Racial Disparities in Access to Mortgage Credit: Does Governance Matter?*

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Objectives. This article examines the effect of community organizing on the likelihood that minority borrowers pursue home mortgage credit from regulated lenders. Methods. Governance perspectives suggest that community organizations exert significant influence on policy outcomes. We use logistic regression with interaction terms to test the effect of community organizing on the lending outcomes of minority borrowers. We use a matched control sample of cities, drawing on 2004 loan data from two midwestern cities similar in racial and economic composition but with different histories of organizing around the Community Reinvestment Act (CRA). Results. We find differential effects based on an applicant’s race or ethnicity. Overall, African-American applicants are less likely to pursue mortgage credit for home ownership from regulated lenders than their white, non-Hispanic counterparts. However, African Americans seeking mortgage credit in a city with a history of CRA organizing are more likely to apply to regulated lenders than their racial counterparts in a city without CRA organizing. However, while organizing reduces the disparities between white and African-American applicants, a gap still remains. Conclusion. African-American borrowers living in cities with a history of community organizing around CRA appear more likely to pursue mortgage credit from traditional, regulated lenders, suggesting that governance matters.

Economic theories largely rooted in public choice theory have been applied to analyze the impact of the Community Reinvestment Act (CRA) of 1977 (Barr, 2004), evaluate the ability of CRA to increase or decrease efficiency in lending markets (Benston, 1997; Lang and Nakamura, 1993), and its ability to increase access to credit from traditional lending institutions for historically disadvantaged borrowers. Although insight from these analyses provides relevant policy information, analyses rooted in these perspectives adopt a traditional approach to policy analysis, one that assumes policies are implemented by a neutral administrative state in line with static,

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SOCIAL SCIENCE QUARTERLY, Volume 92, Number 3, September 2011
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DOI: 10.1111/j.1540-6237.2011.00792.x
objective policy objectives (Salamon, 2002). Hence, they focus attention on
the relationship between formal regulatory bodies and the private entities
they regulate. Second, they focus on only one subset of lending institu-
tions—those governed by formal CRA regulation.

Conversely, governance perspectives assume policies are rarely adminis-
tered in a neutral state by formal governmental agencies (Salamon, 2002),
but that policies, and their outcomes, are embedded in dynamic local social
and political contexts. As such, traditional approaches may neglect to con-
sider the broader, institutional context in which policy implementation oc-
curs, the different institutional arrangements through which policy
objectives are pursued, and the actors involved in governance in these con-
texts. In this article, we focus on the case of community reinvestment and
efforts aimed at stimulating access to credit for disadvantaged borrowers. We
test if disadvantaged borrowers have a greater likelihood of pursuing access
to credit from traditional lending institutions in a context where local-level
actors have historically been engaged in community reinvestment efforts.
We anticipate the likelihood of pursuing access to credit from traditional
lenders will be greater for historically disadvantaged applicants in a place
with a history of community reinvestment efforts.

**Perspectives of Governance**

Because a host of formal and informal actors influence policy outcomes, a
better understanding of policy outcomes may be gained by adopting a gov-
ernance perspective. As stated by Haines, Reichman, and Scott:

> Given our understanding of the importance of informal governance within
public and private bureaucracies, and within societies more generally, what
counts as “public” in some sense is no longer, if it ever was, the exclusive
monopoly of state bodies. . . . Rather it represents a more pluralistic way of
thinking about law and policy, where, in neither case, is the making or
implementation of policy exclusively within the control of governmental
organizations. (2008:7)

Governance perspectives recognize the potential for a multitude of actors
and interests (although not necessarily equal in power) to influence policy
outcomes and action. Furthermore, governance perspectives challenge tra-
ditional notions of a neutral administrative state consisting of governmental
agencies carrying out prescribed public policies, but instead suggest that
policy outcomes may be better understood by conceptualizing a blurred
boundary between public and private actors (Stoker, 1998:17). For example,
Schneider and Ingram (1997) argued that certain policy tools, such as ca-
pacity tools, encourage greater participation among citizen or neighborhood
groups by incorporating these informal actors in the process, in turn, in-
fluencing the responses that emerge. Furthermore, Salamon (2002) argued
that policies contain elements that by design shift responsibility to a whole host of actors that reside beyond the formal boundaries of government. In short, our understanding of policy outcomes and action may be better informed by understanding the ability of a wide range of groups and interests to shape the localized context.

**Access to Credit: The Community Reinvestment Act of 1977**

Arguably, an important and often-studied policy designed to stimulate access to credit in urban, minority communities is the 1977 Community Reinvestment Act (CRA). One main goal of CRA is to stimulate reinvestment by increasing traditional lending activity in low-income, minority communities. CRA was enacted in response to concerns that lenders were redlining urban communities, that is, refusing to lend to borrowers based on the characteristics of the community. Proponents of CRA argued that redlining triggers a cycle of disinvestment in urban communities as both borrowers and businesses are unable to obtain access to credit (Squires, 1992, 2003; Immergluck, 2004). The actual implementation and enforcement of CRA has largely been characterized as involving not only formal, governmental actors, but also a whole host of informal actors, particularly community-based groups.

Formal regulation under CRA is divided among the four federal agencies responsible for regulatory oversight in the financial industry and includes the Federal Reserve System (FRS), the Federal Deposit Insurance Corporation (FDIC), the Office of Comptroller of the Currency (OCC), and the Office of Thrift Supervision (OTS). Regulators review the performance of the lender based on a preestablished exam schedule and can impose costs on lenders when their performance is deemed to be suboptimal. The regulatory agency considers a bank’s CRA rating when the bank applies to open or close a domestic branch, seeks to merge with another lending institution, consolidates, acquires assets, or assumes liabilities. If a bank has a less than satisfactory CRA rating, a regulator could deny or delay a merger application, an acquisition request, or the opening of a new branch.

Formal agencies responsible for CRA oversight have interpreted CRA as holding lenders accountable in four areas: lending, investment, community development, and service. Regulation under CRA, however, is not solely carried out by federal regulatory agencies; lenders are often subject to challenges posed by community-based groups or local governments. Under CRA, community-based groups and other public entities are encouraged to challenge or inform the behavior of lenders under CRA—efforts that may lead to a negotiated agreement. In a number of cities across the country, community-based and local groups have been extensively active in ensuring that CRA is enforced: they have used it as a lever to negotiate agreements with lenders for programs or policies to increase access to minority
borrowers and to pressure regulatory agencies to review the lenders’ activity in certain communities (Immergluck, 2004; Joint Center for Housing Studies, 2002; Squires, 1992, 2003; Williams and Nesiba, 1997). In more recent years, CRA agreements commonly occur when groups representing different neighborhoods or communities, interested in economic justice, fair housing issues, and/or community development, engage in collective action to develop an active agenda to bring to the lenders.

