

Community Reinvestment Act and Sustainability of the Community

Key Words: sustainability, ,community, ,finance , Securitization

1. BACKGROUND AND PURPOSE

In late years, in order to ensure the sustainability of environment, economy and society, the use of the financial function or the role of the financial institution attracts attention. Since the flow of globalization advances as a world trend, the fund is hard to flow for the field considered to be generally unprofitable, i.e. community. However, if the fund flows in one way or another and the sustainability of community is ensured, the entire society can get benefits. It is the necessary condition that the financial institutions function adequately in community in order to secure the sustainability of community.

In the United States the law (Community Reinvestment Act : CRA) to encourage the depository institutions to meet credit needs of community was established in 1977 and this can be said to be an advanced action to correct the market failure in community. The operation of this law was strengthened in the end of 80's and in the middle of 90's and three tests of lending / investment / service are imposed on the large retail institutions after revision by Clinton Administration in 1995.

According to the existing documents, the financial institutions use various devices to correspond to CRA smoothly. For example, they decrease credit risk by the use of securitization, and decrease information production cost by investing in community development financial institution (CDFIs) or concluding the agreements with community group and spread risk and decrease cost by loan consortium.

However, it is not always clear whether the use of these tools is tied to the benefit on community. Therefore, in this study I inspect the effect of three above-mentioned tests for a substitute index of "the sustainability of community" and at the same time I consider it in this connection.

2. METHOD

The survey of documents was done based on various existing studies, the publication document of the community group and the financial institutions, the documents of Federal Reserve Bank and the discussions in the regulation authorities.

3. RESULT AND DISCUSSION

The lending test is thought to have been an important factor of the rapid growth in mortgage loans in the 1990s by depository institutions, the investment test brought about novel investment types such as EQ2 or community development REIT and it is thought that the service test gave certain incentive depository institutions to extend branches in community.

On the other hand, mainly because of the loan increase from outside of the assessment area, the ability of community groups as an important factor of CRA agreements is thought to be reduced.

In addition, the deals of "CRA-targeted" MBS may not lead to the substantial benefit on community and other investment types whose effect is relatively low tend to be used as qualified investment.

However, it seems that these problems can be settled by improving the system, and as the general remarks it may be said that CRA has the useful structure in securing the sustainability of community.