



NEW AMERICA
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No, CRA Is Not to Blame for The Current Financial Crisis!

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What Does CRA Actually Say?

“In connection with its examination of a financial institution, the appropriate Federal financial supervisory agency shall—

(1) assess the institution’s record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with the safe and sound operation of such institution; and

(2) take such record into account in its evaluation of an application for a deposit facility by such an institution.”

CRA only applies to banks and thrifts, not investment banks, mortgage banks, insurance companies, not even credit unions.



CRA's History

- Home Mortgage Disclosure Act passed in 1975
- Data from HMDA confirmed what community groups, primarily in Chicago, knew: banks were not lending to minority neighborhoods, nor to those that were “turning”
- CRA was passed in 1977 to respond to this
- Stated theory was that deposits were being taken from these communities, but no loans made
- Major improvements in 1989 and 1992 in making both HMDA and CRA information public
- CRA is 30 years old, compared with a sub-prime crisis that has appeared within the current decade



CRA in Political Context

- Bush 1
 - Fair lending lawsuits
 - Rejection of Continental Illinois bank purchase for lack of effective CRA policy
 - AHP and CIP at Home Loan Banks
 - Enactment of housing goals for Fannie Mae and Freddie Mac
- Clinton
 - Continuation/strengthening of Bush fair lending and CRA initiatives
 - Homeownership Strategy
 - Interstate Banking & Branching/HOEPA/CDFI Fund (1994)
 - 1995 revision of regulations, institution of small business reporting
 - Gramm-Leach-Bliley Act, Sunshine Law 1999
- Bush 2
 - State anti-predatory lending laws, federal preemption
 - Revisions that affect institutions under \$1 billion (92% of institutions, 12% of assets)
 - Reduced attention to enforcement
 - Enhanced HMDA reporting (after 2004)
 - HOEPA regulations (2007)



CRA in Finance Context

- Securitization, moving from plain vanilla MBS to CMOs to CDOs to CDO²
- Credit Scoring
- Automated Underwriting
- Growth of independent mortgage banks
- Growth of mortgage brokerage industry
- Period of low interest rates, abundance of funds to invest
- New “affordability” products, with multiple risk factors, made available at high LTVs with little or no income documentation



Strong CRA Produces Good Results

- The national homeownership rate increased from 64% to 67.8% between 1994 and 2001, then peaked at 69% in 2004. In 2001, the sub-prime share of home mortgages was 7.8%; by 2005 it was 21.3%. CRA had little to do with the growth of sub-prime lending.
- In 2004, institutions not covered by CRA made 63% of high-cost loans; in 2006, they still made 59%.
- CRA lenders have consistently made more high-quality, lower-cost loans to low- and moderate-income households than have non-CRA lenders.
- In an analysis of matched borrowers by the University of North Carolina, broker-made ARMs with prepayment penalties have 90 day+ delinquency rates 4-5 times the rate for CRA loans.
- Subprime and Alt-A loans made in zipcodes just within CRA eligibility have lower 90 day+ delinquency rates than similar loans made in zipcodes just above that level; at the margin, CRA does better.



Policy Implications

- CRA is about affirmative service to all communities in an institution's footprint; it is a corollary to, not a substitute for, consumer protections
- CRA is not just about homeownership and should not be
- Community is as much a part of CRA as consumers; investments in affordable rental housing, community facilities, and economic development that serves lower-income communities are major CRA successes
- Not all institutions provide all kinds of services for all kinds of customers
- What gets measured and made public gets done; pay attention to metrics and leveraging regulatory resources with those of the public, the media and CBOs.





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