Given the wide array of groups and interests beyond the formal boundaries of government, the effects of CRA may best be understood from a governance perspective. However, applying a governance perspective to understand policy outcomes raises new questions about the relationship between local actors, the interests they represent that shape the context in which local policies evolve, and the actions individuals take. Pluralistic theories suggest that public policy outcomes are realized largely through the political process, whereby interests inform policy preferences, these interests are representative of the racial and ethnic makeup of the residents in a community, public officials enact policy in response to these interests, and local governmental agencies neutrally administer policies through the use of rules and standard operating procedures that create the desired conditions. Conversely, a governance perspective recognizes the potential for localities to be shaped or characterized by different interests, the values espoused by these interests, and, in turn, how the involvement of these interests may shape not only policy preferences and implementation, but also outcomes and behaviors (Schneider and Ingram, 1997; Salamon, 2002). As such, governance perspectives raise new questions about the different outcomes and opportunities that might emerge in an environment governed by different interests and perspectives.

A number of case studies suggest that this is indeed the case and that localities are shaped by the interests and groups involved in governance (Bovaird, 2007; Hula and Jackson-Elmoore, 2001; Orr, 2001) and, as a result, influence or shape the opportunities available to underserved or disenfranchised individuals. As summarized by Orr (2001), groups organized around certain issues or policy domains can change communities, improve neighborhoods, and expand opportunities at multiple stages of the policy and implementation processes. In doing so, they can inform and influence the opportunities available to individuals who may have been previously disenfranchised from mainstream economic opportunities. In the arena of environmental policy, for example, Gunningham, Kagan, and Thornton (2004) found that behavior in a community often reflects the businesses “social license,” rather than the public policies in place, defined as the demands on and expectations for a business enterprise that emerge from neighborhoods, environmental groups, community members, and other elements of the surrounding civil society.

In this article, we focus on access to mortgage credit for homeownership and the effect of localized community reinvestment interests. Researchers
continue to debate the extent to which CRA is actively enforced (Immergluck, 2004; Williams and Nesiba, 1997) and others suggest that CRA has never reached its full potential (Marsico, 2005), but there is a substantial evidence demonstrating CRA has stimulated reinvestment in urban communities (Bostic and Robinson, 2005; Immergluck, 2004; Schwartz, 1998, 2000; Squires, 1992, 2003; Shlay, 1999; Williams, McConnell, and Nesiba, 2001). Although the methods through which these studies reach these conclusions differ, factors such as community-based organizing and agreements (Bostic and Robinson, 2005; Immergluck, 2004; Schwartz 1998, 2000; Squires 1992, 2003; Williams, McConnell, and Nesiba, 2001), internal characteristics of the formal regulatory agency such as culture or leadership (Immergluck, 2004), and presidential agendas (Immergluck, 2004) have been found to play a pivotal role.

Community-based groups’ engaged in CRA governance have largely been characterized as serving in a watchdog or regulatory capacity. In this capacity, they influence both the behavior of regulatory agencies and lenders, which, in turn, has been found to influence the number of loans and dollar amount in CRA assessment areas. Most empirical analyses include variables that control for the number of CRA agreements that are present in an area, or the number of CRA agreements over time; focusing primarily on the formal effects of the policy such as its ability to correct market failures, and devoting less attention to the groups present in a localized context. Others have moved beyond explaining the effectiveness of CRA as merely a market-failure correction, and have explored the broader features of what has influenced effective or strong CRA regulation, shedding light as to how the variations in governance across place might influence the outcomes that result. For example, Williams, McConnell, and Nesiba (2001) found that in a county identified as having a high-level of activism that led to a negotiated agreement, lenders were making a significantly higher percentage of loans in underserved markets than in other markets. In this particular case, the involvement of nongovernmental actors influenced the behavior of lenders, leading to potential advantages for borrowers in this particular county.

The Broader Institutional Environment and Access to Credit

Studies such as the one above have called attention to the institutional environments in which CRA-regulated lenders operate, yet much remains to be known as to how the presence of these groups and interests influence access to credit in a changed financial services environment. For Dymski (1999), CRA is just one piece of the puzzle of equal opportunity to capital and credit markets, and merely one mechanism through which opportunity might be shaped. The landscape of opportunities available to potential borrowers has changed, and this environment may negate the original intent of CRA to encourage lenders to engage in outreach and identify oppor-
opportunities to provide access to mainstream financial services. The industry has changed as a direct result of federal bank deregulation policy from one dominated by conventional mainstream lenders, to one characterized by different types of lenders, from traditional savings institutions to mortgage brokers and created financial service providers that are not subject to CRA regulation (Temkin, Johnson, and Levy, 2002), many of which specialize in offering subprime credit. Lenders not regulated by CRA originate a higher percentage of loans and higher percentage of subprime loans in minority communities (Courchane, Surette, and Zorn, 2004; U.S. Department of Housing and Urban Development, 2000). These new sources of credit, ungoverned by CRA legislation, may, in effect, merely repackage previous disparities disguised as access to credit into new disparities in the form of access to only certain types of lenders or institutions. Thus, a more complete understanding of access to credit in historically underserved communities extends beyond a discussion of CRA regulation per se to one that also considers the institutional structure of lending markets.

Likewise, it is also equally important to understand how social structure influences opportunities to access credit. Dymski and Aldana (2007) argued that ongoing racial inequality may be dictated by the social structure of a place—namely, a particular group’s market power or share in a place. In their analysis of the Home Mortgage Disclosure Act (HMDA) loan data for 84 metropolitan areas, they found the degree to which racial minorities face barriers in accessing credit is related to their share of the market and the extent to which residential segregation is present in the areas where lending takes place: white applicants have the lowest odds of being approved for a loan in cities classified as “minority cities,” suggesting that the effects of a particular policy cannot be considered without taking into account the broader structural characteristics of the marketplace.

Taken together, these studies suggest a need to understand community reinvestment outcomes as part of a larger lending environment, shaped and constructed by community reinvestment interests, social structure, and public policies. However, while Dymski and Aldana (2007) illuminate the importance of considering how the structural features of society might indirectly govern community reinvestment decisions, additional questions remain. In their approach, power is conceptualized as something that results from population size or distribution in a place, but does not consider the effects of different civic, community, and service networks in these environments—the mechanisms that connect, serve, and advocate the interests of underserved borrowers and communities and may influence the opportunities available to various racial and ethnic groups.

In this article, we extend Dymski and Aldana’s (2007) work and ask if the simple number of minority residents in a community influences lending dynamics, or is the mobilization or presence of groups representing the interests of minority residents, those engaged in governance, an influencing factor? For example, if we compare two cities with similar population dis-
tributions, do borrowers in these communities have the same likelihood of accessing traditional lenders as their counterparts in a city without a history of groups focused on community reinvestment? If this matters, then one might expect different outcomes among racial or ethnic minority borrowers in cities with similar populations of racial or ethnic groups but differential histories of organizing around community reinvestment issues. We begin to explore this relationship by comparing two cities with different histories of organizing around community reinvestment issues.

