This policy brief first provides an overview of CRA and then examines the changes made by Federal regulators in 2005, particularly focusing on the inclusion of new investment activities and geographies that now qualify as community development activities under regulation. Subsequently this brief illustrates how this inclusion could influence the geographic scope of community development investment in rural America using a case study of North Dakota.

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Community Reinvestment Act: The New Geography

by Michael Grover, Ph.D.

By including designated distressed or underserved rural areas, Federal regulators of CRA recognize and encourage community development in more rural areas.

CRA Background and Basics

Why was there a need for the Community Reinvestment Act? In 1977, Congress passed the CRA to encourage federally regulated financial institutions to meet the credit needs in their communities, including low- and moderate-income neighborhoods, consistent with legitimate banking operations.[1] The intent was to address community groups' and policy makers' concerns that financial institutions were disregarding sound banking opportunities in and around their service areas, causing an economic decline of certain places and neighborhoods.

Under CRA, each covered financial institution is required to delineate its service area, which regulators use to evaluate the bank's record in helping to meet the credit needs of its community. After the completion of an evaluation, the regulator assigns the institution an overall CRA rating (outstanding, satisfactory, needs to improve, or substantial noncompliance). These ratings symbolize the financial institutions' commitment to community reinvestment.

Recent Changes to CRA

On September 1, 2005, regulators implemented several important changes to CRA, including an expanded definition of "community development" to include activities that either revitalize or stabilize state and federally designated disaster areas during the official disaster period. The definition also includes activities that either revitalize or stabilize nonmetropolitan[2] middle-income distressed or underserved

Table 1: Characteristics of North Dakota's Low- and Moderate-Income (LMI) Census Tracts

	Not LMI	Classified as LMI	Total
Number of Tracts	188	39	227
Square Miles	57,921	12,756	70,677
Percent of Total	82%	18%	100%
Total Population	551,557	90,643	642,200
Non-White	28,421	23,926	52,347
Total Population for Poverty Estimate	533,244	85,953	619,197
Below Poverty	54,300	19,157	73,457

Source: U.S. Department of Housing and Urban Development Median Family Income Estimate, 2005 and U.S. Census Summary File 3.

areas. With these additions, Federal regulators expect to increase the number of rural areas eligible for community development consideration under CRA.

One of the reasons used by regulators for expanding the definition of community development for rural areas is the likely undercount of low- and moderate income (LMI) census tracts. Rural areas typically have more middle-income tracts because the rural state median, not the overall state median, is used in the calculation to identify LMI tracts.[3] This fact is important, since rural median incomes are typically much lower than the overall state median.

Based on the argument that appropriate rural areas had been excluded in the previous methodology, regulators opted for a multifaceted approach to identifying additional rural areas. First, they identified middle-income tracts in rural areas. Second, they classified these middle-income tracts by whether they did or did not exhibit qualities that made them distressed and/or underserved.

The revised CRA seeks to provide an annually updated benchmark for these new geographies.[4] According to the rules that guide CRA implementation, **distressed** geographies are located in counties with one of the following conditions:

- An unemployment rate of at least 1.5 times the national average.
- A poverty rate of 20 percent or more.
- A population loss of 10 percent or more between the previous and most recent decennial census, or a net migration loss of 5 percent or more over the five-year period preceding the most recent census.[5]

Regulators identified **underserved** geographies through a different methodology. Underserved refers to the fact that the area's "population is sufficiently small, thin and distant" and may have trouble financing the fixed costs of essential community needs.[6]

Going forward under the revised CRA, financial institutions arguably have an expanded array in the number and kinds of rural areas where investments, loans and other activities could receive CRA consideration. This expansion is visible when the old and new community development definitions are compared for the state of North Dakota.

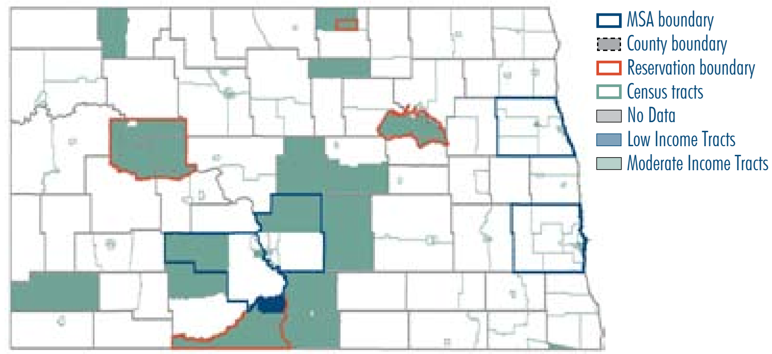
North Dakota Analysis

In 2000, the state of North Dakota had 227 census tracts with a total population of 642,200. The state is largely rural, with over 70,000 square miles in area and a density of roughly nine residents per square mile.

