (with assets above $100 billion) made 59 percent of all loans to small businesses outside assessment areas. The 113 largest banks (with assets above $10 billion) made 72 percent of these loans.

TABLE 4

Small Business Lending outside Assessment Areas

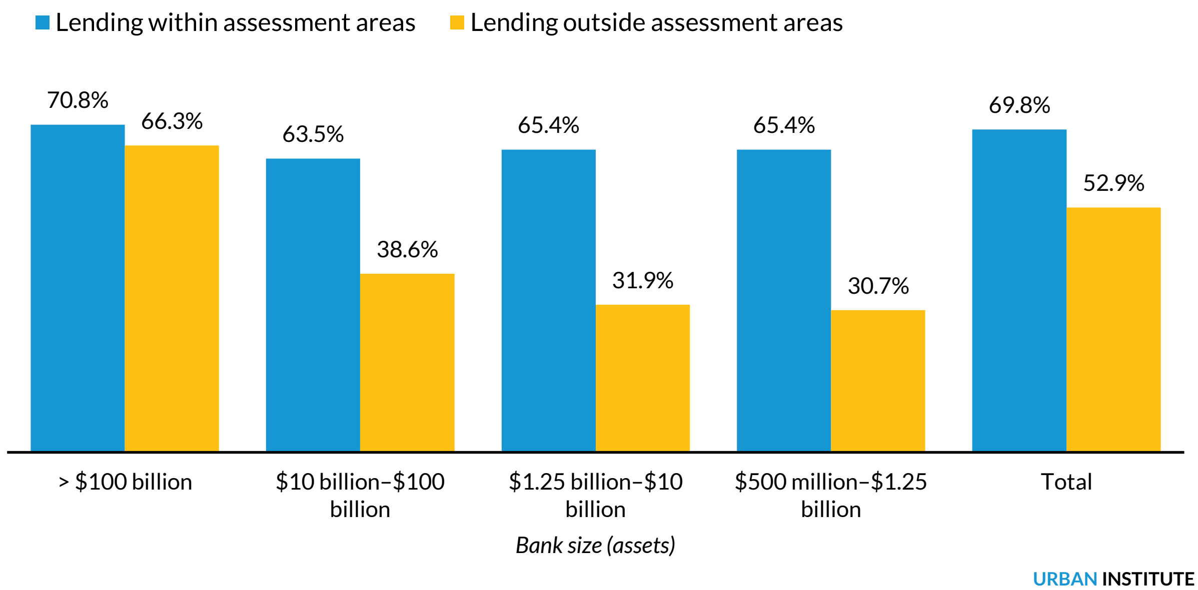
	Bank Size (Assets)				
	> $100 billion	$10 billion–$100 billion	$1.25 billion–$10 billion	$500 million–$1.25 billion	Total
Number of banks	23	90	398	93	604
Share of small business loans outside assessment areas	25.8%	45.2%	64.3%	71.1%	33.3%
Share of all small business loans	75.9%	9.6%	13.0%	1.5%	100.0%
Share of all loans to small businesses outside assessment areas	58.7%	13.0%	25.0%	3.2%	100.0%

Source: Urban Institute calculations from 2019 Federal Financial Institutions Examination Council Community Reinvestment Act loan files and Federal Deposit Insurance Corporation call reports from the fourth quarter of 2019.

The share of these small business loans that "count" for the CRA includes (1) small business loans (under $1 million) that are made in LMI tracts and (2) loans under $1 million to small businesses (those with revenues under $1 million); we refer to these as "CRA eligible" loans. Figure 7 shows that the share of CRA-eligible small business loans is higher within assessment areas (70 percent) than outside them (53 percent). We see this difference in mortgage lending as well, but it is substantially more pronounced in small business lending. And in small business lending, the difference in CRA-eligible loans inside and outside assessment areas is small for the largest banks and becomes progressively larger as bank size declines.