Disparities in Localized Interests: CRA Activity in Cleveland and St. Louis

The disparities in actors’ involved in community reinvestment efforts have been addressed in other literature. Holyoke (2004) and Casey (2009) uncover the disparities across cities in the interests engaged in community reinvestment issues. Community reinvestment efforts vary widely across states, regions, and cities (Squires, 2003; NCRC, 2005). In some cities, groups have used CRA as a lever to negotiate agreements with lenders. In other cases, groups have entered into partnership arrangements with lenders to deliver access to credit. In other cities, there is little or no evidence of additional action through CRA (NCRC, 2005, 2007), since its inception.

For example, Cleveland and St. Louis, two cities similar in regard to economic trends and socioeconomic and demographic characteristics of residents, have very different histories of organizing around community reinvestment and access to credit. Cleveland has a long history of local organizing around community reinvestment. Since the enactment of CRA in 1977, local groups and public-sector officials in Cleveland have negotiated 27 CRA agreements, and continued to negotiate agreements well into the mid-2000s. Early CRA efforts were best characterized as reinvestment efforts by local neighborhood groups, but later transitioned to city-led reinvestment initiatives. Beginning with Mayor White’s administration, from 1989–2001, local government took the primary lead in negotiating lending agreements, based on an agenda developed in conjunction with a network of community development corporations, efforts that continued through 2004. The use of CRA has generated informal agreements between community-based groups and lenders. These have stimulated linkages between city officials, community development corporation (CDC) networks, and lenders to develop programs that make mortgage loans for new homes available at low interest rates, include provisions for homeownership counseling, opportunities for wealth creation by combining mortgage loans with matched savings accounts, relaxed underwriting standards, ongoing lender involvement in assessing community credit needs, and lender commitments to matched market share lending in low-income and minority communities (Bright, 2003; National Community Reinvestment Coalition, 2005; Schwartz, 1998, 2000).
Conversely, neither community-based groups nor local government agencies in St. Louis have historically been actively engaged in CRA efforts. In St. Louis, during the years 1977–2004, community-based groups and organizations entered into only four CRA agreements, totaling $72.6 million (NCRC, 2005). All the agreements were negotiated during the 1990s, during the high time of merger activity among banks.

The efforts in Cleveland vary significantly from those in St. Louis. Community activism and organizing around CRA in Cleveland led to a wide array of programs and agreements as well as encouraged the City of Cleveland to engage in CRA activity as well. This makes Cleveland relatively unique, as in very few cities have organizing efforts also influenced the involvement of local city government. This might suggest that community activism may be a significant factor in reinvestment success in cities, particularly as it relates to reducing disparities in access to credit for members of racial and ethnic groups.

Disparities in Access to Credit

Research shows that minority applicants are denied home mortgage credit at higher rates than white applicants with the same income and debt-to-income ratios (Dymski, 1999; Flippen, 2001). In particular, African Americans are disadvantaged in all markets and by all lender types: on average African Americans are 36.3 percent less likely to receive access to credit, Hispanics 18 percent less likely, and Native Americans 36.3 percent less likely to receive such access, than their white counterparts. Conversely, Asian Americans are more likely to receive access to credit, on average, and are 5.8 percent more likely to be approved for a loan. Borrowers with lower incomes are at a disadvantage in obtaining home loans relative to applicants with higher incomes, even controlling for other factors, as are applicants who seek to purchase homes in lower-income neighborhoods or in neighborhoods with high proportion of minority residents (Dymski, 1999). Yet, there is great variation in how lenders treat minority borrowers and communities across places: Dymski (1999) found no type of lender consistently serves all minority borrowers or neighborhoods better than any other type, and this varies within the same metropolitan area even among the same type of lenders. In some cases, lenders will serve one minority group better than another.

Furthermore, since the mid-1990s, the issue facing many urban, low-income communities is the extent to which subprime institutions, typically not subject to direct CRA regulation, and lending are concentrated among lower-income and minority borrowers. Subprime lending and institutions specializing in subprime credit have a strong correlation with borrower-specific characteristics, such as minority status and education levels (Courchane, Surette, and Zorn, 2004), as well as neighborhood characteristics such
as low-income, predominantly minority, and urban communities (Courchane, Surette, and Zorn, 2004; U.S. Department of Housing and Urban Development, 2000). Likewise, there is increasing evidence of a correlation between credit from nontraditional lenders and high rates of foreclosures in minority communities (Bunce et al., 2001; Gruenstein and Herbert, 2000). Observers debate whether these new lenders provide opportunities for borrowers unable to access credit through traditional lenders (Nichols, Pennington-Cross, and Yezer, 2004), or merely provide new opportunities for racial and class exploitation (Williams, Nesiba, and McConnell, 2005; Wyly et al., 2006). Given the original intent of CRA, it becomes necessary to consider the disparities that exist among white and minority borrowers, not just in access to credit, but also the types of lenders through which access is differentially governed. From the standpoint of equity concerns, more appropriate questions emerge, such as at what price is credit received and, perhaps more importantly, to what extent do disadvantaged applicants disproportionately seek access to credit from lenders not governed by CRA legislation.

The Ongoing Fight for Access to Credit

Today’s lending environment is characterized by differences in the formal governance of lending institutions, regulated versus nonregulated lenders, and differences in the informal actors engaged in governance. The historical contexts in which policies and lending behavior emerge is central to the argument made in this article—that these contexts may influence differential outcomes for historically underserved groups, that these efforts extend beyond one mere policy, and that these efforts may be more powerful than social structure alone. Even as the mortgage environment changed, and a new subset of lenders emerged that were not governed by CRA, reinvestment interests in Cleveland continued to push for additional actions to alter the outcomes for underserved borrowers, whereas efforts in St. Louis remained nonexistent.

For example, emerging concerns over the prevalence of higher-priced subprime credit in minority communities prompted a refocus of community reinvestment agendas in Cleveland. In 2002, the city enacted an ordinance designed to deter high-priced lending. However, in 2003, the city’s action was overruled by the state, as the Cuyahoga County Court of Appeals and the Montgomery County Court ruled the ordinance invalid. Despite the ruling, the city ordered the ordinance to remain in effect, until it was finally overruled in 2006. The three main objectives of Cleveland’s local ordinance were to collect and make data available to the public to protect themselves against predatory lenders, to prevent lenders engaged in predatory, or high-priced, lending from doing business with the city, and to prevent predatory lenders and those providing referrals and services to those lenders from
taking advantage of city programs designed to encourage home ownership and home repair. Regardless of the federal policy environment, local groups representing the interests of minority communities and borrowers continued to push and alter the rules of the lending game.

