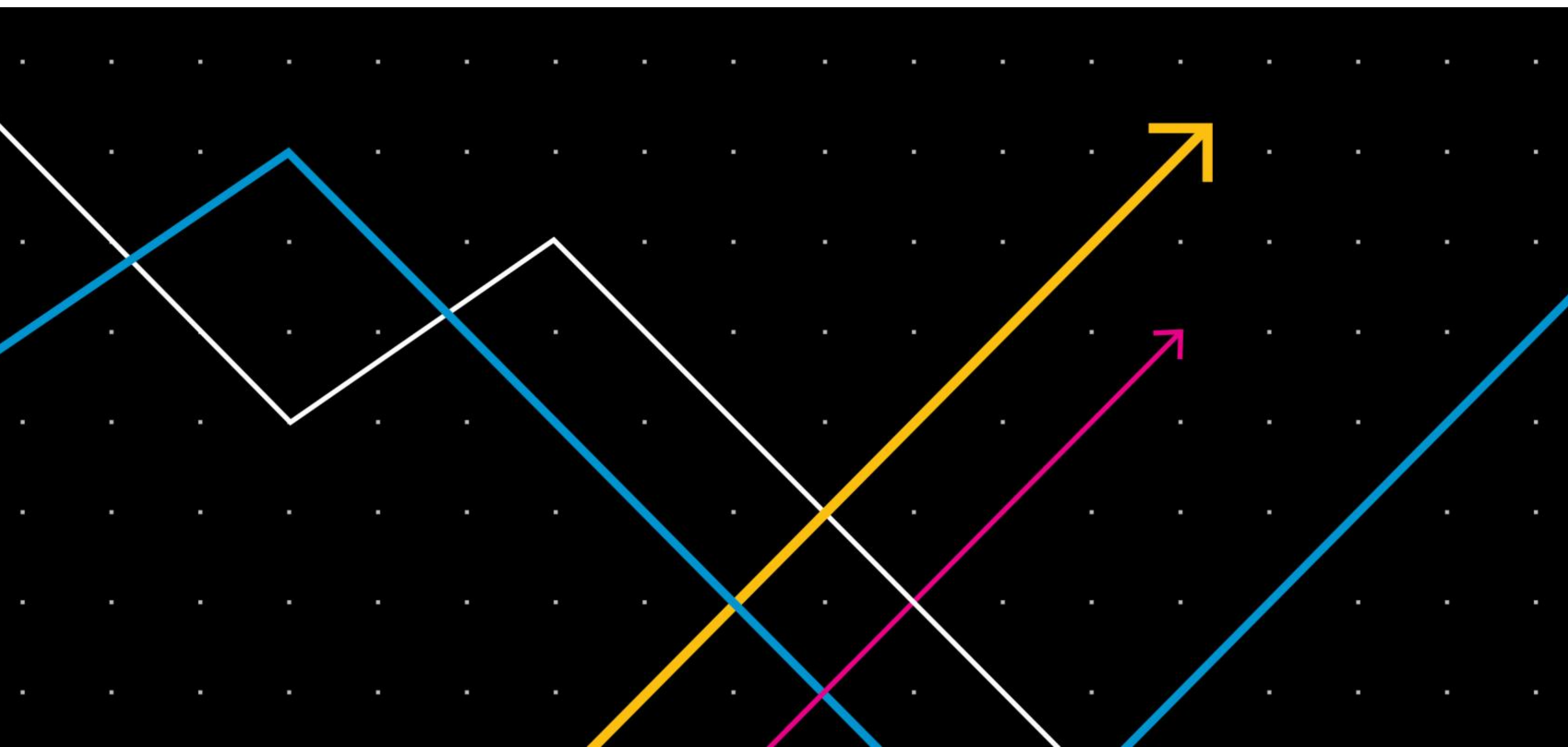

RESEARCH REPORT

# Measuring the Flow of Private Capital in Chicago's Communities

## Lending Gaps and Implications for Community Reinvestment Legislation

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*November 2022*

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# Executive Summary

In Chicago, the flow of capital—including mortgage and small business lending—is shaped in part by race and place. Disparities in lending in Chicago have been well documented, with market investments more readily flowing to predominantly white neighborhoods that have high average incomes, widening gaps in capital access for households of color and households with low and moderate incomes (Theodos et al. 2019). This report builds upon work exploring neighborhood-level trends in capital investments in Chicago and covers three topics:

1. **Capital flows overview.** An overview of the lending distribution of mortgage and small business lending by city area from the latest data
2. **Meeting financing need.** A quantitative analysis of mortgage and small business lending relative to consumer demand by race and neighborhood location and demographics, as well as the impact of community reinvestment legislation
3. **Findings from community organizations in Chicago.** A qualitative analysis of challenges and needs among communities of color and communities with low incomes addressed in interviews with five Chicago community organizations and lenders engaged in community development financing, small business and housing programs, and grantmaking

## Summary of Findings

We assess trends in mortgage lending by loan count, or the number of loans issued, and small business lending by both loan count and volume, or the loan dollar amount.

### Mortgage Lending

We find that access to mortgage lending differs by neighborhood in terms of racial composition and income, with greater disparities in capital flow patterns between upper- and lower-income neighborhoods and between Black and non-Black households:

- Mortgage lending in predominantly nonwhite neighborhoods, 28.0 percent of all lending in the city, is not keeping up with the share of homeowners that these areas represent (36.4 percent). Alternatively, lending in mixed neighborhoods and predominantly white neighborhoods is

surpassing the share of homeowners in those areas. The implication is that predominantly nonwhite neighborhoods are falling further behind in accessing homeownership.

- Low- and moderate-income (LMI) neighborhoods (home to 47.2 percent of homeowners) and middle-income neighborhoods (home to 20.1 percent of owners) in Chicago both receive mortgage lending disproportionate to their share of homeowners (39.6 percent and 18.4 percent, respectively). This disparity in LMI and middle-income areas is driven entirely by lending gaps in predominantly nonwhite areas, as demographically mixed neighborhoods and predominantly white neighborhoods at these income levels receive lending greater than their homeowner share.
- Across the city, nonwhite households account for more than half of Chicago homeowners, but they receive only 46.7 percent of purchase lending across all neighborhoods. This difference is driven entirely by lending in LMI neighborhoods, where nonwhite homeowners account for 76.5 percent of owner-occupied housing but receive only 68.1 percent of purchase lending.
  - Black households make up 22 percent of Chicago's homeowners but receive only 14.5 percent of purchase lending, making them the only racial group to receive less than their proportionate share of overall lending relative to the homeownership rate. This gap is widest in LMI neighborhoods, where Black households make up 37.2 percent of homeowners but receive 27.9 percent of mortgage purchase lending—a nearly 10 percentage-point gap.
  - Latino households in Chicago receive lending shares proportionate to their homeowner share overall, but significant gaps exist inside communities with the largest shares of Latino households, suggesting gentrification and displacement.

## Small Business Lending

These trends are similarly reflected in small business lending, with predominantly nonwhite neighborhoods receiving loans at a disproportionately low rate compared with their share of active businesses:

- Originations of small business loans in Chicago's predominantly nonwhite neighborhoods (25.2 percent of all lending in the city) are lagging the share of active businesses in these areas (28.3 percent of all active businesses).

- By income level, there are small deviations in trends by loan share, but the share of loans by volume is higher in upper-income neighborhoods than in low-income neighborhoods relative to active businesses. LMI neighborhoods account for 38.3 percent of businesses and receive a nearly proportionate share of loans (37.8 percent) but receive just 29.9 percent of loan volume.
- Upper-income neighborhoods, accounting for 48.3 percent of businesses, receive less than their share of loans (45.3 percent), but their loan volume is higher (55.0 percent).
- In Chicago's low-income neighborhoods, 68.9 percent of active businesses work in predominantly nonwhite areas, but lenders originated only 56.4 percent of loans to small businesses inside those areas. In middle-income areas, the gap is starker: 16.7 percent of businesses are in predominantly nonwhite areas, but only 9.4 percent of loans to small businesses were originated in these areas.
- Expanding community reinvestment coverage to banks that have a large lending presence but no physical branches would provide a significant boost to the share of lending evaluated in low-income neighborhoods in Chicago.

## Qualitative Interviews

Local Chicago organizations involved in community development (including community development financial institutions), grantmaking, and housing and small business engagement reflected on disparities in capital flows in interviews, describing financial institutions' persistent patterns of racial discrimination that divert investments away from the city's South Side and toward the North Side, strained community trust with large banks, and information gaps that inhibit people from benefiting from financial services and products. Though some large financial institutions have pledged investments to boost racial equity, some interviewees expressed concerns about a lack of transparency and external accountability to monitor these efforts. Moreover, interviewees described "performative" commitments, such as financial education tours, rather than substantive initiatives, such as direct fund disbursement to residents. Others noted that smaller financial institutions, including local or regional banks or credit unions, play important roles in filling financial access gaps for people of color and people with low and moderate incomes but may be oversubscribed. Interviewees encouraged the expansion of down payment assistance and low- or no-closing-cost programs, grants for entrepreneurs and prospective homeowners, and financial institution investments via government community investment funds as tools for increasing access to capital flows for Black and Latino communities, and communities with low and moderate incomes, in particular.

## Data

The data we assembled for this analysis are available for download from the Urban Institute Data Catalog.[1] We provide lending and demographic variables aggregated at both the census tract and community area levels.

# 1. Background

Disparities in capital flows in Chicago, both historic and current, have been well documented and quantified. Theodos and coauthors (2019) found that Chicago's majority-white neighborhoods receive 4.6 times as much market investment per household as majority-Black neighborhoods and 2.6 times as much investment as majority-Latino neighborhoods. And although public and mission-driven investors invest 10 times more per household in neighborhoods with high poverty rates compared with neighborhoods with low poverty rates, these investors make up a smaller portion of the market than traditional investors, leading to continual financing gaps in communities with low incomes (Theodos et al. 2019).

A 2020 study by WBEZ Chicago found that 68.1 percent of dollars loaned for home purchases went to majority-white neighborhoods versus 8.1 percent in majority-Black neighborhoods and 8.7 percent in majority-Latino neighborhoods.[2] The report identified lending disparities within the country's largest financial institutions, finding that between 2012 and 2018, more than 75 percent of the lending from JPMorgan Chase and Wells Fargo went to Chicago's majority-white neighborhoods. Another study found that between 1984 and 2019, banks under the enforcement of the Community Reinvestment Act (CRA) originated more loans in predominantly white Central and North Chicago than in communities where people of color make up the majority, with larger disparities in loan amounts in recent years: in 1984, the average CRA bank–originated loan amount was 3.1 times as large in Central and North Chicago than in the rest of the city; in 2019, these loans were 4.7 times as large (Woodstock Institute 2021).

Research has also demonstrated how racial disparities in capital flows affect the financial well-being of individual people and households and the economic resilience of broader communities. Limited capital, wealth, and financial security constrains community members' abilities to invest in their own futures and contribute to their local economy and tax base (Brown, Montes, and Hassani 2019). Black and Latino entrepreneurs' contributions to their communities include generating jobs and offering products and services, but the concentration of investments in neighborhoods outside of Chicago's South and West Sides can exclude small business owners elsewhere—and their neighborhoods—from the benefits of business growth (Brown, Montes, and Hassani 2019).

The ongoing recovery from the COVID-19 pandemic intensifies the challenge of persistent racial wealth gaps and inequities in financial well-being by race and neighborhood, and the recent enactment of an Illinois state-level CRA prompts consideration of current lending trends and how readily

communities of color and people in neighborhoods with low and moderate incomes can access financial capital.

## The Community Reinvestment Act

One of the primary efforts in reducing disparities in access to financial service provision is the federal Community Reinvestment Act (CRA). Passed in 1977 and revised in 1995, the CRA was intended to remedy America's history of redlining and other racist lending practices. Regulated by three federal agencies—the Federal Reserve Board, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation—the CRA evaluates lending made by depository institutions in the communities in which they do business and subsequently grades the institutions' performance. Evaluations prioritize lending in LMI areas and to borrowers with low and moderate incomes.

In 2021, the three federal regulators released a notice of proposed rulemaking that outlined efforts to modernize the governing rules of the CRA. Since the law's last update in 1995, the banking industry has changed drastically. Assets have become more concentrated under a small group of the largest depository institutions, and the internet has driven banking activity online. There have also been questions about how well CRA enforcement works, as almost all banks receive high grades even when their service to the communities appears not to meet CRA standards.[3] Moreover, indications that targeting income alone does not remedy the racial policies of the past have raised calls to explicitly include race in the regulation (Blower et al. 2021; Goodman et al. 2022).

Around the same time of the federal notice of proposed rulemaking, the State of Illinois passed a statewide CRA (Illinois CRA) to create a stronger and broader evaluation process of financial service providers. The Illinois CRA legislation makes Illinois the fourth state to pass state-specific community reinvestment legislation. The state is drafting the regulation's provisions, but the Illinois CRA has already taken the policy a step further than national legislation by applying the law to nonbank mortgage lenders, also known as independent mortgage bankers, and to credit unions.