FIGURE 7

Community Investment Act–Eligible Small Business Lending within and outside Assessment Areas



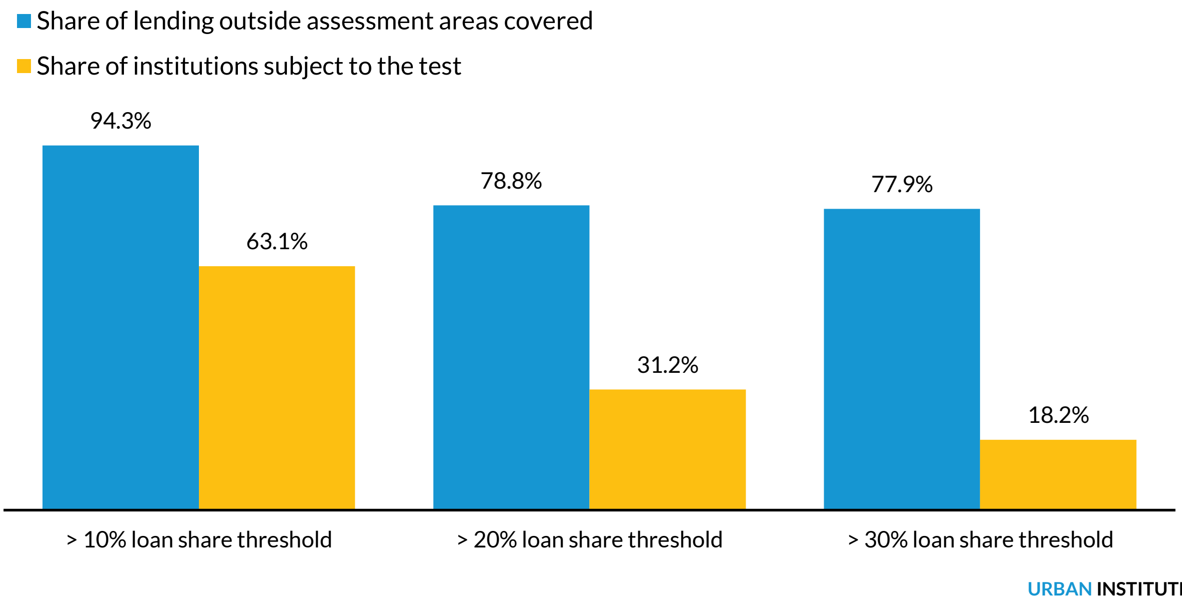
Source: Urban Institute calculations from 2019 Federal Financial Institutions Examination Council Community Reinvestment Act loan files and Federal Deposit Insurance Corporation call reports from the fourth quarter of 2019.

Nationwide Threshold Analysis

Given this, let us consider what a CRA evaluation of small business lending outside assessment areas might look like. Again, as with mortgage lending, our goal is to maximize the number of loans covered while minimizing the reporting burden. We want to consider both a loan share threshold and a loan count threshold. Figure 8 shows that if we were to test banks that make more than 10 percent of their small business loans outside their assessment areas, we would capture 94 percent of the loans but would have to test 63 percent of the banks. If we raise the threshold to 20 percent, we would capture 79 percent of the loans while testing 31 percent of the banks. Raising the threshold further to 30 percent results in only a small further loss of loans (78 percent covered) but decreases the share of tested institutions to 18 percent.

