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## [Community Reinvestment Act had nothing to do with subprime crisis](#)

**Posted by: Aaron Pressman on September 29**

Fresh off the false and politicized attack on Fannie Mae and Freddie Mac, today we're hearing the know-nothings blame the subprime crisis on the Community Reinvestment Act — a 30-year-old law that was actually weakened by the Bush administration just as the worst lending wave began. This is even more ridiculous than blaming Freddie and Fannie.

The Community Reinvestment Act, passed in 1977, requires banks to lend in the low-income neighborhoods where they take deposits. Just the idea that a lending crisis created from 2004 to 2007 was caused by a 1977 law is silly. But it's even more ridiculous when you consider that most subprime loans were made by firms that aren't subject to the CRA. University of Michigan law professor [Michael Barr testified back in February before the House Committee on Financial Services](#) that 50% of subprime loans were made by mortgage service companies not subject to comprehensive federal supervision and another 30% were made by affiliates of banks or thrifts which are not subject to routine supervision or examinations. As former Fed Governor Ned Gramlich said in an August, 2007, speech shortly before he passed away: "In the subprime market where we badly need supervision, a majority of loans are made with very little supervision. It is like a city with a murder law, but no cops on the beat."

Not surprisingly given the higher degree of supervision, loans made under the CRA program were made in a more responsible way than other subprime loans. CRA loans carried lower rates than other subprime loans and were less likely to end up securitized into the mortgage-backed securities that have caused so many losses, according to a recent study by the law firm Traiger & Hinckley ([PDF file here](#)).

Finally, keep in mind that the Bush administration has been weakening CRA enforcement and the law's reach since the day it took office. The CRA was at its strongest in the 1990s, under the Clinton administration, a period when subprime loans performed quite well. It was only after the Bush administration cut back on CRA enforcement that problems arose, a timing issue which should stop those blaming the law dead in their tracks. The Federal Reserve, too, did nothing but encourage the wild west of lending in recent years. It wasn't until the middle of 2007 that the Fed decided it was time to crack down on abusive practices in the subprime lending market. Oops.

Better targets for blame in government circles might be the 2000 law which ensured that credit default swaps would remain unregulated, the SEC's puzzling 2004 decision to allow the largest brokerage firms to borrow upwards of 30 times their capital and that same agency's failure to oversee those brokerage firms in subsequent years as many gorged on subprime debt. (Barry Ritholtz had an excellent and more comprehensive [survey of how Washington contributed to the crisis](#) in this week's Barron's.)

There's plenty more good reading on the CRA and the subprime crisis out in the blogosphere. Ellen Seidman, who headed the Office of Thrift Supervision in the late 90s, has written several [fact-filled posts about the CRA controversy, including one just last week](#). University of Oregon professor and economist [Mark Thoma has also defended the CRA on his blog](#). I also learned something from [a post back in April](#) by Robert Gordon, a senior fellow at the Center for American Progress, which ends with this ditty:

It's telling that, amid all the recent recriminations, even lenders have not fingered CRA. That's because CRA didn't bring about the reckless lending at the heart of the crisis. Just as sub-prime lending was exploding, CRA was losing force and relevance. And the worst offenders, the independent mortgage companies, were never subject to CRA — or any federal regulator. Law didn't make them lend. The profit motive did. And that is not political correctness. It is correctness.

TrackBack URL for this entry: <http://blogs.businessweek.com/mt/mt-tb.cgi/11873.1336413876>

## Reader Comments

**Lauren**

**September 29, 2008 05:31 PM**

The main idea I get out of this commentary is that the part about many of the people giving these loans were not under the same guidelines as those that are licensed to sell loans. Mortgage Brokers have a certain "ethical & legal" guidelines they must follow. If there were lenders, which there were many were not under these guidelines, they basically made up the rules as they went along... Realtors were at the mercy of the lenders that were promising their clients the moon, and it was difficult for us to get any kind of information regarding the type of loan, they did not cooperate well with Realtors or those of licensed and professionals in the business.

I think if they \$700 billion dollars to bail out the entities that were the main cause of the problem... then they should use the money for our schools that are delapidated, and our seniors who are victims of such recklessness.

Give the people the money... here's a simple solution. Those American's that have homes that are leveraged, give each homeowner approx. 297K towards their mortgage. (directly to the lender not the careless homeowner that over leveraged their home in the first place) Reevaluate the value of the home to a more realistic market value, let the lender eat the difference, then go back and fine the appraisers, the lenders and Realtors and who ever else may have been responsible for the over valuation in the first place. Then the people that have home that is paid off, or isn't over leveraged, give them access to the same amount of money in a form of dividends or something. Every American over 18 years old is about, 200 Million? is entitled to that money...

**John Locke**

**September 29, 2008 05:59 PM**

The Democrats are completely responsible for the collapse - Why don't you post all of the facts? You are an Obama supporter and part of the problem. If you post this (I would be suprised) viewers can go to expose obama dot com and see all of the facts in the second video. Bush tried to stop this insanity but the democrats stopped it - Also McCain was involved in trying to stop this collapse as well.

**Chuck Cardiff**

**September 29, 2008 07:30 PM**

Nobody made loans "under the CRA program" CRA is not a loan program. It sets numerical targets for lending by location, race, and ethnicity. CRA often required lending to uncreditworthy persons to get a satisfactory CRA rating, and it did indeed cause Freddie and Fannie to take on huge amounts of dreck. "The chief executive of Countrywide Financial, the nation's largest mortgage lender, is said to have 'bragged' that in order to approve minority applications, 'lenders have had to stretch the rules a bit.'" See [http://en.wikipedia.org/wiki/Community\\_Reinvestment\\_Act#Criticism](http://en.wikipedia.org/wiki/Community_Reinvestment_Act#Criticism) and references thereto.

**Robert Walker**

**September 29, 2008 08:05 PM**

All pressure to reduce vetting of loan qualification has the Cumulative effect of weakening the probability for loan repayment. Pointing out there were perhaps more poorly issued loans than what CRA motivated does not lessen the importance of improving the loan quality discussion.

**Paul**

**September 29, 2008 09:31 PM**

Never let it be said that the Republican spin machine let FACTS stand in the way of a good political LIE!!!

**Augustus**

**September 29, 2008 10:11 PM**

There never were laws that would prevent lenders from making bad loans. Nothing was deregulated by the Bush Administration in that regard. Lenders did their best to not make bad loans.

Then the Clinton Administration rewrote the CRA to REQUIRE loans be made to low credit quality borrowers. And engaged FNMA and FRE to buy these loans.

In order to make loans and homes more affordable for lower income borrowers the unusual loan products were developed. Interest only, Option ARM, and the low teaser rate products were answers to helping people who did not otherwise qualify get a home, as REQUIRED by CRA. These low standards for qualification were applied to everyone who wanted a mortgage.

Credit Default swaps are insurance for bonds. I buy insurance on most of my assets. Insurance is available for equity investments through the options market. The end result is that it can make the investment much more sound.

The problem developed when CDS written on the pools of home loans were found to be badly mispriced. Why? The borrowers did not meet the historic standards of the homeowner of the past. It was not the CDS market that caused the problem, it was the terrible result of the low underwriting standards and the high default rates that brought on.

**Wayne Berner**

**September 30, 2008 12:54 AM**

Sir, It is not a law from 1977 (Jimmy Carter) that created the problem but rather what Mr. Clinton did to it in the 90's that caused the problem. Please read the following article from the year 2000 "The Trillion-Dollar Bank Shakedown That Bodes Ill for Cities" by Howard Husock It appears that Mr Husocks vision has come true! Also there are related CRA articles talking about Coutrywide earmarking over \$600 billion in sub prime loans in 2003!! Also add the following article from 1993 "Clinton Plan Would Soften Banking Rules" By JOHN H. CUSHMAN JR., Published: March 10, 1993 Now I would suggest you do a little more research, before you write speeches for Ms. Pelosi!

**Dave**

**September 30, 2008 03:08 AM**

This article is a joke, right?

**greg**

**September 30, 2008 03:23 AM**

I tend to agree with you. I'd love to see a debate between you and Prof. Miron, the author of the following opinion article:  
<http://www.cnn.com/2008/POLITICS/09/29/miron.bailout/index.html>

**adoseoftruth**

**September 30, 2008 08:10 AM**

This article is incorrect in its premise.

In early 1993 President Bill Clinton ordered new regulations for the CRA which would increase access to mortgage credit for inner city and distressed rural communities. The new rules went into effect on January 31, 1995 and featured: requiring strictly numerical assessments to get a satisfactory CRA rating; using federal home-loan data broken down by neighborhood, income group, and race; encouraging community groups to complain when banks were not loaning enough to specified neighborhood, income group, and race; allowing community groups that marketed loans to targeted groups to collect a fee from the banks.

The new rules, during a time when many banks were merging and needed to pass the CRA review process to do so, substantially increased the number and aggregate amount of loans to low- and moderate-income borrowers for home loans, some of which were "risky mortgages. Banks set up CRA departments, a CRA consultant industry was created and new financial-services firms helped banks invest in packaged portfolios of CRA loans to ensure compliance. Established and new community groups began marketing such mortgages. The Senate Banking Committee estimated that as of 2000, as a result of CRA, such groups had received \$9.5 billion in services and salaries. As of that time such groups also had received tens of billions of dollars in multi-year commitments from banks, including ACORN Housing \$760 million; Boston-based Neighborhood Assistance Corporation of America \$3 billion; a New Jersey Citizen Action-led coalition \$13 billion; the Massachusetts Affordable Housing Alliance \$220 million. The number of CRA mortgage loans increased by 39 percent between 1993 and 1998, while other loans increased by only 17 percent.

The CRA was public policy that DROVE the market. To cast a blind eye that obvious econic fact and simply blame "the profit motive" is ludicrous.

It is equally ludicrous to blame Wall Street and investment banks when what they did was buy up the risky mortgages that became so prevelant in the market place.

Granted, no one intened to lose money, but, to lay blame on capitalism when the real source of the problem was government in the first place indicates to me a fundamental lack of economic understanding.

**Mike**

**September 30, 2008 08:37 AM**

This is a ridiculous article that shows a complete lack of critical analysis and honest review.

Michael Barr himself wrote about the CRA:

---  
At its core, CRA helps to overcome market failures in low-income communities. By fostering competition among banks in serving low-income areas, CRA generates larger volumes of lending from diverse sources, and adds liquidity to the market, decreasing the risk of each bank's loan. Encouraged by the law, banks and thrifts have developed expertise in serving low-income communities, and they have created innovative products that meet the credit needs of working families and low-income areas with manageable risks.  
---

Why do you think subprime mortgages went from 1% of all mortgages issued to 12% within THREE years of the Clinton Administration adding new teeth to the CRA (in 1995)????

Maybe, just maybe, the subprime explosion occurred because, as professor Michael Barr says:

"By fostering competition among banks in serving low-income areas, CRA generates larger volumes of lending from diverse sources, and adds liquidity to the market, decreasingaff the risk of each bank's loan. "

Maybe all these thrifts started giving out subprime mortgages because of all the liquidity that the CRA pumped into the subprime lending industry.

**kritarchist**

**September 30, 2008 08:39 AM**

Doofus. Competition made them lend. The CRA and the GSEs put into place protected agencies that provided the environment for loose mortgages. The Fed provided the money, the CRA and GSEs provided the competition. Nature took care of the rest.

**dana reed thurston**

**September 30, 2008 09:18 AM**

Cpmpetely disingenuous and politiacly coloured view of the CRA and the havoc it wrought. One the ball got rolling with CRA supervised banks making bad loans with no repurcussions and a way to bundle those bad loans up for sale so that they had more money to loan, the Ponzi scheme began in earnest. If people watch while banks do something that is completely against logic yet still works, they are going to go mad for it. And as with all good Ponzi schemes, the money keeps getting pumped into the scheme until no more takers can be found or the participants realise that the upper floors of the scheme are being constructed with material scavenged from the ground floors.

The CRA forced banks to reinvest in the poorer areas where they were taking deposits. The CRA made the loans. The world didn't end. But eventually the cracks showed in the dam but those cracks were covered over instead of repaired.

If Fannie Mae and Freddie Mac were so sound, how did they collapse I ask?

**Bob Gardner**

**September 30, 2008 09:18 AM**

Mr Pressman is way off base. I was a bank director when sub prime lending was forced on us by the CRA act. Where did we finally wind up dumping these liabilities (called credits on our balance sheet)? It was the start of the process that eventually led to the mess we have. Every story has a beginning, and the beginning of the sub prime mess is CRA!

**Tom Phillips**

**September 30, 2008 09:38 AM**

Let me get this straight. The CRA forces banks to lend to subprime borrowers and it had nothing to do with the subprime crisis?

**William Fraind**

**September 30, 2008 09:48 AM**

You are referring to mortgage brokers who have no risk in lending money under the CRA. The more they loaned, the more they made. They were able to do this because of the loosened wording of the revised CRA, changed by Bill Clinton in 1995. You are doing a serious injustice by posting such a "smokescreen" over the facts. They kept lending, Fannie and Freddie made money as they securitized those mortgages and sold them off. They made money too. The investors were left holding the worthless bag.

**dana reed thurston**

**September 30, 2008 09:53 AM**

<http://www.cnn.com/2008/POLITICS/09/29/miron.bailout/index.html?iref=mpstoryview>

**Chuck Cardiff**

**September 30, 2008 10:01 AM**

"The U.S. Department of Housing and Urban Development's mortgage policies fueled the trend towards issuing risky loans. In 1995, Fannie Mae and Freddie Mac began receiving affordable housing credit for purchasing mortgage bank securities which included loans to low income borrowers. This resulted in the agencies purchasing subprime securities. Subprime mortgage loan originations surged by a whopping 25 percent per year between 1994 and 2003, resulting in a nearly ten-fold increase in the volume of these loans in just nine years. As of November 2007 Fannie Mae held a total of \$55.9 billion of subprime securities and \$324.7 billion of Alt-A securities in their portfolios. As of the 2008Q2 Freddie Mac had \$190 billion in Alt-A mortgages. Together they have more than half of the \$1 trillion of Alt-A mortgages.[82] The growth in the subprime mortgage market, which included B, C and D paper bought by private investors such as hedge funds, fed a housing bubble that later burst."

See <http://www.washingtonpost.com/wp-dyn/content/graphic/2008/06/10/GR2008061000059.html>

and [http://en.wikipedia.org/wiki/Subprime\\_mortgage\\_crisis#Government\\_Policies](http://en.wikipedia.org/wiki/Subprime_mortgage_crisis#Government_Policies)

Note this was all related to Mr. Clinton's ingenious changes to the CRA in 1995.

I suggest Mr. Pressman try doing a little research before he writes.

**finndiego**

**September 30, 2008 10:05 AM**

What blame do we assign to the borrowers? When you agree to take out an ARM, you need to know 2 things: (1) that real estate values can increase or decrease and (2) that the "A" in ARM means "adjustable", so your payments can go up or down in the future. Unless you are lied to by your real estate agent or mortgage broker, and unless you can reasonably and justifiably claim that your relied on that misrepresentation, you knew what you were getting into. What am I missing?

**Robert NYC**

**September 30, 2008 10:09 AM**

check your facts. The CRA tweak of 1995 made sub prime mortgages able to be collateralized. This Clinton initiative allowed firms outside fannie and freddie to issue the sub-prime crappy paper and then sell IT OFF THEIR BOOKS. This ability to pass it on resulted in A LOT more sub prime paper. Without the demand for the sub prime paper that was created by the CRA revision in 1995 private lenders would have issued very little of it as they would have had to keep it on their own books.

Demand for sub-prime was created by the CRA.

**craig**

**September 30, 2008 10:19 AM**

You didn't even mention the significant changes made to the CRA in 1995 which essentially created the sub-prime mortgage market - or at least made it a much more attractive option for lenders. Combined with the rock-bottom interest rates (also federally impacted) following the stock bubble, a perfect storm was created for poor lending. How could you leave that out?

**Mike Primorac**

**September 30, 2008 10:20 AM**

wrong bill....see Gramm-Leach-Bliley Act. Your answers are there.

**Cameron Michaels**

**September 30, 2008 10:25 AM**

The author of this article over-simplifies a rather complex discussion. Yes, the act alone did not cause the problem, but the question is, did it contribute to the problem?

**GG**

**September 30, 2008 10:30 AM**

Surely you joke? Subprime lending along with CRA, overbuilding of McHouses that ppl didn't need (2500sq ft for family of 3 or 4?) - Bill S-190 to try to regulate Fannie and Freddie that was blocked by the Dems? Chris Dodd, Jim Johnson, Franklin Raines, all getting sweetheart deals - along with Obama and the Fannie Mae Contribution 4 times more for Obama.

All MAIN STREETS lead to Wall Street - all monies were stolen by dirty-handed lawyers and their buddies. Most are Democrats and I'm tired of their underhanded lies. Opensecrets.org should be a starting point for Americans seeking truth.

**Mike**

**September 30, 2008 10:32 AM**

So if this is true( 50% of subprime loans were made by mortgage service companies not subject comprehensive federal supervision and another 30% were made by affiliates of banks or thrifts which are not subject to routine supervision or examinations). And my math is correct then the CRA is 20% at fault

**Lucas Kanavati**

**September 30, 2008 10:35 AM**

I am quite certain that your claims of the Bush Administration reducing the CRA enforcement had very little to do with our current situation.

Please read the article via the link below. The article was published in September of 2003. Are you certain that Bush was unaware or inactive of the issues with lending across the country, specifically with financial institutions leveraging themselves out of business? Mr. Barney Frank, back in 2003, stated publicly there was nothing wrong with Fannie Mae and Freddie Mac. Odd that Mr. Frank, along with the Clinton appointed heads of Fannie and Freddie, chose to ignore the issues the Bush Administration attempted to fix.

<http://query.nytimes.com/gst/fullpage.html?res=9E06E3D6123BF932A2575AC0A9659C8B63>

**tom**

**September 30, 2008 10:50 AM**

You must have your head in the sand if you believe for one minute that the CRA did not have a major role in the housing crisis we now face today. Subprime and substandard loans created this problem. Liberal guilt forced banks into these types of loans. Pull your head out.

**MidpointMan**

**September 30, 2008 10:51 AM**

Ha! You are a hack.

CRA CHANGES IN 1995 INVENTED SUBPRIME MORTGAGE SECURITIES!

Read what Democrat Robert Litan at Brookings has to say about it. He disagrees.

Why did you miss him? You thrive in ignorance.

**Juan**

**September 30, 2008 10:58 AM**

How can you say that this piece of legislation didn't contribute to the problem? I think that is a little ridiculous. Of course it contributed! As did the new wave of complex of Wall Street instruments that were used to package the bad loans. I think it is naive to think that the CRA didn't play a role in this. Even if 50% of the loans originated under CRA supervision, I think this would cause a significant impact.

