II. Richard Neiman, Damon Silvers and Elizabeth Warren

The dissenting views offered by Congressman Jeb Hensarling raise a number of issues that the Panel intends to pursue in the course of its oversight. We all share the goals of ensuring that the government-sponsored entities (GSE) function in an optimal manner and targeting limited public foreclosure prevention resources to responsible borrowers. Part of the Panel's mission is to consider these and other important topics with the benefit of our diverse experiences and viewpoints.

One point mentioned in the dissent, however, is strikingly inaccurate and necessitates an immediate clarification to Congress and the American people. And that is the Congressman's statement concerning the Community Reinvestment Act (CRA):

> "Thus, mandates like CRA ended up becoming a significant contributor to the number of foreclosures that are occurring because they required lending institutions to abandon their traditional underwriting standards in favor of more subjective models to meet their government mandated CRA objectives."

This statement misinterprets both the nature of the CRA requirement and the positive impact that the CRA has had on the mortgage market over the past thirty years. But most disturbing is the suggestion that CRA has been a factor in the current financial meltdown, when the facts demonstrate just the opposite.

The CRA was passed in 1977 and requires banks to be responsive to the needs of the communities in which they accept deposits, especially low and moderate-income (LMI) neighborhoods. Banks are evaluated in terms of their lending and investment activities, as well as the innovative services they provide. The CRA was one response to the common practice of "red lining" or refusing to offer credit and other services in neighborhoods that were often communities of color.

While the CRA encourages banks to recognize emerging business opportunities in LMI areas, there is no "requirement to abandon traditional underwriting." Banks were never encouraged to provide loans that violated safety and soundness; they were encouraged to be creative in marketing and developing products that were tailored and appropriate for a group of consumers with unique needs.

The success of the CRA speaks for itself. Banks' CRA activities have leveraged infusions of public capital into LMI communities, perhaps by as much as 10 to 25 times, attracting additional private capital in the process.[1] And in the last ten years alone, CRA has contributed to bank lending to small businesses and farms in excess of $2.6 trillion, exactly the type of stimulus we need to preserve in these challenging economic times.[2]

But what about CRA's influence in the area of home mortgage lending- were CRA loans the culprit in the mortgage meltdown? The notion that CRA loans were somehow to blame in triggering the cascade of foreclosure is a false one that the facts quickly put to rest. Only six

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[1] Office of the Comptroller of the Currency, *Remarks by John C. Dugan Comptroller of the Currency Before the Enterprise Annual Network Conference*, at 6 (Nov. 19, 2008) (online at www.occ.treas.gov/ftp/release/2008-136a.pdf).

[2] *Id.* at 4.

percent of higher-priced loans were originated by banks subject to the CRA.[3] Of course, originating loans is not the only way in which banks could be involved in higher-priced or subprime lending. In certain circumstances, banks may also receive consideration under the CRA for loans that they have purchased. However, less than two percent of the higher-priced, CRA-eligible loans originated by independent mortgage bankers were purchased by banks for CRA credit.[4]

We agree with Congressman Hensarling that the market excesses of the past decade led to lax underwriting standards and the origination of many dubious mortgages. But the CRA has been one of the few examples of what has worked, and provides a model for preserving responsible lending and homeownership as we work together to strengthen and reform the mortgage market.

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[3] Board of Governors of the Federal Reserve System, *Speech by Governor Randall S. Kroszner at the Confronting Concentrated Poverty Policy Forum* (Dec. 3, 2008) (online at www.federalreserve.gov/newsevents/speech/kroszner20081203a.htm).

[4] *Id.* at 10.