FIGURE 8

Small Business Lending, by Loan Share Threshold

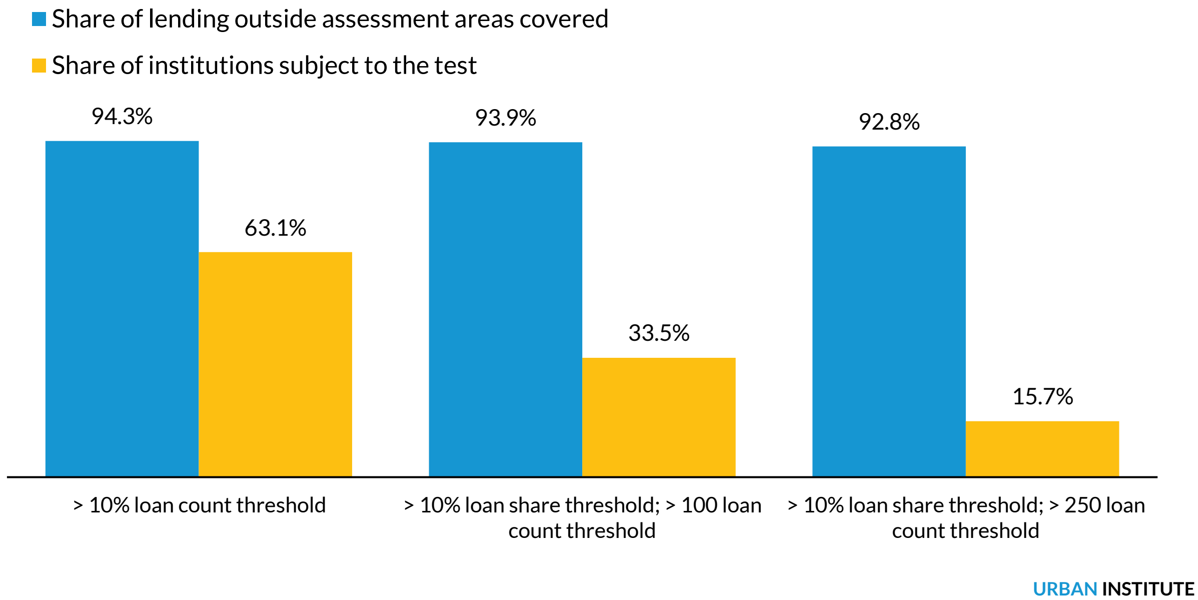


Source: Urban Institute calculations from 2019 Federal Financial Institutions Examination Council Community Reinvestment Act loan files.

We can obtain an even more favorable trade-off if we include a loan count threshold (figure 9). A 10 percent threshold results in testing 63 percent of institutions, with 94.3 percent coverage of loans outside assessment areas. If we keep the 10 percent threshold but introduce a 100-loan threshold, the number of loans covered is reduced very marginally (93.9 percent), but only 34 percent of the institutions would be subject to the test. If we increase the threshold to 250 loans, we cover 92.8 percent of the loans but need to test only 16 percent of the institutions.

FIGURE 9

Small Business Lending, by Loan Count Threshold



Source: Urban Institute calculations from 2019 Federal Financial Institutions Examination Council Community Reinvestment Act loan files.

Table 5 shows the effects of this dual threshold by bank size. Overall, the proposed test would cover 93 percent of the loans but only 16 percent of the institutions (96 banks). For institutions with assets above $100 billion, the test would cover 92 percent of the loans and 48 percent of the banks (11 banks). The loan coverage stays roughly constant, but the share of institutions covered declines steadily as bank size decreases.

TABLE 5

Effects of a Dual Threshold for Small Business Lending

	Bank Size (Assets)				
	> $100 billion	$10 billion–$100 billion	$1.25 billion–$10 billion	$500 million–$1.25 billion	Total
Number of banks	23	90	398	93	604
Share of banks included if >10% and >250 rule is used	91.9%	94.9%	94.0%	93.2%	92.8%
Number of loans outside assessment areas	1,048,523	233,033	446,631	57,798	1,785,985
Number of banks covered	11	30	49	6	96
Number of loans covered	963,896	221,241	419,659	53,867	1,658,663

Source: Urban Institute calculations from 2019 Federal Financial Institutions Examination Council Community Reinvestment Act loan files.

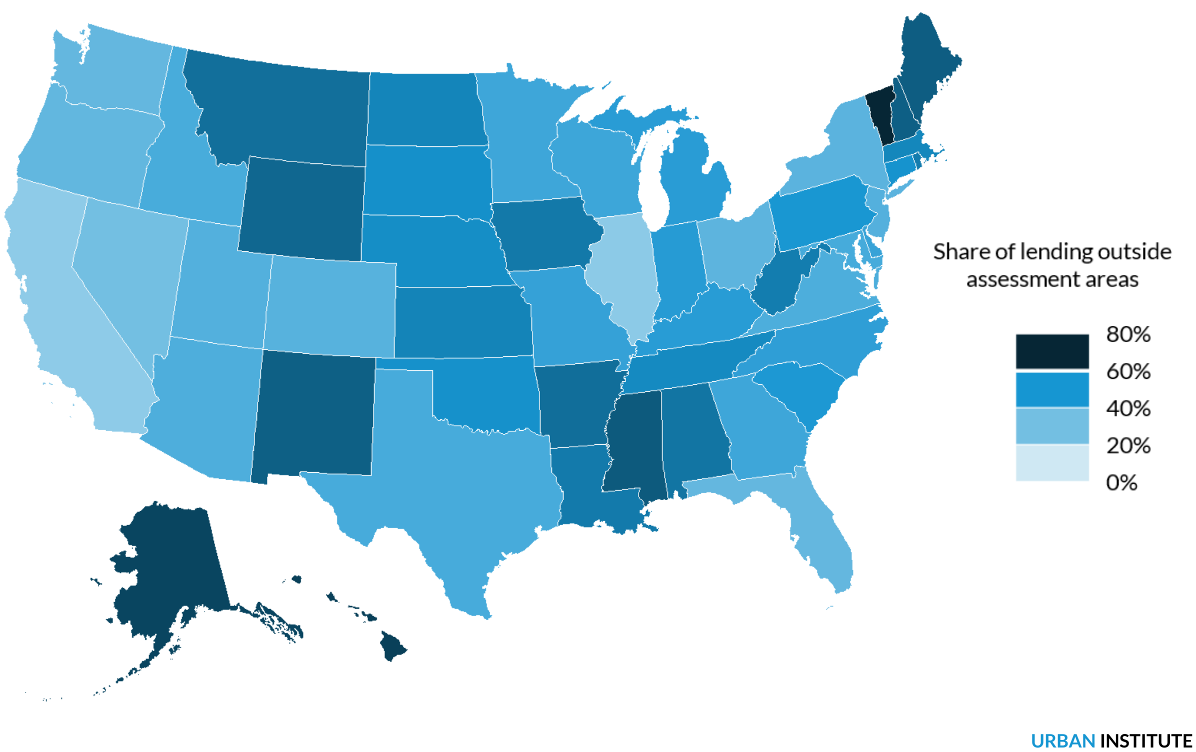
State-Level Lending outside Assessment Areas