**wow**

**September 30, 2008 11:13 AM**

Wow, you're absolutely wrong.  
[http://cei.org/cei\\_files/fm/active/0/Michelle%20Minton%20-%20CRA%20-%20FINAL\\_WEB.pdf](http://cei.org/cei_files/fm/active/0/Michelle%20Minton%20-%20CRA%20-%20FINAL_WEB.pdf)

**Justin**

**September 30, 2008 11:23 AM**

Aaron Pressman, you are conveniently ignoring the fact that, in early 1993 President Bill Clinton ordered new regulations for the CRA which would increase access to mortgage credit for inner city and distressed rural communities. The new rules went into effect on January 31, 1995 and featured: requiring strictly numerical assessments to get a satisfactory CRA rating; using federal home-loan data broken down by neighborhood, income group, and race; encouraging community groups to complain when banks were not loaning enough to specified neighborhood, income group, and race; allowing community groups that marketed loans to targeted groups to collect a fee from the banks. The number of risky loans subsequently went up dramatically, and the real estate bubble was on its way. The problems became apparent when the bubble burst and home prices declined. Then the risky sub-prime loans started to default. Maybe the original CRA wasn't so much to blame, but the 1995 revision certainly was. So please try to consider ALL of the facts, not just those which support your narrow-minded views.

**Mike**

**September 30, 2008 11:26 AM**

Technically your right Mr. Pressman, the CRA did not cause the crisis, but it was the catalyst for greed and corruption that did. That's just this know nothings opinion of course. I guess I need to be come liberal law professor to have any credibility eh? So your point was it's all Bush's fault? Of course. Did you write this article in response to this btw? <http://www.youtube.com/watch?v=NU6fuFrdCjY>

**Pepe Pingu**

**September 30, 2008 11:43 AM**

Here we go with the kool-aid partisanship. Why would I believe a washed-out business reporter who could not make it in the real world of business? Keep up the good work pencil pusher, I guess the truth will continue being hidden and manipulated in the back rooms of the media.

**John**

**September 30, 2008 11:45 AM**

This is clearly not as cut and dry as this issue would have you believe. Bill Clinton himself stated on Good Morning America last week that the Democratic party is guilty of not listening to and accepting legislation by Republicans regarding this crisis. The power of the CRA was cut back by Bush because of all the provisions set forth by the Clinton administration. If there weren't all the loans made then then the changes wouldnt have

been necessary now.  
Can we not read news that is neutral anymore?

**mf64**

**September 30, 2008 11:56 AM**

Read article by professor of economics Stan Liebowitz and use your logic.  
[http://www.nypost.com/seven/09242008/postopinion/opedcolumnists/house\\_of\\_cards\\_130479.htm](http://www.nypost.com/seven/09242008/postopinion/opedcolumnists/house_of_cards_130479.htm)

**Dave**

**September 30, 2008 12:11 PM**

"Most subprime loans were made by firms that aren't subject to the CRA."

Yes but that does not mean that lending institutions that are subject to the CRA are without fault. They too wrote billions of dollars worth of loans that defaulted.

This is just another Bush/Republican hit piece designed to prop up the Democrats. In reality the CRA forces institutions to loan to people that are a credit risk.

**ChiTe**

**September 30, 2008 12:32 PM**

In early 1993 President Bill Clinton ordered new regulations for the CRA which would increase access to mortgage credit for inner city and distressed rural communities.[7] The new rules went into effect on January 31, 1995 and featured: requiring strictly numerical assessments to get a satisfactory CRA rating; using federal home-loan data broken down by neighborhood, income group, and race; encouraging community groups to complain when banks were not loaning enough to specified neighborhood, income group, and race; allowing community groups that marketed loans to targeted groups to collect a fee from the banks.[4][6]

WIKI CRA

'what do you say about this? Clinton using CRA to encourage more lending. Wall Street needing to meet quotas lend more to poor credit people so it can lend even more to normal credit people.

Go Ron Paul,

ChiTe

**smays**

**September 30, 2008 12:54 PM**

Of course the CRA contributed to this mess! Anyone unjaded by political ideology can see that making increasingly riskier loans to more people who were less and less qualified contributed... because afterall, when you get down to it the cause of this crisis was excessive mortgage defaults. CRA and other laws created an environment in which 'no-docs' and 'stated income' were admissible as proof of creditworthiness, and greatly reduced downpayments were allowed. Sure, during the 90s, when mortgage access was increased, there weren't as many foreclosures because the market was going up, up, up. But no run-up lasts forever. Did no one consider what would happen to 120%+ LTV loans when the market topped? Did the legislators? Did the homeowners? No. So let's ease up on the class warfare and anti-Capitalism rhetoric, because K Street and Main Street are just as much to blame as Wall Street... and unless we get a functional bail-out, all streets will suffer greatly.

**Jared T.**

**September 30, 2008 01:01 PM**

Aaron, you're making perfect sense now. Obviously Jeffrey Miron is a "know-nothing," I mean he only got his Ph.D. in Economics from MIT, and is Senior Lecturer and Economist at Harvard University. Know-nothing.

I suppose the other 166 academic economists who wrote Congress are also, just nothing more than, "know-nothings." You're right on the ball with this, buddy.

**dave**

**September 30, 2008 01:19 PM**

You're right that the CRA itself isn't to blame. It leads by a bad example, for sure, but it was weakening. Fannie and Freddie though, were created to allow people who couldn't otherwise afford mortgages to get them. The GSE's were designed to absorb more risk than a bank would be able to keep on it's balance sheet. That created, I know it's hard to believe, years ago, the start of the climate of opinion that people were somehow entitled to own a house, and being able to afford it was secondary. Americans have the right to a lot of things, but a house or a mortgage isn't one of them. I saved my pennies until I could put 20% down, and I made sure as hell that I wasn't going to buy out of my range. If people didn't expect that a multi-hundred thousand dollar burden on their personal indebtedness was simply a right of passage, we wouldn't have had people out there getting what they couldn't afford. If I had thought the government might help me pay off my mortgage, gee, I'd have bought a bigger house. Yes, the lenders are probably even MORE to blame than the borrowers, as they were somehow able to unload mortgages in security form to people who knew the math didn't work out. But when ultimately, the bad debt could be assumed by Fannie and Freddie (who were thought to be government backed) people made decisions they would not have without them as 'options.' If it was YOUR balance sheet on the line, categorically, with no chance of some other entity being able to take it from you, even when the math wasn't kosher (like the two GSE's would do) then you'd do much better to ensure that you're only buying and issuing loans to people who will be paying them back.

**Mike**

**September 30, 2008 01:40 PM**

This article is a bald faced lie.

It claims that the lenders are not complaining about the CRA, when in reality they have:

[http://www.nypost.com/seven/02052008/postopinion/opedcolumnists/the\\_real\\_scandal\\_243911.htm?page=0](http://www.nypost.com/seven/02052008/postopinion/opedcolumnists/the_real_scandal_243911.htm?page=0)

Countrywide CEO said that his company did what the government regulations asked.

The CRA's disastrous effect on the banking sector was predicted EIGHT years ago:

The Trillion-Dollar Bank Shakedown That Bodes Ill for Cities

Winter 2000

[http://www.city-journal.org/html/10\\_1\\_the\\_trillion\\_dollar.html](http://www.city-journal.org/html/10_1_the_trillion_dollar.html)

And you call yourself a business magazine?

**Kristen**

**September 30, 2008 02:02 PM**

I have been getting a lot of emails regarding this from my far right wing friends-- too bad we find it so necessary to find a scapegoat in these trying times. It is so much easier to blame the poor rather than take accountability. Having been a lender for 14 years I can tell you CRA loans are the best ones on the books! No funny business with debt ratios and income sources! GREAT ARTICLE!! Thanks for being the voice of reason!

**mike in va**

**September 30, 2008 02:02 PM**

This article is misleading. A reduction in mortgage loan underwriting standards that started with the CRA is indeed a major contributor to the current situation. "University of Michigan law professor Michael Barr testified back in February before the House Committee on Financial Services that 50% of subprime loans were made by mortgage service companies not subject comprehensive federal supervision and another 30% were made by affiliates of banks or thrifts which are not subject to routine supervision or examinations. " While this sentence is true on it's face it is misleading. Loans were not "made" by these companies, they were originated by these companies. A lending institution funded the loan or bought a package of these types of loans from the origination companies. Yes, they originated a lot of crap, but as long as they were able to sell the crap to FNM and FRE they had no incentive to tighten standards. The standards themselves were set low by the government encouraging sloppy behavior. "Malinvestment" is the current economic term for this, brought on by government interference in the housing market. The politicians bought votes with bad policy, covered up problems as they arose, and are now asking the citizens of the country to bail out the bankers that foolishly underwrote or purchased these securities. All in the name of progress, growth, and political correctness. Abolish the Fed, the private U.S. banking cartel.

**russ**

**September 30, 2008 02:20 PM**

"Ellen Seidman, who headed the Office of Thrift Supervision in the late 90s, has written several fact-filled posts about the CRA controversy, including one just last week"...

This is just total B.S.!

Here's someone who during the Clinton administration obviously didn't do her job and you are claiming she supposedly cranked out a fact filled load of noise to hide the fact that the Democrats brought this onto the country...

Are YOU joking?

**Bill Andersen**

**September 30, 2008 02:32 PM**

Mr. Pressman,

At least two people disagree with you. Myself, and this guy <http://www.cnn.com/2008/POLITICS/09/29/miron.bailout/index.html>

**george**

**September 30, 2008 02:59 PM**

This is an apology piece, with several specious arguments. The CRA gave the green light to larger banks, and required them to lend to less qualified borrowers, even if normal standards had to be bent. Do you seriously believe that smaller mortgage companies would not be affected by such a policy (even if it did not, technically apply to them)? To compete, the smaller lenders would relax their standards - and then some. Also, you act as if nothing happened after 1977 until, suddenly in 2004, things went haywire. You left out the relaxation of standards pushed during the Clinton years. And, the statement that the Bush admin. weakened enforcement simply flies in the face of reality. In 2004 Bush and several Republicans, including McCain, pushed for tougher enforcement standards - against the opposition of Dems.

**PMY**

**September 30, 2008 03:26 PM**

While there is no doubt that greed played a significant roll in this credit crisis. It is very obvious that socializing lending based on a borrower's income and ethnicity also plays a roll.

Fannie Mae had targets as far back as 1997. To be exact 10 billion before the end of 2003 and 500 billion or 1/3 of their business by the end of the decade. They reached the 10 billion in May 2001 a year and a half before the goal.

There is plenty of blame to pass around and most politicians by each party have some explaining to do with the American public.

**Bill**

**September 30, 2008 03:57 PM**

CRA is documented as having pressured banks to make loans to those without downpayment or proof of income to make payments so your article is not in whole truthful. Now those poor souls are losing their homes that they could never have afforded but were led to hope they could. The poor are no better off than before and CRA should be shut down and have other agencies that truly help the poor meet the need.

The biggest reason for it to continue is to promote the DNC. The biggest part of CRA is ACORN the division that has been involved in voter fraud for at least 10 years and has cases of fraud in 12 states this election alone. Many Americans don't like strong arm thugs taking away the value of 1 person 1 vote basis that make our elections unique in the world.

**bjl**

**September 30, 2008 04:07 PM**

"Law didn't make them lend. The profit motive did. And that is not political correctness. It is correctness."

fact: democrats blocked a mccain co-sponsored bill to regulate Mae & Mac where by Barney Frank(d) replied, "if you put pressure on them, the harder it will be to have affordable housing"

fact: Mae & Mac went under along with 28 depository banks so far in 08 alone, and only 10 more since 2000.

<http://www.fdic.gov/bank/individual/failed/banklist.html>

As a taxpaying citizen I'm tired of leaders saying the other person is to blame. it's worse than a 3rd grade class. Then does no one take responsibility and it's no one's fault and this buck get's passed to us too? The biggest BS!

**Miike**

**September 30, 2008 04:12 PM**

Government meddling distorted the mortgage markets by encouraging risky loans. You cannot be serious when you say Fannie and Freddie and their Democrat protectors, that enabled this mess, share none of the blame.

**Media Watchman**

**September 30, 2008 04:18 PM**

I believe that the Congress (not regulating Fannie and Freddie's appetite, financial statement misstatements, and irresponsible increase in mortgage applications while they were jut getting out of investigation of Financial Statement & Accounting scandals), Administration (for not pushing harder for curbing Fannie and Freddie's appetite for bad loans), Lenders (unscrupulous like Countrywide for using a NO-DOC credit score and employment only qualification), and Wall Street (expecting a return on secured property that has fluctuated in value in the history of home prices) all had a hand in this mess...

Just a few thought from Wiki Pedia...

In 2002 there was an inter-agency review of the effectiveness of the 1995 regulatory changes to the Community Reinvestment Act and new proposals were considered.

The Federal Deposit Insurance Corporation (FDIC), the Board of Governors of the Federal Reserve System, and the Office of the Comptroller of the Currency put new regulations into effect September of 2005. The regulations were opposed by a contingent of Democrats.

Federal Reserve chairman Ben Bernanke has stated that an underlying assumption of the CRA - that more lending is always better for local communities - is questionable.

Economist Stan Liebowitz notes that the Fannie Mae Foundation singled out Countrywide Financial as a "paragon" of a nondiscriminatory lender who works with community activists, following "the most flexible underwriting criteria permitted." The chief executive of Countrywide is said to have "bragged" that in order to approve minority applications, "lenders have had to stretch the rules a bit." Countrywide's commitment to low-income loans had grown to \$600 billion by early 2003.

Question to Business Week:

Who developed and supported the software Desktop Underwriting (DU)? (It is predominantly used to pre qualify borrowers - if they pass the software check, they are ok and Fannie/Freddie would buy the loan.) Business Week: How many loans were made approved by DU and now are bad?

How many loans made by Countrywide were bad loans?

Looks like you cherry picked wikipedia comments - Ellen Seidman's and others and are showing just one side of the issue. I believe that Business Week may be owned by someone who doesn't want to challenge truth and wants to detract from the "real possibility" that the CRA DID have a hand in this mess...why don't you also investigate ACORN and NACA and their terroristic operations to fore institutions to make bad loans? Bruce Marks may not like an investigation....unless it's from the "fair and balanced" investigation from the Business Week - right!

And doesn't Business Week want to ask those tough questions that President Bush asked in 2003 of Fannie and Freddie:

New York Times article written by Stephen Labaton and published on September 11th, 2003: The Bush administration today recommended the most significant regulatory overhaul in the housing finance industry since the savings and loan crisis a decade ago.

Under the plan, disclosed at a Congressional hearing today, a new agency would be created within the Treasury Department to assume supervision of Fannie Mae and Freddie Mac, the government-sponsored companies that are the two largest players in the mortgage lending industry.

The new agency would have the authority, which now rests with Congress, to set one of the two capital-reserve requirements for the companies. It would exercise authority over any new lines of business. And it would determine whether the two are adequately managing the risks of their ballooning portfolios.

When I finally reach a definitive study on why the meltdown of the home loan fiasco causing this "blip" on the economic video monitor, I will be right that it wasn't just one person involved that caused this issue, it was a bunch of people thinking they were smarter than reality.

Just a few thought from Wiki Pedia...

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The Federal Deposit Insurance Corporation (FDIC), the Board of Governors of the Federal Reserve System, and the Office of the Comptroller of the Currency put new regulations into effect September of 2005. [8] The regulations were opposed by a contingent of Democrats.[9]

Federal Reserve chairman Ben Bernanke has stated that an underlying assumption of the CRA - that more lending is always better for local communities - is questionable.[2]

Economist Stan Liebowitz notes that the Fannie Mae Foundation singled out Countrywide Financial as a "paragon" of a nondiscriminatory lender who works with community activists, following "the most flexible underwriting criteria permitted." The chief executive of Countrywide is said to have "bragged" that in order to approve minority applications, "lenders have had to stretch the rules a bit." Countrywide's commitment to low-income loans had grown to \$600 billion by early 2003.

Somequestions to you:

Who developed and supported the software Desktop Underwriting (DU)? (It is predominantly used to prequalify orrowers - if they pass teh software check, they are ok and Fannie/Freddie would buy the loan.) Business Week: How many loans were made approved by DU and now are bad?

**Bo**

**September 30, 2008 04:53 PM**

This article is very one sided and doesn't go into how many people in DC tried to reign in Freddie Mac.

I do not see the purpose of bashing Bush - it solves nothing. I would expect a more thorough article by BusinessWeek what showed how many people in DC saw this, tried to pull the plug on Freddie Mac, yet were met with opposition. Furthermore, nearly 50% of the bad loans out there fell under the Community Reinvestment Act and they were guaranteed by Freddie Mac.

I suppose supporting a political agenda is more important than revealing the truth.

### **Pitchfork**

**September 30, 2008 04:54 PM**

Fannie and Freddie took reckless chances because there was no downside. They bought up half the mortgage securities in the country for petesake.

And they donated generously to the politicians who protected them, with B. Frank and B. Obama their biggest beneficiaries. Telling the truth is only "political" if it's the ugly truth about corrupt liberals.

### **Victoriaj**

**September 30, 2008 05:34 PM**

Good try; but there are too many past date articles that prove otherwise.

See:  
[http://query.nytimes.com/gsv/fullpage.html?res:9C0DE7D8153EF933A0575AC0A96F95826](http://query.nytimes.com/gsv/fullpage.html?res=9C0DE7D8153EF933A0575AC0A96F95826)

NY Times - Fannie Mae Eases Credit To Aid Mortgage Lending  
written Sept 30, 1999

### **Kevin**

**September 30, 2008 05:35 PM**

Wow, are you ever wrong about this.

Calling people "know nothings" when they know more than you do is shameful. How about getting all the facts before having an opinion? Isn't that what "journalists" are supposed to do?

First of all, the CRA was significantly expanded in 1995 by the Clinton administration. They made fundamental changes to the 1977 law which - in effect - created a whole new industry of CRA "compliance" groups which were effectively community agitation groups (like Obama's ACORN). Their job was to complain when banks didn't lend enough in low-income communities, and they could even get in on the game by providing "consulting" services and marketing the loan packages.

These groups could effectively blackmail the banks by saying "loan more to our low-income community or we will agitate, threaten your CRA rating, and put your bank charter at risk."

As of 2000, these agitating groups were collecting upwards of \$9.5 billion (yes, with a "b") in services and salaries. These groups - again, like ACORN - then focused efforts on "voter education" and "get out the vote" drives to elect - you guessed it - more liberals who would support CRA, Fannie and Freddie and keep the gravy train going.

From 1993 to 1998, CRA low income loans grew at more than twice the rate of ordinary mortgage loans.

Second, over time, the dangerous nexus between liberal social engineers and Fannie/Freddie got more and more dangerous. Congressional supporters of "low income housing" pressed for weaker and weaker credit standards, and used their "oversight" of Fannie/Freddie to make it happen.

<http://query.nytimes.com/gst/fullpage.html?res=9C0DE7DB153EF933A0575AC0A96F958260&sec=&spon=&pagewanted=all>

Third, after the Fannie/Freddie accounting scandals of 2003-2004 which rivalled Enron, the gig was almost up as Bush and Republicans attempted to put real oversight onto the GSEs.