However, while these concerns were prevalent in some cities across the nation, not all communities took additional action. For example, in St. Louis, no local policies or ordinances were enacted to protect residents from predatory or high-cost lending. The significance of considering the context in which community reinvestment takes shape is that the interests present in these communities may shape the opportunities available to potential borrowers in these environments.

**Institutional Space of Mortgage Credit: Methodological Approach**

We build on the work of Dymski and Aldana (2007) by considering not only the impact of social structure in a place on lending outcomes, but also the effects of local mobilization around community reinvestment. However, we extend their work in two ways. First, our sample differs because we analyze data from two cities that are comparable in regard to minority population, and broader economic and regional characteristics, to isolate the effects of historical organizing around CRA. We anticipate CRA activity will influence the opportunities available to minority groups.

Second, while Dymski and Aldana (2007) considered the effects of race and place on access to mortgage credit, we add to their model by considering the changed opportunity structures presented in the current financial services environment in which lenders operate, one consisting of both CRA-regulated and nonregulated lenders, to account for the type of lender from which an applicant pursues access to credit. Specifically, in this article, we focus on the type of lender to which a potential borrower applies for credit, rather than the type of loan he or she receives or whether the potential borrower accepted or rejected. We do this for several reasons. First, it is important to understand the types of lending institutions to which different groups have access or pursue access for homeownership. Equity concerns remain considering the extent to which traditional, mainstream lenders provide opportunities to members of racial and ethnic groups. Second, the information and data available on the cost of loans—prime or subprime—is relatively new, and a complete comparison of the actual type of loan received often depends on a number of private factors that are not easily available. Finally, the focus of this analysis is on opportunity, and the extent to which disadvantaged borrowers have access to the same types of institutions as their counterparts is a key focus of community reinvestment efforts and early CRA legislation. Thus, the central question in this article: Are historically disadvantaged applicants less likely to seek access from CRA-regulated lenders? We anticipate they will be less likely to do so; however, these effects
will be mitigated by the history of actors involved in community reinvestment efforts in a place.

Logistic regression is used to test the effects of CRA activity. We estimated a logistic regression equation with interaction effects to test the effects of an applicant’s racial or ethnic affiliation on type of lender from which a loan was sought. The interaction represents the joint effect, in this particular case, of being a minority applicant in a city that has extensively organized around CRA. The cross-sectional sample draws on 2004 HMDA data from two cities, St. Louis, Missouri, and Cleveland, Ohio, and is restricted to applications for single-family home loans. Data on home mortgage applications were obtained from the HMDA database, which is the most comprehensive public database on mortgage loans and lenders; community-level characteristics were obtained from the Census 2000. To control for neighborhood and area effects, additional data were collected from the Census 2000 Summary File 3 (SF3), available from the Census Bureau.

Whereas Dymski and Aldana (2007) control for regional differences in the racial composition of these cities in their sample, we purposively select these two cities based on their similarity in racial and economic composition. The distinguishing difference between the two cities, as noted previously, is that Cleveland can be classified as a place with high community reinvestment activity, whereas St. Louis can be classified as a place with low community reinvestment activity.¹ As the analysis only focuses on two cities, it is plausible to argue that by focusing on only two cities, there is a potential for the results to be due to a spurious correlation. However, given the unique focus of our question concerning the localized patterns of community reinvestment across places, and how these efforts differ across different cities, we felt a matched control case, that is, a city with little to no organizing but exhibiting similar socioeconomic and demographic characteristics, was the preferred approach (Shadish, Cook, and Campbell, 2002). Given the assumptions on which our argument and analysis is based, we were reluctant to add additional cities as we feel that it is unlikely that the groups engaged in CRA activity in Cleveland are composed of the same interests and groups as one might find in CRA efforts in another city. Future studies that design matched-control cases, based on the interests and characteristics of the city, will enhance the ability to generalize causality.

No significant differences exist among the majority of racial and ethnic groups in the sample cities, with the exception of borrowers identifying as American Indian, Pacific Islander, Hawaiian, Native American, or Alaskan

¹It is possible to argue that the reason Cleveland has a higher level of CRA activity is perhaps because it has more subprime or predatory practices in place that have influenced this activity. One factor that has been shown to influence CRA activity is bank merger activity, and these two cities experienced similar levels of merger activity, yet CRA activity is quite different in these two cities (Casey, 2009). A historical account of reinvestment activity in Cleveland suggests efforts toward reinvestment have been in place since 1979, and these efforts continue to evolve as the lending environment changes (NCRC, 2005).
Native. In 2003, the annual average unemployment rate for the cities of Cleveland and St. Louis was not significantly different, 8.1 and 8.5, respectively, and the regional rates did not vary significantly from each other, at 6.0 and 5.8, respectively (Bureau of Labor Statistics, 2008). Likewise, the rates of homeownership at both the central-city level and the metropolitan level were not significantly different. Based on the SF3 data, the homeownership rate in the City of Cleveland was 51.4 percent compared to a rate of 52.5 percent in the City of St. Louis. For both cities, the metropolitan rate of homeownership was much higher, but not significantly different from each other, 72.4 percent for Cleveland and 73.3 percent for St. Louis.

Furthermore, St. Louis and Cleveland are also cities that are located in states that have similar regulations concerning intrastate branching, interstate banking, and interstate branching, factors that influence the institutional lending environment and may influence the behavior of lenders. St. Louis did have a slightly larger percentage of applications made to regulated lenders and Cleveland had a slightly larger number of applications made to nonregulated lenders. Of the 4,220 loan applications made for properties in Cleveland, 51.5 percent were made to non-CRA-regulated lenders. Loan applications for properties in St. Louis totaled 4,525, of which 45.3 percent were made to non-CRA-regulated lenders. Lenders in Cleveland had a slightly higher origination rate, 72.6 percent versus 70.3 in St. Louis. However, the percent of originations by regulated lenders was roughly the same: 82 percent in St. Louis compared to 81 percent in Cleveland. We anticipate in Cleveland, due to historical activity around CRA, even given the slightly higher rate of applications made to nonregulated lenders, that minority groups that have historically stood at a disadvantage in lending markets will be more likely to apply to a regulated lender than will minority applicants in St. Louis.

