A Conservative Admits the Truth about the Community Reinvestment Act

Conservatives who push an anti-regulatory agenda on America are trying to avoid blame for the financial crisis brought about by that lack of regulation.

Turning reality on its head, they are claiming that it was caused by too much government intervention -- specifically liberal opposition to unfair discrimination in bank lending. In their myth, the Community Reinvestment Act, enacted in 1977, forced institutions to make the irresponsible subprime loans that are a major factor in this crisis.

In fact, the CRA mandates no such thing, and covers only those regulated banks which were not the institutions which made the subprime loans. Every bank regulator, including those in the Bush administration, repudiated this idea.

But myths die hard when they are in the service of an ideology. It's therefore important to note that in the Financial Services Committee hearing on how best to protect consumers from unfair financial practices, the witness selected by the Republican members of the committee, from the conservative Heritage foundation, reaffirmed his repudiation of this fallacy.

Congressman Brad Miller of North Carolina, who has done a good deal of research on this subject and who has been a leader in opposing unfair lending practices, asked the Republicans' witness, David John, if he agreed with a statement he had made in a previous hearing, in which John said that the CRA had a ***negligible effect*** on the financial crisis.

John's answer – "**Absolutely**."

See the entire exchange below.

Mr. Miller: Thank you Mr. Chairman.

Mr. Castle said in his opening statement that the worst sub-prime loans, the bulk of the bad sub-prime loans, were not made by depository institutions that were fairly closely regulated but by non-depository institutions, independent lenders.

Mr. John, you testified earlier, a few months ago, before the Investigation and Oversight Subcommittee of the Science and Technology Committee which I chair, on the role and ne issue that came up was the role of the Community Reinvestment Act. Mr. Castle is right. A relatively small number of the bad sub-prime loans were made by depository institutions subject to the Community Reinvestment Act, and in fact, a study by the Federal Reserve Board found that only about 6% of all the sub-prime loans were made in "assessment" areas, or in the neighborhoods where CRA encouraged lending, or to borrowers that CRA encouraged lending to.

You agreed then that CRA had a negligible effect on the sub-prime crisis and the financial crisis generally. Is that still your view?

Mr. John : *Absolutely.*