<http://query.nytimes.com/gst/fullpage.html?res=9E06E3D6123BF932A2575AC0A9659C8B63&sec=&spon=&pagewanted=print>

Oversight was defeated by Fannie/Freddie with an unprecedented lobbying effort, massive campaign contributions, and promises of even MORE "low income lending" (i.e., bad loans) to their Congressional toadies (i.e., Barney Frank and the Congressional Black Cacus.

That was the last straw.

Fannie/Freddie effectively put out the word that they would buy virtually any loan that anyone could write. In return for standing firm AGAINST congressional oversight, their congressional sponsors were rewarded with looser standards to promote low-income housing.

Don't you get it???

And to your point, it doesn't matter who "makes" the loan; the only thing that matters is who BUYS the loans.

When Fannie/Freddie are buying any piece of s\*\*\* that any mortgage lender could write, lenders would be throwing money away to not write any loan they could convince any poor, illiterate sap to take.

The result? Subprime mortgages grew from <8% in 2003 to over 20% in 2006.

All thanks to Fannie/Freddie, as payback to their congressional, fully-paid-off supporters who demanded more low income housing.

Top of the list? Barack Obama. Barney Frank. And all their friends. The list is public.

This was absolute institutional corruption. Fannie/Freddie made "private" profits based on their "public" debt guarantee, gave huge contributions to congress to avoid oversight (although they are public, they are exempt from SEC Public Company oversight including public disclosures AND Sarbanes-Oxley) and allow them to make high risk investments in "low income housing" with taxpayer money.

It's also absolutely true that the easy money policies of the post 9/11 Fed contributed to this also. The negative real interest rates of these times strongly incentivized people to borrow.

But with reasonable underwriting standards and prudent risk management, it would never have gotten there.

CRA and Fannie/Freddie were promoted and put into place by the same people to the same effect. More low-income home ownership at the price of enormous risk and a bubble whose popping may yet bring down to it's knees the greatest economy in the history of the world.

Get your facts straight.

### **Bill**

**September 30, 2008 05:41 PM**

CRA is documented as having pressured banks to make loans to those without downpayment or proof of income to make payments so your article is not in whole truthful. Now those poor souls are losing their homes that they could never have afforded but were led to hope they could. The poor are no better off than before and CRA should be shut down and have other agencies that truly help the poor meet the need.

The biggest reason for it to continue is to promote the DNC. The biggest part of CRA is ACORN the division that has been involved in voter fraud for at least 10 years and has cases of fraud in 12 states this election alone. Many Americans don't like strong arm thugs taking away the value of 1 person 1 vote basis that make our elections unique in the world.

### **Mark Utnehmer**

**September 30, 2008 06:22 PM**

You are full of of ..it.

Clinton Administration Changes of 1995

In early 1993 President Bill Clinton ordered new regulations for the CRA which would increase access to mortgage credit for inner city and distressed rural communities.[5] The new rules went into effect on January 31, 1995 and featured: requiring strictly numerical assessments to get a satisfactory CRA rating; using federal home-loan data broken down by neighborhood, income group, and race; encouraging community groups to complain when banks were not loaning enough to specified neighborhood, income group, and race; allowing community groups that marketed loans to targeted groups to collect a fee from the banks.[3][4]

The new rules, during a time when many banks were merging and needed to pass the CRA review process to do so, substantially increased the number and aggregate amount of loans to low- and moderate-income borrowers for home loans, some of which were "risky mortgages." [citation needed] Banks set up CRA departments, a CRA consultant industry was created and new financial-services firms helped banks invest in packaged portfolios of CRA loans to ensure compliance. [citation needed] Established and new community groups began marketing such mortgages. The Senate Banking Committee estimated that as of 2000, as a result of CRA, such groups had received \$9.5 billion in services and salaries. As of that time such groups also had received tens of billions of dollars in multi-year commitments from banks, including ACORN Housing \$760 million; Boston-based Neighborhood Assistance Corporation of America \$3 billion; a New Jersey Citizen Action-led coalition \$13 billion; the Massachusetts Affordable Housing Alliance \$220 million.[3] The number of CRA mortgage loans increased by 39 percent between 1993 and 1998, while other loans increased by only 17 percent.[6][7]

### **liberty**

**September 30, 2008 06:53 PM**

The Community Reinvestment Act was the seed planted by the likes of Karl Marx. Twisted into a civil rights decision in the late seventies, then pushed and reinforced into crooked law as a financial decision, was in fact a STUPID decision. Didn't work in Vietnam, didn't work in Cambodia, Venezuela or Cuba. These programs meant to help the people end up hurting the people. FOLLOW THE DAMN CONSTITUTION! because it's OUR country, not theirs.

### **Where's Chuck**

**September 30, 2008 07:11 PM**

I am shocked by the lie in this article that CRA loans were made under stricter guidelines. The big banks, like Bank of America and Wells Fargo, were paying mortgage brokers an extra 1% of the loan amount for bringing in loans that helped them meet the CRA requirement. In some cases it is still going on. I used to work in a broker's office and the bank account reps pushed it as a way for the broker to double their commission. And it helped the bank meet their regulatory goals. There was no extra supervision of a CRA loan. The broker's office made more money simply because the property address fell in an area where the bank needed to meet their regulatory obligation.

And to claim that in the 1990's, when Clinton was President, that the subprime loans performed well is to ignore the simple fact that this is when the bubble started. As rates remained historically low year after year, values kept increasing beyond the ability of borrowers to qualify. The most sinister of all programs, the neg am loan was invented in the 1990s.

The Liberals have pushed and pushed for CRA, loan down payment, affordable housing to show their constituency how much they care for them. Now they are blaming Conservatives for a problem they helped create.

### **Dan Spooner**

**September 30, 2008 07:35 PM**

This guy is certainly bias and uniform. The problem is entitlement. Not everyone is entitled to anything and everything they see. Banks were forced to make bad loans and this problem goes further back than the GW Bush term. There is plenty of blame to go around and it all needs to come out in the open so these problems can be corrected and the US can move forward.

Issues are that many people got in over their heads, living outside of their means. Interest only loans, credit cards being offered to anyone who would like one. I am a manager for a small company and I find it amazing that hourly people are driving nicer cars than I have, own flat panel large screen TVs and do not think anything of extending themselves. "Entitlement!" Who's left paying for those services and products that they purchased on credit when in 2 years they are having problems with a mortgage and credit cards. The house prices ran up because everyone deserves to own a house, "Entitlement!" but now that they can't afford their house, they are foreclosed on. We did no favor to these people. Now the housing prices are coming back in-line to where they were.

I am entitled to what I can afford and what I need. Nothing else.

### **Sisyphus**

**September 30, 2008 08:21 PM**

"Just the idea that a lending crisis created from 2004 to 2007 was caused by a 1977 law is silly."

No, there is nothing "silly" about it. A law's strength cannot be intensified well after it was passed? It cannot be used to further its goals well after it is passed?

### **Common Sense**

**September 30, 2008 09:14 PM**

What about the 1995 updates to the CRA ordered by President Clinton?

Oops.

### **KLH**

**September 30, 2008 09:25 PM**

You sling some "facts" around, but you can't back them up. The truth is, CRA made it so that banks were forced to give a certain percentage of these loans or they would not get their due. I am a realtor, and I have some experience with the Acorn product. My buyers were encouraged to borrow more with Acorn than any other lender in the area would let them. They were reasonable people and weren't comfortable with the payment so reigned themselves in to a lower amount. Unfortunately many starry-eyed borrowers didn't.

### **clay evans**

**September 30, 2008 09:49 PM**

Hey Aaron are you a complete idiot? You have to be if you start this article out with the title "community reinvestment act had nothing to do with the subprime crisis", when the fact of the matter is that it started with it. You have no understanding of economics is you think that "bubbles" of any kind start and blow up in just three years or so. "Bubbles" such as real estate in this case take many many years to form and was a combination of various public policies and private malinvestment. When you look at the facts you have to be lying to your self. The Clinton administration put a lot of pressure on the financial institutions to "lend" more money to CRA's banks and in a similar move in 1999 he demanded that Fannie Mae loosen their lending standards in the subprime market! 1999 Aaron, remember bubbles take time to form, if you don't understand that. Here is a direct quote from the New York Times dated Sept. 30th 1999, "Fannie Mae, the nation's biggest underwriter of home mortgages, has been under increasing pressure from the Clinton Administration to expand mortgage loans among low and moderate income people and felt pressure from stock holders to maintain its phenomenal growth in profits.

In addition, banks, thrift institutions and mortgage companies have been pressing Fannie Mae to help them make more loans to so-called subprime borrowers. These borrowers whose incomes, credit ratings and savings are not good enough to qualify for conventional loans, can only get loans from finance companies that charge much higher interest rates -- anywhere from three to four percentage points higher than conventional loans." You people love to twist numbers by saying that the majority of subprime loans that have defaulted are from non regulated non CRA banks, but that is a misleading stat because the two major players in this at the beginning was Countrywide and Bear Stearns. They were two major financial institutions, who, oh by the way were some of the first to go belly up that were involved with the genesis of this from the start under what administration. The Clinton administration!! Its funny because between 1993 and 1998 CRA mortgage loans increased by 39 percent between, while other loans increased by only 17 percent. Again bubbles, you can build a straw argument that the loans that caused this mess were delevered between 2003 and 2007 but you still can not say that the title of your silly article is true. You need to understand that sub prime crisis is way more complicated than you are leading your readers to believe. Stating that the CRA had nothing to do with the crisis, when it clearly has is just a joke!! LOL Government has to take responsibility for this mess and both parties have their hands in the mess as well! Time for a responsible pro market way out of this mess! How about a strong Dollar? How about real change !!!

**Michael**

**September 30, 2008 11:32 PM**

Thank goodness someone in the media is saying this. There is so much misinformation about CRA out there! Republicans continue their tactic of repeating lies until everyone around them thinks it's true, this time because they're ashamed that one of their own has brought about this mess.

**James**

**October 1, 2008 12:04 AM**

This is CRA stuff is Republican spin, a meme that is circulating in news articles and right wing blogs....a grasping at straws attempt to put the banking crisis squarely in the Democratic camp. The qualifications for CRA are actually quite broad. Home bought in areas where incomes were 80% of the median could qualify. The buyers had no restriction on income. If you bought a home and you happened make 80% of the median income, then your loan would count, too. Banks required to comply did not originate much in the way of subprime. Programs that targeted these buyers were not "subprime."

Certainly there is plenty of blame to go around. But the CRA argument is disinformation. CRA only applies to banks and thrift, not most of the subprime lenders. Additionally, most of the subprime related loans have been written off. Subprime lending has been dead now for about a year and a half and the problem is related to the larger pool of Alt-A and Fannie Freddie loans, Option ARM's and problems with negative equity.

To meet there CRA goals, many of the big national banks, like Bank of America, Chase, and Wells Fargo (to a lesser extent) provide subsidy pricing (about a .375% in rate) for loans that are originated in low to moderate census tracts, mostly in the inner city. This way they capture a disproportionate share of loans in these areas.

This result of CRA goals ended up have the effect of helping builders in redevelopment areas provide better rates to their customers.

**Vincent DeCastro**

**October 1, 2008 12:23 AM**

Studies have found that CRA improved access to home mortgage credit for low-income borrowers during the 1990s, as CRA regulatory intensity increased.<sup>4</sup> Between 1993 and 1999, depository institutions covered by the CRA and their affiliates made over \$800 billion in home mortgage, small business, and community development loans to low- and moderate-income borrowers and communities.<sup>5</sup> The number of CRA-eligible mortgage loans increased by 39 percent between 1993 and 1998, while other loans increased by only 17 percent. Even excluding affiliates, banks increased their lending to low- and moderate-income borrowers and areas by 10 percent over this period, compared with no growth at all for these lenders in their other markets. As a result, the share of all mortgage lending by CRA-covered institutions and their affiliates to these borrowers and areas increased from 25 to 28 percent.

**Beverly McIntyre**

**October 1, 2008 06:43 AM**

Please don't insult our intelligence!!! Of course this had everything to do with what is going on today. It is not President Bush that brought this on.

**MR Kornegay**

**October 1, 2008 07:50 AM**

Weren't banks sued by liberal interest groups & lawyers (such as Obama [Miner, Barnhill & Galland]) for not issuing enough sub-prime loans, which these banks knew couldn't/wouldn't be paid back? In other words, banks were forced to make these loans or else be taken to court. Your idiotic editorial seems to imply that, for example, bank robbers aren't to blame, rather it's the shortage of policemen who are at fault.

**John Novick**

**October 1, 2008 08:11 AM**

There are many reasons for the subprime mortgage crisis but to say that the CRA had NOTHING to do with it is a stretch

**Arlen Williams**

**October 1, 2008 09:27 AM**

You know very well that this CRA gave cover for ACORN and the other neo-Marxist organizations to extort banks into granting hundreds of billions of dollars in bad loans.

**Rick**

**October 1, 2008 09:50 AM**

Just reading this I am amazed that you can say it wasn't caused by the CRA. Look at what you said, "CRA loans carried lower rates than other subprime loans and were less likely to end up securitized into the mortgage-backed securities that have caused so many losses, according to a recent study by the law firm Traiger & Hinckley" If they were not secure, and it falls under the CRA, HELLO!!!! I guess we need to be like an ostridge, put our heads in the sand and not deal with reality.

**Viper1**

**October 1, 2008 10:38 AM**

So, Lending money to people who could never afford to ever pay it back is okay??? That is the most ludicrous thing I have ever heard. where the h\*\*\* does this guy think the money was ever going to come from???

**Bill**

**October 1, 2008 11:20 AM**

This is absolute drivle. It is not true.

**Barry Ritholtz**

**October 1, 2008 11:28 AM**

This is one of those zombie myths that just won't die. Excellent collection of quotes and source.

**Keith Breinholt**

**October 1, 2008 12:35 PM**

Someone forgot to mention that 'no doc' and no verification of assets loans were created as an extension to the CRA by Bill Clinton in 1993. (<http://clinton6.nara.gov/1993/12/1993-12-08-briefing-by-bentsen-and-rubin.text.html>)

It was this extension of the CRA that allowed banks to write 'stated asset' and 'low doc' or 'no doc' loans. Lenders won't finder the CRA because it allowed them to write and leverage loans that they couldn't have otherwise. Now, fast forward to today...

**Louis**

**October 1, 2008 01:05 PM**

Wow. You are a mouth piece for the Democratic party. Thank you for your opnion. I'll never take BW as a serious financial magazine again. Google "community reinvestment act 1995". Jeez... what a tool.

**Eric G**

**October 1, 2008 01:29 PM**

God, what a stupid article. Fannie Mae is a disaster and you defend it. God. what propaganda. Liberals are circling the wagons defending their big gov programs.

**stevesteve**

**October 1, 2008 02:33 PM**

I love how one second conservatives are blasting the "wall st executives" for their greed then turn around and say "banks were FORCED to lend to high risk people' (read: poor minorities). I know so many folks who went to both banks and those outside the realm of the CRA and were given mortgages that they themselves were surprised to get. Now imagine, average folks who are making \$40K/yr call up a mortgage broker and say "I want a \$300K mortgage with no collateral or credit please" and are given it. Who is responsible? There are many folks we can point fingers at but the bottom line is this crisis occured during the watch of the Bush Administration which could have been curtailed by all of these learned individuals who are noted here who saw this coming back in '03. Additionally the loan officers and others' who, according to these posts, had their arms twisted to lend money (and one assumes made a pretty penny themselves) are innocent bystanders who had no choice but to give away crap mortgages to whomever walked int he door. C'mon now, who wouldn't walk up to a store and take money if they were giving it away? The country as a whole are not a sophisticated financial bunch which is why there are regulatory bodies to oversee these issues.

**Fred Ziffle**

**October 1, 2008 02:48 PM**

Who is more sophisticated? The loan company or the person borrowing? Who has more tools to do the evaluation? They can tell if you had cornflakes or eggs, but they can't provide good support for Joe average who typically gets a large housing loan every 10 years? Yes, if you borrow, you are responsible. If you make the loan you are responsible. It is certainly a combination of all of the discussion. We culturally "buy the biggest house you can afford" and the companies invest the most money they can and try to make more...

**Caniac**

**October 1, 2008 04:31 PM**

As someone in the industry for 12 years, the CRA was not the major impetus to this crisis. While some of the the lending instruments created, marketed, sold and securitized were in use in late '98 or '99, the bulk of the problematic instruments developed in the 2000's. An entire industry developed from sub-prime mortgages. Of course Wall Street got in on it: there was a huge return on the investment! Then, individual investors "got into the market on a massive scale driving up prices and spurring development and construction. Some of the loans investors were getting were basically the bank and the individual hedging their bet that there would be increased equity, prices and demand. However, the market was flooded with units due to the construction boom that drove the economy. It was literally a house of cards that could not be sustained since units were going unrented or unoccupied. Cash flow stopped for the new investors and they tattered then fell over the edge in default and foreclosure. But I digress.....the underwriting criteria used became so slack because no one wanted to prevent the engine pulling the train to stop! The minor influence the CRA had pales in comparison that investors saw as a gold rush. There are plenty of white suburbanite homeowners that should not have received the mortgages they did. Or the interest only 5-year adjustable rate (tied to LIBOR) they used to purchase a house that was \$65,000 to \$100,000 more than what they could really have afforded under a regular 30-year amortized loan. So, if you want to blame it on the poor people, minorities or urbanites in this country and the laws and organizations that try to improve their lot, it would be because you want to and despise them. There may be a kernel of truth in the facts that support your race and class-warfare motivations but by repeating it over and over again won't convince anyone else who truly looks at all the factors of this mess. So, go fuck yourself.

**Brian**

**October 1, 2008 05:04 PM**

"To meet their CRA goals, many of the big national banks, like Bank of America, Chase, and Wells Fargo (to a lesser extent) provide subsidy pricing (about a .375% in rate) for loans that are originated in low to moderate census tracts, mostly in the inner city"

Good grief. And what exactly is that small "sub prime lender" not covered by the CRA going to do when it watches potential customers going to the big banks? To compete they also lowered their lending standards.

**Russell**

**October 1, 2008 05:05 PM**

If you really want to know who is responsible for this mess, all you have to do is follow the money trail, and I guarantee you that trail does not end at the door of some low income, minority person of color.

**Glen**

**October 1, 2008 05:47 PM**

I am the Head Underwriter for a large community bank (70+ branches) which falls under CRA requirements. We have never been forced to make loans to poorly-qualified borrowers at all. In fact, some of our borrowers who have been declined by us for a CRA loan have been approved by us for conforming Fannie Mae or Freddie Mac "A-paper" loans!

The fact is that no bank has ever been forced to make a subprime loan by the Community Reinvestment Act. In fact, the overwhelming majority of subprime loans were not made by banks. Subprime loans were made for one reason and one reason only: they were very, very, very lucrative for those who made the loans, with revenues 3 to 5 times higher than those made from prime loans.

Those who claim that the Community Reinvestment Act is even a contributory factor to this mess are either poorly-informed or dishonest. I speak from personal knowledge.