**Variables**

The dependent variable, type of lender, is a binary variable with the value of 1 (CRA-regulated lender) or 0 (non-CRA-regulated lender). CRA-regulated lenders accounted for 52 percent of the sample. For the purposes of this study, a CRA-regulated lender is defined as a depository institution regulated by one of the four federal agencies, the FDIC, the FRB, the OCC, or the Office of Thrift Supervision (OTS), and subject to CRA. An alternative lender, or non-CRA-regulated lender, is defined as a nondepository institution regulated by HUD. Nondepository institutions are for-profit lending institutions other than banks, savings associations, and credit unions. Nondepository institutions are subject to some regulation, including the HMDA; however, alternative lenders are not directly subject to CRA.2

2Applications to credit unions accounted for less than 1 percent of the sample and were dropped from the analysis.
The key independent variables include the racial or ethnic identification of the loan applicant and whether the application was made in a city with CRA activity. An applicant’s racial or ethnic identification was determined based on the categories captured by HMDA data for primary applicants. A limitation in this study is the categorization of an applicant’s racial and ethnic identification. HMDA allows applicants to select among six racial categories (American Indian or Alaskan Native, Pacific Islander or Hawaiian, Native American, Asian, white, or black or African American) and one ethnic division (Hispanic or not Hispanic). Racial and ethnic categories were collapsed into mutually exclusive categories, separating any applicants who indicated Hispanic ethnicity into the Hispanic category. Because of the small number of applicants in each of the categories of American Indian or Alaskan Native, Pacific Islander or Hawaiian, and Native American, these categories were collapsed into one group. This resulted in applicants falling into one of five categories: American Indian, Alaskan Native, Pacific Islander, Hawaiian, or Native American; Asian; black or African American; white; or Hispanic. Loan applications where race was not reported were dropped from the analysis. To conduct the regression, the white category was dropped from the analysis to serve as the base group. The majority of the applicants in the sample were white, 54.8 percent. African-American applicants constituted the second largest group of applicants in the sample (37.9 percent), followed by applicants identifying as Hispanic (4.9 percent), Asians (slightly less than 2 percent), and applicants falling into the broad category of American Indian, Alaskan Native, Pacific Islander, Hawaiian, or Native American (slightly less than 1 percent).

CRA activity is a binary variable, valued at 1 if the application was made in a city with a history of CRA activity (48 percent), and 0 if the application was made in a city with little to no history of CRA activity (52 percent). We conducted literature reviews and relied on a number of secondary publications to determine if the city had a history of successful CRA activity (Casey, 2009; NCRC, 2005).

The sex \((M = 0.45, SD = 0.498, 1 = \text{male})\) and income \((M = 48.42, SD = 34.27, \text{range of 10–432, in 1,000s})\) of the primary applicant were also included to control for any effects these may have on the type of lender to which a potential borrower applies. Primary applicant data were considered in the model because more information is captured on the primary applicant, that is, income, and because of the large amount of missing race and.

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3Sixty-four percent of applications of unknown race or ethnicity were made to nonregulated lenders. A means comparison between individual and Census tract characteristics of applicants of unknown race or ethnicity (UN) and two subsets of the sample, nonwhite or Hispanic applicants (NW) and white, non-Hispanic (W), did not suggest any observable bias in one direction or another. The means of each subset were compared on the characteristics of applicant income (NW: $40,760; UN: $47,540; W: $54,620), percentage of college educated in the Census tract (NW: 15.1; UN: 18.3; W: 25), tract income ratio (NW: 59.03; UN: 63.2; W: 76.8), and percentage of minority residents in the tract (NW: 70.3; UN: 57.2; W: 31.3).
ethnicity data. Due to concerns of multicollinearity, loan amount was dropped from the analysis. A series of other Census-tract-level variables that have been found to have a significant relationship with alternative or non-regulated lenders were included in the model. The control variables included the following: percentage of minority population in the Census tract where the property was located ($M = 49.28$, $SD = 24.84$, range of $1.84–99.77$), percentage of college educated residents in the Census tract ($M = 20.43$, $SD = 12.52$, range of less than $1–85.25$ percent), total population in the Census tract ($M = 3.56$, $SD = 1.51$, range of $0.074–9.154$, in 1,000s), and number of housing units in the tract ($M = 1,710.66$, $SD = 801.77$, range of $106–4,925$, in 1,000s). Finally, the variable tract income ratio ($M = 68.70$, $SD = 23.16$, range of $14.64–143.65$) captured the wealth of the Census tract, and wealthier tracts had a higher value.

Results

This section presents the results from the empirical analysis. Of main concern are the effects of an applicant’s race or ethnicity and CRA activity on the probability of applying to a regulated lender for a mortgage loan. We anticipate that CRA activity will increase the probability that minority groups apply to regulated lenders, even when controlling for applicant characteristics. We estimate four logistic models in STATA version 11, one without interaction effects and no control variables (Model 1), a model without interaction effects but including control variables (Model 2), a model with interaction effects and no control variables (Model 3), and, finally, a model with interaction effects and control variables (Model 4).

Based on model summary and fit statistics, we determine that Model 4 is the preferred model. Table 1 reports the untransformed coefficients (coef), standard errors (s.e.), and probabilities ($p$) of the key variables of interest for all model specifications. Table 2 reports the transformation of the parameter estimates to odds ratios and as the percent change in odds ratio. The predicted probabilities of the interaction terms are reported in Table 3. Finally, Table 4 reports the effects of the control variables.

---

4The STATA linktest indicated that the variables minority population, number of housing units, and percent college educated residents exhibited nonlinear characteristics. After the variables were transformed, STATA linktest and fittest suggested that the transformed variables improved model fit.

5A number of studies have urged caution when interpreting the magnitude and significance of interaction effects in logistic models, as heteroskedasticity can be a problem due to the potential violation of the parallel lines assumption (Long and Freese, 2006; Norton, Wang, and Ai, 2004; Williams, 2009). There is an ongoing debate as to potential solutions to heteroskedasticity (for a full discussion, see Williams, 2009). One approach is to estimate models that relax the parallel lines assumption. In this article, gologit2 with the autofit option was used to relax the parallel lines assumption for the cases where it was justified; however, when examining the pattern of coefficients and comparing to Model 4, no distortions were found.
<table>
<thead>
<tr>
<th>Racial and Ethnic Characteristics of Applicants</th>
<th>Model 1</th>
<th>Model 2</th>
<th>Model 3</th>
<th>Model 4</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Coef</td>
<td>s.e.</td>
<td>p</td>
<td>Coef</td>
</tr>
<tr>
<td>Amer. Ind., Alaskan, Pac. Isl., Hawaiian, or Native Amer.</td>
<td>-0.710*</td>
<td>0.253</td>
<td>0.005</td>
<td>-0.613*</td>
</tr>
<tr>
<td>Asian</td>
<td>0.702*</td>
<td>0.186</td>
<td>0.000</td>
<td>0.777*</td>
</tr>
<tr>
<td>African American</td>
<td>-1.052*</td>
<td>0.047</td>
<td>0.000</td>
<td>-0.528*</td>
</tr>
<tr>
<td>Hispanic</td>
<td>0.180</td>
<td>0.107</td>
<td>0.091</td>
<td>0.427*</td>
</tr>
<tr>
<td>CRA activity</td>
<td>-0.133*</td>
<td>0.045</td>
<td>0.003</td>
<td>-0.024</td>
</tr>
</tbody>
</table>