CRA legislation influences where and to whom banks lend by defining the characteristics of loans that "count" during evaluations. The criteria set in regulations will influence lender behavior, and as legislators modernize the rules, it is important to document the nuances of lending disparities in the status quo. In the context of CRA changes, we measure where lending disparities exist in Chicago's communities so we can offer insights that will help inform state and national policymakers during CRA modernization efforts.

# 2. Capital Flows Overview

## Data

To evaluate capital flows in Chicago, we use Home Mortgage Disclosure Act (HMDA) data to capture mortgage loans and CRA data from the Federal Financial Institutions Examination Council (FFIEC) for small business loans.

We evaluate mortgage lending from 2019 to 2021, with 2021 being the latest available year of data at the time of this report. HMDA data cover almost all mortgage lending, as they include loans from all lenders making more than 100 closed-end loans in the two preceding calendar years. This analysis includes only home purchase mortgages for the purpose of owner-occupancy from HMDA data (investment loans and loans for purchase of second homes are restricted). Refinance loans make up a significant portion of mortgage business, but we focus on home purchase loans. Previous research on this topic shows that refinances follow similar patterns to purchase lending nationally (Goodman et al. 2022). Other research has shown that when interest rates were low during the pandemic, white mortgage holders were more likely to refinance than similar owners of color (Gerardi, Lambie-Hanson, and Willen 2021).

For small businesses, we cover 2019 and 2020, as FFIEC data for 2021 have yet to be released. FFIEC data are more limited than HMDA data, as they include only small business loans from depository institutions evaluated under the CRA. Because of these restrictions, this analysis captures less of total small business lending than mortgage lending, though lending under the CRA makes up about three-quarters of credit to small businesses.[4] Moreover, FFIEC data also do not differentiate lending for credit cards used by small businesses from other small business lending.

## Citywide Capital Flow

Table 1 summarizes annual lending of mortgage loans and small business loans in Chicago. Lenders made just over 24,000 purchase mortgages and just under 70,000 small business loans in the city, totaling $8.2 billion and $3.5 billion in lending volume, respectively. The dollar amount of the average small business loan, $50,000, was significantly smaller than the average mortgage loan, $340,000; this is in part driven by the inclusion of credit card loans in the FFIEC data. Depository institutions (i.e., banks)

accounted for just over 36 percent of all mortgage purchase originations during this period. Lending was relatively concentrated, with the largest five lenders by loan count in Chicago collectively accounting for 31.9 percent of mortgage lending and 37.3 percent of small business lending.

TABLE 1

**Total Mortgage and Small Business Lending in Chicago**

| | Mortgage | Small business |
|---|---|---|
| Loans (annualized) | 24,023 | 69,718 |
| Volume (thousands, annualized) | $8,159,720 | $3,509,908 |
| Average loan size (thousands) | $340 | $50 |
| Bank share (loan count) | 36.1% | N/A |
| Top 5 lender share (loan count) | 31.9% | 37.5%[a] |

**Sources:** 2019–21 Home Mortgage Disclosure Act data, 2019–20 Community Reinvestment Act data from the Federal Financial Institutions Examination Council, and Urban Institute calculations.

**Notes:** N/A = not applicable. Top five lender refers to the five largest lenders by loan count.

[a] Estimate level is Cook County.

Table 2 focuses on lending in predominantly nonwhite neighborhoods, those where more than 70 percent of households are nonwhite, or 51 percent of all Chicago neighborhoods as of 2019. In these areas, lenders originated 6,700 mortgage loans and 17,552 small business loans, accounting for 20.3 and 21.0 percent of total lending by loan count.

TABLE 2

**Total Mortgage and Small Business Lending in Predominantly Nonwhite Neighborhoods**

| | Mortgage | Small business |
|---|---|---|
| Loans (annualized) | 6,741 | 17,552 |
| Volume (thousands, annualized) | $1,652,418 | $736,683 |
| Average loan size (thousands) | $245 | $42 |
| Bank share (loan count) | 30.6% | N/A |
| Top 5 lender share (loan count) | 38.3% | N/A |
| Share of city total | 20.3% | 21.0%[a] |

**Sources:** 2019–21 Home Mortgage Disclosure Act data, 2019–20 Community Reinvestment Act data from the Federal Financial Institutions Examination Council, and Urban Institute calculations.

**Notes:** N/A = not applicable. Top five lender refers to the five largest lenders by loan count.

[a] Estimate level is Cook County.

Table 3 shows lending in LMI neighborhoods, where the median income was less than 80 percent of the area median income. These neighborhoods made up 61.6 percent of Chicago's neighborhoods in 2019. Compared with predominantly nonwhite areas, LMI neighborhoods accounted for a slightly larger share of all city lending, making up 30.5 percent of mortgage lending and 29.6 percent of small business lending. Banks account for a slightly smaller share of mortgage lending in both predominantly

nonwhite neighborhoods and LMI neighborhoods than in the city overall. Lending in these areas is also slightly less concentrated among the five largest lenders.

TABLE 3

**Total Mortgage and Small Business Lending in Low- and Moderate-Income Neighborhoods**

| | Mortgage | Small business |
|---|---|---|
| Loans (annualized) | 9,488 | 26,121 |
| Volume (thousands, annualized) | $2,490,172 | $1,039,771 |
| Average loan size (thousands) | $262 | $40 |
| Bank share (loan count) | 32.3% | N/A |
| Top 5 lender share (loan count) | 29.1% | N/A |
| Share of city total | 30.5% | 29.6%[a] |

**Sources:** 2019–21 Home Mortgage Disclosure Act data, 2019–20 Community Reinvestment Act data from the Federal Financial Institutions Examination Council, and Urban Institute calculations.

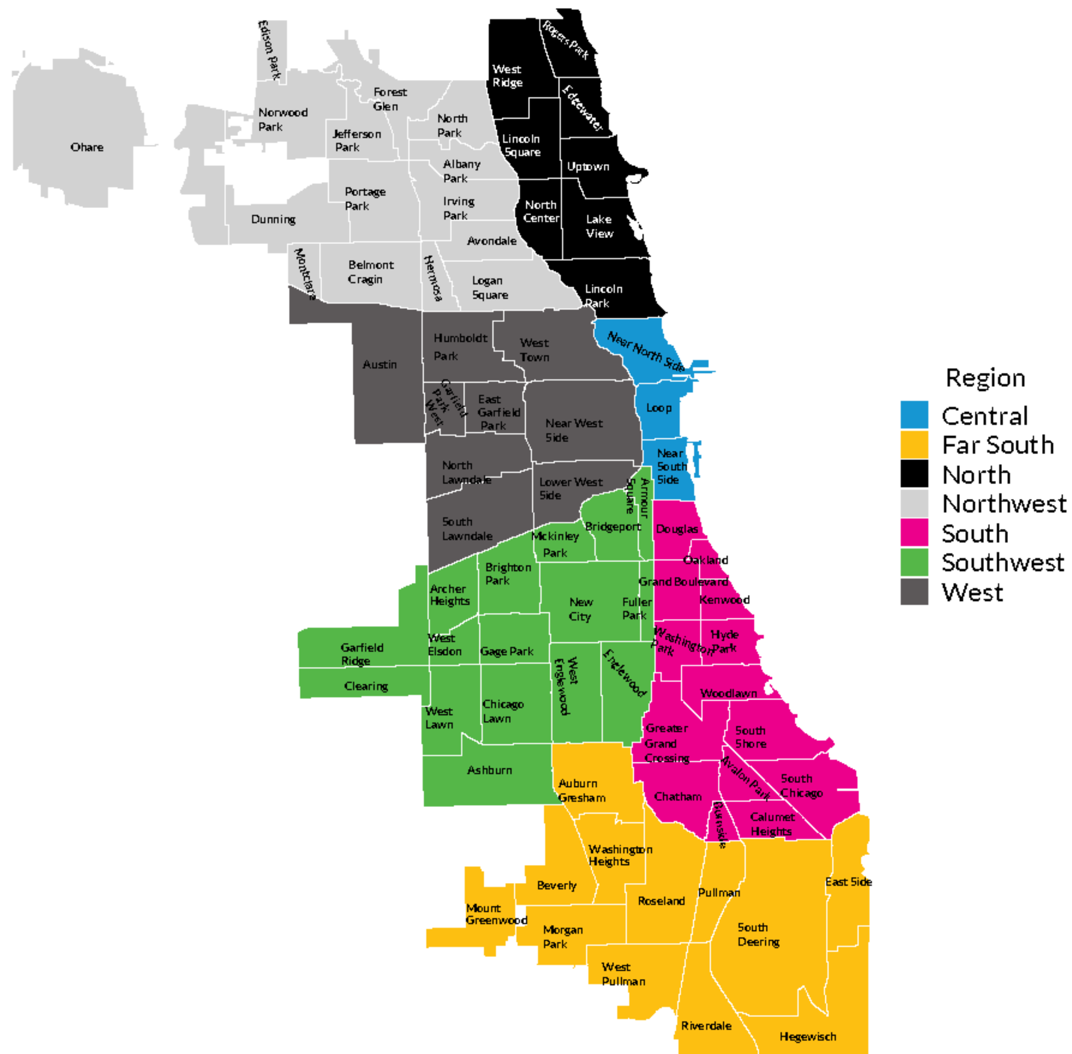
**Notes:** N/A = not applicable. Top five lender refers to the five largest lenders by loan count.

[a] Estimate level is Cook County.

# Geography

We aggregate the loan data at two geographic levels when assessing lending service: Chicago neighborhoods and community areas. Neighborhoods are census tracts, which are small areas created by the US Census Bureau that average around 4,000 people. There were 803 tracts in Chicago in 2019. The 77 Chicago community areas were created at the University of Chicago in 1976 and divide the city into larger coherent areas. Chicago community areas are composed of multiple census tracts and, on average, have just under 14,000 households. Figure 1 maps these community areas by region.

FIGURE 1
**Chicago Community Areas**




**Sources:** US Census Bureau and the City of Chicago.

Moreover, we categorize the neighborhoods by average income and racial and ethnic composition. For income, we use three categories:

- An LMI neighborhood has a median income up to 80 percent of the area median income
- A middle-income neighborhood has a median income from 80 to 120 percent of the area median income

- An upper-income neighborhood has a median income greater than 120 percent of the area median income

We also use three race and ethnicity categories:

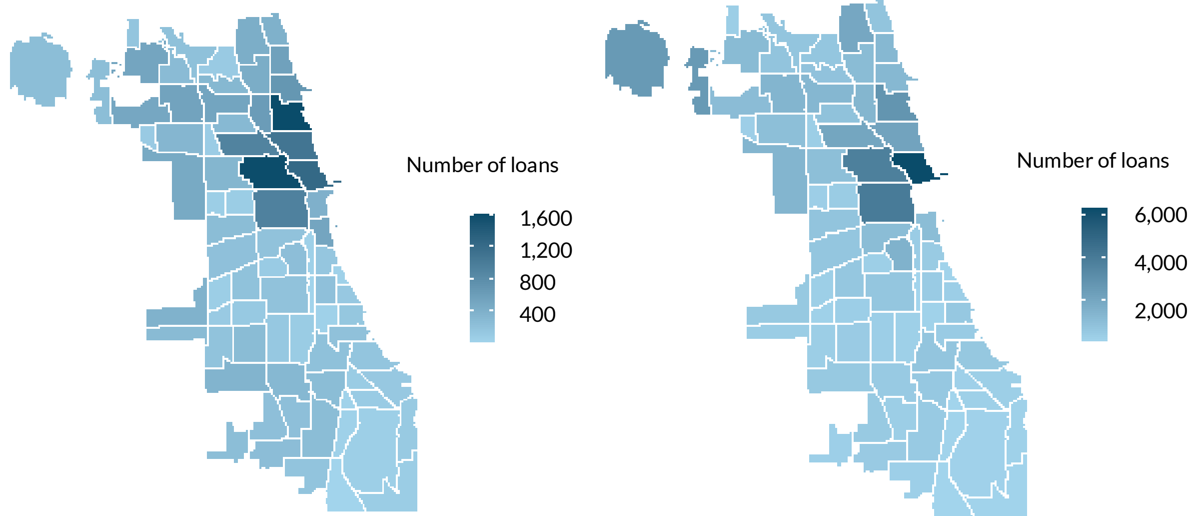
- Predominantly nonwhite neighborhoods (at least 70 percent of households are nonwhite)
- Mixed neighborhoods (the nonwhite household share is between 30 and 70 percent)
- Predominantly white neighborhoods (the nonwhite household share is 30 percent or less)

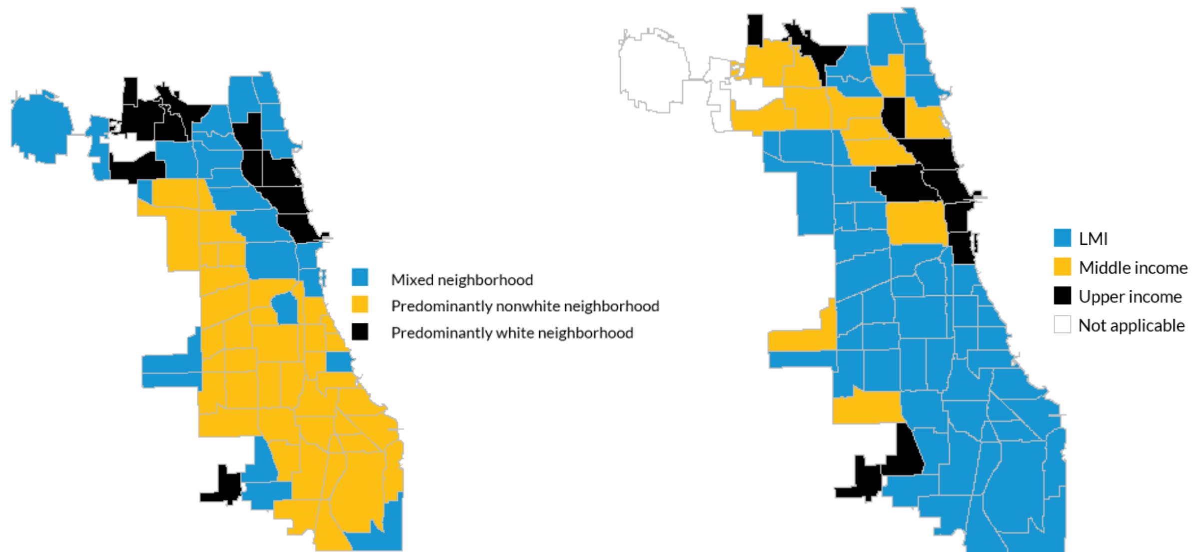
(In portions of this report, we use race and ethnicity definitions that break out Latino and Black, and these choices are driven by the categorization available to us in the data. Black refers to Black people who are not ethnically Latino).