**Ryan McClane**

**October 1, 2008 09:05 PM**

Blaming minorities, the Democratic Party, and Community Reinvestment Act for the financial crisis has become pretty popular these days, but there are no data establishing a valid correlation. If anyone has any that do (as opposed to anecdotal BS), please post with links.

First of all, CRA loans and subprime loans ARE NOT THE SAME THING. From an underwriting standpoint (at least at the bank where I worked), the guidelines for verification of employment, debt-to-income, etc for these loans are more stringent than subprime credit. This is why they usually take 90 days to close instead of 30.

According to HMDA demographic data the government gathers from mortgage applications, non-minorities comprise 72.5% of subprime borrowers with African-Americans and Latinos coming in at 16.2% and 6.2% respectively. 52% of subprime borrowers have incomes ABOVE their area's median income level while 48% are at or below the median. These last borrowers were definitely not extended credit under CRA programs.

Also, focusing on "subprime" lending overlooks the impact of Alt-A loans taken out by speculators and flippers. These individuals frequently lied about their incomes on "stated income" applications and misrepresented investment properties as primary residences to obtain lower rates. Any one who has underwritten a substantial volume of loans can confirm that the lion's share of speculators were neither minority nor low-income - or as some so charmingly refer to them, "affirmative action" borrowers.

So despite what FOXNews may be telling you, the majority of subprime and problematic Alt-A borrowers are non-minority and upper middle-class...in other words, rich white people. Thanks for playing!!!

**Eddie**

**October 1, 2008 09:08 PM**

Now that the blame has been laid at the feet of the Minority borrower, do we know how the percentages breakdown for loan defaults?

**solicitor in bulgaria**

**October 1, 2008 10:23 PM**

To squash a rumor: Community Reinvestment Act had nothing to do with subprime crisis. It is curious that after 8 years of Reagan we have the Savings & Loan meltdown and after 8 years of W we have the current situation. Is there a parallel? I honestly don't know. Of course, the GOP and their cohorts blame all ills on liberals while taking no credit through deregulation or anything else. I personally think there is plenty of blame to go around even as I find it interesting that Ron Paul talked about our current situation a year ago. Paul is a staunch believer in total free-marketism. Economically, I am not smart enough to know if he is right or wrong, but there is plenty to consider by both sides. One thing I do know is 1) people are greedy so free-marketism has that flaw for sure and 2) some sort of middle ground simply must be the answer. I do think the bailout is a bad idea which will further pad the pockets of those who don't really need it. Here's an interesting ditty at the end of this story: It's telling that, amid all the recent recriminations, even lenders have not fingered CRA. That's because CRA didn't bring about the reckless lending at the heart of the crisis. Just as sub-prime lending was exploding, CRA was losing force and relevance. And the worst offenders, the independent mortgage companies, were never subject to CRA -- or any federal regulator. Law didn't make them lend. The profit motive did. And that is not political correctness. It is correctness. The key there, I think, Law didn't make them lend. The profit motive did. So, resist the temptation to jump to your favorite conclusion which places blame all on this side or that and place it on the human animal, the greedy lover of power that s/he is. Do this first and we'll go from there. How's that?

**BVA****October 2, 2008 01:54 AM**

Checkout "The Community Reinvestment Act: A Welcome Anomaly in the Foreclosure Crisis Indications that the CRA Deterred Irresponsible Lending in the 15 Most Populous U.S. Metropolitan Areas" a January 7, 2008 statistical study by TRAIGER & HINCKLEY LLP [at [http://www.traigerlaw.com/publications/traiger\\_hinckley\\_llp\\_cra\\_foreclosure\\_study\\_1-7-08.pdf](http://www.traigerlaw.com/publications/traiger_hinckley_llp_cra_foreclosure_study_1-7-08.pdf)]

"Summary Conclusions  
Our study concludes that CRA Banks were substantially less likely than other lenders to make the kinds of risky home purchase loans that helped fuel the foreclosure crisis. Specifically, our analysis shows that:

- (1) CRA Banks were significantly less likely than other lenders to make a high cost [subprime] loan;
- (2) The average APR on high cost [subprime] loans originated by CRA Banks was appreciably lower than the average APR on high cost loans originated by other lenders;
- (3) CRA Banks were more than twice as likely as other lenders to retain originated loans in their portfolio [as opposed to securitizing them]; and
- (4) Foreclosure rates were lower in MSAs with greater concentrations of bank branches [CRA covered lenders]."

Sample facts: 1) In the 15 most populous MSAs CRA covered banks originated only 9.2% of all subprime ("high cost") home loans. 2) Overall, CRA Banks were 58 percent less likely than other lenders [non-CRA covered banks and other mortgage lenders] to originate high cost [subprime] loans to LMI [Low and Moderate Income] borrowers.

The actual report has great graphs and pie-charts in color. All in all a very impressive document. This study would appear to prove that not only was the CRA irrelevant it actually helped reduce the size of the current problem.

Somebody mentioned the Wikipedia CRA web page. If you go there bypass the main tab and click on the 'discussion' tab. That's where I found the reference to "Traiger" study cited above. The Wikipedia main CRA web page has a notice attached to it to the effect that its neutrality and objectivity are officially "in dispute" within the Wikipedia editorship group. So if you go there be sure that you click on the discussion tab to get a more accurate view of the subject. It's still not very clear, but at least nobody pretends that 'relatively objective truth' has been achieved. Right now the main page is about as objective (and coherent) as Fox News.

For information about the real causes of the subprime-mortgage-backed-bonds-credit-default-swaps hollow asset crisis listen to the following interview at npr.org.

Current Wall Street crisis predicted April 3, 2008, causes explained, and culprits named - NPR Fresh Air Interview - 'Our Confusing Economy, Explained' - Listen to an interview with Michael Greenberger (39 minutes) at <http://www.npr.org/templates/player/mediaPlayer.html?action=1&t=1&islist=false&id=89338743&m=89338809>

Radio Interview April 3, 2008 (after Bear Stearns collapse and bailout but obviously before all of the current Wall St turmoil) 'Our Confusing Economy, Explained' at NPR (39 minutes).

Law professor Michael Greenberger joins Fresh Air to explain the sub-prime mortgage crisis, credit defaults, the shaky future of other types of loans and what we can expect from the U.S. financial markets. Greenberger is a professor at the University of Maryland School of Law and the director of the University's Center for Health and Homeland Security.

**greg****October 2, 2008 04:58 AM**

People looking for scapegoats often don't think clearly through a situation. Does anyone really think that black people in inner cities really bought enough real estate at inflated prices to knock the entire US financial system to its knees? WAKE UP, PEOPLE! The CRA had specific goals, which involved investment in poor communities, where poor people banked but were unable to get loans. This crisis is not made of \$100,000 house loans. If you want to find the real source of the current problem, you have to look at large urban areas where real estate became unaffordable for either black OR white people. And in many cases, we're talking about loans that were made in the suburbs to low to middle income WHITE people who, for whatever reason, did not have sufficient income to buy houses that were averaging \$400,000-800,000 in the early 2000's. (I certainly couldn't, but, luckily, I don't live in one of those areas). The typical (and, might I add, traditional) formula for house price to annual income ration was 3/1 and still is in my area, which is why foreclosure is not yet a serious problem here. But in SoCal, Miami, NYC, SF, suburban NJ, and many other locations, a typical house/income ratio in 2003 was more like 8/1. Well, that's just crazy. Any house owner who ever cracked a book would have known that he/she couldn't possibly afford a \$500,000 house on a \$60,000/year salary. So, that means that there had to be some seriously heavy-duty salesmanship going on coming from lending companies, mortgage brokers, banks, etc. Somehow, that insane loan had to be made to look affordable, and all these pie-in-the-sky lending "instruments", such as no-principal loans, ARM's, etc, certainly HAD to hide the bad news on page 125 of the loan documents, otherwise only a few ignorant suckers would have bought in. Why did the banks get involved? Because for a while, the rate of return was significantly higher than other investments. Until it all collapsed. One of the reasons that there is class warfare and anger over all of this, is because people are reading the annual salaries of these Wall Street and Banking CEO's daily in their newspapers, and are realizing that while their own incomes have been stuck on the exact same number for a decade or more, the small number at the top have seen their incomes escalate into the stratosphere at exactly the same time as the tax on their earnings has declined. I am NOT saying that average working people should not have known better - but I AM saying that the market and market conditions were driven in large part by people who stood to gain the most from them - the same people who are sailing off into the sunset on their golden parachutes. It is a big joke to read on here that banking executives resisted loosening credit to enable them to make more subprime loans. It simply didn't happen.

**Jeff****October 2, 2008 08:16 AM**

Glen is just wrong. He does not mention anything about the issue of the hush-hush CRA "score". Get with the program Glen. If a bank wanted to get the green light from certain regulators regarding expansion plans, bank acquisitions, business expansion, etc. they needed a favorable CRA score. If you were that close to the situation you surely are aware of this.

**Steve****October 2, 2008 09:30 AM**

Pretty obvious that the author of the article is drinking the Obama Kool Aid.

I am Conservative but I am doing my very, very best to take this all in and to look at this "crisis" objectively. Not sure it is the ONLY reason for the "crisis" but CLEARLY the lending to unqualified borrowers is a primary factor. CLEARLY the lending to unqualified borrowers was spurred on by political policies dating back to the 90's. Again, not sure this is the only reason for the "crisis" but one thing I am sure of... Nancy Pelosi is an absolute joke. Trying to blame Bush's economic policies???? PLEASE!!!!!!!!!!!!!!!!!!!!

Now I say "crisis" b/c I am still trying to figure out what this all means. My neighbors and I (all hard working professionals) continue to pay our mortgages on time. We all took out loans for our houses that we knew we could afford. So, if banks and/or borrowers weren't that responsible, WHY IN THE WORLD should we the taxpayers be paying for that? Boggles the freaking mind.

But, then again, what do I know. I am just a bitter white guy clinging to my guns and religion and I have always been proud of my country.

**Maggie****October 2, 2008 10:07 AM**

The CRA as presently enforced includes this unamended provision enacted in 1977:

"SEC. 804. (a) IN GENERAL.--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...."

Emphasis on: "consistent with the safe and sound operation of such institution"

Regardless of CRA's encouragement of lending to minorities and women, there was not and is not now any requirement for "regulated lending institutions" to lend to applicants who put the institution's financial health at risk.

Yes, human nature was encouraged by the CRA to capitalize on the desire of minorities and women to realize a major component of the "American Dream;" but the individual decisions of the officers of the lending institutions is at least partly to blame for today's credit crisis.

When the money was easy (in 1977 or 1993)...where were the financial citizen watchdogs to say, "Safe and sound operation of lending institutions cannot happen under the CRA."

As many times as I read the CRA and all of its amendments, I can't find any requirements to make bad loans.

## Defenestrator

**October 2, 2008 11:44 AM**

What gets lost in this discussion is that:

When the CRA was enacted, it was to make sure that banks did not take money out of a community via deposits and loan it outside that community. So if you had a private bank in the Gold Coast of Chicago, they would not be subject to the CRA. Therefore, if a firm does not take deposits, it is not subject to the CRA. A mortgage company was not subject to the CRA.

Fannie and Freddie, believe it or not, had standards regarding the loans they would buy. The loan would have to meet underwriting standards, which included verifying stated income. Liar loans were not for the time I worked in the mortgage industry eligible for sale to F&F. I can't say whether that was the case following my time in the game (ended in 2004). F&F died not from their mortgage guarantee business, but from their investing in the same dumb stuff that brought down the other investment banks, investing in bad CMOs and MBS IN THE QUEST FOR PROFIT.

Further, in 1999 when Fannie added a subprime product, it was for fixed rate loans at 1% higher than the going rate. The loans that are blowing up the market are most often ARMs, I/Os, etc.

Steve the conservative says that the lenders are to blame for making bad loans, but then goes on to blame Democrats. Sorry, but the Democrats didn't make anyone do bad loans. In this day and age of selling mortgages in order to manage interest-rate risk and option risk, it was the demand for high yield paper that caused companies to loosen underwriting standards, and since the mortgage companies were under -0- regulation, they would make the loans, knowing they'd sell them and have no risk. Wall St. would buy them believing in two things: 1) The law of large numbers and 2) Credit doesn't matter, because housing values always go up.

It is disingenuous to try and pawn the failure of subprime market on the Democrats. The loosening of regulations, and the fight to ensure that which is not regulated stay not regulated is what caused that. You can blame anyone you want for that. The big gaping hole is the credit default swaps not being regulated. A credit default swap acts just like insurance, except that when one writes an insurance policy, they have to have something backing that policy up when they write it (capital). That's not the case with a credit default swap.

It's funny to me that Republicans are reaching out into the wilderness to try and find any reason to blame the Democrats. Just admit it, the subprime meltdown is the result of unregulated markets, and you have to accept the destruction of wealth is possible, because the market does swing.

## Todd Flemming

**October 2, 2008 11:57 AM**

Apparently Business week isn't into the truth. Just political propoganda. They should be ashamed by having this article in their magazine or on their website.

## kelsey

**October 2, 2008 01:22 PM**

<http://www.youtube.com/user/TheMouthPeace>

its a bit partisan, but insightful.

## ed

**October 2, 2008 02:53 PM**

It is easy to see the trees, but apparently not so easy to see the forest. The CRA is just one of many factors that can be considered in the subprime debacle. Blaming the CRA for all of this is like blaming vaccines 'cause a few people have adverse reactions to it.

The CRA was hardly all negative. The mere fact that housing did become more affordable to many is significant unto itself. And let me remind people that the underlying property, even when subprime, would not have lost asset value had there not been a seizure in liquidity. The CRA cannot be blamed for that.

During a liquidity crisis such as this, ALL real assets have taken a tumble in market value, much to the detriment of us investors. Ask yourself why these subprime borrowers were no longer able to pay their mortgages? sure, many might have been scammers, but losing your house and equity is not what most people would choose. Scamming is much more lucrative on the lending side of the equation. The bulk of these subprime borrowers were buying into the American dream of homeownership. They do not control employment, interest rates, monetary policy, banking regulations, corporate mergers, immigration, wars in Iraq, terrorism, oil prices, national debt, trade deficits, ad nauseum... trying to find a single root cause for our current distress is inane.

## Glen

**October 2, 2008 03:16 PM**

Yes, Jeff, you are correct, there is a CRA "score". It has nothing to do, however, with doing subprime loans. As a matter of internal policy my bank does not, and has never done, subprime loans, which is why we are among the top three rated banks doing business in California in terms of our financial health. And our CRA score is JUST FINE.

You get with the program, Jeff, and stop talking about something you obviously know nothing about. It is you who are wrong.

By the way, the percentage of defaults in our CRA portfolio = 0.000%. I'll take that all day, baby.

**Bob**

**October 2, 2008 03:44 PM**

There are some very simple rules that, if followed, will almost always avoid failures like these (they contributed to the 1929 crash, too). First, do not make loans to people who cannot afford to pay them back. Second, never borrow money to make an investment, unless you have SIGNIFICANT equity. Conservatism always works!

**Davis**

**October 3, 2008 01:57 AM**

It's unfortunate that so many of you didn't even bother to read the one piece of actual evidence anyone has brought to the conversation, namely the Traiger study linked in this article. The data support the assertion that banks operating under the CRA engaged in behavior that was less risky, not more -- they issued a significantly smaller proportion of defaulting loans than other lenders, and were less likely to sell those loans.

So for those of you arguing for culpability of the CRA, do you have some evidence to present? Right now you're losing on that measure (which is the only one that matters, at least for those of us who are into that whole scientific approach).

**Kim**

**October 3, 2008 08:36 AM**

It is amazing to me that those who want to blame the Community Reinvestment Act for this crisis have virtually no facts to support their opinions (or little that I have seen, anyway). Of the foreclosed loans which caused or are causing the current meltdown, what percentage were connected to the CRA? When were these loans written? Were they securitized by Fannie and Freddie or were they securitized by private firms? I am still trying to figure this out, but it seems unlikely that a mortgage-meltdown which started in late 2005 or early 2006 could be the responsibility of a 1977 act which was expanded in 1995 and contracted in 2005; which applied only to some banks and which did not require risky lending. The facts I have seen indicate that the CRA had little, if any, blame in this mess. I welcome facts that show otherwise. I think it is important to understand what truly happened rather than what we think happened.

**Bill**

**October 3, 2008 10:51 AM**

As Reagan said, "there you go again." Only the totally ignorant could not connect CRA to the financial crisis we are in. Years of having ACORN intimidate banks and their officers and the Clinton administration's Janet Reno threatening if loans were not blindly given to low income caused the crash of FannieMae and FreddieMac. The Democrats like Barney Frank who fought in 2004 and 2005(see CSPAN) to resist Republican led reforms kept it buried until it imploded. It didn't start in 2005 or 2006 it was hidden in tons of debt. Now America hurts and people are losing homes they couldn't have never afforded. Why didn't CRA help them get homes they could afford with loans that didn't inflate--money into the pocket of those like Dodd and Obama and Frank is a good guess!

**Jerry**

**October 3, 2008 11:06 AM**

Simply stated, the Community Reinvestment Act it is a program that requires banks to make loans to people with bad credit. Banks making loans to people with bad credit is what precipitated the current disaster. Anyone who questions what caused his financial crisis need only view the situation in simple terms:

1. Banks HATE making loans to people with bad credit, this has always been the case throughout American history. Anyone who has ever worked for a bank knows this.
  2. Why would a bank make a bad loan to someone with bad credit unless they were compelled by law to do so, and unless there was an institution, Fannie Mae/Freddie Mac that would buy the bad loans from them?
- Freddie Mac and Fannie Mae are government sponsored giants whose investments are 100% insured by taxpayer dollars whether or not they make good or bad financial decisions. They bought the vast majority of these crappy loans from banks, repackaged them, and hid them along with other securities in various mutual funds and other investments.

In summary, the Federal Government mandated that banks make loans to people with questionable credit through a Federal Law called the Community Reinvestment Act. The Federal Government then bought all of the bad loans that these banks made and hid them in other investments and sold them on Wall Street.

To blame Wall Street for this crisis is absurd; investors on Wall Street were tricked into buying securities that they thought were backed by the Federal Government, i.e. Fannie/Freddie, but Fannie/Freddie ran out of money and the securities turned out to be worthless. This crisis is a massive fraud perpetrated not by Wall Street but by the US Federal Government. Wall Street and anyone with investments in the stock market were the victims.

**kim**

**October 3, 2008 11:10 AM**

Yep, there you go again. Facts please, not unfounded arguments.

**Mike**

**October 3, 2008 11:12 AM**

Deregulation? What deregulation? The CRA is but one example of government meddling in the mortgage industry that led to the housing bubble and subsequent crisis. Government meddling distorts markets and the mortgage crisis is yet another example of the negative unintended consequences of well-intended government...meddling. The old saying is "the road to hell is paved with good intentions".

**Kim**

**October 3, 2008 11:30 AM**

"Banks hate making loans to people with bad credit" - Really? Explain the payday loan places. How about the buy here, pay here lots? Lots of lending institutions like to make loans to people with bad credit because they can charge high fees.