Interactions: CRA Activity and Race/Ethnicity

| | Amer. Ind., Alaskan, Pac. Isl., Hawaiian, or Native Amer. | — | — | -0.378 | 0.533 | 0.479 | -0.158 | 0.541 | 0.771 |
| Asian | — | — | — | 0.648 | 0.420 | 0.123 | 0.475 | 0.427 | 0.266 |
| African American | — | — | — | 0.820* | 0.096 | 0.000 | 0.759* | 0.088 | 0.000 |
| Hispanic | — | — | — | 0.607* | 0.235 | 0.010 | 0.588* | 0.239 | 0.014 |

Control variables: No Yes

<table>
<thead>
<tr>
<th></th>
<th>Model 1</th>
<th>Model 2</th>
<th>Model 3</th>
<th>Model 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>N</td>
<td>8,745</td>
<td>8,745</td>
<td>8,745</td>
<td>8,745</td>
</tr>
<tr>
<td>Log-likelihood</td>
<td>-5743.03, df = 5, p = 0.000</td>
<td>-5580.23, df = 15, p = 0.000</td>
<td>-5704.00, df = 9, p = 0.000</td>
<td>-5549.09, d, p = 0.000f = 19</td>
</tr>
</tbody>
</table>

Note: Model 1: Cox and Snell $R^2 = 0.070$, Nagelkerke $R^2 = 0.092$, McFaddens $R^2 = 0.052$, McKelvey and Zavoina’s $R^2 = 0.084$, Efron’s $R^2 = 0.071$. Model 2: Cox and Snell $R^2 = 0.103$, Nagelkerke $R^2 = 0.138$, McFaddens $R^2 = 0.079$, McKelvey and Zavoina’s $R^2 = 0.129$, Efron’s $R^2 = 0.107$. Model 3: Cox and Snell $R^2 = 0.077$, Nagelkerke $R^2 = 0.103$, McFaddens $R^2 = 0.057$, McKelvey and Zavoina’s $R^2 = 0.095$, Efron’s $R^2 = 0.079$. Model 4: Cox and Snell $R^2 = 0.110$, Nagelkerke $R^2 = 0.146$, McFaddens $R^2 = 0.084$, McKelvey and Zavoina’s $R^2 = 0.137$, Efron’s $R^2 = 0.113$. For models that included the control variables, the decision was made to illustrate only the estimates with the transformed variables based on the results of a BIC test. The fitstat command in STATA was used to compare the model after adjusting for nonlinearities on the right side of the equation (Long and Freese, 2006). The results indicated that the difference in 12.922 in BIC provided very strong support for the model with the transformed variables. The fitest was also used to compare the fit of the models with the control variables, with (Model 2) and without (Model 4) interaction effects. The difference of 25.982 in BIC provided strong support for Model 4. The overall percent correctly predicted by Model 4 was 66.4 percent, sensitivity = 71.5 percent, specificity = 61 percent, false positive = 33.7 percent, false negative = 33.4 percent.
<table>
<thead>
<tr>
<th>Racial and Ethnic Characteristics</th>
<th>Model 1</th>
<th></th>
<th></th>
<th>Model 2</th>
<th></th>
<th></th>
<th>Model 3</th>
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<th>Model 4</th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>OR</td>
<td>% Chg</td>
<td>C.I.</td>
<td>OR</td>
<td>% Chg</td>
<td>C.I.</td>
<td>OR</td>
<td>% Chg</td>
<td>C.I.</td>
<td>OR</td>
<td>% Chg</td>
<td>C.I.</td>
</tr>
<tr>
<td>Amer. Ind., Alaskan, Pac. Isl., Hawaiian, or Native Amer.</td>
<td>0.492*</td>
<td>–50.8</td>
<td>0.300, 0.807</td>
<td>0.542*</td>
<td>–45.8</td>
<td>0.327, 0.897</td>
<td>0.670</td>
<td>–33.0</td>
<td>0.293, 0.638</td>
<td>0.293</td>
<td>–36.2</td>
<td>0.275, 1.534</td>
</tr>
<tr>
<td>Asian</td>
<td>2.018*</td>
<td>101.8</td>
<td>1.403, 2.903</td>
<td>2.175*</td>
<td>117.5</td>
<td>1.500, 3.152</td>
<td>1.600*</td>
<td>60.0</td>
<td>1.046, 1.806</td>
<td>1.245</td>
<td>77.0</td>
<td>1.083, 2.787</td>
</tr>
<tr>
<td>African American</td>
<td>0.349*</td>
<td>–65.1</td>
<td>0.318, 0.383</td>
<td>0.590*</td>
<td>–41.0</td>
<td>0.524, 0.665</td>
<td>0.230*</td>
<td>–77.0</td>
<td>0.201, 1.396</td>
<td>0.284</td>
<td>60.4</td>
<td>0.646, 1.396</td>
</tr>
<tr>
<td>Hispanic</td>
<td>1.198</td>
<td>63.3</td>
<td>0.972, 1.476</td>
<td>1.533*</td>
<td>53.3</td>
<td>1.235, 1.903</td>
<td>0.851</td>
<td>–14.9</td>
<td>0.578, 1.083</td>
<td>1.253</td>
<td>8.3</td>
<td>0.729, 1.609</td>
</tr>
<tr>
<td>CRA activity</td>
<td>0.875*</td>
<td>–12.5</td>
<td>0.801, 0.956</td>
<td>0.976</td>
<td>–2.4</td>
<td>0.880, 1.083</td>
<td>0.623*</td>
<td>–37.7</td>
<td>0.554, 1.200</td>
<td>0.702</td>
<td>30.0</td>
<td>0.612, 3.715</td>
</tr>
<tr>
<td>Interactions: CRA Activity and Race/Ethnicity</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amer. Ind., Alaskan, Pac. Isl., Hawaiian, or Native Amer.</td>
<td>—</td>
<td>—</td>
<td></td>
<td>—</td>
<td>—</td>
<td></td>
<td>—</td>
<td>—</td>
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<td></td>
</tr>
<tr>
<td>Asian</td>
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<tr>
<td>African American</td>
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<td></td>
<td>—</td>
<td>—</td>
<td></td>
</tr>
<tr>
<td>Hispanic</td>
<td>—</td>
<td>—</td>
<td></td>
<td>—</td>
<td>—</td>
<td></td>
<td>—</td>
<td>—</td>
<td></td>
<td>—</td>
<td>—</td>
<td></td>
</tr>
<tr>
<td>Control variables</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>N</td>
<td>8,745</td>
<td>8,745</td>
<td>8,745</td>
<td>8,745</td>
<td>8,745</td>
<td>8,745</td>
<td>8,745</td>
<td>8,745</td>
<td>8,745</td>
<td>8,745</td>
<td>8,745</td>
<td>8,745</td>
</tr>
</tbody>
</table>

*Indicates a statistically significant variable at the 5 percent level.
Overall Models