The top two maps in figure 2 show the distribution of annualized mortgage and small business origination counts throughout Chicago's community areas. The darker areas are the communities receiving a higher number of originations and are heavily concentrated in four communities on Chicago's central and north sides: Lake View, West Town, Near North Side, and Lincoln Park. The bottom two maps show the income distribution and racial composition for Chicago community areas. It appears that lending is more likely to happen in high-income areas and in predominantly white areas, which is confirmed by prior research (Theodos et al. 2019).[5] For small business lending, we leave out one community area, The Loop, because it holds the city's central business district and because it received significantly more lending than any other communities.

FIGURE 2

**Lending and Demographic Distribution, by Community Area**

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**Sources:** 2019–21 Home Mortgage Disclosure Act data, 2019–20 Community Reinvestment Act data from the Federal Financial Institutions Examination Council, and 2019 American Community Survey data, five-year sample.
**Note:** LMI = low and moderate income.

Table 4 shows the distribution of Chicago neighborhoods by racial composition and income level categorizations. Predominantly nonwhite neighborhoods that are also LMI neighborhoods make up the

largest share of Chicago's census tracts (47.5 percent), and 50.8 percent of areas are predominantly nonwhite.

TABLE 4

**Chicago Neighborhood Type Composition**

| | LMI neighborhood | Middle-income neighborhood | Upper-income neighborhood | All neighborhoods |
|---|---|---|---|---|
| Predominantly white neighborhood | 47.5% | 2.8% | 0.5% | 50.8% |
| Mixed neighborhood | 14.6% | 8.5% | 5.3% | 28.4% |
| Minority neighborhood | 0.4% | 3.7% | 16.8% | 20.8% |
| All neighborhoods | 62.5% | 14.9% | 22.6% | 100.0% |

**Source:** 2019 American Community Survey data, five-year sample.

**Note:** LMI = low- and moderate-income.

# 3. Meeting Financial Need

Mapping the flow of capital in Chicago shows that originations are concentrated in the city's upper-income and predominantly white communities. But the flow of capital on its own does not indicate how well financial need, or *demand* for lending, is being met. One way to measure disparities between financial need and the provision of financial services is to use existing homeowners and active small businesses as proxies for demand for financing. Though imperfect, the number of existing homeowners in a neighborhood provides insight on the credit and financial readiness of households in that area (Goodman et al. 2022). In this section, we compare lending during our observed period with demand in Chicago's communities to detail where and which households are not being served.

There are two notes we want to make. First, existing homeowners demonstrate the homeowner's level at average, while prime homebuying households tend to be younger households for future homebuying demand (Goodman et al. 2022). Second, existing homeownership rates are affected by discrimination and historic racist policies toward homeowners of color, including redlining, subprime mortgage lending, and appraisal disparities (Rothstein 2017).

## Mortgage Lending

### How Well Are Predominantly Nonwhite Neighborhoods Being Served?

This section compares owner-occupied purchase lending in neighborhoods by racial composition with the share of existing households and homeowners. These two comparators help determine whether predominantly nonwhite neighborhoods are receiving a share of current purchase loans proportionate to their representation of homeowners (or households).

Compared by neighborhood racial composition, the share of homeowners living in Chicago's predominantly nonwhite neighborhoods (36.4 percent) is significantly higher than the share of mortgage lending these neighborhoods receive (28.0 percent) (table 5). This is a concerning trend, showing that predominantly nonwhite neighborhoods are falling further behind in achieving homeownership and suggesting a disparity in lending service. The opposite is true in Chicago's mixed neighborhoods and predominantly white neighborhoods, the latter of which accounted for just over 30 percent of Chicago's homeowners but received 36.3 percent of purchase mortgages.

The same breakout by income level shows a different disparity in lending, with both LMI and middle-income neighborhoods receiving smaller shares of purchase lending than their share of homeowners. LMI neighborhoods have the largest lending disparity, accounting for 47 percent of homeowners in the city but only 40 percent of purchase mortgage lending. Again, the opposite is true for upper-income neighborhoods, which accounted for 33 percent of homeowners but received 42 percent of purchase lending.

TABLE 5

**Household and Purchase Loan Composition, by Neighborhood Type**

| | Number of neighborhoods | Household share | Owner share | Owner-occupied purchase loan share |
|---|---|---|---|---|
| **Racial composition** | | | | |
| Predominantly nonwhite neighborhood | 402 | 39.7% | 36.4% | 28.0% |
| Mixed neighborhood | 225 | 34.0% | 33.4% | 35.6% |
| Predominantly white neighborhood | 165 | 26.3% | 30.3% | 36.3% |
| All neighborhoods | 762 | 100.0% | 100.0% | 100.0% |
| **Income level** | | | | |
| Low- and moderate-income neighborhood | 495 | 53.7% | 47.2% | 39.6% |
| Middle-income neighborhood | 118 | 16.7% | 20.1% | 18.4% |
| Upper-income neighborhood | 179 | 29.5% | 32.7% | 41.9% |
| All neighborhoods | 792 | 100.0% | 100.0% | 100.0% |

**Sources:** 2019–21 Home Mortgage Disclosure Act data; 2019 American Community Survey data, five-year sample; and Urban Institute calculations.

Table 6 compares lending service by neighborhood racial composition controlling for income level. The LMI section in table 6 shows that even among LMI neighborhoods, predominantly nonwhite neighborhoods are falling behind, accounting for just under 70 percent of all households but receiving only 63.8 percent of mortgage originations. Differences between the share of purchase lending and the share of homeowners in predominantly nonwhite neighborhoods are significant for both LMI and middle-income areas, with underservice in LMI areas being the largest. Alternatively, mixed neighborhoods and predominantly white communities receive more lending than their share of homeowners would indicate they should in both LMI and middle-income areas.

TABLE 6

**Neighborhood Household and Purchase Loan Composition, by Racial Composition and Income Level**

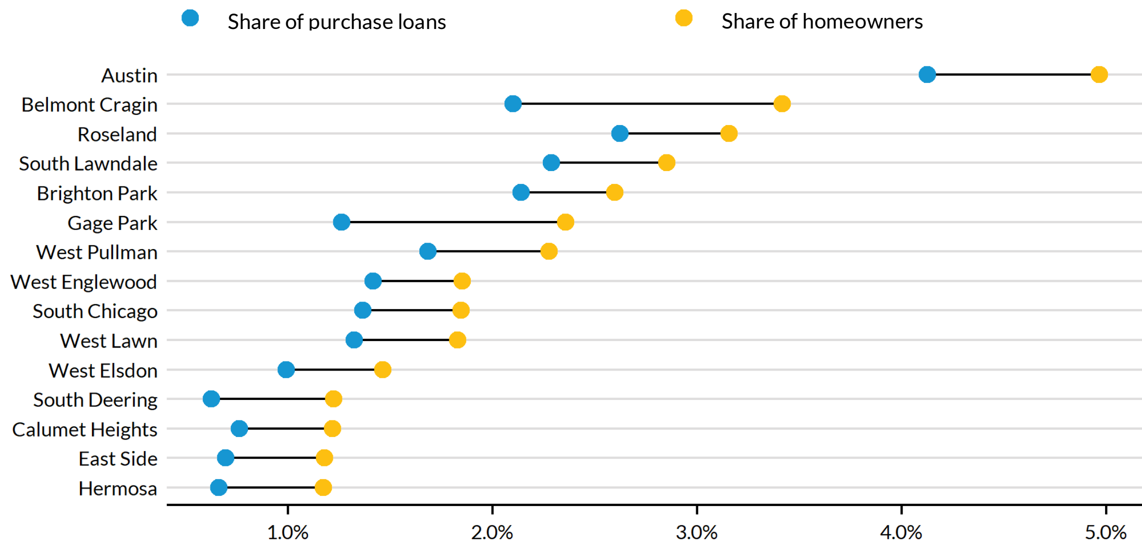
| | Household share | Owner share | Owner-occupied purchase loan share |
|---|---|---|---|
| **Low- and moderate-income neighborhood** | | | |
| Predominantly nonwhite neighborhood | 68.9% | 69.5% | 63.8% |
| Mixed neighborhood | 30.1% | 29.1% | 34.7% |
| Predominantly white neighborhood | 1.0% | 1.4% | 1.5% |
| All neighborhoods | 100.0% | 100.0% | 100.0% |
| **Middle-income neighborhood** | | | |
| Predominantly nonwhite neighborhood | 14.2% | 15.9% | 11.9% |
| Mixed neighborhood | 61.3% | 56.3% | 60.1% |
| Predominantly white neighborhood | 24.5% | 27.8% | 28.0% |
| All neighborhoods | 100.0% | 100.0% | 100.0% |
| **Upper-income neighborhood** | | | |
| Predominantly nonwhite neighborhood | 0.9% | 1.1% | 1.3% |
| Mixed neighborhood | 25.9% | 25.4% | 25.7% |
| Predominantly white neighborhood | 73.2% | 73.4% | 73% |
| All neighborhoods | 100.0% | 100.0% | 100.0% |
| **All neighborhoods** | | | |
| Predominantly nonwhite neighborhood | 39.7% | 36.4% | 28.0% |
| Mixed neighborhood | 34.0% | 33.4% | 35.6% |
| Predominantly white neighborhood | 26.3% | 30.3% | 36.3% |
| All neighborhoods | 100.0% | 100.0% | 100.0% |

**Sources:** 2019–21 Home Mortgage Disclosure Act data; 2019 American Community Survey data, five-year sample; and Urban Institute calculations.

To identify the areas of the city where the gap in lending to nonwhite neighborhoods originates, we break out the comparison in LMI areas from table 6 by Chicago communities. Figure 3 shows the 15 community areas where the difference in homeownership shares (yellow) and lending shares (blue) is greatest. Nonwhite neighborhoods in Belmont Cragin have the largest gap in lending, accounting for 3.4 percent of homeowners in LMI neighborhoods but receiving only 2.1 percent of lending originated in LMI neighborhoods.

FIGURE 3

**Predominantly Nonwhite Neighborhoods' Share of Homeowners and Purchase Loans in All Low- and Moderate-Income Neighborhoods, by Community Area**

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**Sources:** 2019–21 Home Mortgage Disclosure Act data; 2019 American Community Survey data, five-year sample; City of Chicago; and Urban Institute calculations.

## How Well Are Nonwhite Mortgage Borrowers Being Served?

This section examines the distribution of lending to homebuyers rather than neighborhoods. We first separate out borrowers into those who are white and those who are nonwhite, and table 7 contains the results of this analysis. For the entire city, lending to nonwhite borrowers made up 46.7 percent of total purchase lending, lagging the 51.1 percent share of existing homeowners. In LMI neighborhoods, 80.6 percent of all existing households and 76.5 percent of all existing homeowners are headed by nonwhite individuals, but nonwhite borrowers received only 68.1 percent of all owner-occupied purchase loans. A similar pattern holds in middle-income neighborhoods. The numbers are more encouraging in upper-income neighborhoods: nonwhite borrowers make up 25.6 percent of existing households and 20.9 percent of existing homeowners and received 25.5 percent of owner-occupied purchase loans.