"Why would a bank make a bad loan to someone with bad credit unless they were compelled by law to do so" - See the first answer. Also, when they could pass on the risk through quasi-public and private mortgage-backed securities they can make a lot of money and not incur much risk. Almost a no-brainer. (Fannie and Freddie were not the only players in the MBS market and they had higher standards than some of the others.) The CRA did not MANDATE anything - it encouraged lending in areas in which a bank received a deposit - that was not necessarily mortgage lending - and it specifically discouraged unduly risky lending.

A few questions for you: If these mortgage companies did not want to make these loans why did they advertise them so heavily? If the commissions are higher on riskier loans, wouldn't that give a mortgage broker an incentive to sell the riskier mortgage, especially since he was passing on the risk? Does your analysis change if it turns out that fully private investment banks were packaging most of these mortgages into mortgage-backed

securities? Does your analysis change if it turns out that most of the toxic loans were in no way connected with the CRA? Are you at all interested in the facts?

**Kim**

**October 3, 2008 11:57 AM**

How about this deregulation for starters:

<http://www.nytimes.com/2008/09/27/business/27sec.html>

**Let's Keep This Simple**

**October 3, 2008 12:01 PM**

There seems to be a lot of debate on whether the CRA was the cause of the current financial crisis; I would like to offer the current proposition: Banks giving loans to people with bad credit (subprime loans), was the cause of the current crisis; I don't think anyone who has participated in this discussion would disagree with that. The CRA mandates that banks to give loans to people with questionable credit; I don't think anyone would disagree with that either.

If subprime loans are the cause of the crisis, whether it was the sole cause of the crisis or not, why would we continue the CRA program when we know that it compels banks to do exactly what we all know caused this crisis? It would be absolute insanity to allow this program to continue.

**Levi**

**October 3, 2008 12:12 PM**

This is a joke article, the facts you have are so biased it's ridiculous. The inflation of homes started in 1995!!! Look at any chart that trends both inflation of currency and home prices and you will see very clearly that CLINTON started that, he dramatically revised the CRA in 1995 and with the extreme over inflation of equity in homes because everyone and there mom could get a house. So don't say something as ignorant as "a 30 year old Act" when it was completely revised in 1995 by Bill Clinton. This stuff doesn't happen overnight, as gas prices put pressure on middle class and lower income families with subprime mortgages (and if you were a bank you could be SUEDE, Obama was on a case like this.. for discrimination)and by the time the pressure got bad, banks started losing money, it's taken until NOW for it to catch up to us. Any chart on the Dow, inflation of home prices will show you in started in 1995 after Bill Clinton dramatically revised this act.

**Davis**

**October 3, 2008 12:18 PM**

"Simply stated, the Community Reinvestment Act it is a program that requires banks to make loans to people with bad credit."

Simply stated, you're wrong. (As are a sizable fraction of the commenters here.)

The CRA does not require subprime loans. It requires that a bank make loans in the same geographic areas where it takes deposits (i.e., it prevents "redlining"). And financial institutions that don't take deposits (which includes many of the lenders involved in this crisis) are not even covered by the CRA.

**Dan**

**October 3, 2008 12:22 PM**

The problem with trying to get to the bottom of this is that we are in a hotly contested presidential election cycle that is culminating very soon. Power is at stake, hence the rabid blame-game of both sides.

It must be understood that the complicit will work to protect themselves in all of this and arriving at a nonpartisan finding is going to be about as complex as the problem itself.

It's obvious to me that this problem originated with low/no qualification standards for mortgage loans (sub-prime and Alt-A) that was being supported and fed by a hyper-inflation of real estate value and too easy securitization. It was vicious cycle that Fannie and Freddie catalyzed and fed oxygen to. And why was this. Strong DC lobbying...by groups pushing CRA and home ownership for low/no income constituents.

The investigations will be quite different depending on who wins in Nov.

**grew**

**October 3, 2008 12:30 PM**

Fannie Mae Eases Credit To Aid Mortgage Lending - NY Times, 1999: "In a move that could help increase home ownership rates among minorities and low-income consumers, the Fannie Mae Corporation is easing the credit requirements on loans that it will purchase from banks and other lenders."

**Steve**

**October 3, 2008 12:31 PM**

Whether a firm was subject to CRA had nothing to do with it. Clinton's changes to CRA were the seed to grow the weed. Pressure from outside groups such as ACORN (just as one example) who didn't take into consideration whether a bank was actually required under CRA to provide loans forced the banks (through misguided affirmative action) to make these loans to minimize detrimental outcomes. Other firms not subject to the same requirements saw an income opportunity as did corrupt real estate brokers, real estate agents, etc. Greed was a natural outcome of the changes Clinton made. It was also only natural for Fannie Mae and Freddie Mac as GSE's to cover up the failed Democratic government decision.

Of course, it was touted as a Democratic success (and still is) but lending to those who never could afford it in the first place (including those at the top all the way down to the greedy house flippers that took on mortgages that they really couldn't afford under the assumption that there was an investment prospect and those who should outright never been granted a mortgage because of their income) is the type of unsound thinking that has created this National failure.

The NY Times reported on this 9 years ago and it was clear then that this was going to become a problem yet it was just accepted because so many had so much to gain:

<http://query.nytimes.com/gst/fullpage.html?res=9C0DE7DB153EF933A0575AC0A96F958260&sec=&spn=&pagewanted=print>

**Tom**

**October 3, 2008 12:47 PM**

Kim, you ask some good questions. The answer is... no one knows. The reason why the whole banking system is crumbling is that FM/FM bought these loans (giving the banks and mortgage companies the means to make more questionable loans) and bundled these mortgages into bonds. No one knows what loans are in what bonds, so there is no way to value them. Because it is likely that many of these bonds will turn out to be poor investments, and insurance on the bonds value is backed by insurance companies that are tapped out, the bonds now are deemed by the market to have NO value. Freddie and Fannie, by buying crappy loans and backing them with the stamp of approval of the government was turning garbage into gold. The bond rating agencies, by ignoring the scale of what was being done added their AAA ratings to suspect loans which were sold to pretty much every financial institution (the bonds were backed FM/FM so the government will make good). The companies buying them, how could they resist? These were profitable government-backed AAA bonds! Where is the risk? Freddie and Fannie paved the way. Other financial institutions mimicked what FM/FM were doing by bundling mortgages into securities and insuring them to satisfy the rating agencies that they were worth more than the shaky loans that were behind them. There is plenty of blame to go around, and CRA is part of the picture. For me, the bond rating agencies were a BIG part of the picture and should be investigated. They made tons by evaluating and rating this "toxic paper".

## panola

**October 3, 2008 02:26 PM**

Whoever is responsible for these affordable mortgage schemes is responsible for the crisis.

"100 percent financing . . ."  
 "No down payment . . ."  
 "Interest only loans . . ."  
 "No income . . ."  
 "No job . . ."  
 "No assets . . ."  
 "No credit scores . . ."  
 "Low credit scores . . ."  
 "No SSN required . . ."  
 "ITIN identification accepted . . ."  
 "Undocumented income . . . even if you don't report it on your tax returns . . ."

## Steve White

**October 3, 2008 06:02 PM**

The claim this is Clinton's fault does not seem logical. First of course, it's been 8 years since he left office, but the manic run up in house prices was from 2004 to 2006. In other words, after one entire term by Bush, with Republican majorities in Congress, the trouble starts? At the least, Bush did not correct the problem. Also, there is no doubt the prices were inflated. Not lending on inflated property is not an affirmative action issue, it's a responsible credit issue. In other words, turning down the chance to loan on an inflated purchase price was the way to avoid it. I don't think there is much doubt this was due to a moral hazard. Another thing, we know a small percentage of buyers or sellers can drive a market, but without the lenders, the most foolish can not dominate it.

## greg

**October 4, 2008 12:11 AM**

I think many people here should read the 3 1/2 year-old article here by Paul Krugman. I just saw AGAIN on the news today a Wall Street insider trying to pin the blame on CRA. Well, wouldn't YOU, if you had 80,000,000 investors ready to skin you alive, because they've just watched their portfolios tank because of YOUR bad advice? People keep making ASSUMPTIONS about how CRA worked instead of examining the data. I have to reiterate what I said above. A few bad loans of \$100,000 in dicey neighborhoods are NOT what has brought America's financial system to its knees. Honestly, I'm beginning to question the common sense of people posting to this blog.  
[http://www.nytimes.com/2005/08/08/opinion/08krugman.html?\\_r=1&oref=slogin](http://www.nytimes.com/2005/08/08/opinion/08krugman.html?_r=1&oref=slogin)

The fact of the matter is, it was MIDDLE CLASS buyers in expensive markets who got in over their heads, because they saw no other way to try to get ahead in this era of completely stagnant wages (except for the very wealthy few who have seen stratospheric increases) and started treating real estate as an investment - perhaps their only investment. And the CRA was not designed for the MIDDLE CLASS, thus it has little or nothing to do with the current crisis.

## greg

**October 4, 2008 01:11 AM**

A review of a another great book by Robert Shiller:

<http://www.statesman.com/life/content/life/stories/books/08/31/0831shiller.html?cxtype=rss&cxsvc=7&cxcat=48>

Some great quotes, pertinent to the ongoing discussion above:

"Modern investors, Shiller contends, are constantly on the prowl for their next hot ticket. When the late '90s stock boom went bust, investors turned toward housing, expecting oversized returns just as they had with stocks.

Of course, there were plenty of enablers ready to help homebuyers wade into the riptide. After "effectively ending state usury laws" in 1980, Shiller writes, lenders were free to develop a robust market in subprime loans by charging a high enough interest rate to offset the relatively high rate of defaults. Targeted regulation of this market could have mitigated the crisis that developed, but it never came.

Perhaps, as Shiller notes, that's because those in the lending business never contemplated — indeed, appeared incapable of considering — the type of decline in home prices now underway."

## Matthew

**October 4, 2008 02:47 PM**

The CRA did not force Moodys, S&P etc to rate junk paper as TripleAAA!!!  
 The CRA did not force banks to make "Zero Down" or "Interest Only" loans!!!  
 The CRA did not force banks to NOT VERIFY income or credit history!!!!  
 The CRA did not force investment banks to repackge these loans and sell them as SAFE investments!!!  
 The CRA did not force the SEC to allow brokerages to plunge tens of millions of borrowed money into subprime mortgages!!!  
 The CRA did not force Phil Gramm to push a 2000 bill that unregulated the credit default swap market.

80% of all subprime loans were not subject to CRA. Countrywide is a perfect example.

## multifarious

**October 4, 2008 05:59 PM**

The noise coming from extremists on the right that The Community Reinvestment Act is somehow the cause of the mortgage crisis is nefarious, outrageous and disgusting. And, by the way, couldn't be further from the truth.

The primary cause of the mortgage meltdown is not regulation - it was caused by the ideology of deregulation, a complete lack of oversight, the criminal ponzi scheme known as mortgage backed securities and the collusion between investment bankers and the rating agencies.

This noise is simply the bile that is spewed to divert our attention and to focus blame not where it belongs but on the weakest amongst us-minorities and those least able to defend themselves.

These are treacherous times. It is each of our responsibility to know the facts.

## Virginia Arnold

**October 5, 2008 02:07 AM**

This is something which I have wondered for the last few years. What role did the tax code revision from "once in a lifetime" to "2 years primary residence out of the last 5 years" tax free gain of \$250,00 per person play in people being motivated to "play" in the housing market as a means of creating their wealth and then realtors, lenders figuring out a way/trying to get their slice of that pie?

It would also be interesting to have more data re the actual data spread and correlations on locations, \$ amounts, age and income levels of borrowers, number of loans per person/family, occupations of borrowers, age and sq. feet of home involved in the different problem segments etc.

Why is that investment firm representative are required to very clearly state that the value of your investment may go down but realtors are totally exempt from any standards in this regard?

## Jim

**October 5, 2008 01:33 PM**

Augustus wrote this: "Lenders did their best to not make bad loans." And the sentiment seems to underlie most of the right wing commentary.

I was a mortgage loan officer for a bank in the mid '80s, and I can tell you, with an authority that is lacking in these posts, than anyone who states or believes the above quote is either lying or or completely ignorant of the mortgage business.

## Alan

**October 5, 2008 06:48 PM**

This article is a major cover up. First if a bank wants to do business in a area they must have a plan for meeting the credit of that area. When government puts into play a regulation like CRA they are hiding the fact that they are forcing banks to invest in something that is very high risk. This act was not really acted on until the 1990, why do you think we had such a huge boom in housing and the economy was so good in the 90's. The balloon was being filled to the point of popping. Government put pressure on the banks during the 1990's and banks had to come up with something. With help from Fannie Mae and Freddie Mac they did. Now we are in trouble and have you ever noticed that just like with children when they are in trouble the guilty party is always the loudest at blaming others. Look out the worst is yet to come.

## Fred

**October 5, 2008 06:57 PM**

The amendments made to the CRA in 1995 had a great deal to do with the current credit debacle. Check out <http://www.cato.org/testimony/ct-ni3-8.html> written in 1995 and predicting exactly what has occurred.

## The Truth

**October 5, 2008 09:33 PM**

1998 Fannie Mae Eases Credit To Aid Mortgage Lending  
<http://query.nytimes.com/gst/fullpage.html?res=9C0DE7DB153EF933A0575AC0A96F958260&scp=1&sq=fannie+mae+clinton&st=nyt>

Special Report on The Banking Crisis  
<http://www.youtube.com/watch?v=VgctSIL8Lhs>

2004: Dems Fight Regulations on Fannie, Freddie During Illegal Bookkeeping Hearing  
<http://www.breitbart.tv/?p=184743>

2005 John McCain co-sponsored S. 190 [109th]: Federal Housing Enterprise Regulatory Reform Act of 2005. Unfortunately, it did not make it out of the Senate Banking, Housing, and Urban Affairs committee.  
<http://www.opencongress.org/bill/109-s190/show>

Bush Called For Reform of Fannie Mae & Freddie Mac 17 Times in 2008 Alone... Dems Ignored Warnings  
<http://gatewaypundit.blogspot.com/2008/09/bush-called-for-reform-of-fannie-mae.html>

Text. . .

Sunday, September 21, 2008

Bush Called For Reform of Fannie Mae & Freddie Mac 17 Times in 2008 Alone... Dems Ignored Warnings  
For many years the President and his Administration have not only warned of the systemic consequences of financial turmoil at a housing government-sponsored enterprise (GSE) but also put forward thoughtful plans to reduce the risk that either Fannie Mae or Freddie Mac would encounter such difficulties. President Bush publicly called for GSE reform 17 times in 2008 alone before Congress acted.

Unfortunately, these warnings went unheeded, as the President's repeated attempts to reform the supervision of these entities were thwarted by the legislative maneuvering of those who emphatically denied there were problems.

The White House released this list of attempts by President Bush to reform Freddie Mae and Freddie Mac since he took office in 2001. Unfortunately, Congress did not act on the president's warnings:

\*\* 2001

April: The Administration's FY02 budget declares that the size of Fannie Mae and Freddie Mac is "a potential problem," because "financial trouble of a large GSE could cause strong repercussions in financial markets, affecting Federally insured entities and economic activity."

\*\* 2002

May: The President calls for the disclosure and corporate governance principles contained in his 10-point plan for corporate responsibility to apply to Fannie Mae and Freddie Mac. (OMB Prompt Letter to OFHEO, 5/29/02)

\*\* 2003

January: Freddie Mac announces it has to restate financial results for the previous three years.

February: The Office of Federal Housing Enterprise Oversight (OFHEO) releases a report explaining that "although investors perceive an implicit

Federal guarantee of [GSE] obligations," "the government has provided no explicit legal backing for them." As a consequence, unexpected problems at a GSE could immediately spread into financial sectors beyond the housing market. ("Systemic Risk: Fannie Mae, Freddie Mac and the Role of OFHEO," OFHEO Report, 2/4/03)

September: Fannie Mae discloses SEC investigation and acknowledges OFHEO's review found earnings manipulations.

September: Treasury Secretary John Snow testifies before the House Financial Services Committee to recommend that Congress enact "legislation to create a new Federal agency to regulate and supervise the financial activities of our housing-related government sponsored enterprises" and set prudent and appropriate minimum capital adequacy requirements.

October: Fannie Mae discloses \$1.2 billion accounting error.

November: Council of the Economic Advisers (CEA) Chairman Greg Mankiw explains that any "legislation to reform GSE regulation should empower the new regulator with sufficient strength and credibility to reduce systemic risk." To reduce the potential for systemic instability, the regulator would have "broad authority to set both risk-based and minimum capital standards" and "receivership powers necessary to wind down the affairs of a troubled GSE." (N. Gregory Mankiw, Remarks At The Conference Of State Bank Supervisors State Banking Summit And Leadership, 11/6/03)

\*\* 2004

February: The President's FY05 Budget again highlights the risk posed by the explosive growth of the GSEs and their low levels of required capital, and called for creation of a new, world-class regulator: "The Administration has determined that the safety and soundness regulators of the housing GSEs lack sufficient power and stature to meet their responsibilities, and therefore...should be replaced with a new strengthened regulator." (2005 Budget Analytic Perspectives, pg. 83)

February: CEA Chairman Mankiw cautions Congress to "not take [the financial market's] strength for granted." Again, the call from the Administration was to reduce this risk by "ensuring that the housing GSEs are overseen by an effective regulator." (N. Gregory Mankiw, Op-Ed, "Keeping Fannie And Freddie's House In Order," Financial Times, 2/24/04)

June: Deputy Secretary of Treasury Samuel Bodman spotlights the risk posed by the GSEs and called for reform, saying "We do not have a world-class system of supervision of the housing government sponsored enterprises (GSEs), even though the importance of the housing financial system that the GSEs serve demands the best in supervision to ensure the long-term vitality of that system. Therefore, the Administration has called for a new, first class, regulatory supervisor for the three housing GSEs: Fannie Mae, Freddie Mac, and the Federal Home Loan Banking System." (Samuel Bodman, House Financial Services Subcommittee on Oversight and Investigations Testimony, 6/16/04)

\*\* 2005

April: Treasury Secretary John Snow repeats his call for GSE reform, saying "Events that have transpired since I testified before this Committee in 2003 reinforce concerns over the systemic risks posed by the GSEs and further highlight the need for real GSE reform to ensure that our housing finance system remains a strong and vibrant source of funding for expanding homeownership opportunities in America... Half-measures will only exacerbate the risks to our financial system." (Secretary John W. Snow, "Testimony Before The U.S. House Financial Services Committee," 4/13/05)

\*\* 2007

July: Two Bear Stearns hedge funds invested in mortgage securities collapse.

August: President Bush emphatically calls on Congress to pass a reform package for Fannie Mae and Freddie Mac, saying "first things first when it comes to those two institutions. Congress needs to get them reformed, get them streamlined, get them focused, and then I will consider other options." (President George W. Bush, Press Conference, The White House, 8/9/07)

September: RealtyTrac announces foreclosure filings up 243,000 in August - up 115 percent from the year before.