As for mortgage lending, we ask whether there is a case to be made to test small business lending outside assessment areas at a more granular level? Again, the rationale for such a test would be that the lending is important to the community. We find that few banks do a concentrated amount of lending in localities that are not in their assessment areas. The minimum level of aggregation for which we can do any meaningful analysis is the state level.

We know for the US as a whole, 33 percent of small business loans are made outside assessment areas, but this varies dramatically by state, from a low of 17 percent in California to a high of 80 percent in Vermont (figure 10). Appendix table A.2 lists these shares for each state.

FIGURE 10

Small Business Lending outside Assessment Areas in Each State

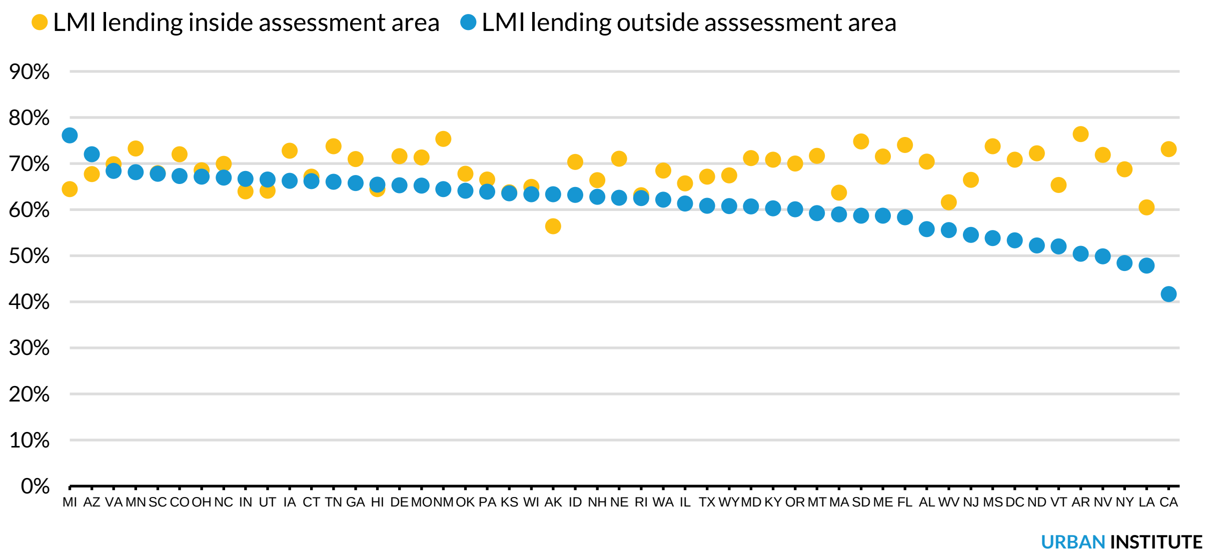


Source: Urban Institute calculations from 2019 Federal Financial Institutions Examination Council Community Reinvestment Act loan files.

Just as we found for mortgage lending, the amount of small business lending covered by the CRA (small loans to businesses in LMI areas or small loans to small businesses) is higher within assessment areas than outside assessment areas in just about every state. Figure 11 shows the CRA-eligible share of small business lending is higher inside assessment areas than outside assessment areas in 45 states and the District of Columbia.

