

Did The Community Reinvestment Act (CRA) Cause the \$700 Billion Dollar Bailout and the Failure of Global Financial Institutions?

Did The Community Reinvestment Act (CRA) Cause the \$700 Billion Dollar Bailout and the Failure of Global Financial Institutions?

The Greenlining Institute has been a strong proponent of The Community Reinvestment Act (CRA) passed by the US Congress in 1978. The spirit and intent of CRA was to reverse the decades of redlining and disinvestment in communities of color that brought many American cities to the brink of economic failure in the years after World War II.

Greenlining, and allied community groups, work to ensure that CRA is honored and enforced in communities throughout the country. This has resulted in greater opportunities for advancement for communities that have long been excluded from the wealth- and income-generating activities that other populations have enjoyed. Banks have also admitted that CRA has led to more profitable activities that would have been ignored under the old "rules" of redlining. (See Greenlining's video entitled, Banking on the Future: Celebrating 30 Years of CRA.)

CRA Blamed for Today's Economic Crisis?

The Community Reinvestment Act mandates that all financial institutions that fall under its regulatory aegis maintain high levels of integrity in its lending, investment, and community service activities. Specifically, the language of the law calls for the federal government to "encourage such institutions to help meet the credit needs of the local communities in which they are chartered consistent with the safe and sound operation of such institutions.[1]"

Unfortunately, a small fringe group of right wing activists, including the discredited former CEO of Countrywide, Angelo Mozilo, are attempting to advance the idea that Greenlining and CRA created the current financial meltdown. They claim that CRA policies "forced" banks to lend to poor people. They also claim that poor people, and people of color, have no business wanting to participate in President Bush's Ownership Society. Charles Krauthammer of the Washington Post wrote in his September 26 column that CRA, "led to tremendous pressure on Fannie Mae and Freddie Mac -- which in turn pressured banks and other lenders -- to extend mortgages to people who were borrowing over their heads." Neil Cavuto, a Fox News anchor, was much more explicit, saying that, "[l]oaning to minorities and risky folks is a disaster." However, these claims are completely false, show a complete disregard for the facts, and especially in Cavuto's case, are overtly racist.

It is no surprise that the right wing would spread lies about CRA in order to influence public perception to their favor. This is the same lobby that convinced many Americans that Saddam Hussein was directly responsible for the 911 attacks and that he possessed stock piles of weapons of mass destruction aimed at the U.S. An examination of the facts, however, demonstrates that CRA has not only contributed to the economic stability of many communities, but also serves as a model for socially-responsible business practices, and as such, should be expanded and strengthened.

[1] 12 USCS §2901(b). Emphasis ours.

Fact: Only 25% of subprime mortgages originated by CRA-regulated institutions.

Analysis of federal mortgage records shows that only 25% of the subprime mortgages that are now causing the collapse of the credit markets were originated by CRA-regulated institutions.

The remaining 75% of subprime mortgages were originated by independent mortgage brokers such as Ameriquest and Argent, or by lightly-regulated subsidiaries of large banks.[1] What this fact uncovers is that the subprime crisis is not a result of too much regulation, but rather the result of nonexistent regulation over the activities of independent mortgage brokers.

In addition, many of the top players in the mortgage crisis that have gone bankrupt or received a government bailout: Bear Stearns, AIG, Lehman, Merrill Lynch, and IndyMac, as well as the failed hedge funds, are not bound by CRA regulations.

[1] Testimony before the House Financial Services Committee, Michael Barr, February 13, 2008.

CRA contributes to economic stability in underserved communities

The Community Reinvestment Act rates large financial institutions based on three practices: their lending, their investments, and their services. Financial institutions must demonstrate to regulators that its activities in each of these three sectors are adequately serving the communities in which they have market presence. In lower-income communities, many banks have invested in Community Development Financial Institutions (CDFI), which remain one of the strongest instruments for economic development in underserved communities, creating jobs and building affordable housing. The 1995 revisions to the CRA greatly spurred further bank investment into CDFI by explicitly recognizing such investments as part of the bank's CRA portfolio.

Greed is the true cause of the crisis

In his October 10 op-ed for the New York Times, Nobel Prize-winning economist Paul Krugman described the current financial crisis as one that "began with a bubble in Florida condos and California McMansions [that] has [now] caused monetary catastrophe in Iceland.[1]" This

comment speaks to the acquiescence by many bankers and regulators involved in the details of the crisis that the main source of the banking system's difficulties was its own greed. It also reveals that the majority of the losses incurred during this crisis were not the result of minority and lower-income homebuyers defaulting on their loans, but rather higher-income people defaulting on their adjustable rate second mortgages and home equity loans.

Even Senator McCain acknowledged the paramount role of greed in today's crisis, stating in a campaign speech, "We are going to put an end to the reckless conduct, corruption, and unbridled greed that have caused a crisis on Wall Street...Too many people on Wall Street have been recklessly wagering instead of making the sound investments we expected of them."

Although blaming greed is overly simplistic in explaining today's crisis, we agree that unregulated greed played a major factor in today's economic crisis. As more facts surface from Congress' ongoing investigation, more facts will emerge demonstrating that other factors, and not CRA, led to today's crisis.

[1] Krugman, Paul. "Moment of Truth," The New York Times, October 10, 2008.