As reported in Table 1, overall, all models were significant at the 0.001 level. Based on the model summary statistics, the models that included the control variables, Models 2 and 4, were preferred. The results of two separate likelihood ratio tests on the key independent variables of interest suggest the effect of an applicant’s race and ethnicity is significant at the 0.001 level ($\text{LRX}^2 = 199.97, \text{df} = 8, p < 0.001$), and the effect of CRA activity is significant at the 0.001 level ($\text{LRX}^2 = 62.49, \text{df} = 5, p < 0.001$), suggesting that both of the key variables of interest should exert a significant effect on the type of lender to which an applicant applies. In Model 2, which considers race and ethnicity and CRA activity as additive factors, an applicant’s race and ethnicity does appear to influence the likelihood of applying to a regulated lender; however, CRA activity is only marginally significant. When allowing CRA activity to interact with an applicant’s race or ethnicity as in Model 4, CRA activity significantly influenced the effects of race and ethnicity. To determine which of these models is preferred, model summary statistics and the results from a STATA fittest were compared. The fittest results suggest that Model 4, significant at the 0.001 level ($\text{LRX}^2 = 58.86, \text{df} = 4, p < 0.001$), is the preferred model. Overall summary statistics for Model 4 are presented in Table 1.

Interpretation of Effects

Table 2 presents the transformation of the parameter estimates as the percent change in the odds and the odds ratio for all four models; however,
<table>
<thead>
<tr>
<th>Control Variables</th>
<th>Model 2</th>
<th></th>
<th></th>
<th></th>
<th>Model 4</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Population</td>
<td>−0.306*</td>
<td>0.061</td>
<td>0.000</td>
<td>0.736</td>
<td>−0.315*</td>
<td>0.062</td>
<td>0.000</td>
<td>0.730</td>
</tr>
<tr>
<td>Applicant sex</td>
<td>0.096*</td>
<td>0.047</td>
<td>0.040</td>
<td>1.101</td>
<td>0.099*</td>
<td>0.047</td>
<td>0.036</td>
<td>1.104</td>
</tr>
<tr>
<td>% College ed. in Census tract</td>
<td>0.047*</td>
<td>0.007</td>
<td>0.000</td>
<td>1.048</td>
<td>0.045*</td>
<td>0.008</td>
<td>0.000</td>
<td>1.046</td>
</tr>
<tr>
<td>% College ed. transformed</td>
<td>−0.001*</td>
<td>0.000</td>
<td>0.000</td>
<td>0.999</td>
<td>−0.001*</td>
<td>0.008</td>
<td>0.000</td>
<td>0.999</td>
</tr>
<tr>
<td>Tract income ratio</td>
<td>0.007*</td>
<td>0.002</td>
<td>0.000</td>
<td>1.007</td>
<td>0.008*</td>
<td>0.002</td>
<td>0.000</td>
<td>1.008</td>
</tr>
<tr>
<td>% Minority pop. in Census tract</td>
<td>0.006</td>
<td>0.004</td>
<td>0.145</td>
<td>1.006</td>
<td>0.007</td>
<td>0.004</td>
<td>0.068</td>
<td>1.007</td>
</tr>
<tr>
<td>% Minority transformed</td>
<td>−0.000*</td>
<td>0.000</td>
<td>0.004</td>
<td>1.000</td>
<td>−0.000*</td>
<td>0.000</td>
<td>0.001</td>
<td>1.000</td>
</tr>
<tr>
<td>Applicant income</td>
<td>0.002*</td>
<td>0.001</td>
<td>0.007</td>
<td>1.002</td>
<td>0.002*</td>
<td>0.001</td>
<td>0.012</td>
<td>1.002</td>
</tr>
<tr>
<td># Housing units in Census tract</td>
<td>0.001*</td>
<td>0.000</td>
<td>0.001</td>
<td>1.001</td>
<td>0.001*</td>
<td>0.000</td>
<td>0.000</td>
<td>1.001</td>
</tr>
<tr>
<td># Housing units transformed</td>
<td>−0.000</td>
<td>0.000</td>
<td>0.470</td>
<td>1.000</td>
<td>−0.000</td>
<td>0.000</td>
<td>0.240</td>
<td>1.000</td>
</tr>
<tr>
<td>Constant</td>
<td>−0.780*</td>
<td>0.214</td>
<td>0.000</td>
<td>—</td>
<td>−0.678*</td>
<td>0.215</td>
<td>0.002</td>
<td>—</td>
</tr>
</tbody>
</table>

*Indicates a statistically significant variable at the 5 percent level.
following Long and Freese (2006), we focus our interpretation only on the percent change in odds. The vertical shaded boxes illuminate the percent change in odds for each of the models. The negative sign suggests the odds of applying to a regulated lender decrease based on the value of the independent variable and, conversely, when the sign is positive, it suggests the odds of applying to a regulated lender increase.

When considering the interaction between race/ethnicity and CRA activity (Model 4), for African-American applicants, the odds of applying to a regulated lender increase by 113.7 percent, when controlling for applicant characteristics and holding all other variables constant, compared to the base group. This stands in stark contrast to the percent change in Model 2, which does not consider the interactive effect of CRA activity, and suggests that the odds of African Americans applying to a regulated lender decrease by 41.0 percent. For Hispanic applicants in a city with CRA activity, the odds of applying to a regulated lender increase by 79.9 percent. The odds of Asian and American-Indian or Alaskan-Native, Pacific-Islander or Hawaiian, or Native-American applicants applying to a regulated lender are not significantly influenced by CRA activity. As evidenced by the difference between Models 3 and 4, applicant characteristics do influence the probability of applying to a regulated lender; however, the effects of race and ethnicity and CRA activity are still significant for African-American and Hispanic applicants.

When interpreting models with interaction effects, it is also important to consider the magnitude of the individual variables of interest. As reported in Table 2, the percent change in odds for CRA activity suggests that the likelihood of applying to a regulated lender decreases in a city with CRA activity by 30 percent; however, the magnitude and direction of these effects vary based on an applicant’s race or ethnicity. To better understand the combined effect of race/ethnicity and CRA activity, predicted probabilities, change in probabilities, and confidence intervals were computed using Model 4 and are reported in Table 3. Using the prvalue command in STATA, we computed predicted probabilities for each racial and ethnic group when CRA activity was 1 or 0. The confidence intervals are provided to determine whether the effects are significant when accounting for the interaction. All other variables were held at their mean values. For African-American and white applicants, CRA activity has a significant effect, as these groups experience the largest difference in the discrete change, as reported in Column C. The predicted probabilities reported in Column A suggest that when CRA activity is present, the probability that African Americans apply to a regulated lender approaches the probability of white applicants, but remains slightly less (0.47 compared to 0.51, respectively). For African-American applicants, CRA activity increases the probability of applying to a regulated lender by 0.10, and is significant based on a 95 percent confidence interval. Conversely, for white, non-Hispanic applicants, applying for a loan in an area with CRA activity decreases the probability of applying to a
regulated lender by 0.09, again significant based on a 95 percent confidence interval. The gap between predicted probabilities of applying to a regulated lender is much greater among these groups when CRA activity is not present, as presented in Column B. For Asian and American Indians or Alaskan Natives, Pacific Islanders or Hawaiians, or Native Americans, CRA activity does not have a significant effect on the probability of applying to a regulated lender, above and beyond the effects of race. For Hispanic borrowers, while the predicted probability suggests an increased probability of applying to a regulated lender, we can be less confident about the predicted probability as the confidence interval crosses the threshold of 0, and the values reported in Columns A and B only slightly differ.