TABLE 7

**Homeowner and Lending Composition, by Neighborhood Income Level, for White and Nonwhite Borrowers**

| | Household share | Owner share | Owner-occupied purchase loan share |
|---|---|---|---|
| **Low- and moderate-income neighborhoods** | | | |
| Nonwhite borrowers | 80.6% | 76.5% | 68.1% |
| White borrowers | 19.4% | 23.5% | 31.9% |
| All | 100.0% | 100.0% | 100.0% |
| **Middle-income neighborhoods** | | | |
| Nonwhite borrowers | 45.4% | 40.9% | 49.0% |
| White borrowers | 54.6% | 59.1% | 51.0% |
| All | 100.0% | 100.0% | 100.0% |
| **Upper-income neighborhoods** | | | |
| Nonwhite borrowers | 25.6% | 20.9% | 25.5% |
| White borrowers | 74.4% | 79.1% | 74.5% |
| All | 100.0% | 100.0% | 100.0% |
| **All neighborhoods** | | | |
| Nonwhite borrowers | 58.5% | 51.1% | 46.7% |
| White borrowers | 41.5% | 48.9% | 53.3% |
| All | 100.0% | 100.0% | 100.0% |

**Sources:** 2019–21 Home Mortgage Disclosure Act data; 2019 American Community Survey data, five-year sample; and Urban Institute calculations.

In table 8, we further break out borrowers by race and ethnicity and show the lending comparison. Black homebuyers are affected greatest by gaps in service, especially in LMI and middle-income neighborhoods. For example, Black borrowers are 45.2 percent of all existing households and 37.2 percent of all existing homeowners but receive only 27.9 percent of all current owner-occupied purchase loans. The composition gap between existing homeowners and current owner-occupied purchase loans is 9.3 percentage points (37.2 percent minus 27.9 percent).

TABLE 8

**Homeowner and Lending Composition, by Borrower Race or Ethnicity and Neighborhood Income Level**

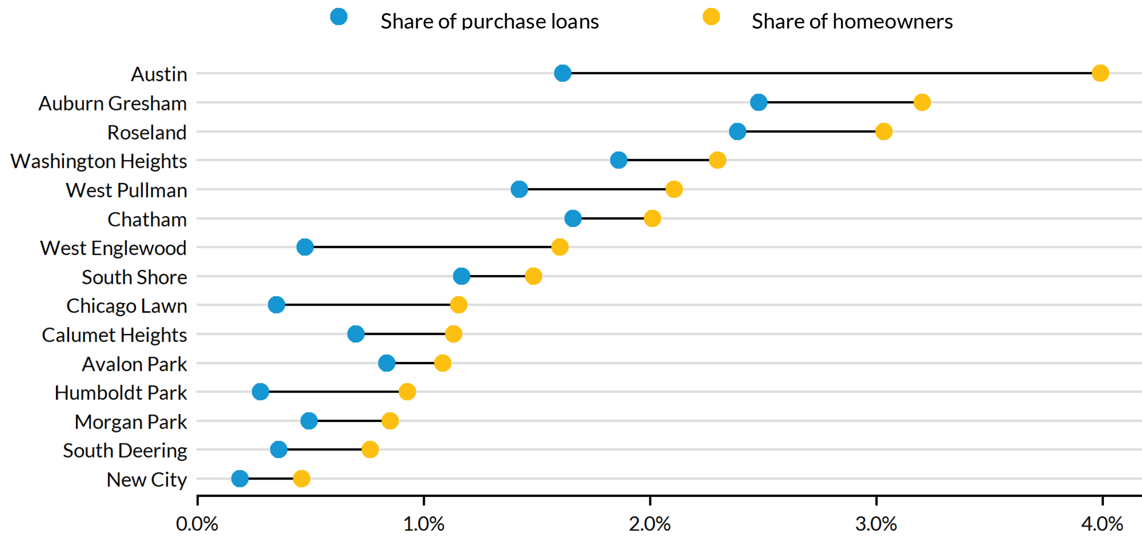
| | Household share | Owner share | Owner-occupied purchase loan share |
|---|---|---|---|
| **Low- and moderate-income neighborhoods** | | | |
| Black borrowers | 45.2% | 37.2% | 27.9% |
| Latino borrowers | 28.6% | 32.2% | 32.2% |
| Asian borrowers | 5.2% | 5.7% | 6.8% |
| Other borrowers | 1.7% | 1.4% | 1.2% |
| **Middle-income neighborhoods** | | | |
| Black borrowers | 16.4% | 13.5% | 9.5% |
| Latino borrowers | 20.1% | 19.3% | 30.3% |
| Asian borrowers | 6.9% | 6.5% | 7.8% |
| Other borrowers | 2.0% | 1.4% | 1.5% |
| **Upper-income neighborhoods** | | | |
| Black borrowers | 7.0% | 5.0% | 4.1% |
| Latino borrowers | 8.0% | 6.6% | 8.5% |
| Asian borrowers | 8.5% | 7.8% | 11.3% |
| Other borrowers | 2.1% | 1.4% | 1.5% |
| **All neighborhoods** | | | |
| Black borrowers | 29.1% | 21.9% | 14.5% |
| Latino borrowers | 21.1% | 21.3% | 21.9% |
| Asian borrowers | 6.4% | 6.5% | 8.9% |
| Other borrowers | 1.9% | 1.4% | 1.4% |

**Sources:** 2019–21 Home Mortgage Disclosure Act data; 2019 American Community Survey data, five-year sample; and Urban Institute calculations.

Figure 4 looks at the lending disparities Black borrowers in LMI neighborhoods face at the community level. Three Chicago communities, Austin, West Englewood, and Chicago Lawn, have the largest differences between the share of Black homeowners in LMI neighborhoods and the share of lending going to Black borrowers in LMI neighborhoods. Black households in Austin faced the largest gap in lending, accounting for 4.0 percent of homeowners in LMI neighborhoods but receiving only 1.6 percent of lending originated in LMI neighborhoods.

FIGURE 4

**Black Households' Share of Homeowners and Purchase Loans in All Low- and Moderate-Income Neighborhoods, by Community Area**

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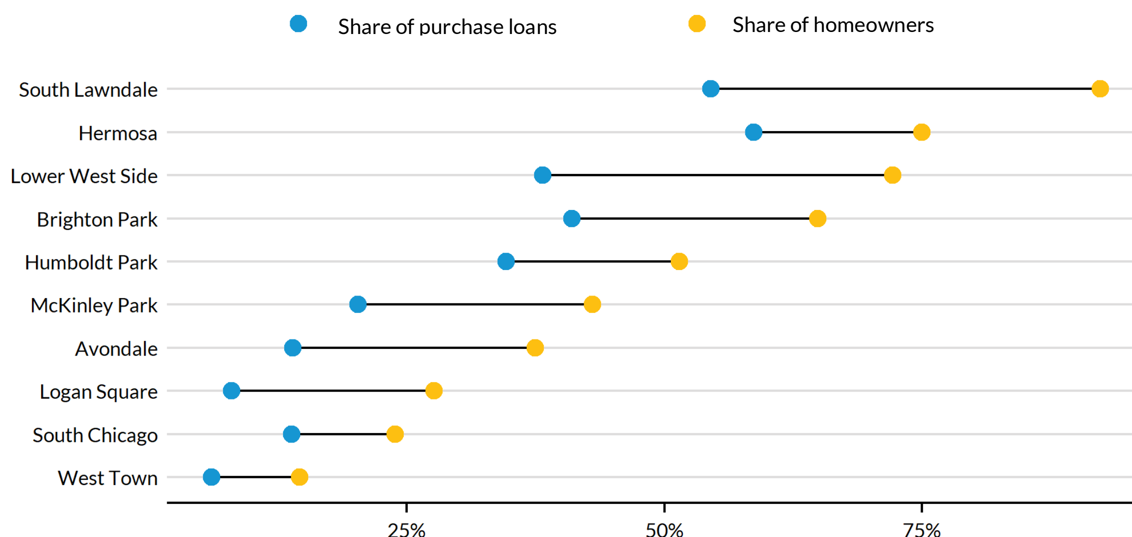
**Sources:** 2019–21 Home Mortgage Disclosure Act data, the City of Chicago, and 2019 American Community Survey data, five-year sample.

Latino households in Chicago are maintaining ground in terms of homeownership, having a lending share (21.9 percent) approximately equivalent to their homeowner share (21.3 percent) and exceeding their share of homeowners by just over 10 percentage points in moderate-income areas (table 8). But lending comparisons inside community areas paint a more complicated picture. Latino borrowers experience lending gaps in 4 of the 10 Chicago community areas that have the most Latino households (South Lawndale, Lower West Side, Logan Square, and Humboldt Park), suggesting ongoing displacement (figure 5). For example, in South Lawndale, home to the second most Latino households among community areas, 92.3 percent of homeowners were Latino but only 54.5 percent of purchase loans went to Latino borrowers.

FIGURE 5

**Latino Households' Share of Homeowners and Purchase Loans in All Neighborhoods, by Community Area**




**Sources:** 2019–21 Home Mortgage Disclosure Act data, the City of Chicago, and 2019 American Community Survey data, five-year sample.

## Mortgage Lending under Existing Federal CRA Regulations

Current national CRA examinations evaluate the lending only of depository institutions (i.e., banks). In its original intention, the CRA was designed to ensure that lending institutions were meeting the needs of all households living in the communities where banks had a physical brick-and-mortar presence. Since the law's adoption in 1977, online banking has separated the connection between a bank's physical location and the communities lenders serve. Additionally, nondepository lenders, or independent mortgage bankers, have taken on a massive share of mortgage lending. These institutions originate loans entirely through online platforms and have no physical location, and under Illinois CRA legislation, these institutions, along with credit unions, will be subject to evaluation.

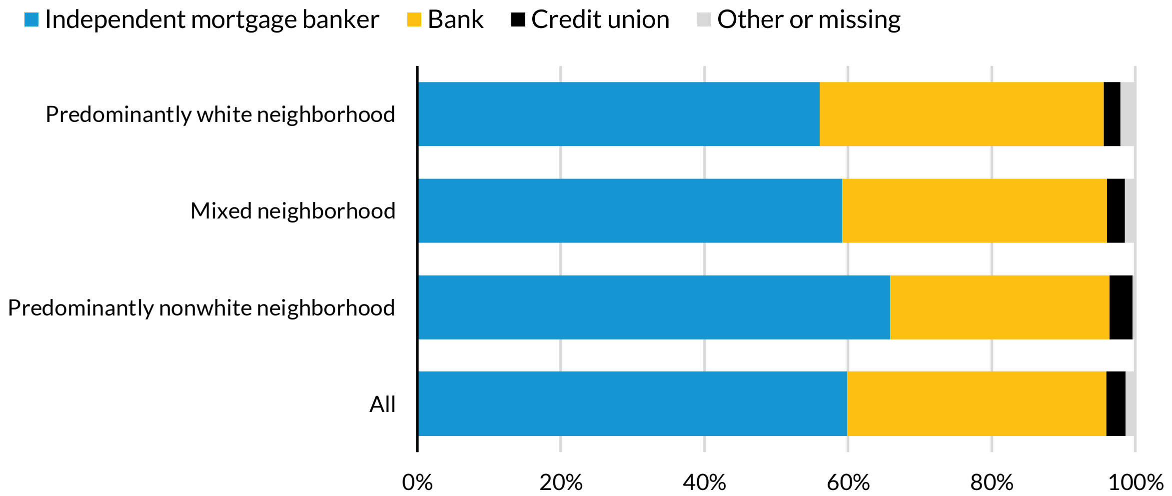
Figure 6 shows the share of purchase lending by lender type and neighborhood type in Chicago. Overall, nonbank lenders accounted for 60 percent of all purchase lending, while banks made up only 36.1 percent. Credit unions and other types of institutions made the remaining 3 percent of lending. The prominence of different lender types varies by neighborhood type. Nonbanks play a larger role in the city's predominantly nonwhite neighborhoods and LMI neighborhoods. This is driven in large part by

nonbanks' dominance in originating loans backed by the Federal Housing Administration (FHA). FHA loans are low–down payment loans backed by the federal government and are disproportionately used by borrowers with low and moderate incomes and borrowers of color.[6] Credit unions also play a bigger role in nonwhite communities as well as in middle-income and LMI areas.

