Small Business Lending
and the
Community Reinvestment Act

A History of Discrimination

The Community Reinvestment Act of 1977 (CRA) came about as an antidote to blatantly discriminatory lending practices.

Home Owners' Loan Corporation

The Home Owners' Loan Corporation (HOLC) was implemented as part of the New Deal in the 1930's as a way to boost economic development after the Great Depression.

Discriminatory Practices

To determine where loans were disbursed, they made maps that ran almost exclusively along racial lines, deeming areas with non-Northern European white folks as "hazardous" to lend in.

Community Reinvestment Act

The CRA was an attempt to correct the racist and classist lending practices of the HOLC. It didn't outlaw the discrimination. Instead, it encouraged lending where people had been left out.

Implications of the CRA in Practice

Once the CRA was put in place, communities of color were **still often left out.**

Barriers Accessing Capital

Access to capital for low-income communities increased as a result of the CRA. But after the financial crash of 2007, low-income communities of color obtained less mortgages and small business loans than white communities.

Lower Homeownership Rates

Black and Hispanic households are less likely to own their homes than white households (41.3% and 47%, versus 71.9% respectively). Ultimately, race and poverty are more significant factors in accessing mortgages than geographic location.

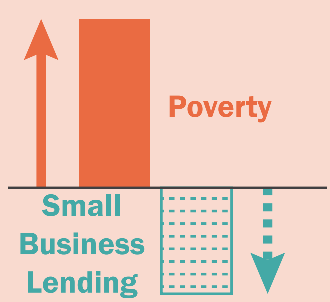
Less Small Business Loans

In Los Angeles, Chicago and San Diego, small business loans below $100,000 were noticeably less in lower income neighborhoods, with disparities more pronounced after 2007.

SMALL BUSINESS LENDING in the CITY OF LOS ANGELES

At LURN, we believe we can transform systems of capital through many avenues, one of them being small business lending. The enabling of better regulations to uplift that work is imperative. Looking at small business lending in terms of poverty is one method for assessing the need for change, as well as how exactly the existing systems affect individuals with low-income. So, what did we find?

In some years between 2007 and 2014, census tracts with **less** than 30% of people in poverty received **four times as many loans** as those with **more** than 30% in poverty.



For every percentage point increase of people in poverty within a census tract, there is nearly **one less loan given out per tract**. This implies a direct relationship between poverty and lending.

How much effort are lending institutions putting into engaging and interfacing with small businesses in neighborhoods with high instances of poverty? And how do we continue to lift up small businesses?

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