# CRA is not to Blame for the Mortgage Meltdown

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In an attempt to divert attention away from the destructive lending practices that fueled the credit crisis, some are trying to place the blame for it on the Community Reinvestment Act (CRA). They argue that CRA forced lenders to make risky loans to low and moderate families and to communities of color.

Nothing could be farther from the truth. CRA has led to affordable, sustainable loans in underserved communities. Consider these facts:

### *CRA was effective long before the subprime market existed.*

CRA was passed in 1977 to correct the longstanding problem of redlining – the lack of lending in low and moderate income communities and in communities of color. CRA has been on the books for three decades, while the lending practices that created this crisis didn't exist until the past five years.

### *Most subprime lenders weren't covered under CRA.*

The predominant players in the subprime market – mortgage brokers, mortgage companies and the Wall Street investment banks that provided the financing – aren't covered under CRA. Finance company affiliates of major banks also participated heavily, but are only included in CRA to the extent their bank parents choose them to be. In fact, many banks shifted the most risky lending – the loans at the root cause of this current crisis -- to affiliates to escape CRA requirements and regulatory oversight.

### *Wall Street created the demand for riskier loans.*

The subprime market is the result of loans made without regard to the borrower's ability to repay the loan and with little or no documentation of income. Lenders chose to engage in risky underwriting practices because Wall Street was eager for high-interest investments, not because of CRA.

### *Regulatory oversight and accountability was missing.*

The lack of regulation in the subprime market made it easy for subprime lenders to undercut responsible lending. Because lenders used artificially low initial payments and passed the loans onto investors while hiding the disastrous consequences coming down the line, many borrowers found themselves in loans that were ultimately unaffordable. In many communities, particularly communities of color, subprime lenders were often the only ones serving the community. Had regulators leveled the playing field through common sense underwriting requirements and more vigorously enforced CRA requirements instead of allowing a race to the bottom, this crisis would have been averted.

***The majority of subprime loans went to white borrowers.***

It is true that African-American and Latino families disproportionately received ruinous subprime loans, but the majority of total loans were made to non-Latino white families. According to data from the Home Mortgage Disclosure Act (HMDA) from 2005-2007, 58% of higher-cost loans went to white borrowers, with 18% to African-American borrowers and Latino borrowers each.

The solution to this lending crisis and to make sure that it is not repeated is to require lenders to use sound underwriting practices, require Wall Street to take responsibility for loans it purchases, and to provide more assistance to homeowners facing foreclosure.

The answer is not to cut off access to credit in underserved communities. Homeownership still represents the best way for low and moderate income families to build wealth – we shouldn't abandon that goal because of lenders' bad decisions.

**About the Center for Responsible Lending**

The Center for Responsible Lending (CRL) is a national nonprofit, nonpartisan research and policy organization dedicated to protecting home ownership and family wealth by working to eliminate abusive financial practices. CRL is affiliated with Self-Help, one of the nation's largest community development financial institutions.

For additional information, please visit our website at **www.responsiblelending.org**.

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***And, don't just take our word for it:***

"There has been a tendency to conflate the current problems in the subprime market with CRA-motivated lending, or with lending to low-income families in general. I believe it is very important to make a distinction between the two. Most of the loans made by depository institutions examined under the CRA have not been higher-priced loans, and studies have shown that the CRA has increased the volume of responsible lending to low- and moderate-income households. We should not view the current foreclosure trends as justification to abandon the goal of expanding access to credit among low-income households, since access to credit, and the subsequent ability to buy a home, remains one of the most important mechanisms we have to help low-income families build wealth over the long term." [1]

*Janet L. Yellen*
*President and CEO*
*Federal Reserve Bank of San Francisco*

"Indeed, when we look at the subprime foreclosure situation, the current coverage of CRA is perversely ironic. Insured depositories were by no means the main providers of the 2-28 adjustable-rate subprime mortgages that have led to so many problems in communities around the countries. Indeed, national banks and their subsidiaries originated only about 10 percent of all subprime mortgages in 2006. Yet only insured depositories are subject to CRA, and only these institutions are motivated by CRA to engage in activities that will help address the problem through community reinvestment and lending activities. In contrast, over half of subprime mortgages of the last several years – and the ones with the most questionable underwriting standards – were originated through mortgage brokers for securitization by nonbanks, including major investment banks. Yet these nonbanks, having played such a large role in the subprime mortgages that have caused such problems in communities nationwide, are not covered by CRA and therefore have no CRA incentive to address these problems."[2]

*Ann F. Jaedicke*
*Deputy Comptroller for Compliance Policy*
*Office of the Comptroller of the Currency*

"At its core, CRA helps to overcome market failures in low-income communities. By fostering competition among banks in serving low-income areas, CRA generates larger volumes of lending from diverse sources, and adds liquidity to the market, decreasing the risk of each bank's loan. Encouraged by the law, banks and thrifts have developed expertise in serving low-income communities, and they have created innovative products that meet the credit needs of these areas with manageable risks."[3]

*Professor Michael Barr*
*University of Michigan School of Law*
*Nonresident Senior Fellow*
*Brookings Institution*

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[1] Janet L. Yellen, Opening Remarks to the 2008 National Interagency Community Reinvestment Conference, San Francisco, California (March 31, 2008).
[2] Ann F. Jaedicke, Testimony Before the Committee on Financial Services, US House of Representatives (February 13, 2008).
[3] Michael S. Barr, "Credit Where It Counts: Maintaining a Strong Community Reinvestment Act," Brookings Institution Research Brief (May 2005).