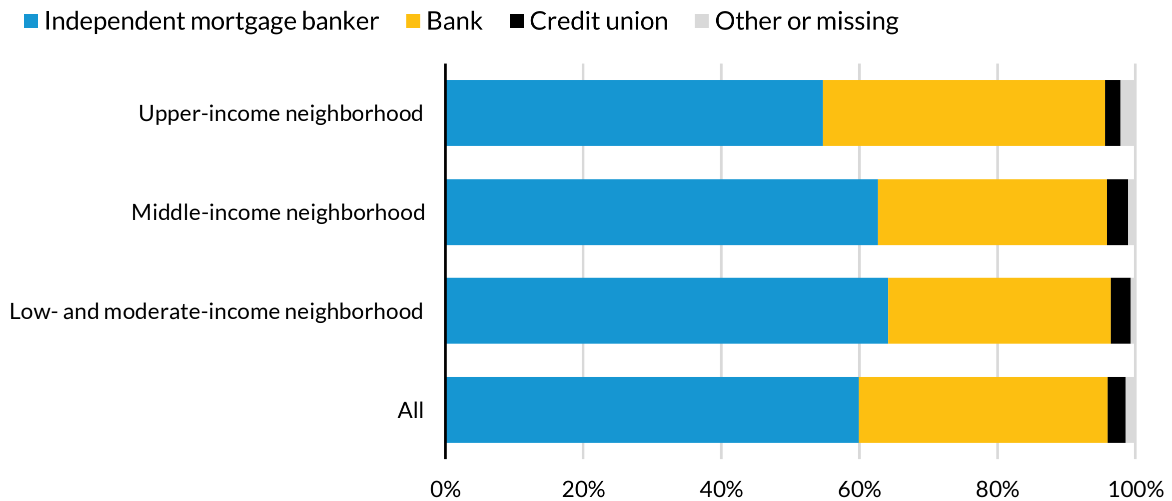
FIGURE 6

**Purchase Mortgage Lending, by Neighborhood and Lender Type**

*By neighborhood racial composition*




*By income*

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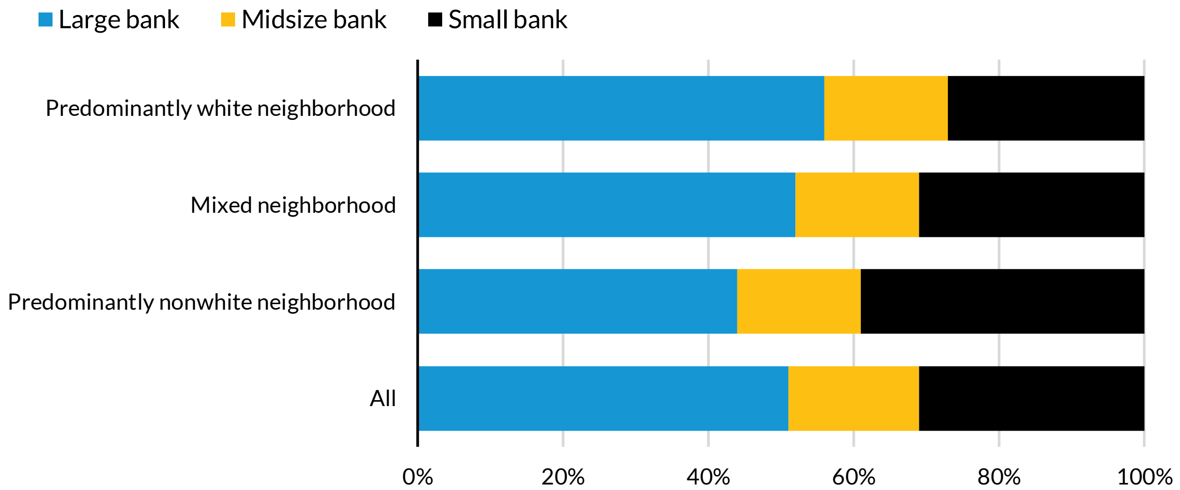
**Sources:** 2019–21 Home Mortgage Disclosure Act data and Urban Institute calculations.

Figure 7 focuses on depository institutions across Chicago and shows lending shares by bank size. Large banks (those with assets greater than $100 billion) do 51.9 percent of lending. Midsize banks (with assets from $3 billion to $100 billion) account for 16.6 percent, and small banks (with assets up to $3 billion) make up the remaining 31.5 percent. This composition varies by neighborhood type. Predominantly white neighborhoods are served more heavily by large banks, where mixed neighborhoods and predominantly nonwhite neighborhoods receive larger shares of lending from small banks. Large banks also are more likely to serve upper-income neighborhoods. Small banks play a particularly important role in predominantly nonwhite communities, making up 56 percent of total lending in these neighborhoods. Banks of all sizes are evaluated under the current CRA and will be evaluated under the Illinois CRA.

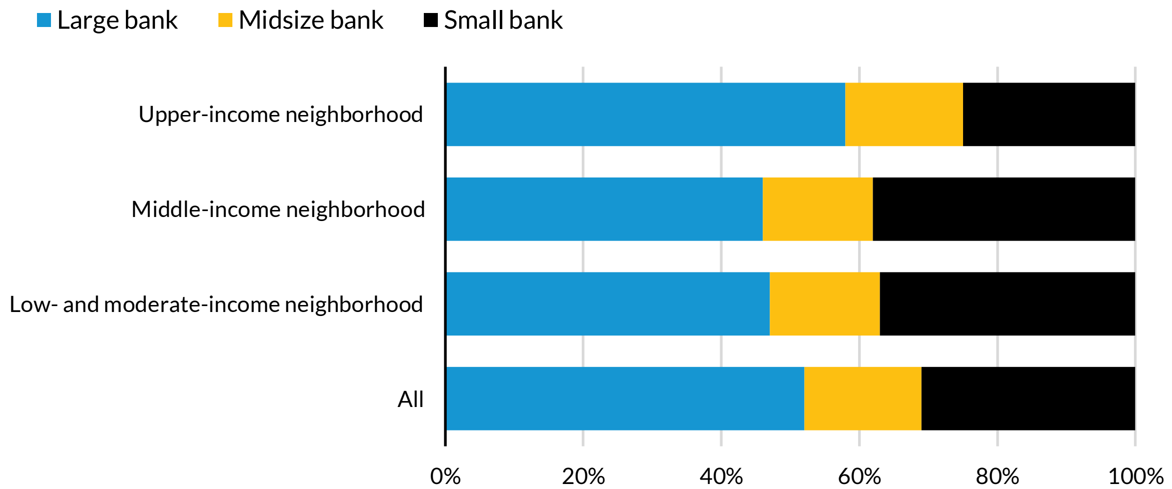
FIGURE 7

**Bank Purchase Mortgage Lending, by Neighborhood Type and Bank Size**

*By neighborhood racial composition*




*By income*

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**Sources:** 2019–21 Home Mortgage Disclosure Act data and Urban Institute calculations.

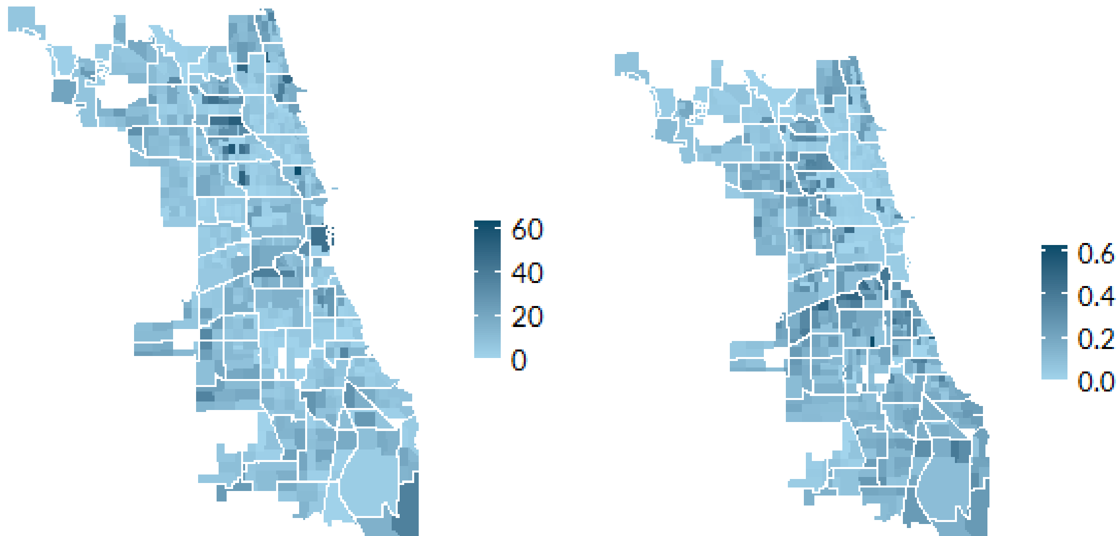
Under existing federal CRA regulations, a loan "counts" toward a bank's CRA performance if it is originated inside the bank's assessment area and it either goes to a borrower earning less than 80 percent of the area median income or is inside a census tract where the median income is less than 80 percent of the area median income. Figure 8 maps out where CRA lending occurred in Chicago during the evaluation period at the neighborhood level. Contrary to the pattern of mortgage origination, CRA

lending tends to happen in predominantly nonwhite areas and LMI areas, which is intuitive, given the criteria.

FIGURE 8

**CRA Mortgage Loans, by Neighborhood**

*Number of CRA loans* *CRA loans as a share of total tract lending*

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**Sources:** 2019–21 Home Mortgage Disclosure Act data, 2019 CRA data from the Federal Financial Institutions Examination Council, the City of Chicago, and 2019 American Community Survey data, five-year sample.
**Note:** CRA = Community Reinvestment Act.

Table 9 summarizes CRA mortgage lending in Chicago and nationally. In Chicago, 254,023 total loans are made each year, 8,671 of which are originated by banks and 2,216 of which count for CRA consideration. As a share of total bank lending, just over a quarter of purchase mortgages counted toward the CRA, greater than the 17.8 percent nationally. Looking at total lending, including lending by institutions that are not currently evaluated, 10.4 percent of loans made in Chicago qualify toward the CRA, nearly double the national share (table 9).

TABLE 9

**Annualized CRA Mortgage Lending**

| | Chicago | National |
|---|---|---|
| Total CRA lending | 2,491 | 207,937 |
| Total bank lending | 8,671 | 1,167,238 |
| CRA bank share | 28.7% | 17.8% |
| Total lending | 24,023 | 3,716,518 |
| CRA total share | 10.4% | 5.6% |

**Sources:** 2019–21 Home Mortgage Disclosure Act data, 2019 CRA data from the Federal Financial Institutions Examination Council, and Urban Institute calculations.

**Note:** CRA = Community Reinvestment Act.

## Mortgage Lending Based on Federal and State CRA Regulation Proposals

As the federal government moves forward with proposed changes to national CRA evaluation and as Illinois regulators finalize their rulemaking, the number of mortgage loans subject to community investment regulation will increase in Chicago. This section evaluates the impact of two proposed changes on the distribution of CRA lending in the city.

First, acknowledging the growing range of lending by banks through online platforms, federal regulators are considering adding to banks' assessment areas by creating retail lending assessment areas, or RLAAs. RLAAs would be based on where a bank lends, regardless of physical presence, and would expand the areas being evaluated. Second, Illinois state regulation will expand evaluation to include independent mortgage bankers that are licensed to lend in Illinois and to include credit unions holding Illinois charters. Table 10 shows the increase in loans that would have CRA consideration given each change; adding RLAAs and including independent mortgage bankers and credit unions would result in 950 and 11,298 additional loans, respectively.

TABLE 10

**Annualized Additions to CRA Lending in Chicago**

| | |
|---|---|
| Current CRA lending | 2,491 |
| RLAA lending | 950 |
| Illinois CRA lending | 11,298 |
| Additional CRA count | 12,248 |
| Additional CRA share of total lending | 17% |

**Sources:** 2019–21 Home Mortgage Disclosure Act data, 2019 CRA data from the Federal Financial Institutions Examination Council, and Urban Institute calculations.

**Note:** CRA = Community Reinvestment Act; RLAA = retail lending assessment area.

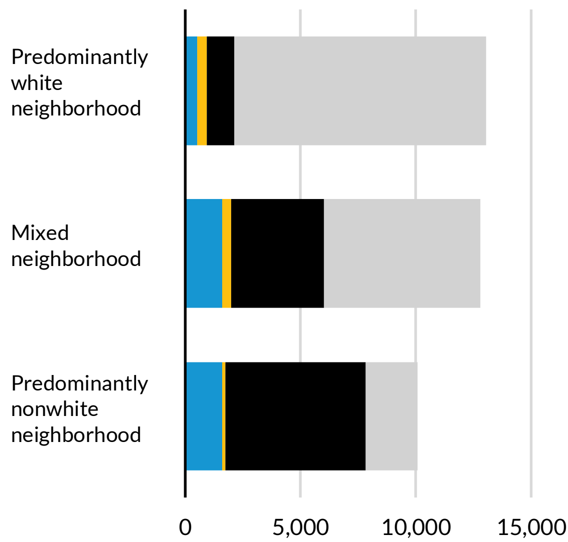
In figure 9, we can see that potential changes would have the biggest impact on predominantly nonwhite neighborhoods and LMI neighborhoods, driven by the Illinois CRA's inclusion of nonbank

lending in evaluation. The share of loans in these neighborhoods being considered under the CRA will increase drastically, as they account for about 60 percent of lending in these communities. The expansion of RLAAs has a smaller impact on these areas, and we see that they contribute the largest increase to predominantly white neighborhoods and upper-income neighborhoods.

