MYTH V. FACT TALKING POINTS

Myth: The Community Reinvestment Act (CRA) caused the foreclosure crisis.

Facts: The majority of subprime loans were originated by non-CRA covered financial institutions. In fact, about 75 percent of sub-prime loans were not covered by CRA. CRA was passed in 1977. The explosive growth in subprime lending occurred more than two decades later, nearly doubling from 2001-2006 alone. No major changes to CRA were enacted during this time. CRA does not mandate banks to make only home loans. Banks are encouraged to examine credit needs and lend appropriately based on these needs (for small business, home, and other types of loans). CRA penalizes banks for reckless, irresponsible and otherwise predatory lending.

Myth: Rapid growth of subprime loans was a direct response to financial institutions efforts to expand homeownership for low and moderate and minority households.

Facts: Between 1998-2006 over half of subprime mortgage originations were for refinancing. In that same time, less than 10% of subprime mortgage originations went to first time homebuyers. Significant gains in homeownership occurred in the 1990s when prime lending was offered to low and moderate income and minority borrowers.

Myth: Federal banking agencies encouraged banks to engage in risky lending practices. In particular, a 1992 Boston Federal Reserve Bank publication, Closing the Credit Gap: A Guide to Equal Opportunity Lending, provided unsound advice to banks.

Facts: Federal Reserve Guidance: Lack of credit history should not be seen as a negative factor for potential homebuyers. Justification: Willingness to pay debt promptly can be determined through alternative sources of information including timely rent, utility bills, and other scheduled payments. Foreclosure Reality: Foreclosures are not a result of alternative credit scoring, but rather the product of excessive interest rates and unearned fees making loans unaffordable. Federal Reserve Guidance: Valid income sources may include social security, second jobs, and other sources.
Justification: Many low to moderate-income households may have varying sources of income, however, consistent or rising levels of income throughout the year.
Foreclosure Reality: Subprime loans are not failing as a result of the use of alternative sources of income. Rather, problematic subprime loans are characterized by a lack of income verification, not source of income.

Testimony before the House Financial Services Committee, Michael Barr, February 13, 2008.
Subprime Lending is a Drain on Homeownership, Center for Responsible Lending March 27, 2007
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herefore have no CRA incentive to address these problems."

CRA FACT SHEET

CRA Background

The Community Reinvestment Act (CRA) was enacted in 1977 in response to evidence that some lenders were systematically denying credit to lower income and minority neighborhoods, under a practice known as "redlining." The law requires 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 benefits of the CRA have been substantial.

The CRA has been widely credited with increasing affordable homeownership, decent affordable rental housing, small business ownership, community development investments and critically needed affordable financial services and products in underserved rural and urban communities. Given the requirement that CRA-regulated lenders adhere to safe and sound banking practices, the CRA has achieved remarkable positive change in communities without forcing banks to assume undo or unreasonable risks.

As a result of the CRA, banks and thrift have reinvested $4.5 trillion in those underserved communities since 1977.

According to Federal Reserve Chairman Bernanke, during the last 30 years, CRA has helped institutions discover and enter new markets that may have been previously underserved or ignored by insured depositories. (March 2007)

In April 2007, Comptroller of the Currency Dugan similarly noted that geographic areas and lending institutions covered by CRA regulations have better track records of community reinvestment than those that are not covered by CRA.

The CRA does not require lenders to make risky or unprofitable loans.

The CRA does not mandate that banks or thrifts make risky mortgage loans. The law stipulates that CRA lending activities must be done consistent with safe and sound banking practices. In fact, current CRA regulations penalize banks and thrifts for reckless lending practices and predatory practices.

Studies by the Department of Treasury (2001) and the Federal Reserve (2000) showed that the CRA has significantly improved the availability of fair and affordable credit and services to individuals with low and moderate incomes without negatively impacting the safety and soundness of institutions.

CRA covered institutions did not fuel the foreclosure epidemic economic crisis.

The vast majority of high-cost, exotic subprime loans were originated by independent mortgage and finance companies or brokers– *lenders that are not covered by the CRA, are under no other federal obligation to lend in low- or moderate-income communities and lack federal regulatory oversight.*

The Federal Reserve found that in 2005, 34.3 percent of conventional home purchase first-lien loans issued by non-CRA covered independent mortgage companies were high-cost loans. In contrast, just 5.1 percent of the loans made in 2005 by banks and thrifts were high cost in their respective CRA service areas.