FIGURE 11

LMI Share of Small Business Loans inside and outside Assessment Areas at the State Level



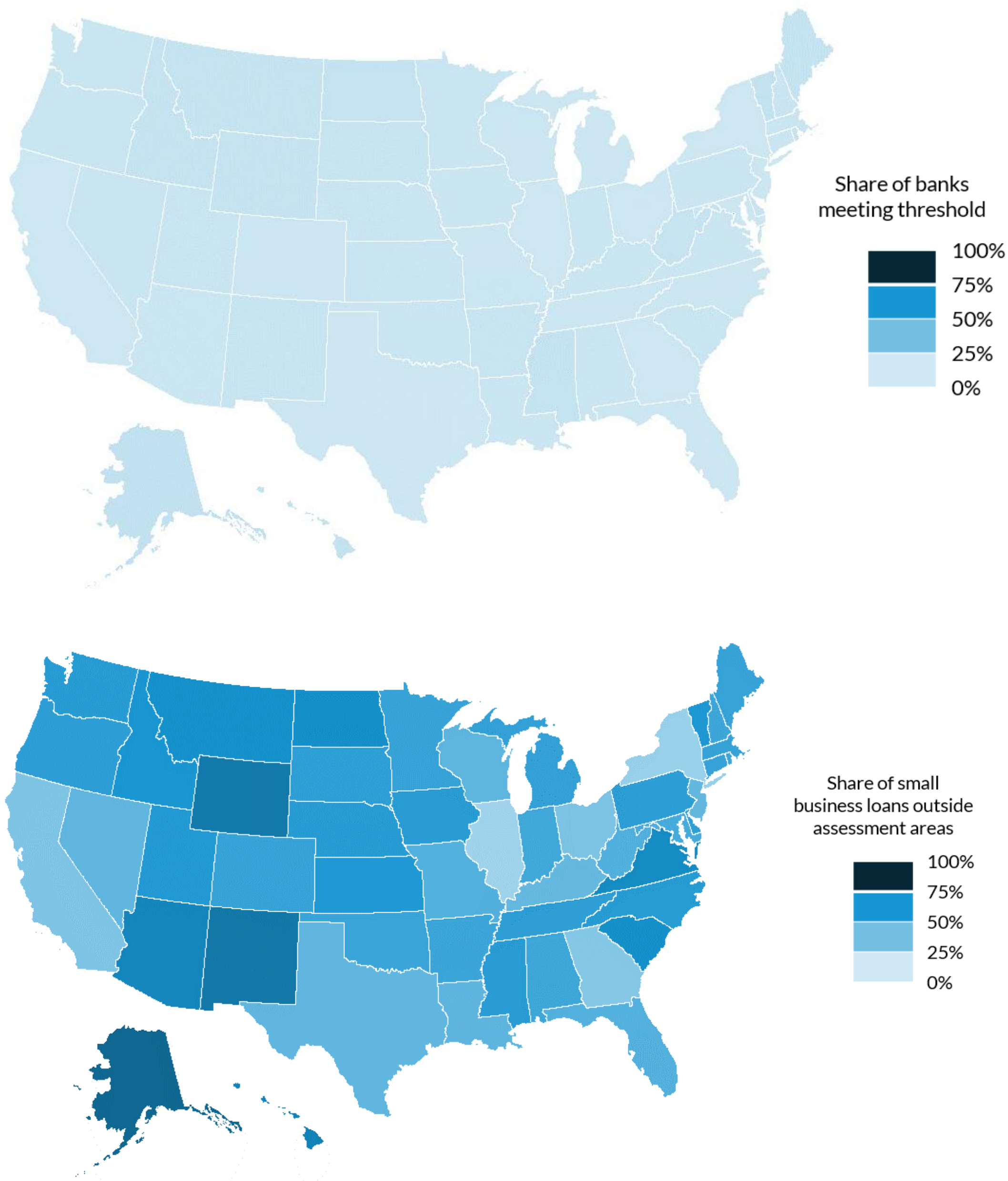
Source: Urban Institute calculations from 2019 Federal Financial Institutions Examination Council Community Reinvestment Act loan files.
Note: LMI = low- and moderate-income.

State-Level Threshold Analysis

We consider whether a bank's small business lending outside assessment areas is important to lending in each state. As with mortgage lending, we apply a dual threshold and consider banks whose lending constitutes more than 5 percent of a state's lending outside assessment areas and that make at least 100 mortgage loans outside assessment areas annually in that state. Figure 12 shows that in most states, only a few banks provide at least 5 percent of all loans outside assessment areas and make more than 100 loans. But these banks compose a significant share of small business lending outside assessment areas in several states.