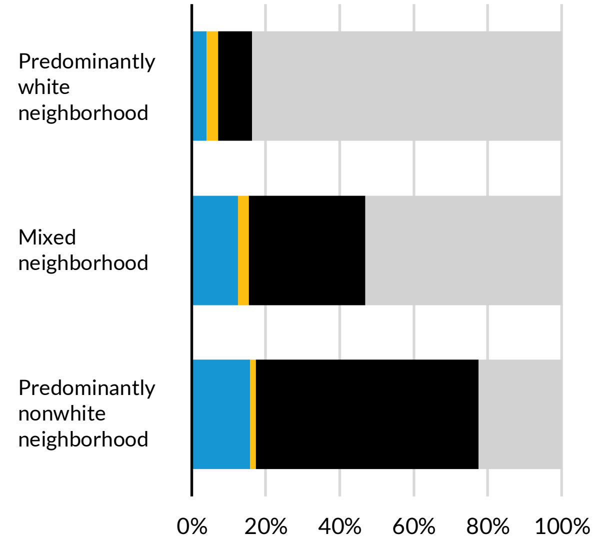
FIGURE 9

**Additional CRA Loans, by Neighborhood Type (Loan Counts)**

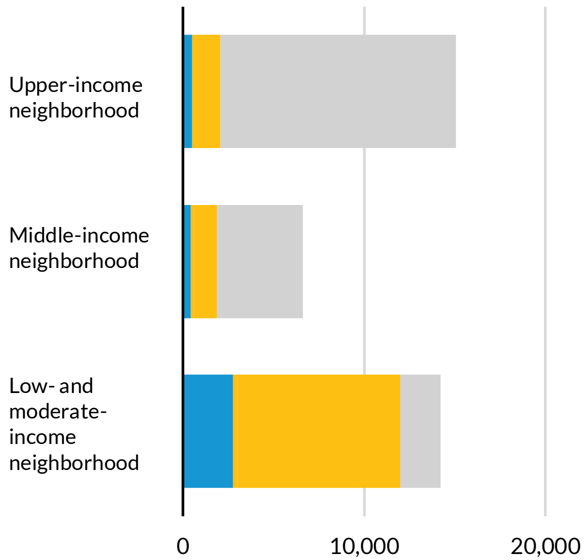
*CRA lending by neighborhood racial composition*



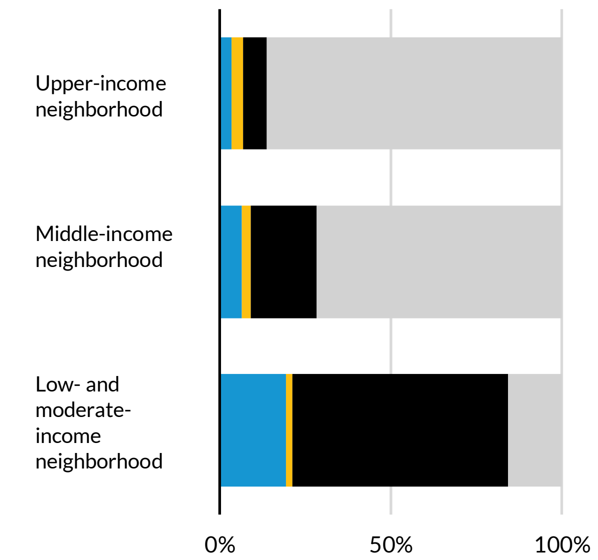

*CRA share by neighborhood racial composition*




*CRA lending by neighborhood income*




*CRA share by neighborhood income*

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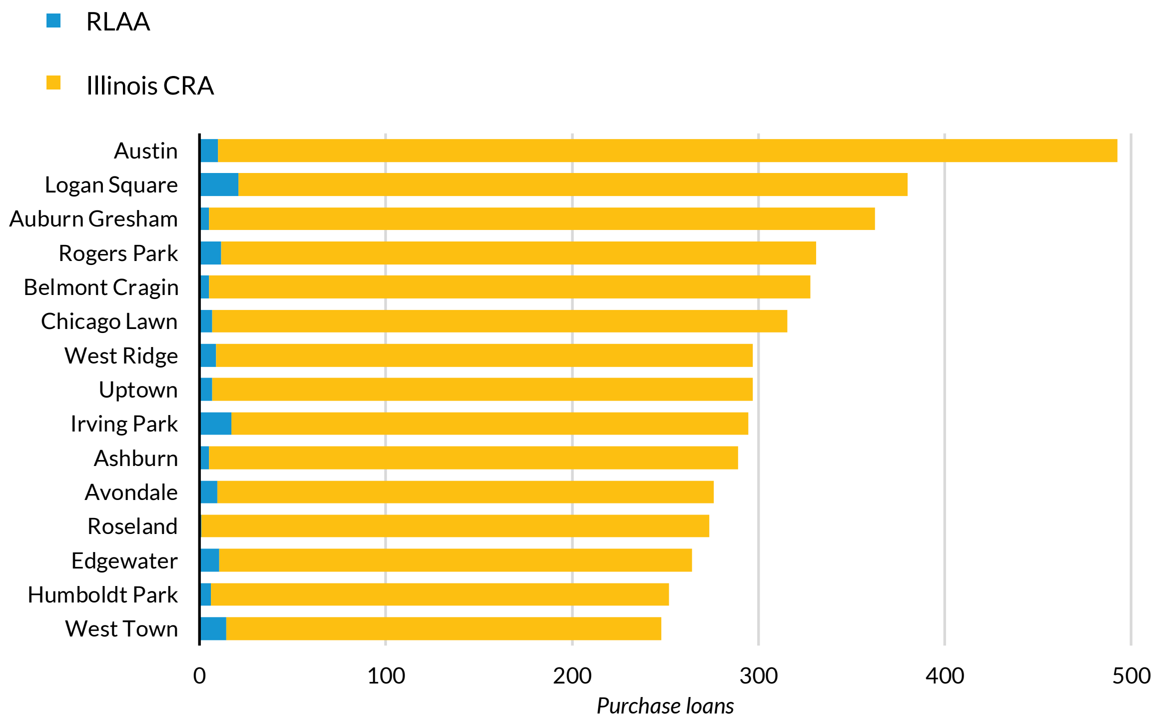
**Source:** 2019–21 Home Mortgage Disclosure Act data, 2019 CRA data from the Federal Financial Institutions Examination Council, and 2019 American Community Survey data, five-year sample.

**Note:** CRA = Community Reinvestment Act; RLAA = retail lending assessment area.

Aggregated to the community level, additional CRA loans from regulatory changes would have an outsize impact in some communities. Figure 10 shows the 15 communities with the largest increases in CRA loans given the changes. The Austin, Logan Square, and Auburn Gresham communities would increase their evaluated lending by more than 350 loans. Across all these community areas, the increase is driven largely by the change included in the Illinois CRA to include nonbanks and credit unions. Interestingly, the two largest retail area increases occur in Logan Square and Irving Park, both of which contain zip codes that accounted for some of the city's largest income increases since 2015.[7]

FIGURE 10

**Additional Annualized CRA Mortgage Loans, by Neighborhood**

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**Sources:** 2019–21 Home Mortgage Disclosure Act data, 2019 CRA data from the Federal Financial Institutions Examination Council, the City of Chicago, and 2019 American Community Survey data, five-year sample.
**Note:** CRA = Community Reinvestment Act; RLAA = retail lending assessment area.

The communities in figure 10 are all areas with a high amount of mortgage lending activity. Another way to look at the impact of CRA updates is the change in the share of a community's total lending that would be evaluated under the CRA with the additional counted loans. Table 11 compares current CRA lending with added CRA lending for the five community areas that would experience the largest

increase in their CRA share of total lending. Englewood would have the most drastic change, increasing from 9.8 percent of current lending to 90.9 percent, a change of 81.1 percentage points.

TABLE 11
**Change in CRA Share of Total Mortgage Lending, by Community Area**

| Community area | Current CRA share | Added CRA share | Percentage difference |
|---|---|---|---|
| Englewood | 9.8% | 90.9% | 81.1% |
| West Englewood | 11.4% | 91.6% | 80.2% |
| Chicago Lawn | 13.1% | 91.1% | 78.0% |
| Auburn Gresham | 11.7% | 89.5% | 77.8% |
| Montclare | 11.0% | 87.1% | 76.2% |

**Sources:** 2019–21 Home Mortgage Disclosure Act data, 2019 CRA data from the Federal Financial Institutions Examination Council, the City of Chicago, and 2019 American Community Survey data, five-year sample.
**Note:** CRA = Community Reinvestment Act.

# Small Business Lending

The structure of FFIEC's public small business lending data limits the analysis we can do for this section as compared with mortgage lending. FFIEC data provide aggregate lending counts and volume for all census tracts but restricts data on individual lenders to the county level. This section looks at two categories of small business lending: loans to small businesses and small business loans. A small business loan is any loan under $1 million going to a business of any size. A loan *to* a small business is any loan under $1 million that goes to a business with revenues up to $1 million.

## How Well Are Predominantly Nonwhite Neighborhoods Being Served?

To measure demand for small business loans, we compare the number of active businesses in Chicago's neighborhoods with the distribution of small business lending, similar to the method used by Nolan and Adams (2019). This comparison is not perfect, as the active business counts include all businesses, not just small businesses. In addition, because the data do not distinguish credit card lending from other lending, credit card lending is included in comparisons of loan count.

Table 12 compares where small business lending is taking place with the presence of active businesses by Chicago neighborhood type. Originations of small business loans in Chicago's predominantly nonwhite neighborhoods, 25.2 percent of all lending in the city, lag slightly behind the share of active businesses in these areas (28.8 percent of all active businesses). Loans originated to small businesses in these neighborhoods, 23.6 percent of all lending in the city, are even less

proportionate to the business share. Alternatively, lending in predominantly white neighborhoods (33.6 percent) surpasses the share of current active businesses in those areas (27.3 percent). The implication is that businesses in predominantly nonwhite neighborhoods are losing ground in terms of access to debt.

Small business loans in the city are more proportional to the active business share across neighborhood income type by loan count. LMI neighborhoods (which contain 38.3 percent of active businesses) in Chicago receive an approximately proportionate share of small business loans (37.8 percent) relative to their share of the city's active businesses. Businesses in middle-income neighborhoods are gaining ground, accounting for 13.4 percent of businesses but receiving 16.9 percent of small business loans. But lending volume in LMI neighborhoods (29.9 percent) is smaller than the share of businesses in these areas (38.3 percent). In terms of loan volume, upper-income neighborhoods receive the largest share of both small business loans (55 percent) and loans to small businesses (51.2 percent) compared with their share of active businesses (48.3 percent).

TABLE 12

**Active Small Business and Lending Composition, by Neighborhood Type**

*By neighborhood racial composition*

| | Predominantly nonwhite | Mixed | Predominantly white | All |
|---|---|---|---|---|
| Active business share | 28.8% | 43.8% | 27.3% | 100.0% |
| SB loan share (by count) | 25.2% | 41.2% | 33.6% | 100.0% |
| SB loan share (by volume) | 21.1% | 43.5% | 35.4% | 100.0% |
| Share of loans to SBs (by count) | 23.6% | 41.4% | 34.9% | 100.0% |
| Share of loans to SBs (by volume) | 21.3% | 40.0% | 38.7% | 100.0% |

*By income*

| | LMI | Middle income | Upper income | All |
|---|---|---|---|---|
| Active business share | 38.3% | 13.4% | 48.3% | 100.0% |
| SB loan share (by count) | 37.8% | 16.9% | 45.3% | 100.0% |
| SB loan share (by volume) | 29.9% | 15.2% | 55.0% | 100.0% |
| Share of loans to SBs (by count) | 38.3% | 17.7% | 44.0% | 100.0% |
| Share of loans to SBs (by volume) | 32.9% | 15.8% | 51.2% | 100.0% |

**Sources:** 2019–20 Community Reinvestment Act data from the Federal Financial Institutions Examination Council, 2020 administrative United States Postal Service data, and Urban Institute calculations.

**Note:** LMI = low- and moderate-income; SB = small business.

Table 13 shows the distribution of lending by neighborhood racial composition at different income levels. Nonwhite neighborhoods show significant gaps between the share of businesses and amount of small business lending in both LMI and middle-income neighborhoods. In Chicago's LMI neighborhoods, 68.9 percent of active businesses operate in predominantly nonwhite areas, but lenders originate only

56.4 percent of loans to small businesses inside those areas. In middle-income areas, the gap is starker: 16.7 percent of businesses are in predominantly nonwhite areas, but only 9.4 percent of loans to small businesses were originated in these areas.