September: Single-family existing home sales decreases 7.5 percent from the previous month - the lowest level in nine years. Median sale price of existing homes fell six percent from the year before.

December: President Bush again warns Congress of the need to pass legislation reforming GSEs, saying "These institutions provide liquidity in the mortgage market that benefits millions of homeowners, and it is vital they operate safely and operate soundly. So I've called on Congress to pass legislation that strengthens independent regulation of the GSEs - and ensures they focus on their important housing mission. The GSE reform bill passed by the House earlier this year is a good start. But the Senate has not acted. And the United States Senate needs to pass this legislation soon." (President George W. Bush, Discusses Housing, The White House, 12/6/07)

\*\* 2008

January: Bank of America announces it will buy Countrywide.

January: Citigroup announces mortgage portfolio lost \$18.1 billion in value.

February: Assistant Secretary David Nason reiterates the urgency of reforms, says "A new regulatory structure for the housing GSEs is essential if these entities are to continue to perform their public mission successfully." (David Nason, Testimony On Reforming GSE Regulation, Senate Committee On Banking, Housing And Urban Affairs, 2/7/08)

March: Bear Stearns announces it will sell itself to JPMorgan Chase.

March: President Bush calls on Congress to take action and "move forward with reforms on Fannie Mae and Freddie Mac. They need to continue to modernize the FHA, as well as allow State housing agencies to issue tax-free bonds to homeowners to refinance their mortgages." (President George W. Bush, Remarks To The Economic Club Of New York, New York, NY, 3/14/08)

April: President Bush urges Congress to pass the much needed legislation and "modernize Fannie Mae and Freddie Mac. [There are] constructive things Congress can do that will encourage the housing market to correct quickly by ... helping people stay in their homes." (President George W. Bush, Meeting With Cabinet, the White House, 4/14/08)

May: President Bush issues several pleas to Congress to pass legislation reforming Fannie Mae and Freddie Mac before the situation deteriorates further.

"Americans are concerned about making their mortgage payments and keeping their homes. Yet Congress has failed to pass legislation I have repeatedly requested to modernize the Federal Housing Administration that will help more families stay in their homes, reform Fannie Mae and Freddie Mac to ensure they focus on their housing mission, and allow State housing agencies to issue tax-free bonds to refinance sub-prime loans." (President George W. Bush, Radio Address, 5/3/08)

"[T]he government ought to be helping creditworthy people stay in their homes. And one way we can do that - and Congress is making progress on this - is the reform of Fannie Mae and Freddie Mac. That reform will come with a strong, independent regulator." (President George W. Bush, Meeting With The Secretary Of The Treasury, the White House, 5/19/08)

"Congress needs to pass legislation to modernize the Federal Housing Administration, reform Fannie Mae and Freddie Mac to ensure they focus on their housing mission, and allow State housing agencies to issue tax-free bonds to refinance subprime loans." (President George W. Bush, Radio Address, 5/31/08)

June: As foreclosure rates continued to rise in the first quarter, the President once again asks Congress to take the necessary measures to address this challenge, saying "we need to pass legislation to reform Fannie Mae and Freddie Mac." (President George W. Bush, Remarks At Swearing In Ceremony For Secretary Of Housing And Urban Development, Washington, D.C., 6/6/08)

July: Congress heeds the President's call for action and passes reform of Fannie Mae and Freddie Mac as it becomes clear that the institutions are failing.

In 2005-- Senator John McCain partnered with three other Senate Republicans to reform the government's involvement in lending. Democrats blocked this reform, too.  
<http://hotair.com/archives/2008/09/17/mccains-attempt-to-fix-fannie-mae-freddie-mac-in-2005/>

More... Not only did democrats not act on these warnings but Barack Obama put one of the major Sub-Prime Slime players on his campaign as finance chairperson.  
<http://astuteblogger.blogspot.com/2008/09/sub-prime-slime-obama-and-pritzker-and.html>

### **salmon**

**October 5, 2008 10:28 PM**

John Locke ought to stop drinking the Kool-Aid and realize that his boy George Bush kept interest rates artificially low for too long. This was the easiest way to rejuvenate the economy post 9/11, according to the idiots in power. No one was sounding alarms as Bush was getting credit for everyone taking out loans against home equity to buy boats, second cars, etc. This is the cause of the problem and neither McCain or Bush or any other politician dared to step in the way of a happy, bloated America.

### **Tristan Berry**

**October 6, 2008 01:14 AM**

"Most subprime loans were made by firms that aren't subject to the CRA."

Okay. I get that. But you're using the number of firms making subprime loans as the basis of comparison. That's misleading. If the minority of firms making the subprime loans that ARE subject to the CRA includes Fannie Mae and Freddie Mac, wouldn't just these two HUGE, GOVERNMENT-BACKED firms drive the market and incentivize other lending institutions to also make subprime loans?

Look, I have a high-school education. I've not spent a single day in a university classroom and even I can see this!

Oh, and another thing, Mr. Pressman. Where did you get your journalism credentials? You're supposed at least ATTEMPT to hide your bias when you submit an article. This article is positively dripping in anti-Bush vitriol. No wonder you couldn't find reliable data. You obviously weren't looking for it.

### **Brian**

**October 6, 2008 07:12 AM**

The statistics the defenders of the CRA present on this are horribly skewed. For example, Countrywide Home Loans was what these statistics would refer to as a "non-CRA lender". However, if we look at their old cached website, here's what they say about their "CRA Program":

"Countrywide Home Loans, Inc. (Countrywide) is proud of its long-term commitment to affordable and fair housing...for minority and low-to moderate-income families in under-served communities..."

"..As of July 31, 2004, the company had funded nearly \$301 billion toward this goal..."

And here's the best part:

"The result of these efforts is an enormous pipeline of mortgages to low- and moderate-income buyers. With this pipeline, Countrywide Securities Corporation (CSC) can potentially help you meet your Community Reinvestment Act (CRA) goals by offering both whole loan and mortgage-backed securities that are eligible for CRA credit."

So, these "non-CRA lenders" were packing their predatory loans as securities and selling them to CRA banks for CRA credit.

The idea that the CRA is not tied to these predatory sub-prime products because statistics show that the issuing banks aren't CRA lenders is horribly misleading.

You might as well claim that tobacco companies don't contribute to lung cancer because gas stations and grocery stores sell the most cigarettes.

I wish the "know-nothing" people who keep spouting non-CRA lending statistics would take a deeper look at the subjects they try to educate everyone about.

### **Kim**

**October 6, 2008 09:35 AM**

If you don't like the statistics the defenders of the CRA are presenting, do you have alternative statistics that show that CRA loans failed at an unusually high rate leading to the mortgage meltdown? Or, is that just a guess? I understand that there is not much hard and fast evidence to answer this question, but that is why I would not be so quick to point to the CRA as a primary cause of this in the face of many possible causes. My guess is that the ability to separate risk (of default) from reward (of high commissions) through securitization of debt (with or without Fannie's and Freddie's assistance) had a lot to do with this. Perhaps somebody can provide us with facts to determine who is right.

### **Matt**

**October 6, 2008 06:59 PM**

Darn those poor people for bringing worldwide capitalism to its knees!

### **Gary**

**October 6, 2008 10:19 PM**

"It's telling that, amid all the recent recriminations, even lenders have not fingered CRA. That's because CRA didn't bring about the reckless lending at the heart of the crisis. Just as sub-prime lending was exploding, CRA was losing force and relevance. And the worst offenders, the independent mortgage companies, were never subject to CRA — or any federal regulator. Law didn't make them lend. The profit motive did. And that is not political correctness. It is correctness."

The worst offenders were the mortgage companies? That's a laugh, all they did was find lenders to loan the money and took a commission. It was still the lenders, banks, underwriters, that approved the applications (with their no-doc loans) and that were subject to the CRA OVER regulation (mandates to promote home ownership in poor economic areas) that led to the collapse. ALmost all the sources in this article were Clintonite appointees that had an agenda. For a balanced opinion on the CRA's impact go to [http://en.wikipedia.org/wiki/Community\\_Reinvestment\\_Act#Original\\_Act](http://en.wikipedia.org/wiki/Community_Reinvestment_Act#Original_Act)

### **greg**

**October 7, 2008 03:27 AM**

There's an old saying: "Just 'cuz someone say it so, don't make it so". John McCain and his supporters are touting the idea that he advocated Fannie Mae reform in 2005. But they don't focus on the details of that reform. For good reason:

"McCain and the Republicans love to point to s.190, a bill co-sponsored by McCain, that would have "regulated" the GSEs (Fannie & Freddie). The Bloomberg article references Peter Wallison of the AEI who supported s.190 (and recently wrote a WSJ OpEd touting the usual Republican talking points). What the right doesn't point out, is that the "regulation" called for the GSEs to abandon purchasing individual mortgages and instead to be forced to only buy securitized mortgages. The argument was that this would eliminate interest rate risk in favor of the "can't miss" credit risk of massive mortgage holdings. Of course, the sub-prime meltdown has been the result of credit risk - the type of risk that s.190, Republicans and the AEI sought to double down on. What they view as a dem-blocked effort to regulate Fannie/Freddie, would actually have accelerated the downfalls of the GSEs."

**Kim**

**October 7, 2008 08:28 AM**

I suggest looking at this:

<http://www.imf.org/external/pubs/ft/fandd/2007/12/dodd.htm>

and this:

<http://www.imf.org/external/pubs/ft/fandd/2008/06/dodd.htm>

Lots of blame to go around. Government is only partly to blame, not for the relaxed lending standards of Fannie and Freddie or the CRA, but rather for its financial support of the mortgage market.

**Brian**

**October 8, 2008 09:26 AM**

Kim, my point is that the differentiation between CRA and non-CRA loans is meaningless.

Even if "non-CRA loans" failed at higher rate than "CRA loans", how do you define a "CRA loan"? If it's a loan issued by a CRA bank, than all of Countrywide's +\$301 billion in subprime mortgages count as "non-CRA" loans, even though they were being packaged as securities and sold to banks for CRA credit.

So, we could conceivably have a situation of 0% of "CRA loans" foreclosed, yet banks holding onto securities of packaged sub-prime mortgages for CRA credit (securities that are worthless, some based on foreclosures). Because the security holding bank is under the CRA, but the mortgage company that issued the loan, packaged it, and sold it, wasn't.

What I would like to find (and I can't so far) is a statistic showing how many of these worthless securities that the banks want bailed out were:

- 1) earning those banks CRA credit
- 2) guaranteed by Fannie Mae and Freddie Mac

and I do not care at all whether or not the issuing mortgage company was a CRA bank. Because that has nothing to do with the financial crisis or the bailout. This isn't a problem with mortgage companies (at least, we're not bailing out mortgage companies).

As far as I can tell, most general articles seem to hint that practically ALL securities based on mortgages to low- and middle-income consumers could be packaged as CRA credit worthy and sold to banks for CRA credit.

Therefore, the statistic we would REALLY need would be to know, of these banks we're bailing out, holding onto worthless securities falsely guaranteed by Fannie and Freddie, how much was the decision to purchase them and hold onto them influenced by the CRA credit involved?

Since we probably won't take the banker's word for it, we will be able to continually debate forever what the role the CRA had in this. Defenders of free markets will always be able to say the CRA, and the defenders of big government will always be able to blame it on profit and use misleading statistics to make it sound like the CRA never had anything to do with a sub-prime mortgage ever.

And we can probably be expected to make this same (or similar) mistake in the future, since no one can learn anything. Government isn't about to stop being big, and banks aren't about to become "community organizers."

**Kim**

**October 8, 2008 11:40 AM**

There is a complicating factor - Fannie and Freddie's involvement in this market had two layers. The first layer (and the original reason for their existence) was to buy up conforming loans, some of which were held by Fannie and Freddie, but most of which were packaged into mortgage-backed securities (MBS's) and sold to investment companies. As I understand it, these were not the loans which caused the most problems.

According to my understanding, the loans which caused the most problems were those loans which did not qualify for Fannie or Freddie guarantees (often sub-prime, Alt-A, etc.) and were sold to the private mortgage-securitizers, who packaged them into MBS's or CDO's, had them AAA-rated (by Moody's and others), had them "insured" (by credit default swaps issued by A.I.G. among others) and then sold to interested investors (Lehman Brothers, Bear Stearns, Fannie, Freddie and others). This largely occurred outside of any significant regulation. The mortgage meltdown started when these loans started failing and the credit-ratings were adjusted downwards affecting the value of the assets of these companies.

The first pool subsequently melted down as a secondary result of the meltdown of the riskier mortgages. Absent the problems in the second pool, the first pool would likely not have melted down.

My question is whether the loans influenced by CRA credit were primarily in the first pool or in the second pool. If they were primarily in the first pool, they were not a significant cause of the meltdown.

**Martha**

**October 9, 2008 09:18 PM**

I am a loan officer for 30 years. Here from the trenches:

Fannie and Freddie lending to low-income borrowers was not the problem, we have the stats to prove it. The problem came when Wall Street became involved with the global gazillions of suddenly available. The push for the amount of subprime-business drove home prices up artificially. THIS IS PROBLEM. Borrowers in the '80's walked away too, these were borrowers that put down 20% and had sterling credit. THIS COULD HAVE BEEN AVERTED IF WE HAD LIMITED THE AMOUNT OF BUSINESS. IN FACT, NO ONE WOULD BE COMPLAINING ABOUT THE SUBPRIME LOAN TODAY.

To Lauren: Realtors control the R.E. market. Any loan officer who spoke up and question a borrowers ability to pay was viewed as endangering the deal and was consequently, black-balled. Please do act like the victim. We are all at fault.

BTW, I voluntarily walked away from this business at the beginning of 2005. I found it demoralizing.

## **Matt**

**October 10, 2008 06:19 AM**

CRA loans most likely played a part in this subprime even it may have been indirectly. Rules like CRA open up mechanisms that allows banks to bypass the normal methods of credit checking. This is the main contribution of CRA. It created a mechanism for subprime loans to pass through the system and to grow way beyond the intention. Its not easy to meddle...

## **Joe**

**October 10, 2008 05:53 PM**

May I remind all: Bush pushed the "Ownership Society" to try to equal growth the internet boom that Clinton had. Don't go running away from this fact as it did happen when the Republicans were charge, as did 9/11, intelligence breakdown, being unresponsive to the looming threat of a major hurricane. The housing bubble and the oil bubble preceeded the stock market bubble. Name one Democrat who ran a campaign on deregulation. Come on!

## **Steve**

**October 10, 2008 06:06 PM**

Let me see if I understood this article correctly. It is blaming the Bush admistration for the current financial crisis because it took a "blind eye" to the CRA. Now, as I understand the CRA it basically says that certain lending institutions must, with in the letter of the law, make exceptions and loans to those who might not, by established standards(which basically built our financial institutions and the rock by which we have come to depend upon), be able and should not be able to receive such financial assistance. Okay, the blind eye then would have to be that they ignored or rather resisted monitoring enforcement that the CRA says you must make x ammount of these transactions. ( Would have to be, because the CRA is about making these loans and does not regulate the maximum number of loans.) What I am trying to say is that this article is refuted by its own premise. The article says to me that Mr Bush tried to reduce the amount of unsound banking practices by implying, by his actions, that the feds are not going to visit twice a year and hammer them for their precise percentage of CRA loans. This would not be illegal, just not overly controlled. This should have made a responsible instution feel less pressure to do more than their of unwise loans, not ,as the author implies, cause these unsound business practices to increase.

## **greg**

**October 11, 2008 03:42 AM**

Steve, I'm afraid your reading comprehension is not that terrific, since you completely misrepresented the gist of the article. Try reading it again, a little more slowly, and see if you come to the same conclusion you did the first time. Here's a simple little everyday life example to make it easier for you: if you think someone has been burglarizing your house, do you A. make sure that there's no dog or burglar alarm, so that when finally every item of value is gone from your house, you can say, "gee, look, I was right, someone was burglarizing my house"? (That would be deregulation and lack of enforcement) or, do you B. get a dog AND a burglar alarm so that the very next time the burglar comes he gets a bite on the leg, and is arrested by the police when the alarm goes off.? (That would be regulation and enforcement).

In both instances, you, as the house owner were suspicious and complained about the problem. It's just that in the first instance, you didn't do anything constructive to change the circumstances. Therefore, when things get dire, you do NOT get permission to say, "well, gee, I complained and no one else did anything about it". Or rather, you can say it, but no one cares. Neither do they care if the burglar was active in the neighborhood before you bought your house. YOU had an opportunity to change the way things were going down, and you missed it.

## **the witch is in**

**October 11, 2008 08:13 PM**

Amazing. Just amazing how many nucking idiots will continue to spout lies and vitriol even when confronted with the truth. Guess what my grampa told me is true--never argue with a moron.

## **Laelth**

**October 11, 2008 11:22 PM**

Who controlled Congress in 1995? Hadn't Newt Gingrich and his buddies just come to power? The House passed this bill, and yet, somehow, it's Clinton's fault?

As usual, Republicans refuse to take any responsibility for their own failures. Party of personal responsibility indeed!

## **Truth addict**

**October 12, 2008 02:31 AM**

I have worked in the industry for 15 years. CRA was something that banks largely ignored, many remained in violation of it even after redlining in those targeted areas for years.

Most CRA loans were kept as portfolio loans so banks made sure that they were not likely to default.

Alt-A loans were pure money makers and were made most often to people who had money and didnt live in CRA targeted areas.

CRA had nothing to do with it.

Repub deregulation and the free-for-all zeitgeist created by Bush in the business world led to this crisis. CDS's were a way to get rich by betting AGAINST the market. and many people got filthy rich over night after spreading rumors about the market crashing.

Stop watching FAUX NEWS!

## **Vince**

**October 12, 2008 03:03 PM**

"The CRA does not require subprime loans. It requires that a bank make loans in the same geographic areas where it takes deposits (i.e., it prevents "redlining"). And financial institutions that don't take deposits"

And this is the genesis of why the CRA was an ill-advised piece of legislation in the first place, which was only made worse over time with additional

bad regulations (not de-regulation. Extending credit to any one individual should not be made on the basis of the geographic location of the individual- it should be made strictly based on that individual's ability to pay and credit worthiness, end of story. The CRA was the beginning of this sad saga, and to insist otherwise is most disingenuous.

**DNGibson**

**October 12, 2008 03:40 PM**

Can all of the Republicans and Bush supporters on this comments list ever take responsibility for anything? Eight years into the Bush Administration - the President himself is walking around the White House turning off the lights - and you folks are still blaming Bill Clinton for everything that went wrong on Bush's watch.

You blamed Clinton for 9/11, even though it was Bush who saw some fictitious state actor behind al Qaeda and immersed in a war in Iraq.

You blamed Clinton for Katrina, because his FEMA department had assumed too much responsibility for responding to disasters, responsibility that should have been left to state and local governments.

And now you blame Clinton for encouraging banks to sell bad mortgages in the 90s to too many black people with too poor credit histories.