FIGURE 12

State-Level Threshold Analysis for Small Business Lending



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Source: Urban Institute calculations from 2019 Federal Financial Institutions Examination Council Community Reinvestment Act loan files.

How large a burden would this impose on banks making small business loans? Table 6 shows that only seven banks in the country would be subject to this test; five of those banks are in the largest size category. Each of these five large institutions would be subject to evaluation in an average of 21 states. Adopting this threshold would capture 41 percent of the loans.[9]

TABLE 6

State-Level Threshold Analysis Summary for Small Business Lending

	Bank Size (Assets)				
	> $100 billion	$10 billion–$100 billion	$1.25 billion–$10 billion	$500 million–$1.25 billion	Total
Number of banks	23	90	398	93	604
Number of loans	4,060,895	515,619	694,529	81,286	5,352,329
Number of loans outside assessment areas	1,048,530	233,034	446,628	57,798	1,785,990
Number of banks meeting state thresholds	5	1	1	N/A	7
Average number of states per bank meeting thresholds	21	3	17	N/A	18
Loans outside assessment areas within the threshold as a share of total lending outside assessment areas	54.9%	3.5%	34.0%	N/A	41.2%

Source: Urban Institute calculations from 2019 Federal Financial Institutions Examination Council Community Reinvestment Act loan files and Federal Deposit Insurance Corporation call reports from the fourth quarter of 2019.

Conclusion

Lending outside assessment areas constitutes an important part of overall bank lending. For the banks in our dataset, 21 percent of home mortgage lending and 33 percent of small business lending is done outside banks' assessment areas. We have also shown that banks are less focused on LMI mortgage lending and CRA-eligible small business lending (lending to LMI areas and to businesses with limited revenue) outside than inside their assessment areas.

As the federal bank regulatory agencies revise the CRA regulations, they may want to consider evaluating retail lending outside assessment areas more systematically. In designing such an evaluation, a strategy we found appealing was to cover as many loans outside assessment areas as possible, while minimizing the number of institutions that would be affected. Operationally, we concluded that this is possible by focusing on banks whose lending outside assessment areas meets two thresholds: a threshold level of this lending and a threshold number of loans.

Our recommendation is to test all institutions that do more than 10 percent of their nationwide lending outside assessment areas and make at least 250 loans outside assessment areas each year. This would cover

- 83 percent of home mortgage lending outside assessment areas but would require an evaluation of only 144 banks (24 percent of the institutions we looked at), of which 52 have assets above $10 billion; and
- 93 percent of small business lending outside assessment areas but would require an evaluation of only 96 banks (16 percent of the institutions we looked at), of which 41 have assets above $10 billion.

Our analysis strongly suggests that on a nationwide basis, one can obtain robust coverage of loans outside assessment areas while imposing a relatively small burden on the banking community.

Imposing tests at a more granular level is more difficult. Lending outside assessment areas is diffuse, and we believe the smallest granularity that can be used is the state level. But this lending is important to several states, especially smaller, more rural states. For example, this lending represents 35 percent of home mortgage loans in Vermont, 30 percent in Alabama, and 29 percent in New Mexico. This lending represents 80 percent of small business loans in Vermont, 71 percent in Alaska, and 80 percent in Wyoming.

To evaluate the extent to which lending outside assessment areas is fully serving the community in which a bank is operating, even if outside the bank's assessment area, one could consider imposing a state-level test that examines whether a bank's lending outside assessment areas is important to a community. For our analysis, we have defined this as an institution that makes more than 5 percent of a state's lending outside assessment areas and more than 100 loans a year in that state. Under these criteria, the test would cover roughly half of mortgage loans outside assessment areas, while subjecting 43 banks to the test, each of which would have to test on average in 5 states. With respect to small business lending outside assessment areas, such a test would cover 41 percent of the loans, while subjecting only 7 banks to this extra set of tests, each of which would have to test on average in 18 states.

There is a clear case for subjecting banks that do a significant share of their lending outside their assessment areas to a single national test for that lending. The case for state-level tests is less clear, but given the importance of lending outside assessment areas in some states, regulators should consider including such an evaluation.

