

CRA AND GSE AFFORDABLE HOUSING GOALS DID NOT CAUSE THE MORTGAGE CRISIS

WHAT IS CRA?

Congress enacted the Community Reinvestment Act (CRA) in 1977 to encourage insured depository institutions to help meet the credit needs of their communities. Banks and not-for-profit lenders have worked hard to increase the flow of private capital to underserved areas. In recent years, CRA has come under attack for supposedly weakening lending standards and fueling the subprime mortgage crisis. CRA did not contribute to the mortgage crisis – in fact, it did the opposite, promoting responsible lending in a time when doing so was outside of the norm.

WHAT ARE THE GSEs' AFFORDABLE HOUSING GOALS?

In 1992, Congress authorized Fannie Mae and Freddie Mac to take “less of a return” to finance responsible single-family mortgages for average income Americans. Critics have said that the goals “forced” Fannie Mae and Freddie Mac to invest in high-cost subprime loans, contributing to the mortgage meltdown. The truth is, instead of taking less of a return to finance responsible 30-year fixed rate loans, of which there were plenty available to satisfy their goals, Fannie Mae and Freddie Mac decided to extract more of a return by financing the spread of a higher-cost, unregulated subprime market that eventually imploded. Fannie and Freddie preferred to “game” their affordable housing goals: Multiple, independent reports have disclosed how often the GSEs manipulated the affordable housing goals for their own benefit, with their regulators’ complicity.

SETTING THE RECORD STRAIGHT

- “CRA was not the problem. There needs to be a clearer difference between a dislike of policies and policies that don’t work.” – Former Director of the National Economic Council and member of the Financial Crisis Inquiry Commission Keith Hennessy
- “The affordable-housing goals are a wonderful excuse ... The goals are even blamed by some conservatives, who see them as credit allocation, and overlook the special privileges conferred on the GSEs by their federal charters which create something close to a federally sponsored duopoly in the mortgage market. But this convenient explanation doesn’t fit the facts. The GSEs began buying subprime mortgage-backed securities (MBS) heavily in 2002. Their purchases of subprime MBS doubled between 2002 and 2003, and doubled again in 2004 – from \$38 billion to \$81 billion to \$176 billion. All this happened before the housing goals were changed in 2005. After the new goals went into effect, their subprime MBS purchases actually declined ... If the affordable-housing goals don’t account for the GSEs’ behavior, what does? The best explanation is the simplest: The GSEs badly misjudged the risk of subprime mortgages.” – John Weicher, a Senior Fellow at the Hudson Institute, and a former Assistant Secretary for Housing at HUD, from “[The Affordable Housing Goals, Homeownership, and Risk: Some Lessons from Past Efforts to Regulate the GSEs](#),” *National Review*, Nov. 17, 2008.

- “To a large extent, it was not a competition to retain market share that drove the GSEs into subprime, but an attempt to maintain the outsized profits and revenue growth experienced from 2000 to 2003.” –Mark Calabria, Director of Financial Regulation Studies at the Cato Institute, and a former Deputy Assistant Secretary for Regulatory Affairs at HUD, from [“Fannie, Freddie, and the Subprime Mortgage Market,”](#) Cato Institute, March 7, 2011.
- “I want to give you my verdict on CRA - NOT guilty.” – Former FDIC Chair Sheila Bair
- “CRA was not a contributor to the mortgage crisis; if it had been, community banks would be at the epicenter and they are not.” – Former OTS Director John Reich
- “...the very small share of all higher-priced loan originations that can reasonably be attributed to the CRA makes it hard to imagine how this law could have contributed in any meaningful way to the current subprime crisis.” – Former Federal Reserve Governor Randall S. Kroszner
- “There was a “symbiotic relationship” between Wall Street and the GSEs, which were big buyers of mortgage-backed securities. “But this idea we forced Wall Street executives and traders to make all this money because we wanted poor people to have mortgages...that's laughable analysis.” – Former FDIC Sheila Bair, quoted in [“Liquidate Fannie & Freddie: Sheila Bair’s Rx for the Financial System,”](#) Yahoo’s *Daily Ticker*, Sept. 28, 2012.
- “In the years leading up to the housing crisis, and with the help of some lawmakers in Congress, Fannie and Freddie abused their roles in stimulating homeownership. They began to replace prudent lending standards with a drive to guarantee and hold more mortgages, some of them risky, in order to maximize commissions.” – House Budget Committee Chairman Paul Ryan (R-Wisc.), in his FY2012 Federal budget proposal, [“The Path to Prosperity: Restoring America's Promise,”](#) House Budget Committee, April 5, 2011.

CONCLUSION

The claim that CRA fueled the mortgage crisis just doesn’t add up – CRA loans were safe and CRA incentives encouraged more prudent lending.

The Financial Crisis Inquiry Commission overwhelmingly cleared the GSEs’ affordable housing goals of any wrongdoing in the mortgage meltdown after hearing hours of testimony from government officials and private sector experts. While Fannie and Freddie executives might want to blame these goals for the GSEs’ problems rather than own up to their own greed and mismanagement of the corporations, the facts tell a different story.



®

NAAHL OFFICE

1667 K Street, NW, Suite 210, Washington, D.C. 20006 / Tel (202) 293-9850 Fax (202) 293-9852 <http://www.naahl.org>