TABLE 13

**Active Small Business and Lending Composition, by Neighborhood Racial Composition and Income Level**

*Low- and moderate-income neighborhoods*

| | Predominantly nonwhite | Mixed | Predominantly white | All |
|---|---|---|---|---|
| Active business share | 68.9% | 30.5% | 0.6% | 100.0% |
| SB loan share (by count) | 61.6% | 36.0% | 2.4% | 100.0% |
| SB loan share (by volume) | 65.9% | 32.9% | 1.2% | 100.0% |
| Share of loans to SBs (by count) | 56.4% | 40.6% | 3.0% | 100.0% |
| Share of loans to SBs (by volume) | 60.0% | 38.1% | 1.9% | 100.0% |

*Middle-income neighborhoods*

| | Predominantly nonwhite | Mixed | Predominantly white | All |
|---|---|---|---|---|
| Active business share | 16.7% | 59.2% | 24.1% | 100.0% |
| SB loan share (by count) | 9.8% | 61.2% | 29.0% | 100.0% |
| SB loan share (by volume) | 7.7% | 62.7% | 29.6% | 100.0% |
| Share of loans to SBs (by count) | 9.4% | 60.3% | 30.4% | 100.0% |
| Share of loans to SBs (by volume) | 8.2% | 61.7% | 30.1% | 100.0% |

*Upper-income neighborhoods*

| | Predominantly nonwhite | Mixed | Predominantly white | All |
|---|---|---|---|---|
| Active business share | 0.4% | 50.1% | 49.5% | 100.0% |
| SB loan share (by count) | 0.7% | 37.9% | 61.3% | 100.0% |
| SB loan share (by volume) | 0.4% | 43.9% | 55.7% | 100.0% |
| Share of loans to SBs (by count) | 0.8% | 34.6% | 64.6% | 100.0% |
| Share of loans to SBs (by volume) | 0.5% | 34.5% | 65.0% | 100.0% |

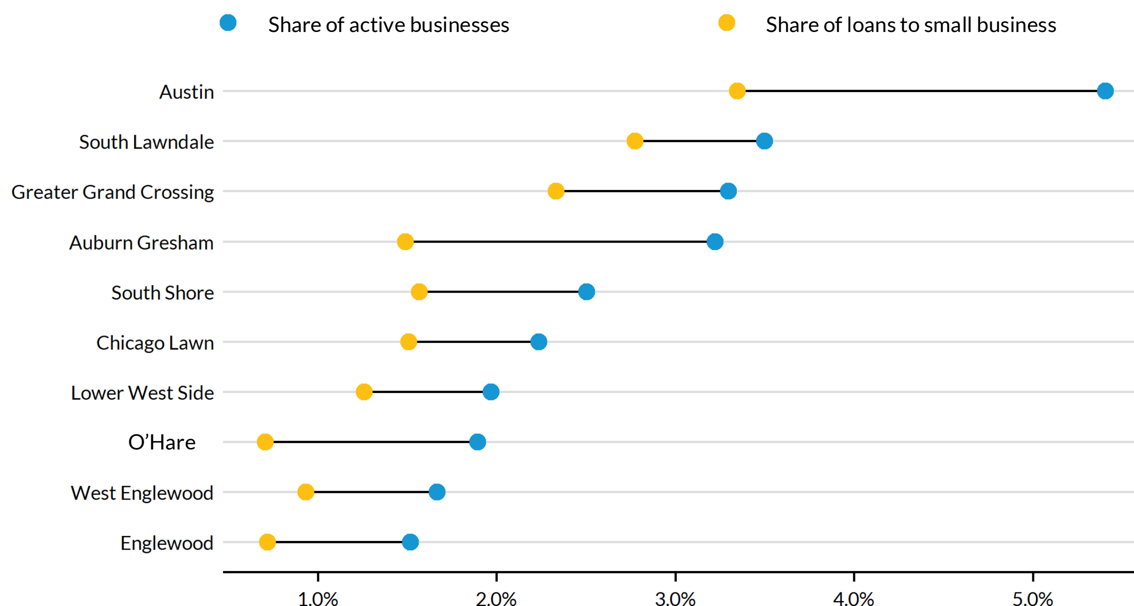
**Sources:** 2019–20 Community Reinvestment Act data from the Federal Financial Institutions Examination Council, 2020 administrative United States Postal Service data, and Urban Institute calculations.

**Note:** SB = small business.

Figure 10 shows the gap between small business lending and active businesses in nonwhite LMI neighborhoods for all LMI areas at the community level. The three communities below all have large shares of businesses in LMI areas and experienced wide lending gaps: Austin (5.4 percent of businesses and 3.6 percent of loans to small businesses), Auburn Gresham (3.2 percent and 1.2 percent), and Greater Grand Crossing (3.3 percent and 2.3 percent).

FIGURE 11

**Predominantly Nonwhite Neighborhoods' Share of Active Businesses and Loans to Small Businesses in all LMI Areas, by Community Area**




**Sources:** 2019–20 Community Reinvestment Act data from the Federal Financial Institutions Examinations Council, 2020 administrative United States Postal Service data, the City of Chicago, and Urban Institute calculations.

## CRA Lending

The structure of FFIEC's public CRA data does not make it possible to identify CRA loans at the census tract or city levels. Because of this limitation, this section looks at lending for the entirety of Cook County, which covers a slightly larger area than the Chicago city boundaries.

To categorize small business loans for CRA eligibility, we use a narrow definition based on banks' assessment areas, the same method used in Goodman, Zhu, and Walsh (2018) and similar to Ding and Nakamura (2017). Under this definition, a small business loan inside a bank's assessment area counts toward the CRA if it is originated to a business entity of any size in an LMI neighborhood or if it goes to a small business entity inside any neighborhood. Under the narrow definition, 42.3 percent of small business loans and 34.2 percent of volume qualified under the CRA during the evaluation period (table 14). Compared with national lending, Chicago has a larger share of small business loans qualifying for the CRA but a comparable share of volume, suggesting that CRA loans in the city are smaller, on average.

TABLE 14

**Annualized Small Business CRA Lending in Cook County**

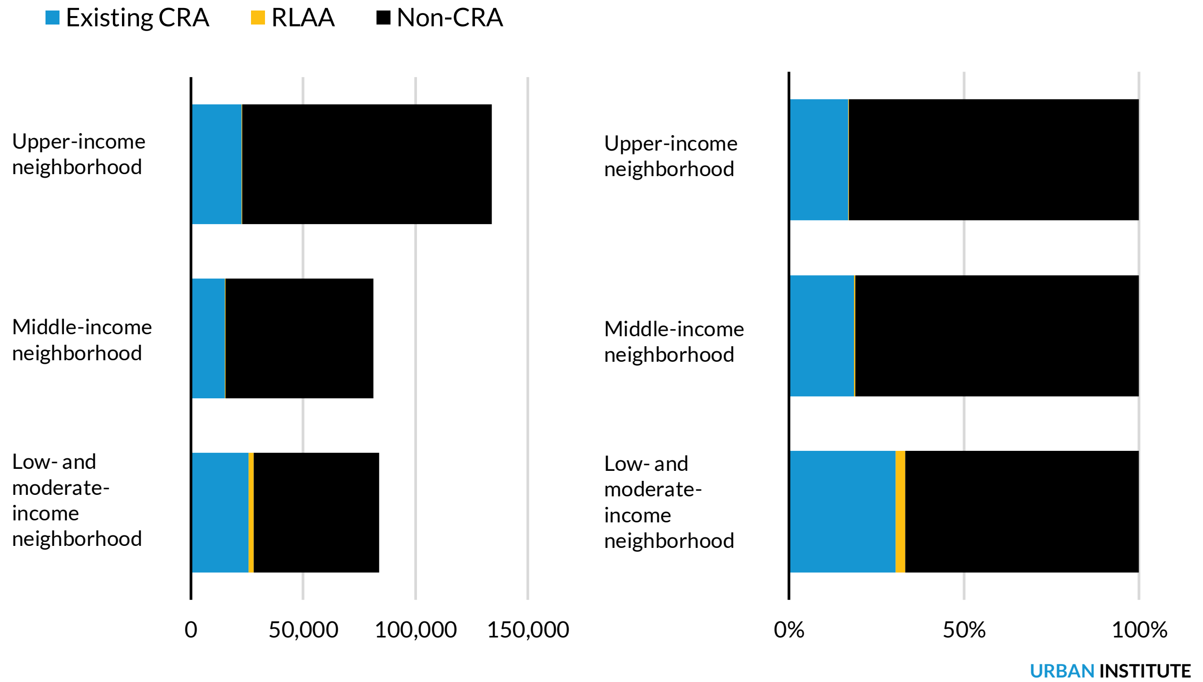
| | Loan count | Loan volume (thousands) |
|---|---|---|
| **Chicago** | | |
| CRA eligible | 63,662 | $2,469,819 |
| All lending | 150,613 | $7,228,743 |
| CRA share | 42.3% | 34.2% |
| **National** | | |
| CRA eligible | 2,761,100 | $129,594,698 |
| All lending | 8,006,719 | $363,330,090 |
| CRA share | 34.5% | 35.7% |

**Sources:** 2019–20 CRA data from the Federal Financial Institutions Examination Council and Urban Institute calculations.
**Note:** CRA = Community Reinvestment Act.

One of the updates to the CRA that federal regulators have proposed would add RLAAs to CRA evaluations. These would capture lending by banks in areas where they do not have a physical presence but make a significant number of loans. Figure 11 shows that adding RLAAs would have a minimal impact on the count of small business lending overall in Cook County. If RLAAs were implemented as proposed, these areas would cover 2,224 loans, or 3.5 percent of current CRA lending and 1.5 percent of total lending. But the impact would be concentrated in the county's LMI neighborhoods, representing 4 percent of loans by count.

FIGURE 12

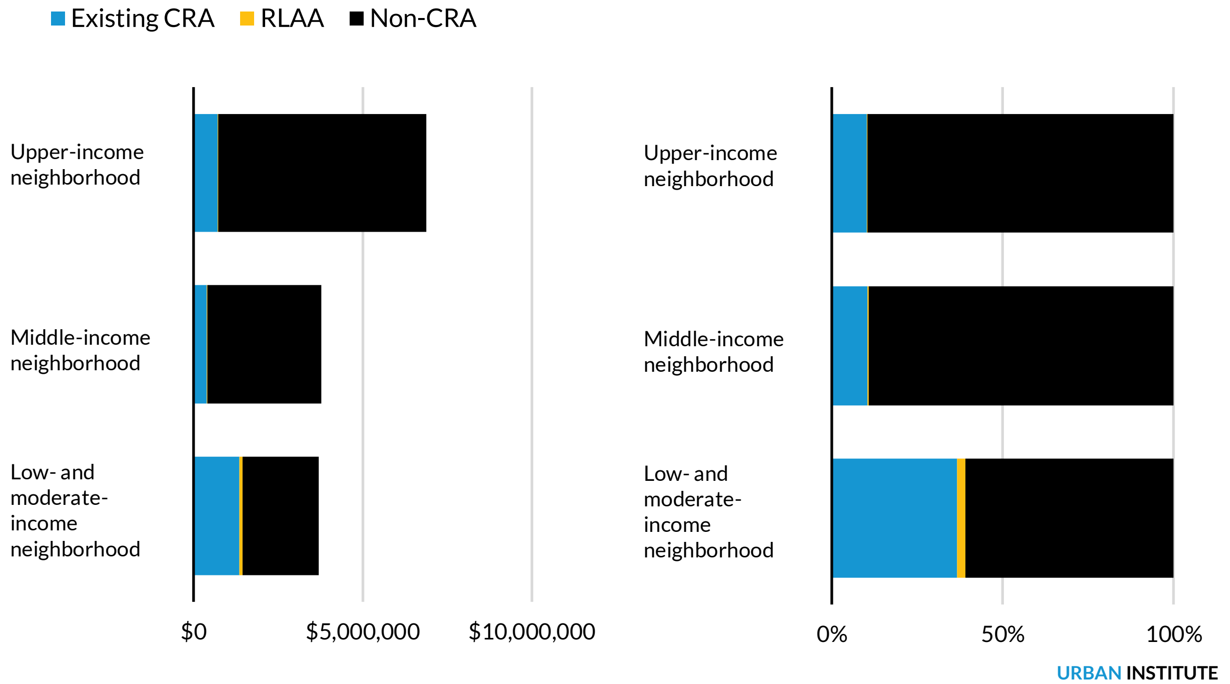
**Retail Areas' Impact on Small Business CRA Lending Volume in Cook County, by Neighborhood Income Level**




**Sources:** 2019–20 CRA data from the Federal Financial Institutions Examination Council and Urban Institute calculations.
**Note:** CRA = Community Reinvestment Act; RLAA = retail lending assessment area.

FIGURE 13

**Retail Areas' Impact on Small Business CRA Lending Volume in Cook County, by Neighborhood Income Level**




**Sources:** 2019–20 CRA data from the Federal Financial Institutions Examination Council and Urban Institute calculations.
**Note:** CRA = Community Reinvestment Act; RLAA = retail lending assessment area.

# 4. Findings from Community Organizations in Chicago

In addition to quantitative analysis of capital flows, we interviewed five Chicago-area community-based organizations working in housing, small business lending, and grantmaking, including community development financial institutions and loan underwriters, to get their perspectives on how financial service institutions are meeting the financial needs of households of color, primarily Black and Latino households and households with low and moderate incomes. We spoke with community-based organizations that serve borrowers and invest in neighborhoods with low and moderate incomes and whose services include technical assistance grants and workforce support services for small business owners, loan underwriting, affordable housing development, and neighborhood project grantmaking. The interviews revealed insights on racist lending practices widening capital access gaps, community-level efforts to fund entrepreneurs and prospective homeowners of color, the challenges people with low and moderate incomes face in securing capital from large financial institutions, and the dynamics of smaller banks and credit unions serving people who have historically been shut out of or underserved by mainstream sources of capital.