The effects of the control variables were in the anticipated direction and are presented in Table 4. Controlling for demographic characteristics and other characteristics that influence applicant behavior did not eliminate the effects of race and CRA activity.

**Discussion and Conclusion**

In this article, we considered the local context in which borrowers pursue lending options—focusing on the effects of community reinvestment activity. Overall, we agree with Dymski (1999) that CRA is only part of the puzzle and that the lending environment is indeed complex. Our findings identify an additional factor in that complexity: the local actors that influence community reinvestment efforts. Our findings also support previous work by Williams, McConnell, and Nesiba (2001) on the potential of CRA activism and organizing to influence differential outcomes. In a city with community reinvestment activity, African-American applicants are more likely to apply to CRA-regulated lenders than their counterparts in a city with low community reinvestment activity, even when controlling for applicant characteristics. For Asian, Hispanic, and applicants identifying as American Indian, Alaskan Native, Pacific Islander, Hawaiian, or Native American, CRA activity does not exert a significant effect. However, our findings also suggest CRA activity may not be a panacea. Even in places where reinvestment activity is present and African-American applicants make gains, they are still less likely than white applicants to pursue credit from CRA-regulated lenders.

The comparison of the effects across racial and ethnic groups is particularly interesting. In cities with CRA activity, the probability that white applicants pursue access to credit from regulated lenders declines. Scholars of racism have argued that racial oppression ultimately adversely affects disadvantaged people of all ethnic groups. Feagin, Vera, and Batur (2001) argue that everyone in society suffers from racism because it prevents racially oppressed people from realizing their full potential. Therefore, racism results in what they call “societal waste,” the loss of human talent and contributions
to society that would benefit everyone. However, our finding implies something a bit different. It is not that whites may face a cost because of societal racism but because of efforts to combat it. Thus, our finding is more in line with Stephen Steinberg’s (2001) analysis of affirmative action in higher education. He argues:

when members of racial minorities were excluded, it was because they were stigmatized as inferior or undesirable, and their exclusion was part of a systemic pattern of exploitation and domination. No such claims can be made with respect to the small number of whites adversely affected by affirmative action . . . All that can be said is that, as individuals, they paid the price of a societal commitment to achieving racial parity . . . and while some whites are injured in the process, it is due not to racism, but to an effort to combat racism. (2001:252)

Based on our approach in this article, our results suggest that CRA activity may help connect African-American applicants to regulated lenders; however, this may come at some cost to white applicants. However, we are limited to understanding the true racialized costs of applying to a nonregulated versus a regulated lender. First, we face data limitations in that we cannot precisely determine to what extent our results are driven by the fact that members of racial and ethnic groups apply to regulated lenders, but are in turn denied, efforts that may lead them to seek credit from nonregulated lenders. Given the similar loan origination rates by regulated lenders in both cities, among all applicants, it does not appear that systematic biases exist at the city level. However, when considering the percentage of African-American applications that were approved, regulated lenders in Cleveland originated a greater percentage of loans for African-American applicants (80 percent) than regulated lenders in St. Louis (72 percent). This discrepancy might suggest that African-American applicants in St. Louis may be driven to the nonregulated marketplace at a higher rate than those in Cleveland, which further supports our argument that CRA activity, or lack thereof, exerts an influence, but we are not able to empirically capture these effects. Second, it is possible that whites applying to nonregulated lenders receive fairer deals and far better treatment than African Americans applying to the same lenders. Thus, the effect of CRA activity may not be as simple as a zero-sum game, where gains for people of color come with clear losses for whites, and is one that warrants further exploration.

It is important to digest these findings as they relate to the larger picture of the overall relationship between race, ethnicity, and access to mainstream financial services. Although the probability that white applicants pursue access to credit from regulated lenders declines in light of CRA activity, the probability is still slightly higher than that of African-American applicants. Even with CRA activity, while this gap narrows, it has not been eliminated. Given that regulated lenders are more likely to originate prime loans, white applicants are still more likely to accrue the benefits of
being served by traditional lenders. This finding suggests that although CRA activity is present, in the current financial services environment, there are still limits to what this activity can do to create a more equitable lending environment.

Finally, undoubtedly, there remain some challenges to discerning the specifics of these racialized effects, particularly as they relate to what we can infer from the construction of racial and ethnic categories. We had anticipated that Hispanic applicants might also be negatively impacted by a lack of CRA activity. The results did not indicate this, and we suspect this finding may be due to the limitations that exist in understanding the unique characteristics of the racial groups identifying as Hispanic. For example, we cannot discern from this analysis to what extent the physical racialized characteristics of applicants identifying as Hispanic may affect their access to credit, or what particular subgroups of this category are driving the results. Future research that breaks this category down further may find that different subgroups of Hispanics have different outcomes. Likewise, while the analysis illustrates that Asians are more likely than whites to apply to a regulated lender, the category of Asian is also problematic for similar reasons. This category combines several different peoples with very different lived experiences and few studies break the category down sufficiently. This often perpetuates the model minority myth, which juxtaposes people of color against each other (see Chou and Feagin, 2008; Kerbo, 2008; Steinberg, 2001). Based on our findings and conclusion, there is a need for future research that focuses on the specific effects of the actors engaged in CRA efforts. Likewise, a greater distinction is needed between the interests involved and the racial and ethnic groups they represent. It could very well be that the effects for African-American borrowers in a city such as Cleveland are due to the involvement of groups representing the interests of African Americans and, as such, CRA activity in other places may lead to different outcomes if the interests represented differ.

Dymski and Aldana (2007) argue that minorities in cities with larger populations of minority residents might gain some market power advantages, but this comparison of two cities with similar racial and ethnic characteristics and populations suggests that population proportion alone may not be enough; rather, organizing and activism around community reinvestment may yield certain advantages to groups. Thus, it is important to understand how the community reinvestment environment shapes the opportunities that become available to minority groups from both lenders regulated under the guise of CRA and those not subject to CRA. Second, additional research needs to explore the private actors that compose efforts and their variation across places. In the case of the latter, does this lead to some advantages or disadvantages for certain racial or ethnic groups based on the interests or mission of the organizations that shape the environment? These are questions that remain to be explored.
REFERENCES