Strange though: those under served CRA communities managed to make their loan payments right up through 2007.

I thought the Republican Party was committed to acting responsibly and getting people to take ownership of their lives and all decisions that they make? Sad to see that when it comes to looking in the mirror, Republicans live in not-so fun houses.

**Mark**

**October 12, 2008 03:48 PM**

Is Aaron Pressman ignorant of the fact the CRA has been updated and expanded multiple times since the original 1997 version?

Does Aaron Pressman not know that money is fungible? CRA specified changes in loans had to apply to all, FNMA backed or not. It does not matter what percentage of subprime loans were bought by FNMA, it was an open market.

Does Aaron Pressman not understand the basics of monetary inflation and supply/demand curves? Flood a market with money or credit, and prices go up.

**Larry**

**October 12, 2008 10:57 PM**

Joe: You miss the point. Regulation, not deregulation is what caused the current crisis. I agree that Democrats very rarely run on deregulation--they want to regulate everything, so we can lay the subprime crisis directly at the Democrats' door just as 9/11 can be (The Bush intelligenece agencies were operating in rules put in place by Clinton that prohibited information sharing. Finally -- it is not the Feds' job to provide hurricane services--it is and always has been, the job of local agencies. In the case of Katrina we had a Democrat governor, and particularly a Democrat mayor of New Orleans who didn't follow his own disaster plan and was desperate for a scapegoat. The same storm hit Mississippi and Alabama and we didn't have near the problems there that Big Easy had, even though they were on the dangerous East side of the eye of the hurricane. Could it be that was because those states had Republicans in charge? I know it's a kneejerk reaction for you libs to blame Republicans for everything from hurricanes to diaper rash, but it makes you look uninformed.

Also--it is disingenuous to say that most loans were made by institutions not subject to CRA. They are referring to mortgage brokers, but very few of those firms have their own pool of cash to lend from, they simply shop the app among financial institutions who ARE covered by CRA to place the loan for their client. Ultimately in virtually all mortgage loans, a CRA-subject institution must scrutinize the app before the money is lent.

**Arlen Williams**

**October 13, 2008 07:22 AM**

The Federal Reserve disagrees with this article's premeses:

<http://www.federalreserve.gov/newsevents/speech/Bernanke20070330a.htm>

**Kim**

**October 13, 2008 11:18 AM**

In what way? Show me where Bernanke puts any responsibility for the sub-prime moortgage meltdown on the CRA.

**steve**

**October 13, 2008 01:53 PM**

Before you post an article you should do a little math. While I do not have the precise data, you should get it and do the analysis. 1/4 all banks were regulated by CRA. Of those 1/4 of Loans were CRA. Of those 20% are foreclosing. Normal foreclosure is 1%. So the rough math calculation is .25\*.25\*.19=1.2% of foreclosures added by CRA. Our current foreclosure rate causing the problem is up from about 1% to about 2.5%. It is not the entire problem but it is a huge problem. As long as home prices went up and CRA maid subprime loan, one subprime could sell to another and escape forclosure.

**Kim**

**October 13, 2008 02:34 PM**

Steve--

Where did these figures come from? I have been looking for such statistics, but have been totally unable to find any. In particular where did you get the statistic that 20% of CRA loans are foreclosing?

**Sapient Hetero**

**October 13, 2008 06:12 PM**

Why is it that liberals, when confronted with the truth and backed by quantifiable and verifiable data, feel that it is only necessary to say, "That's a lie!" in order to prove their case?

See the video at <http://www.youtube.com/watch?v=1RZVw3no2A4> if you want a paper trail that leads right to the Dem's doorstep.

**Jerry****October 13, 2008 06:34 PM**

I find it stunning that people think more regulation is the answer to this crisis. For the next ten years or so, maybe even longer, we will all be paying for a disaster created by Fannie Mae/Freddie Mac, a monstrosity of a Government institution, 100% backed by taxpayer dollars. Our Government has maintained massive control over the housing market for years; WHY GIVE THEM MORE? Shouldn't the fact that Fannie and Freddie and CRA welfare programs played a major role in bringing about this crisis be a sign that the GOVERNMENT NEEDS TO GET OUT OF THE HOUSING MARKET? How about let's take away their power to do this again.

More regulation means more bureaucrats, who know absolutely nothing about banking, finance, real estate, etc., yet they make decisions that have a huge impact on those markets every day.

We have tried having a housing market that is massively controlled and regulated by incompetent bureaucrats in Washington; let's try giving the free market, (you know, that thing that made America the greatest most successful, most productive country in the world), a chance.

**greg****October 14, 2008 03:04 AM**

It confuses me when people provide a link and then when I go to the trouble of reading it, it says something completely different than they say it did. Here is something from the Federal Reserve speech of Bernanke about CRA that DIRECTLY contradicts what Arlen Williams, who posted the link, said the article proclaimed:

"In fact, a Federal Reserve study found that, generally, CRA-related lending activity was at least somewhat profitable and usually did not involve disproportionately higher levels of default".

The significant part of the article was missed by Arlen. Bernanke said that the CRA was becoming increasingly irrelevant in poorer communities BECAUSE NON-BANK LENDING INSTITUTIONS WERE MOVING IN AND LENDING THERE.

I will quote another sentence from that same article:

"The debate surrounding the passage of the CRA was contentious, with critics charging that the law would distort credit markets, create unnecessary regulatory burden, and lead to unsound lending. Partly in response to these concerns, the Congress included little prescriptive detail in the law. Instead, the CRA simply directs the banking regulatory agencies to ensure that banks serve the credit needs of their local communities in a safe and sound manner".

Could one of the CRA naysayers please explain to me how an agency which directs banks to lend in a "SAFE AND SOUND" manner is at the same time directly responsible for forcing banks to make "no principal loans", or to encourage low-income buyers to opt for a teaser introductory ARM of 3% which 2 years later skyrockets to 12%?

I didn't think so.....

**Jerry****October 14, 2008 02:57 PM**

If the CRA simply directs banks to make loans in a "Safe and Sound" manner, why do we need BS programs like the CRA in the first place? I am pretty sure banks were making "Safe and Sound" loans way before the passing of the CRA welfare program; and I am also pretty sure that back then people actually bought houses they could afford instead of the now typical \$300,000 home on a \$30,000 salary.

Don't overlook the role of other Government Agencies in this crisis such as the 100% taxpayer backed Fannie and Freddie. The 3% ARMs that increase to 12% and "no principal loans" were only made possible with the guarantee that these agencies would buy them at a premium. Fannie and Freddie eliminated the inherent risk of subprime loans; that is how we got here.

**Kim****October 14, 2008 04:15 PM**

Don't confuse things. Fannie and Freddie generally securitized the safer loans. It was the private securitizers which packaged up the riskier loans, got them AAA-rated and insured to make them look as safe as Fannie and Freddie securitizations and then sold them. Fannie and Freddie were far from innocent, but they were not responsible for securitizing most of the loans which melted down.

The CRA was originally needed to deal with redlining - lenders were simply not evaluating the credit-worthiness of certain people because of where they lived. It may no longer be needed. Lenders now know that safe (and unsafe) lending can be done in those areas.

**Jerry****October 15, 2008 05:33 PM**

I am amazed by the attitude of some people on this forum that put so much trust in Government officials. People like Barney Frank, who knows about as much about real estate as I know about brain surgery, stood up there in Congress for years fighting to expand Fannie/Freddie and make even more of these ridiculous loans while several experts, (people who actually knew something about the real estate market), warned against it.

The following statement was written in a September 1999 article titled "Fannie Mae Eases Credit To Aid Mortgage Lending" in the New York Times:

"In moving, even tentatively, into this new area of lending, Fannie Mae is taking on significantly more risk, which may not pose any difficulties during flush economic times. But the government-subsidized corporation may run into trouble in an economic downturn, prompting a government rescue similar to that of the savings and loan industry in the 1980's."

When my parents and grandparents bought their first homes, meager as they were, the monthly notes were within a range they could afford. They never got evicted because, even when the economy wasn't doing so well and/or one of them lost a job, they could adjust their lifestyles and get by. Banks made reasonable loans because they knew if the loans defaulted, it would hurt them financially. US banks have a long tradition of stability; it is why every country in the world up until recently placed more trust in US banks than banks in their own countries.

With the carrot of Fannie/Freddie and the stick of the CRA our Government completely skewed the risk/benefit equation for private banks, and sparked an irresponsible lending free-for-all. These programs had the net result of persuading poor people to buy homes that they could not afford, followed by the excruciating process of trying to pay a monthly mortgage that they could not afford, followed by the embarrassment of having all of their possessions placed on the curb by the local Sheriff's Dept. They encouraged "predatory lending" on a mass scale, eliminating risk and incentivizing loans that were at one time considered to be highly risky. The end result was the destruction of a sector of the American economy that, prior to the current mess, had a very long tradition of being the most stable in the world.

While we are firing all of these bankers and CEOs, let's start at the top. Let's fire the Barney Franks and all of the other Government officials who forged ahead with the expansion of these disastrous policies in the face of repeated warnings and created the catalyst for the current global economic crisis.

**CCBC****October 15, 2008 07:53 PM**

Didn't the real problem arise from the securitization of mortgages? This would seem (to me) to reduce due diligence standards for lenders. Forcing banks to invest some of their depositors' funds in their neighborhood makes sense to me and I think that is what CRA was meant to do.

## Reality

**October 16, 2008 10:11 AM**

My husband has worked in the mortgage industry since 1995, both for major banks (Bank of America, Chase) and for independent mortgage brokers. He did not originate loans of any kind because some law or policy forced him to do it. He and his colleagues heavily marketed no-doc loans, equity lines of credit, second mortgages, etc. because it made them a lot of money!

It went something like this: "Your property has dramatically increased in value during the past few years, and you now have tons of equity in your home. Why not take out a second mortgage and use the money to install your dream kitchen? Why not get an equity line and use that money to pay off your credit card debt? You have nothing to lose, because your house will keep going up in value every year, and you can deduct all the interest you pay on your taxes. It's a smart move!"

My husband wasn't attempting to cheat anyone--he really believed what he was saying, so much so that he followed his own advice and took out a second mortgage and equity lines on the homes we owned.

The CRA didn't make him do these things. I guarantee you he's never even HEARD of the CRA. He marketed those loans because he made a ridiculous amount of money closing those deals, and so did the bank.

## Kim

**October 16, 2008 02:06 PM**

For a similar view read:

Confessions of a Subprime Lender: An Insider's Tale of Greed, Fraud and Ignorance by Richard Bitner

## Angie

**October 16, 2008 02:09 PM**

Wht do Liberals think Americans are stupid?

## Kim

**October 16, 2008 02:37 PM**

What's stupid is blaming the subprime mortgage meltdown on a program such as the CRA without a shred of evidence to support such an accusation.

## Jerry

**October 16, 2008 05:25 PM**

The CRA was only one factor in the meltdown; not all banks were subject to it but it certainly played a role. Where the CRA did not apply, the 100% taxpayer based government entities known as Fannie Mae, Ginnie Mae, and Freddie Mac strongly encouraged banks to make loans to people with questionable credit.

Banks like Countrywide, the poster child in the mortgage meltdown, were given high praise by Fannie/Freddie for "the most flexible underwriting criteria permitted", (located on page 11 in the report below created by the Fannie Mae Foundation). Countrywide's \$1 billion commitment to low-income loans in 1992 had grown to \$80 billion by 1999 and \$600 billion by early 2003.

85%, let me repeat, 85% of Countrywide's loans were sold to either Ginnie Mae or Fannie Mae.

"A majority of Countrywide's mortgage loans are sold to Fannie Mae, Freddie Mac, or Ginnie Mae. About 36 percent of the loans go to Ginnie Mae, 48 percent to Fannie Mae" (from the same report, page 3).

[http://www.fanniemaefoundation.org/programs/pdf/rep\\_newmortmks\\_countrywide.pdf](http://www.fanniemaefoundation.org/programs/pdf/rep_newmortmks_countrywide.pdf)

The following is a quote from Ben Bernake in a speech given on March 30, 2007 titled "The Community Reinvestment Act: Its Evolution and New Challenges".

"Securitization of affordable housing loans expanded, as did the secondary market for these loans, in part reflecting a 1992 law that required the government-sponsored enterprises, Fannie Mae and Freddie Mac, to devote a large percentage of their activities to meeting affordable housing goals." (p. 3)

Below is the link to the full speech on the Federal Reserve website:

<http://www.federalreserve.gov/newsevents/speech/Bernanke20070330a.htm>

The 1992 law that he refers to is called the The Federal Housing Enterprises Financial Safety and Soundness Act of 1992. If you care to read it the full text can be found here.  
<http://thomas.loc.gov/cgi-bin/query/F?c102:6:./temp/~c102RepSWf:e867:>

There is clear evidence to show that the US Government, through entities like Fannie Mae and Freddie Mac dramatically expanded the purchase of questionable loans during the 1990s, relaxed the credit requirements of borrowers through laws like the "The Federal Housing Enterprises Financial Safety and Soundness Act of 1992", and then repackaged these loans and resold them on Wall Street, poisoning the US financial system and markets all over the world.

## Kim

**October 16, 2008 07:14 PM**

"The share of subprime mortgages to total originations was 5% (\$35 billion) in 1994, 9% in 1996, 13% (\$160 billion) in 1999, and 20% (\$600 billion) in 2006."

[http://en.wikipedia.org/wiki/Subprime\\_mortgage\\_crisis](http://en.wikipedia.org/wiki/Subprime_mortgage_crisis)

The fact that Countrywide sold 85% of its loans to Ginnie and Fannie in around 2000 (the year of the cited report) tells us nothing about the sale of sub-prime mortgages to the GSE's by Countrywide. It is quite likely that the loans sold to Ginnie and Fannie were the prime loans. The GSE's were not allowed to buy sub-prime loans directly for securitization. Instead, they were allowed to invest in some of the supposedly higher quality privately securitized sub-prime mortgage pools and count those toward affordable housing goals.

The sub-prime market grew substantially after 2000 - the year the Countrywide report was written. In part because of the accounting scandal,

Fannie lost market share to the private entities from about 2003-2005.

[http://www.nytimes.com/imagepages/2008/10/04/business/20081004\\_FANNIE\\_GRAPHIC.html](http://www.nytimes.com/imagepages/2008/10/04/business/20081004_FANNIE_GRAPHIC.html)

Fannie expanded its investments in privately-securitized sub-prime loans in from 2005-2008 in order to recapture market share from the private entities and to meet newly expanded affordable housing goals. I find it interesting that sub-prime lending just continued to grow regardless of the level of Fannie's participation in the market.

I have yet to see any facts or figures showing any impact of the CRA.

**Kim**

**October 16, 2008 09:15 PM**

The Countrywide report is from 2000. In 1999, only 13% of mortgages were sub-prime. So, the fact that 85% of Countrywide's mortgages were sold to Fannie and Ginnie is plausible. Sub-prime mortgage lending started to take off in 1995, but really took off after 2000.

"Affordable housing goals" were HUD initiatives. Bush announced the most sweeping HUD affordable housing goal in 2005.

<http://www.whitehouse.gov/news/releases/2004/09/20040902-5.html>

As to the dramatic expansion of questionable loans in the 1990's, I think the evidence reflects that any expansion of sub-prime lending in the 1990's was dwarfed by the sub-prime mortgage orgy in the 2000's. There were far more loans and they were far riskier. Those are the loans that melted down, not the ones issued in the 1990's. And, these newer, riskier loans were issued, securitized, AAA-rated and insured by private enterprise. Fannie and Freddie's only involvement was to purchase some of the privately securitized mortgage pools to satisfy the affordable housing goals (and make money for their stockholders). And as near as I can tell, there is no evidence that the CRA had much, if anything, to do with those loans.

So, yeah there were changes in the mortgage market in the 1990's, but it gets pretty hard to blame those changes for what happened in 2007 given all that transpired in between. Intervening causation is what the lawyers call it.

**greg**

**October 17, 2008 12:19 AM**

Anyone who makes a statement such as "Where the CRA did not apply, the 100% taxpayer based government entities known as Fannie Mae, Ginnie Mae, and Freddie Mac...." already renders much of his succeeding argument questionable. At the time we're talking about, Freddie and Fannie were PRIVATE!

"From 1938 to 1968, the secondary mortgage market in the United States was monopolized by the Federal National Mortgage Association (Fannie Mae), which was a government agency during that period. In 1984, to help balance the federal budget, part of Fannie Mae was converted to a PRIVATE CORPORATION. To provide competition in the secondary mortgage market, and to end Fannie Mae's monopoly, Congress chartered Freddie Mac as a PRIVATE CORPORATION.

The Emergency Home Finance Act of 1970 created Freddie Mac. The goal was to create a secondary market for conventional mortgages, as indicated in the Fannie Mae charter. [3]

The Financial Institutions Reform, Recovery, and Enforcement Act ("FIRREA") of 1991 revised and standardized the regulatory mechanisms for both Fannie Mae and Freddie Mac. Prior to that, Freddie Mac was owned by the Federal Home Loan Bank System and its member thrifts and governed by the Federal Home Loan Bank Board which was later reorganized into the Office of Thrift Supervision. FIRREA severed Freddie Mac's ties to the Federal Home Loan Bank System, created an 18-member board of directors to run Freddie Mac, and subjected it to HUD oversight."

**greg**

**October 17, 2008 12:23 AM**

For a very lucid and pertinent explanation of just why the majority of people laying the blame for the financial meltdown on the CRA and other GSE's are dead wrong, read the following article:

[http://www.americanprogress.org/issues/2008/10/thinkagain\\_fannie.html](http://www.americanprogress.org/issues/2008/10/thinkagain_fannie.html)

**greg**

**October 17, 2008 12:28 AM**

And here's another article from a different source that goes into even MORE detail explaining why blaming the CRA, Fannie, and Freddie, is just a bunch of unsupported horse manure:

<http://www.mcclatchydc.com/251/v-print/story/53802.html>

**Triciab**

**October 17, 2008 05:39 PM**

To Reality and other banking insiders:

Interestingly I have a son that was for years involved in banking and securities and I have another son who had to have his home foreclosed on recently. So I kind of see from both sides of that issue.

Yes, your husband and his colleagues probably did make lots of money on those home-equity, ARM, and other dicey mortgage deals. And he probably never heard of CRA until now.

My question is this: How could a lending institution even think about developing these risky mortgage products unless there was some way to guarantee the loans and make sure that the reward would be greater than the risk factor?

Greedy lenders were relying on the hope that the housing market would continue to rise, even when economists were warning that it couldn't continue forever. Why? Were they completely unaware of market trends? Or did they have a backdoor of security knowing that their products would be backed by Fannie Mae and Freddie Mac?

So, what was it that spurred this increase in housing prices that seemed to spiral out of control and way beyond the normal inflation rate? What caused this frenzy that made people believe that the housing market would continue to spiral upwards forever?

I think that is what this debate is all about! But I personally do believe that the loosening of lending requirements that came as a result of the changes to CRA in 1995 helped to push the market in that direction.

