

The Truth about the Community Reinvestment Act

CRA caused the current financial crisis? Hardly:

- CRA does not require banks or thrifts to make loans that are unsafe or unprofitable. In fact, the law stipulates that CRA lending activities must be done consistent with safe and sound banking practices. **In fact, most high-cost loans were originated by lenders that did NOT have a CRA obligation and lacked federal regulatory oversight.**
- According to an analysis of HMDA data in the 15 most populous U.S. metropolitan areas, non-CRA lenders made a disproportionate number of high-cost loans. In 2006, 84.3% of high-cost loans were originated by non-CRA covered entities (overall, non-CRA covered entities originated 69.6% of all mortgages) and nearly 83% of high-cost loans to low- and moderate-income individuals were originated by non-CRA covered entities (overall, non-CRA covered entities originated 67.5% of all loans to LMI individuals).
- In 2006, only a few of the top 25 subprime lenders were federally regulated depository institutions with CRA obligations and the vast majority of the top 20 producers of risky interest-only and option ARM loans were not covered by CRA.
- CRA covered institutions, for the most part, did not engage in lending practices that fueled the foreclosure epidemic and subsequent economic crisis.

Background on the Community Reinvestment Act:

- The Community Reinvestment Act of 1977 (CRA) encourages federally insured banks and thrifts to meet the credit needs of the entire communities they serve, including low- and moderate-income areas, consistent with safe and sound banking practices. The law was enacted in response to concerns about disinvestment and evidence that some lenders were systematically denying credit to certain communities, particularly lower-income and minority neighborhoods, under a practice known as “redlining.”
- The benefits of CRA have been substantial: CRA has been credited with increasing home ownership, decent affordable rental housing, small business ownership, community development investments; and critically needed affordable financial services and products (such as remittances, low-cost banks accounts, and bank branches) in distressed communities across the nation.
- In March 2007, Federal Board Chairman Bernanke noted that CRA has helped institutions discover and enter new markets that may have been previously under-served and ignored by insured depositories.