Appendix

TABLE A.1

Home Mortgage Lending outside Assessment Areas

State	% of lending	State	% of lending	State	% of lending
AK	22.9%	LA	24.9%	OK	26.1%
AL	30.1%	MA	24.0%	OR	20.0%
AR	20.6%	MD	24.5%	PA	14.3%
AZ	20.6%	ME	17.6%	PR[a]	0.1%
CA	19.2%	MI	16.2%	RI	15.1%
CO	22.2%	MN	20.3%	SC	22.9%
CT	19.6%	MO	27.4%	SD	14.0%
DC	18.0%	MS	26.7%	TN	27.4%
DE	17.6%	MT	20.9%	TX	25.5%
FL	22.6%	NC	22.0%	UT	31.4%
GA	27.1%	ND	18.3%	VA	25.5%
HI	13.9%	NE	20.6%	VT	35.2%
IA	19.6%	NH	25.9%	WA	20.7%
ID	24.9%	NJ	17.2%	WI	22.6%
IL	18.1%	NM	29.5%	WV	27.7%
IN	20.8%	NV	22.4%	WY	19.0%
KS	27.4%	NY	15.0%		
KY	23.7%	OH	14.3%		

Source: Urban Institute calculations from 2019 Home Mortgage Disclosure Act data and 2019 Federal Financial Institutions Examination Council Community Reinvestment Act loan files.

[a] Puerto Rico.

TABLE A.2

Small Business Lending outside Assessment Areas

State	% of lending	State	% of lending	State	% of lending
AK	70.7%	KY	42.5%	NY	29.5%
AL	56.0%	LA	54.2%	OH	28.9%
AR	58.1%	MA	50.4%	OK	47.2%
AZ	32.5%	MD	34.3%	OR	27.6%
CA	16.5%	ME	63.2%	PA	45.3%
CO	30.5%	MI	42.4%	RI	53.6%
CT	46.6%	MN	36.8%	SC	44.7%
DC	16.4%	MO	39.5%	SD	47.4%
DE	39.0%	MS	64.3%	TN	49.4%
FL	27.2%	MT	57.7%	TX	34.1%
GA	36.9%	NC	41.2%	UT	31.5%
HI	72.0%	ND	51.0%	VA	32.7%
IA	54.7%	NE	48.2%	VT	79.9%
ID	33.8%	NH	62.5%	WA	27.2%
IL	17.0%	NJ	31.3%	WI	37.2%
IN	43.0%	NM	62.4%	WV	53.3%
KS	51.2%	NV	22.9%	WY	60.1%

Source: Urban Institute calculations from 2019 Home Mortgage Disclosure Act data and 2019 Federal Financial Institutions Examination Council Community Reinvestment Act loan files.

Notes

[1] Institutions with more than $1.284 billion in assets are required to report in this form. So-called intermediate small institutions, with at least $321 billion but less than $1.284 billion in assets, are not required to report this information but are subject to a CRA exam that looks at the same factors as for larger institutions, so many choose to report. Institutions with less than $321 million in assets are subject to a scaled-down CRA exam.

[2] Through the matching process, we eliminate the internet banks and other institutions that do not do mortgage lending and that do almost all their lending outside their assessment areas, such as American Express.

[3] We use "banks" to refer to CRA-covered institutions, but CRA coverage includes other Federal Deposit Insurance Corporation–insured depository institutions.

[4] Laurie Goodman, Linna Zhu, Ellen Seidman, Janneke Ratcliffe, and Jun Zhu, "Should the Community Reinvestment Act Consider Race?" (Washington, DC: Urban Institute, 2022).

[5] We initially began this analysis at the county level. It quickly became clear that even though many counties had large shares of lending outside assessment areas, many banks did the lending. There were few counties in which this lending was concentrated in one or a few institutions, and each of these institutions extended more than 100 loans each year. It is important to have a loan count threshold because if there are not enough loans, it is hard to measure whether banks are meeting their responsibility to the community. If we went with this approach, we would subject a very low share of the loans outside assessment areas to a CRA area test. Consistent with our philosophy of covering as many loans as possible, while subjecting the fewest institutions to the tests, it made sense to consider a state-level analysis rather than a county-level analysis.

[6] This section aims to give a sense of what state-level CRA testing might look like. Our threshold choices are meant to be illustrative. For example, we consider whether a bank's lending was important to the state by defining "important" as 5 percent of lending outside assessment areas in the state. We could have defined importance in terms of all lending rather than only lending outside assessment areas and lowered the 5 percent threshold. The 5 percent threshold is arbitrary.

[7] All banks that would be subject to the statewide tests for mortgage lending would also meet the thresholds for the national test.

