Economic Equity Policy Priority Brief

Community Reinvestment

What is Community Reinvestment?

At a fundamental level, the term community reinvestment refers to funneling resources, both financial and non-financial, into a community to enhance its economic potential. However, when assessed under the umbrella of economic equity, the question that emerges is how can Southern policymakers create a framework to channel both public and private investments to economically disadvantaged communities in an effort to generate both economic growth and jobs.

Community Reinvestment on a State Level

Nearly 50 years ago, the federal government led the effort to revitalize formerly marginalized communities by passing the landmark Community Reinvestment Act (CRA), enacted in 1977, which requires the Federal Reserve Bank, the Federal Deposit Insurance Corporation and the Office of the Comptroller of the Currency, all agencies that oversee the American financial system, to promote investment opportunities in all communities across the country while paying attention to safe and sound banking principles. The objective of the CRA was to address systemic inequities in access to credit in certain communities and neighborhoods in the country, a goal that aligns with EPU's purpose and mission. In fact, an April 2023 report from the Urban Institute notes that the federal CRA was "conceived of as a piece of civil rights legislation designed to overcome the effects of America's history of redlining, under which lenders refused to lend, especially for home mortgages, to Black, Latino, and ethnic white households."

In assessing the topic of community reinvestment, it is appropriate to review it at both the macro level, focusing on how federal oversight agencies direct commercial banks to meet the credit needs of every community in the country, particularly marginalized ones and second, at the micro level, reviewing initiatives launched by states to promote community reinvestment by expanding access to credit within their boundaries, particularly in formerly neglected neighborhoods. For the purposes of this brief, however, we will focus on initiatives across the country at a state level that can be used as models for the South.

With the passage of the CRA in 1977, a number of states followed the federal example and enacted their own CRAs reflecting their specific reinvestment priorities. While the federal CRA law applies strictly to banks, these state laws apply to a wider range of financial institutions, including nonbank mortgage companies and credit unions. This was partially driven by policymakers in certain states expanding CRA objectives beyond banks.

A November 2023 report released by the Consumer Financial Protection Bureau (CFPB) that reviewed the state-specific CRAs in 10 states highlighted the following key findings:

- Some states conduct independent examinations of lending-, services-, and investment-related performance of financial institutions while other states review federal CRA performance evaluations;
- Some states apply an affirmative lending, service delivery, and investment obligation to mortgage companies and credit unions in addition to deposit-taking institutions such as banks;
- Some states collect and consider information beyond what is required under the federal CRA to evaluate lending, services, and investment performance in their state;
- The most common enforcement mechanisms include limitations on mergers, acquisitions, branching activities, and licensing, but some states have adopted additional measures; and
- State CRAs have been amended from time to time in response to changing markets.

Under the CRA, financial institutions are evaluated by federal regulatory agencies on their efforts to serve the needs of the entire community. These evaluations consider factors such as the distribution of loans and services to different income levels, the presence of bank branches in underserved areas, and community development initiatives. Banks that perform well under the CRA receive favorable ratings, which can be to their advantage when they seek regulatory approval for various business options.

By leveraging the CRA, financial institutions can play a pivotal role in reversing the effects of disinvestment in the South, particularly in marginalized and minority communities. Through targeted lending, community development projects, partnerships, financial education, and increased access to banking services, reinvesting in our communities can help them thrive.

How Can Community Reinvestment Advance Equity in the South?

Community reinvestment can significantly advance equity in the South by addressing historical and systemic inequalities through targeted development initiatives. One critical area is affordable housing development, which can increase homeownership opportunities for low-income families, thereby fostering generational wealth and preventing displacement due to gentrification. Additionally, investing in education and workforce development, such as early childhood education and job training programs tailored to local industries, can help bridge the skills gap and create economic mobility for marginalized communities.

Supporting small businesses and improving access to healthcare are also vital components of community reinvestment. By providing capital, technical assistance, and financial literacy programs, minority-owned and small businesses can thrive, contributing to local economic growth. Furthermore, expanding healthcare access, including mental health and preventative care, alongside initiatives like community gardens and farmers' markets to ensure healthy food availability, can enhance overall community well-being .

Infrastructure improvements and inclusive community development play a crucial role in advancing equity. Enhancing public transportation connects residents to job centers, education, and healthcare, while addressing environmental justice ensures marginalized communities have clean air, water, and green spaces. Inclusive planning processes that involve community members help ensure development projects meet local needs and preserve cultural heritage. Collaborative efforts between governments, businesses, and nonprofits can leverage resources and expertise, fostering sustainable and equitable growth across the South.

Legislative Efforts Related to Community Reinvestment

There is still great work to be done to ensure that our marginalized and disinvested communities receive the care and attention that they need to begin thriving again. Poverty rates in Southern states are above the national average, with recent reports indicating that 7 out of the 10 states with the highest poverty rates are located in the South (West Virginia, Kentucky, Alabama, Mississippi, Louisiana, Arkansas, and Texas). Though not all successful in the 2024 legislative session, policy measures such as those cited below are positive steps toward addressing the systemic barriers present in our region and creating opportunities for all residents to thrive and contribute to the region's prosperity.

1. **Mississippi:** Senate Bill 2591 sought to establish a socially and economically disadvantaged small business contracting program to improve the number of these businesses that contract with the state by facilitating and improving access to government contracts.
2. **South Carolina:** House Bill 5307 sought to establish an income tax credit for grocers that open new locations in food deserts, defined in the bill as areas in which at least 33% of the population live more than one mile from a grocery store or supermarket.
3. **West Virginia:** House Bill 4169 sought to establish a two-year pilot program to provide residents of food deserts with access to fresh and affordable produce by establishing weekly markets in 3 food desert communities, one of which was to be located in a rural area, in order to make fruits and vegetables more affordable to families and individuals with limited access to fresh food.
4. **Tennessee:** Senate Bill 2289 would have required that 20% of funds collected for transfer and mortgage taxes be remitted to the Tennessee Housing Development Agency for use in making low-interest and zero-interest construction loans to low-income persons living in areas with a critical need for affordable housing.

Advancing economic equity in the South requires addressing systemic barriers and creating opportunities for all residents to thrive and contribute to the region’s prosperity.