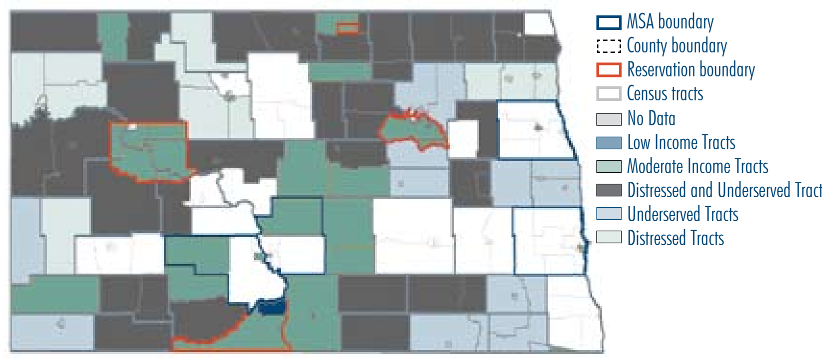
Using 2005 estimated median family income data reveals that 39 census tracts were CRA-eligible as LMI tracts under the previous regulation in that year. (See Table 1.) These tracts contained roughly one-fifth of the geographic area of the state and 14.1 percent of the population. The LMI tracts contained almost half of the state's non-White population and almost one-quarter of North Dakota's population with incomes below the poverty line in 2000. Spatially, these tracts were mostly located in two of the state's Metropolitan Statistical Areas and in the south-central part of the state. Some of the LMI tracts were also located within or near the state's Native American Reservations. (See Map 1.)

The new distressed and underserved geographies considerably expand the areas covered by CRA. The new CRA geography in North Dakota now includes 130 census tracts containing over three-quarters of the state's land area and close to half of the total population. (See Table 2 and Map 2.)

Map 1. Low- and Moderate-Income Census Tracts in North Dakota, 2005



Map 2: Existing LMI and New Distressed and/or Underserved Census Tracts in North Dakota, 2005



Data Sources: Census tract, MSA, County and Reservation Boundary Files, U.S. Census; Department of Housing and Urban Development Median Family Income Estimates, 2005.

Table 2: Characteristics of North Dakota's Low- and Moderate-Income (LMI) and Distressed and/or Underserved Census Tracts

	Not CRA Eligible	Eligible Under Revised CRA	Classified as LMI	Underserved and/or Distressed Tracts		
				Both	Underserved	Distressed
Number of Tracts	97	130	39	40	26	25
Square Miles	16,358	54,319	12,756	25,211	9,109	7,243
Percent of Total	23.1%	76.9%				
Total Population	349,702	292,498	90,643	76,489	48,581	76,785
Non-White	16,298	36,049	23,926	2,855	1,688	7,580
Total Population for Poverty Estimate	337,916	281,281	85,953	74,446	46,644	74,238
Below Poverty	31,363	42,094	19,157	9,696	4,773	8,468

Source: U.S. Department of Housing and Urban Development Median Family Income Estimate, 2005 and U.S. Census Summary File 3; Nonmetropolitan Distressed and Underserved Census Tracts, FFIEC, 2005.

With the addition of these areas, the geography covered under CRA includes close to 70 percent of the state's non-White population and approximately 60 percent of North Dakota's population below the poverty line in 2000. However, it is important to remember that underserved areas differ from traditional LMI and distressed areas with regard to the eligible investment activities that may occur there. Upon further examination, regulators designated 40 of the 91 new rural census tracts added as both underserved and distressed, with the remaining tracts almost equally split between underserved (26 tracts) and distressed (25 tracts) areas.

Summary and Conclusion

Under the revised CRA, the investment landscape of North Dakota, and many other rural areas across the nation, has changed dramatically. In North Dakota, CRA-eligible tracts now cover almost 80 percent of the land area and include close to half of the state's population. As a result, financial institutions have more options for investing in rural areas. Community development projects in previously excluded areas will also likely benefit from the new status of their geographic area as they use this eligibility to attract new investment.

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References

1. Community Reinvestment Act (CRA), Regulation BB (12 CFR 228) http://www.federalreserve.gov/regulations/default.htm#bb.

2. Nonmetropolitan refers to geographic areas located outside of Metropolitan Statistical Areas (MSAs).

3. Avery, R., G. Canner, S. Mok and D. Sokolov, (Spring 2005). "Community Banks and Rural Development: Research Relating to Proposals to Revise the Regulations That Implement the Community Reinvestment Act," *Federal Reserve Bulletin.*

4. An annually updated list of the census tracts identified as distressed or underserved can be found on the Federal Financial Institutions Examination Council's (FFIEC) Web site, www.ffiec.gov/cra/default.htm.

5. Final Draft Rules for the Community Reinvestment Act, 12.

6. Population data collected by the U.S. Census Bureau along with "urban influence codes" maintained by the Economic Research Service of the United States Department of Agriculture are used to identify underserved areas.

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