[8] Although we have taken pure credit card lenders out of our data (as they do not do mortgage lending), the banks in our data do a significant amount of small business credit card lending. The FFIEC data do not allow us to distinguish credit card lending from standard business loans; such data would be helpful. The Consumer Financial Protection Bureau is considering a regulation under section 1071 of the Dodd–Frank Act that would require that credit card loans be identified. The 90-day comment period for this regulation opened on October 8, 2021, and closed on January 6, 2022. See Small Business Lending Data Collection under the Equal Credit Opportunity Act (Regulation B), 86 Fed. Reg. 56356 (Oct. 8, 2021).

[9] All banks that would be subject to the state tests for small business loans would also reach the thresholds necessary for the national test.

About the Authors

Laurie Goodman is an Institute fellow at the Urban Institute. She founded the Housing Finance Policy Center in 2013 and was its director or codirector from 2013 to 2021. The center provides policymakers data-driven analyses of housing finance policy issues they can depend on for relevance, accuracy, and independence. Before joining Urban, Goodman spent 30 years as an analyst and research department manager at several Wall Street firms. From 2008 to 2013, she was a senior managing director at Amherst Securities Group LP, a boutique broker-dealer specializing in securitized products, where her strategy effort became known for its analysis of housing policy issues. From 1993 to 2008, Goodman was head of global fixed income research and manager of US securitized products research at UBS and predecessor firms, which were ranked first by *Institutional Investor* for 11 consecutive years. Before that, she held research and portfolio management positions at several Wall Street firms. She began her career as a senior economist at the Federal Reserve Bank of New York. Goodman was inducted into the Fixed Income Analysts Hall of Fame in 2009. Goodman serves on the board of directors of MFA Financial, Arch Capital Group Ltd., and Home Point Capital Inc. She is a consultant to the Amherst Group and serves on the Consumer Financial Protection Bureau's Consumer Advisory Board. She has published more than 200 journal articles and has coauthored and coedited five books. Goodman has a BA in mathematics from the University of Pennsylvania and an AM and PhD in economics from Stanford University.

Ellen Seidman is a nonresident fellow in the Housing Finance Policy Center. From 2012 to 2016, Seidman served on the inaugural Consumer Advisory Board of the Consumer Financial Protection Bureau. From 2012 to 2014, she was a visiting scholar at the Federal Reserve Bank of San Francisco, where she edited *Investing in What Works for America's Communities*; *What Counts: Harnessing Data for America's Communities*; and *What It's Worth: Strengthening the Financial Future of Families, Communities, and the Nation*. From 2002 to 2010, Seidman held various positions at ShoreBank Corporation. She was senior counsel to the Democratic staff of the House Financial Services Committee, was special assistant to the president for economic policy, and held senior positions at Fannie Mae and the US Departments of Transportation and the Treasury. From 1997 to 2001, she was director of the Office of Thrift Supervision and sat on the boards of the Federal Deposit Insurance Corporation and NeighborWorks America. She serves on the boards of the Financial Health Network, Maine Initiatives, and Friends of the Strand Theatre. Seidman received an AB from Radcliffe College, an MBA from the George Washington University, and a JD from Georgetown University.

Jun Zhu is a visiting assistant professor in the finance department at Indiana University–Bloomington and a nonresident fellow in the Housing Finance Policy Center. Previously, she was a principal research associate in the Housing Finance Policy Center, where she provided timely and rigorous data-driven research on key housing policy issues, designed and conducted quantitative studies of the housing finance market, and manages and explores housing and mortgage databases. Before that, Zhu was a senior economist in the Office of the Chief Economist at Freddie Mac, where she conducted research on mortgage and housing topics, including default, prepayment, and house price appreciation. While at Freddie Mac, she was a consultant to the US Department of the Treasury. Zhu has published more than 50 research articles on the financial crisis and the GSEs, mortgage refinance and modification, mortgage default and prepayment, housing affordability and credit availability, and affordable housing and access to homeownership. Her research has been published in leading real estate and finance academic and professional journals, such as *Real Estate Economics*, the *Journal of Real Estate Finance and Economics*, and the *Journal of Fixed Income*. Zhu holds a BS in real estate with a minor in computer science from Huazhong University of Science and Technology, an MS in real estate from Tsinghua University, and a PhD in real estate with a minor in economics from the University of Wisconsin–Madison.

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URBAN INSTITUTE · ELEVATE · THE · DEBATE

500 L'Enfant Plaza SW
Washington, DC 20024

www.urban.org