

Does flexibility hinder financial regulation? The case of CRA enforcement in the USA 🛒

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Purpose

The purpose of this paper is to determine whether lending qualifying for credit under the Community Reinvestment Act (CRA) is associated with how broadly banks define the assessment areas (AAs) within which they operate. Both are identified as components of performance for purposes of compliance with the CRA.

Design/methodology/approach

Regression analysis using a sample of 212 banks, observed in 2006.

Findings

Qualifying lending and AA lending are found to be unrelated. This is inconsistent with an ability of banks to gerrymander their AAs in order to tradeoff one regulatory standard against another.

Practical implications

Subjectivity inherent in AA delineation does not necessarily mitigate the achievement of regulatory objectives on qualifying lending. This is relevant to the ongoing debate concerning the role of flexibility in financial regulation.

Originality/value

This is believed to be the first empirical study on bank-specific factors associated with AA lending under the CRA.

Keywords: [United States of America](#), [Banks](#), [Loans](#), [Legislation](#)

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