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## Stop Covering Up And Kill The CRA

By INVESTOR'S BUSINESS DAILY | Posted Friday, November 28, 2008 4:20 PM PT

**Regulation:** The Community Reinvestment Act is to blame for the financial crisis, but it so powerfully serves Democrats' interests that they'll do anything to protect it — including revising history.

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The CRA coerces banks into making loans based on political correctness, and little else, to people who can't afford them. Enforced like never before by the Clinton administration, the regulation destroyed credit standards across the mortgage industry, created the subprime market, and caused the housing bubble that has now burst and left us with the worst housing and banking crises since the Great Depression.

The CRA should be abolished, along with the government-sponsored enterprises that fueled the secondary market for subprimes — under pressure from Clinton, who ordered HUD to set quotas for "affirmative action" lending at Fannie Mae and Freddie Mac.

But powerful Democrats in Washington want to protect the act — along with Fannie and Freddie — and spin the subprime scandal as the result of too little regulation, not too much.

"Repealing or weakening the CRA would be a mistake," warns Senate Banking Committee Chairman Chris Dodd, D-Conn., who argues that the CRA should be strengthened.

Dodd, the top recipient of Fannie donations and himself a beneficiary of a sweetheart mortgage brokered by a subprime lender, recently invited one of Clinton's top enforcers of the CRA to testify.

"The notion that CRA has caused this problem is a pernicious thought," said former Comptroller of the Currency Gene Ludwig. "These are not truthful statements. The CRA has helped to create a better and sounder world for finance, not the opposite."

Dead wrong. But the mainstream media believe it, and have attacked those, including this paper, who dare to tell the truth about the crisis. Already the debacle has erased \$13 trillion in wealth, while putting taxpayers on the hook for up to \$8 trillion in bailouts.

"The latest salvo from conservatives began via a Sept. 15 editorial in Investor's Business Daily, titled 'The Real Culprits In This Meltdown,' " grumbled a column distributed by Scripps Howard News Service. "Its editorial blamed President Clinton for today's mess."

As we said, Clinton beefed up the CRA and used it to force banks to subsidize poor communities with close to \$1 trillion in high-risk loans and other commitments that flouted underwriting rules.

Yet, somehow, these media-driven myths keep getting in the way of actual facts, such as:

**Fact:** The 1977 law was only lightly enforced until Clinton added teeth to it in 1994 and launched an anti-redlining campaign against banks, led by Ludwig, Housing Secretary Henry Cisneros (and later Andrew Cuomo) and Attorney General Janet Reno that lasted into this decade.

Minority homeownership rates, which had been flat, began a steep rise in 1995, and home prices soon followed, stoked by easier lending. Numerous bank officials complain that they still feel pressured by CRA regulators to make inner-city loans they know are at great risk of defaulting.

**Myth:** The CRA could not have led to financial Armageddon, because the overwhelming share of subprime mortgages came from lenders that were not banks and not regulated by the CRA.

Fact: Nearly 4 in 10 subprime loans between 2004 and 2007 were made by CRA-covered banks such as Washington Mutual and IndyMac. And that doesn't include loans made by subprime lenders owned by banks, which were in effect covered by the CRA.

Last year, when the bubble burst, bank subprime loans totaled \$142 billion, dwarfing those made by lenders.

What's more, the biggest subprime lender, Countrywide, while not subject to the law, still came under federal pressure to make risky loans in minority communities.

Clinton created a separate department at HUD to police "fair lending" at Fannie and Freddie and also at lenders like Countrywide, which became Fannie's biggest client. In 1994, Countrywide became the nation's first mortgage lender to sign with HUD a "Declaration of Fair Lending Principles and Practices."

As a result, Countrywide made more loans to minorities than any other lender — and not surprisingly, was one of the first lenders swamped by loan defaults.

Other lenders felt the heat from Reno's Justice Department, which prosecuted them for failing to operate enough branches in black neighborhoods. Reno put the entire banking industry on notice about the CRA and her enforcement program.

Myth: The CRA did not force anyone to do subprime loans or take excessive risks.

Fact: Subprime loans were the vehicle banks used to satisfy CRA compliance, and Clinton and his regulators encouraged their use. Before Clinton took office, subprimes were virtually unheard of. By the time he left, they made up more than 9% of the market for mortgage originations. Today they're 20%.

"It's instructive to go back to the early stages of the subprime market, which has essentially emerged out of the CRA," ex-Fed chief Alan Greenspan said in recent testimony on the roots of the crisis.

Clinton pushed banks to grant mortgages to minorities with poor credit by using "flexible" underwriting standards — or risk being branded racist. Rules were weakened to the point where welfare and unemployment checks were accepted as qualifying income.

Myth: Greedy investment bankers, who securitized and sold subprime mortgages, drove us to the credit crisis, not government.

Fact: Clinton's regulatory policies led to the creation of this new risk on Wall Street. His CRA amendments created the subprime market, and only after he pressured Fannie and Freddie to socialize the risk and guarantee the profit from the subprime loans did Wall Street get involved in a big way.

The exotic securitizations that have gotten so much of the blame were a symptom, not the cause, of the crisis.

The architects of the crisis want to divert attention from their own culpability by blaming the markets rather than their own regulations mandating that banks make high-risk loans based on race.

In fact, regulations had almost everything to do with this mess. And instead of strengthening them to atone for the alleged "sins of capitalism," we should be abolishing them.

Two bills in the House would be a good place to start. HR 7264, which has nine co-sponsors, would repeal the CRA. And HR 7094, with 17 co-sponsors, would dissolve Fannie Mae and Freddie Mac.

During the last severe slump, President Reagan deregulated the economy, saying: "Government is not the solution to the problem; government is the problem." He's as right today as he was then.