Countrywide had a BIG hand in this crisis and there is no denying that. They not only gave out financing to cover CRA loans which may or may not have defaulted, but they also offered every conceivable kind of risky mortgage loan out there. And they were praised for doing so by Fannie Mae.

The fact that Fannie Mae and Freddie Mac and Ginnie Mae were backing low-income mortgages as well as buying repackaged securities that also included even higher risk mortgages, many of those being flipper schemes bought into by middle to higher income families, is partly what caused the collapse we are seeing now.

My son walked away from his home because it became so upside-down after the value fell substantially that he couldn't sell it. He's not poor, but he sure isn't wealthy either. He was given an ARM loan that we, his parents, warned him would go bad, but he failed to take our advice. This crisis is partly his fault for going beyond his means to buy a house that was overinflated instead of waiting until he could really afford one. However, if the ARM loan were never offered to him, he could never have gotten into this situation.

This is happening to middle-class Americans all the way down to the poor who can no longer pay their mortgage due to all kinds of factors, including higher unemployment.

Does all of this come from the CRA? Of course not! Realistically, I think the CRA as it was originally written was a good law. But did the expansion of CRA open a door to help fuel the housing market boom and drive the market toward riskier mortgages? Yes, I think it had a hand in it.

I agree with those here who say that some of the biggest culprits in all this mess are the Government agencies that meddle in the housing market.

Bottom line though, it is the individual who over-extends himself on credit that he cannot afford that is ultimately to blame. We have been living on easy credit for far too long in this country. Our children have been taught that it's ok to buy now and pay later. Lax and irresponsible lending has fueled this philosophy and it is coming back to haunt us. Instead we should teach our children to work hard, save for the future, and buy only what they need and can afford on their current income, or do without.

I firmly believe in the American dream of home ownership, but that dream must be based on sound economic principles, the first of which should ALWAYS be LIVE WITHIN YOUR MEANS.

**John**

**October 18, 2008 09:07 AM**

Just so I can understand this...

- 1) CRA was created to give low income borrowers loans in "Redlined" districts.
- 2) All foreclosures happened in "Redlined" districts.
- 3) All the \$500,000/\$1,000,000 foreclosed houses in Las Vegas, Florida, California, ETC. are in "Redlined" districts.

Got It

**Kenneth D. Emerson**

**October 19, 2008 12:41 AM**

I realize you stereotypically think anyone west of DC is stupid. However, we are not that stupid! Your lead statement is a boldface lie and totally without merit.

**Jim**

**October 20, 2008 08:02 AM**

As always, it's the cover-up that sinks people. Liberals are working overtime to cover up their role in the mortgage meltdown. Not only did they block attempts to reform Government Sponsored Enterprises (GSEs) such as Fannie Mae and Freddie Mac before they could drag down our economy, but liberals also abused the Community Reinvestment Act (CRA), turning it into a vehicle for directing loans to unqualified homebuyers.

The left knows that whoever shapes public understanding of what caused today's economic crisis can shape America's politics -- and its future -- for a great many years to come. Thus, they're pushing the notion that too little government regulation was at fault.

If the country buys this idea, liberals can enact a carbon-copy of FDR's response to the Great Depression, building a larger, more activist and ever-more-controlling federal government. They can exploit the mess by establishing a conventional wisdom that more government is the solution, rather than understanding how big government is a root cause of the current financial meltdown.

Claiming it all sprung from a lack of regulation is a half-truth, and a Yiddish proverb says a half truth is a whole lie. Over-regulation opened the money spigot by requiring lenders to make poorly underwritten loans. Under-regulation then allowed politicians to exploit that.

Although greed and dishonesty among both borrowers and lenders had major roles, the CRA and the GSEs were at the heart of what happened, setting up the now-topped dominoes of Bear Stearns, Lehman Brothers, and others.

Over-regulation through CRA, aided by HUD, became a huge problem and, alas, wasn't even addressed in the multi-billion dollar bailout. The Clinton Treasury Department's tough new regulations in 1995 compelled the banks to engage in far-riskier lending practices or receive a failing CRA grade. To avoid an "F" from the CRA, which could jeopardize their viability, the banks were pressured to direct hundreds of billions of dollars in high-risk mortgages to inner-city and low-income neighborhoods. Moreover, under CRA pressure, banks would "hire" radical, non-profit groups like ACORN to find them customers. Once trillions of dollars began to flow, politicians and lobbyists tapped into this stream, and so did left-wing activist groups.

According to George Mason University's Russell Roberts, the CRA was buttressed by other new regulations during the Clinton Administration. As Roberts writes, "For 1996, the Department of Housing and Urban Development (HUD) gave Fannie and Freddie an explicit target -- 42 percent of their mortgage financing had to go to borrowers with income below the median in their area. The target increased to 50 percent in 2000 and 52 percent in 2005.

For 1996, HUD required that 12 percent of all mortgage purchases by Fannie and Freddie be "special affordable" loans, typically to borrowers with income less than 60 percent of their area's median income. That number was increased to 20 percent in 2000 and 22 percent in 2005. The 2008 goal was to be 28 percent."

The banks were kept from rebelling by using Fannie Mae and Freddie Mac's deep pockets to buy these poor-quality loans and take them off the banks' books.

Under-regulation of the GSEs -- Fannie Mae and Freddie Mac -- allowed the money stream to widen and keep flowing. There has always been an implicit understanding that taxpayers would cover GSE losses and this enabled them to attract money and pour it into the CRA-induced sub-prime market. The Bush Administration had warned about this for years. Fannie and Freddie, however, could skim enough to pay for political protection, plus pay sky-high executive salaries and bonuses to well-connected political figures.

Over the past decade, Fannie and Freddie combined to spend a reported \$200 million on lobbying and campaign contributions. Now bailing them out may cost taxpayers \$200 billion directly, and far more indirectly.

The circle of political back-scratching centered around the theme of affordable housing, which the GSEs marketed heavily. Politicians wanted housing for low-income and poor credit risks, so they used Fannie and Freddie to further that objective, and the GSEs responded with campaign help for those politicians.

In return, politicians resisted reforms. This was demonstrated at a 2004 House hearing, where Rep. Maxine Waters (D.-Calif.) denounced attempts to

stiffen oversight and regulation of this duo "so as not to impede their affordable housing mission, a mission that has seen innovation flourish, from desktop underwriting to 100 percent loans."

"Desktop underwriting" meant undocumented loans. No proof of income or credit history required. And zero down payment.

Members of both parties were involved in protecting the system. But liberal Democrats were the dominant force.

Recently, House Financial Services Chairman Barney Frank (D-Mass.) told The Boston Globe, "[Republicans'] failure to regulate sensibly ... endangered the economy and ... burdened it with bad stuff.... Their own philosophy blew up in their face. They were so extreme in their insistence that there be no government intervention that they have wound up provoking far more government intervention than the Democrats ever would have."

But Frank is covering up his own role because he sang a far different tune in 2003, when the Bush Administration and many Republicans (including Sen. John McCain) tried to require Fannie and Freddie to comply with Securities and Exchange Commission regulations and other additional oversight requirements. Treasury Secretary John Snow, in fact, had specifically warned Congress that Fannie and Freddie needed a new supervisory structure so that both institutions would "maintain capital and reserves sufficient to support the risks that arise or exist in its business."

Rep. Frank was unconcerned. He told a hearing, "Fannie Mae and Freddie Mac are not in a crisis." Rather, he said, they were "fundamentally sound," and criticisms of them were unjustified exaggerations and "disaster scenarios." Then he confirmed why: "The more pressure there is [to regulate] then the less I think we see in terms of affordable housing"

He wanted to continue both the giveaway train supplying mortgages to those who couldn't afford them and the gravy train for politicians.

This appealed to liberals and in particular to the Congressional Black Caucus, which received six-figure support from both Fannie and Freddie in 2007.

The GSEs' major campaign largesse went to well-placed friends in key positions. The top six from 1998 thru 2008, according to the Center for Responsive Politics:

Sen. Chris Dodd (D.-Conn.) \$165,400  
 Sen. Barack Obama (D.-Ill.) \$126,349  
 Sen. John Kerry (D.-Mass.) \$111,000  
 Sen. Robert Bennett (R.-Utah) \$107,999  
 Rep. Spencer Bachus (R.-Ala.) \$103,300  
 Rep. Roy Blunt (R.-Mo.) \$ 96,950

And almost everyone in Congress got something.

The GSEs lobbied hard, too. Their combined lobbying budget averaged \$17 million a year. As described by Rep. Chris Shays (R.-Conn.), "They hire every lobbyist they can possibly hire. They hire some people to lobby and they hire other people not to lobby so the opposition cannot hire them."

But friends at the top were not enough. They needed them in every community, too. The Community Reinvestment Act guaranteed a steady stream of low-quality, but highly political, loans.

Congress passed the CRA in 1977 to combat "redlining," a lending practice that prevented loans to minority communities.

Clinton Administration regulations in the '90s added teeth to CRA, requiring banks to show compliance with meeting low-income loan targets or face civil actions that could assess a \$500,000 penalty for each violation. Banks were "encouraged" to comply by hiring community groups (including ACORN) who contracted with financiers to steer low-income applicants to their institutions.

As the Manhattan Institute's Howard Husock wrote in 2000: "The Senate Banking Committee has estimated that, as a result of CRA, \$9.5 billion so far has gone to pay for services and salaries of the nonprofit groups involved." The left created the system that paid its community organizers very handsomely, thanks to the regulations on the financial community.

As The Heritage Foundation's J.D. Foster recently noted, "While a worthy cause, the net effect [of CRA] is often to encourage loans at lower credit standards and to encourage people to buy houses they really cannot afford."

The net effect has also brought the economy to the brink of disaster. But unless the American public is told, re-told, and educated about how we got here, there won't be reform of the bailed-out-but-still-alive GSEs nor of the CRA. Then we would witness more big government, giving us far more help than we can afford.

## Kim

**October 20, 2008 02:30 PM**

For a completely different view of the mortgage meltdown from an insider in the business read:

Confessions of a Subprime Lender - An Insider's Tale of Greed, Fraud and Ignorance by Richard Bitner.

He assigns a lot of blame to a lot of players. But, from 2000-2005, he assigns a little blame to the Fed, hardly discusses HUD and, as far as I can tell, does not even mention the CRA. His culprits, in the order he discusses them: mortgage brokers, the appraisers, securitization firms, rating agencies, the Fed, consumers, retail lenders, homebuilders and realtors.

I have a hard time accepting that legislation and regulation made in the early-to-mid-90's caused the meltdown in the mid-to-late 2000's. If the laws were that bad, why weren't they repealed in the Bush administration and his Republican Congress? In fact, HUD's affordable housing standards were actually expanded by Bush's HUD in 2004.

From what I can tell, Bitner has a pretty good understanding of what happened and it had very little to do with the CRA or affordable housing. The government didn't force Wall Street to make those loans. Wall Street wanted to make those loans and the government let them. As a result, perhaps there is less of a need for Fannie, Freddie and the CRA than there has been in the past.

## greg

**October 21, 2008 04:44 AM**

Once again, we got a huge lecture using statements without proof from someone, this time, Jim. For example: "The Clinton Treasury Department's tough new regulations in 1995 compelled the banks to engage in far-riskier lending practices or receive a failing CRA grade. To avoid an "F" from the CRA, which could jeopardize their viability, the banks were pressured to direct hundreds of billions of dollars in high-risk mortgages to inner-city and low-income neighborhoods."

PROVE IT!....saying it just doesn't cut it. We've presented evidence in many posts above that CRA defaults are lower than the average default rate of other loan types. Several of you keep saying that just isn't so, but you aren't producing a shred of evidence to support your positions.

Once again, inner city neighborhoods and low-income neighborhoods do not have houses that cost \$400,000 or 500,000 - and it's THOSE houses that start to add up to huge sums of money. Something that should be so self-evident, is apparently impossible to grasp to the people who keep bringing up CRA's involvement. This crisis is built upon millions of subprime loans made in MIDDLE CLASS neighborhoods to mostly white people who had less-than-stellar credit, and who were either buying or re-financing houses that cost \$500,000+. Look around your cities and your towns. The foreclosure signs are not any more prevalent in dumpy inner-city neighborhoods in East Brooklyn, Washington DC, the south side of Chicago, or the south side of Atlanta than they are in suburb after suburb of tract home developments. In fact, they are probably fewer, because the loan terms dictated by CRA were much more favorable than what subprime predatory lenders were giving out, meaning that poor people could actually afford

their payments. Blame banks and mortgage brokers who were only too eager to hook consumers into ARMS and zero-principal loans for substantial fees AND the promise of incredibly high interest rates down the road.

**Kim**

**October 21, 2008 04:52 PM**

Also, if you have the time, listen to this:

php?podcast=<http://www.thisamericanlife.org/xmlfeeds/355.xml&proxyloc=http://audio.thisamericanlife.org/player/customproxy.php>

**Ryan**

**October 21, 2008 05:28 PM**

interesting....

**Kim**

**October 22, 2008 11:01 AM**

Sorry, this is the correct link:

[http://audio.thisamericanlife.org/player/CPRadio\\_player.php?podcast=http://www.thisamericanlife.org/xmlfeeds/355.xml&proxyloc=http://audio.thisan](http://audio.thisamericanlife.org/player/CPRadio_player.php?podcast=http://www.thisamericanlife.org/xmlfeeds/355.xml&proxyloc=http://audio.thisan)

**Jay D Sharp**

**October 22, 2008 07:18 PM**

To discover the genesis to this fiscal debacle - we have to go back to 1968 when Lyndon Johnson privatized Fannie Mae. This action created the platform on which the Democrats made significant progress towards taking your hard earned money and giving to others with the result of raping and pillaging the hard working men and women of this great nation. In 1977 Jim Carter put the Community Reinvestment Act in place which served to infuse capital in to segments of the market - this served a worthy purpose. The legislation that was put in place that was evil and sinister was Clinton's revision of the CRA that totally liberalized the Act so as to allow for the securitization of subprime mortgages, (and this is the kicker), with the implication that Fannie Mae would provide the guarantee. The mortgages created under Franklin Raines tenure between 1999 and 2002 created the toxic poison that remain on the books to this day and ultimately caused this gross and incompetent assignment of real estate assets. This infusion of vast quantities of money over a short period of time also caused housing prices to spike which undermined one of the stated goals of Fannie Mae in the first place. The pathetic part is that Schummer Dodd and Frank don't know didley squat about how to run a business never mind create affordable housing responsibly. Democrats all - just plain dumb.

**Josh**

**October 23, 2008 09:16 AM**

OK, even if the Clinton administration had a big hand in creating the conditions that allowed this to happen, ( I am not convinced), I have three problems: 1) Does anyone honestly think that this could happen again in our lifetime, given what we know now? 2) Who can blame Obama for this, or even use it against him? He is just as likely to press for regulation as McCain. 3) Just because CRA forced banks and brokers to lend, doesn't mean they were forced to create teaser rates and ARMs. If everyone had been able to get a fixed rate mortgage at a decent interest rate, we would not have a problem. The majority of the people would still be able to pay their mrotgage. It just doesn't make sense to charge the people you think might default a higher (or increasing) rate. Greed and the necessity to increase growth or get punished by Wall Street is just as much at fault as anything else I have heard.

**Kim**

**October 23, 2008 10:29 AM**

If these were such bad programs, why didn't Bush take action to reduce the impact of these programs. Instead, he expanded them with The American Dream Downpayment Act and new HUD affordable goals announced in 2004:

<http://www.whitehouse.gov/news/releases/2004/09/20040902-5.html>

Bush also opposed the Fannie and Freddie oversight legislation which McCain supported, which may help explain why it was never voted on in the Senate:

<http://www.presidency.ucsb.edu/ws/index.php?pid=24851>

If the Democrats were just plain dumb, the Republicans were just plain dumber.

**Jerry**

**October 29, 2008 11:58 AM**

To answer Josh, yes this could very well happen again in our lifetime. There is a widely held belief among ultra-liberals as we have heard in recent news, in the idea of "spreading the wealth". They believe that through programs like the CRA and by mandating that "Government Sponsored Enterprises" like Fannie and Freddie lower their credit standards, suddenly people with bad spending habits are going to make a 180 degree change in their lives and become fiscally responsible. Living in a nice house is not going to change years of poor money management skills. As long as extreme left-wing individuals believe the ridiculous and frequently disproven notion that government handouts will somehow magically change a lifetime of bad spending habits, this could very well happen again.

2. Yes, Obama certainly has some culpability in this crisis. In *Buycks-Roberson v. Citibank* in 1995, Obama representing ACORN, sued Citibank under the CRA in a housing discrimination suit. Now regardless of whether you think the CRA was a direct cause of this crisis or not, we do know that it was caused primarily by subprime loans being handed out to a large number of people and failing. ACORN is known to harass and embarrass banks for refusing to give loans to people with bad credit. By working on ACORN's behalf, Obama acted as a contributor to an organization that promoted making subprime loans to people.

3. Anyone with a basic understanding of finance knows that the reason some people with poor credit are charged higher interest rates than others is because they are more likely to default. With several decades of statistical loan data, banks know that a certain percentage of subprime loans will go bad. The higher interest rate makes up for the percentage of loans that default. You say "It just doesn't make sense to charge the people you think might default a higher (or increasing) rate." A tremendous amount of statistical data collected over several decades would prove otherwise. Greed did not cause this crisis. As this situation was developing, Wall Street was doing the same thing it has been doing throughout the history of the stock market; buying and selling securities for a profit. It was the Federal Government, strongly encouraging and in some cases forcing banks to make loans to people with questionable credit, that led to a massive failure in the housing market.

People say we need more regulation. What would the Government "regulate". Would it tell banks to stop making loans to people with questionable credit? (The CRA and Fannie/Freddie encouraged banks to make loans to people with questionable credit). Would it force banks to raise their credit standards, (the CRA and Fannie/Freddie encouraged banks to lower them). Would it tell banks to stop selling bad loans to Fannie/Freddie, while at the same time lowering Fannie/Freddie's standards for the types of loans that they are allowed to buy on the secondary market?

Banks generally didn't make such loans historically, (or at best it was extremely difficult), until compelled to do so by the Federal Government. It

wasn't until the Federal Government became heavily involved in the housing market that we started having problems; prior to that our real estate market was among the most stable in the world for several decades. Perhaps the Federal Government should stop creating disasters that it has to immediately turn around and fix.

The majority of people who received subprime loans under these programs are actually worse off now than if this massive government intervention had never taken place.

## Roger Ingalls

October 29, 2008 07:28 PM

I am a mortgage broker.

I have used a particular CRA program for several years.

It is flat out, the best program in the country. Rates are always below market rates. It's a bit hard to qualify for, but for those that do, well worth it.

No funny business, it has always required full documentation, and at least average credit.

The lender says it's portfolio is performing well. Everyone that I have placed in the loan is mighty glad I did.

The loan is SO good that no one ever needs to refinance again.

Blaming CRA for an immensely complicated problem is at best ill informed, and at worst, an attempt to pin the fault on the poorest guy in the room.

Thanks for the article.

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