## Information Gaps and Systemic Underinvestment Drive "Abysmal" Mortgage and Limited Business Lending to Black and Latino Communities and Communities with Low and Moderate Incomes

Interviewees described persistent gaps in capital access among Black and Latino communities and neighborhoods with low and moderate incomes, as well as these communities' long-standing exclusion from mainstream financial systems resulting from governments' and financial institutions' racist housing policies and lending practices. Interviewees described capital access as correlating with zip code and neighborhood block—an experience reflected in our quantitative analysis—and, in turn, generations of families feeling disconnected from mainstream financial systems and distrustful of large banks. Although some interviewees acknowledged the financial sector's increased engagement with racial justice issues in response to broader social movements like Black Lives Matter, they expressed skepticism that banks' commitments will be enduring, with one interviewee describing it as a "dance for

the moment rather than long-lasting change." Interviewees noted that the centering of racial justice and racist policies shaping wealth and homeownership gaps has allowed community organizations to advance capital and lending deals for people of color that they felt lenders would have otherwise not considered, but described long-standing discrimination in lending patterns between Chicago's North and South Sides.

Interviewees also noted a misalignment between financial institutions' sales incentives and community need—a procedural inequity that, intentional or not, creates barriers to financial opportunity for nonwhite borrowers. At some banks, compensation models may be tied to the number of completed loans a staffer has overseen, and lenders who may view neighborhoods with low and moderate incomes as "high risk" may be reluctant to offer loans to people from these communities. Banks may view people with lower incomes as "nontraditional" clients—people who may have low or unstable incomes, may not have W-2s, or may lack robust credit histories or have low credit scores. Where people do qualify for financing, terms may be inflexible and less desirable than those for people with more conventional financial histories or higher credit scores.

Interviewees also described a lack of information about and awareness of financial services and community-level financing or grant opportunities as a driver of capital flow gaps. People may not be aware of what financial products they may qualify for or who offers them, what information or paperwork they may need to be considered for a financial product, or what community organizations can be intermediaries to broader funding opportunities. In communities with large immigrant populations, language barriers may prevent people from seeking support from financial institutions that operate primarily in English. Well before seeking financing for a home or business, people may lack access to financial education that prepares them for funding, with several interviewees noting that they serve community members who may not have been taught how to check or dispute an inaccurate credit report or who do not know to prepare to pay closing costs for personal, mortgage, or business loans. A lack of awareness of financial requirements or documentation can delay households' access to capital or impair their ability to secure loans entirely. Interviewees noted the influence of word-of-mouth recommendations in driving people to financial services and community-level sources of capital, but they also expressed concern that this approach may generate misinformation about available services and processes for accessing financial products.

Information gaps exist on the lending side as well, with interviewees noting that large banks can be less attuned to broader policies that help people who are traditionally excluded from conventional financing services gain access to capital. For instance, a bank employee who is unaware of city- or state-level first-time homebuyer or down payment assistance programs may decline to issue a mortgage to

someone who appears not to meet financial requirements, unaware that supplemental public programs would qualify them for homeownership financing.

## Personal Finances and Limited Capital Can Create "Chicken and Egg" Financial Challenges

Several interviewees also described "chicken and egg" challenges to capital flows, where a lack of initial funds can impede access to future funding opportunities among people with low and moderate incomes. For new entrepreneurs, personal finances can shape capital access for new small businesses, for which lenders may require personal financial records and credit records to supplement minimal business records. Entrepreneurs may seek to stabilize their finances and build wealth through business ownership, but if an individual has a poor or minimal credit history, lenders may be reluctant to finance them. In turn, future investors may see a poor investment history as a signal of low project viability and decline to lend. Absent ongoing capital infusions, business owners may fall further behind on bills, threatening business operations. It may also be challenging for businesses to secure ongoing funding beyond start-up capital. The cycle can keep small business owners in a state of financial instability, hampering opportunities to demonstrate business credibility and build economic security.

Other dimensions of personal finances can shape entrepreneurial and homeownership opportunities and access to capital. Racial gaps in intergenerational wealth are among the most obvious barriers to business or homeownership goals, and a lack of access to one asset can affect the feasibility of acquiring another. For instance, some entrepreneurs use a home equity loan as business start-up funding, but one interviewee noted this financing mechanism is available only to homeowners, who are disproportionately white. For small businesses that are primarily family operated, bank requests for financial records can put families in a position of needing to balance privacy and compliance with prospective lender requirements. Interviewees noted this dynamic is especially challenging among family businesses in households where not all members are citizens or have legal documentation, which may prompt concerns of authorities accessing family members' personal information.

## Mistrust and Limited Accountability between Large Financial Institutions and Communities of Color Create Space for Smaller Financial Institutions and Community Organizations to Bridge Gaps

Historic and present-day racism in lending has generated deep mistrust between large financial institutions and the communities of color they have excluded and underserved from their services. One interviewee described community trust in big banks as "on the same trust level as we put the police," and recent studies on lending disparities, such as WBEZ Chicago's 2020 mortgage lending feature, have quantified the scale of discrimination and lack of opportunity community members have experienced.[8] Because of long-standing mistrust, limited internal incentives to engage in neighborhoods with low and moderate incomes, and few external accountability mechanisms, some interviewees said they question whether large financial institutions will ever have a big presence.

Some interviewees acknowledged some large banks' recent commitments to financing in communities of color but also noted a lack of external accountability systems to monitor outcomes from these commitments. Large banks may publicly pledge to invest in predominantly Black neighborhoods or evaluate their mortgage lending patterns for racial discrimination, but they are not obligated to publicize their progress toward these efforts or outcomes of investments. One interviewee said communities "cannot hold banks accountable through goodwill," and governments lack authority to track private firms' disbursements or expenditures related to racial equity commitments. Interviewees also noted "performative" commitments, such as banking institutions having a representative on a community organization board or sponsoring community financial education efforts, as falling short of the need to distribute funds to people in communities directly.

Where large banks have failed to serve people of color and those with low and moderate incomes, interviewees said that local financial institutions, credit unions, and regional banks are key actors in bridging gaps in capital access, generating community trust through better outcomes for clients. Community organizations also bolster capital flows to Black and Latino households, and to other communities of color or communities with low incomes, through community development lending, direct housing development services, microgrants, and facilitated connections between community members and public programs, such as neighborhood investment funds or city grants for community projects. Small organizations may have a greater orientation toward community relationship building or may develop expertise in financial products for certain demographics, such as legal permanent residents. These small organizations may also be able to fill gaps in small-dollar lending that large banks

may perceive as not cost effective. Interviewees described households and business owners benefiting from small-dollar loans or grants for discrete projects—such as a home renovation or investment in machinery that bolsters productivity—that community financers and small financial institutions are suited to support.

But interviewees noted that small, community-based organizations or regional banks may be limited in their ability to provide transformative, large-scale capital, and some that specialize in specific products may be oversubscribed. Interviewees noted the importance of banks that work with people who have Individual Taxpayer Identification Numbers (ITIN), such as legal residents without a Social Security number, in broadening capital flows to Latino and immigrant populations in particular. Small banks that have developed ITIN lending as a core service may see more interest from clients than they can fulfill.

## Addressing Disparities in Capital Flows

Amid inequitable capital flows, racist and classist lending systems, and constrained capacity among small financial institutions and community organizations, several interviewees described potential avenues for minimizing capital access gaps. Interviewees broadly noted a need for financial access programs and interventions beyond the CRA itself, while acknowledging deep challenges of resolving structurally racist systems with individual-level or small-scale initiatives.

First, interviewees expressed a desire for financial institutions to have greater public accountability for their racial equity pledges. One interviewee suggested that financial institutions committing to racial equity investments disburse their funds into city or state development funds directly for governments to then invest in high-priority communities in consultation with community members. Though much like financial institutions, governments may not experience high levels of public trust, and information on investments in communities of color through a government-administered fund would be publicly releasable, allowing people to apply pressure on elected officials to fulfill spending commitments in a way they would not be able to for private firms.

Some interviewees noted the importance of leadership in the financial sector, expressing doubt that banks can be motivated toward more equitable lending practices absent committed internal champions, even with a state-level CRA in place. Social justice movements have prompted some firms to elevate people of color into prominent leadership positions, but surface-level hiring and promotion practices cannot resolve entrenched racial discrimination practices, with one interviewee noting that firms have

already returned to “business as usual” and a need to “tear the system up.” Before banks can identify where they can better serve and create trust with communities of color and LMI communities, there must be an internal willingness to meet these communities’ credit needs and align incentives to do so. The CRA may provide external accountability for these efforts, but absent an internal equity mandate, the law may merely motivate financial institutions to check boxes rather than embark on deep engagement with people in neighborhoods they have not yet served.

Several interviewees also noted the effectiveness of down payment assistance programs, programs that minimize closing costs, and grants, even small-dollar ones, in opening doors for people of color and those with low incomes to build financial security. Interviewees noted helpful programs at federal, state, and local levels, including FHA loans or first-time homebuyer or small business owner assistance. They also noted institution-level efforts, such as low– or no–down payment homeownership programs or programs that reduce closing costs, as tools to redress some degree of structural racial wealth gaps.

But interviewees also noted that in some cases, such as with FHA loans, the rigidity of these programs can produce less desirable terms for people with poor credit or limited income histories. A balance of more flexible terms and more robust external financial supports could increase peoples’ access to capital while minimizing the risk that people secure loans they would not be able to pay back. Expanded grant offerings for would-be homeowners and small business owners, whether administered by governments, community nonprofits, or financial institutions, could also help people establish a financial foothold without the burden of returning payment over time.

# 5. Conclusion

In Chicago, capital flows across the mortgage and small business landscape do not serve communities equally or equitably, with funds disproportionately flowing to predominantly white neighborhoods with high income levels. Neighborhood racial composition is strongly tied with the share of lending residents receive and is an indicator of mismatches between service and demand. For mortgage lending, lending disparities are felt most by Chicago's Black residents, who receive the smallest share of lending regardless of the income level of the neighborhood where they reside.

In small business lending, predominantly white neighborhoods receive a greater number of small business loans at a higher volume relative to the share of active businesses in those neighborhoods. In contrast, predominantly nonwhite neighborhoods receive slightly less than their proportionate share of small business loans, especially in LMI and middle-income neighborhoods.

Beyond providing the right incentives, mainstream financial services and products remain inaccessible to many and are shrouded in mistrust. Community reinvestment legislation should prioritize innovative financial products and investment in local lenders that understand community needs. CRA incentives may result in banks finding the lowest-risk eligible borrowers while avoiding business with residents who may have low incomes, nontraditional work histories, or minimal or poor credit histories, including Black, Latino, and immigrant prospective borrowers. Local banks, credit unions, and community-based organizations fill some gaps in financial services by offering grants, loans, and technical assistance in neighborhoods with low and moderate incomes, but need outpaces capacity.

The Illinois CRA and ongoing modernization efforts to the federal CRA provide opportunities to shift lenders' behavior and improve lending access. Both mortgage and small business lending patterns in Chicago suggest that some explicit consideration of race is necessary to remedy disparities, as, even within LMI neighborhoods, evidence suggests that nonwhite households are being underserved. Including nonbanks and credit unions in mortgage evaluations will largely expand the coverage of lending to nonwhite and low-income borrowers, but it is unlikely to shift bank behavior. Evaluating lending by borrower characteristics alone can overlook important broader trends, as the contradiction between overall Latino lending performance and large gaps in predominantly Latino communities in Chicago demonstrates. External mandates for more equitable lending practices that meet the credit needs of LMI neighborhoods, local services from community organizations that activate funding in underserved communities, and robust internal commitments and accountability mechanisms from

financial institutions to advance meaningful racial equity goals can all contribute to more equitable capital flows.

# Notes

[1] The data is available at https://datacatalog.urban.org/dataset/chicago-community-and-neighborhood-capital-flows-mortgage-and-small-business.

[2] Linda Lutton, Andrew Fan, and Alden Loury, "Where Banks Don't Lend," WBEZ Chicago, June 3, 2020, https://interactive.wbez.org/2020/banking/disparity/.

[3] Josh Silver and Jason Richardson, "A New Approach to Bank Ratings Would Generate Billions More for Neighborhoods Reeling from the Pandemic," National Community Reinvestment Coalition, July 7, 2020, https://ncrc.org/zh/a-new-approach-to-bank-ratings-would-generate-billions-more-for-neighborhoods-reeling-from-the-pandemic/.

[4] Stacy Mitchell, "Access to Capital for Local Businesses," Institute for Local Self-Reliance, accessed October 31, 2022, https://ilsr.org/rule/financing-local-businesses/.

[5] See also Lutton, Fan, and Loury, "Where Banks Don't Lend."

[6] Linna Zhu, Laurie Goodman, and Jun Zhu, "Who Serves More People of Color in Mortgage Lending: Banks or Nonbanks?" *Urban Wire* (blog), Urban Institute, February 21, 2022, https://www.urban.org/urban-wire/who-serves-more-people-color-mortgage-lending-banks-or-nonbanks.

[7] Esther Yoon-Ji Kang, "New Census Data Confirms the Continuation of Chicago Neighborhoods' Gentrification," WBEZ Chicago, March 19, 2022, https://www.wbez.org/stories/census-data-shows-continuing-gentrification-in-chicago/c1663c00-c3a2-41c4-845a-a76b717d8499.

[8] Lutton, Fan, and Loury, "Where Banks Don't Lend."

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