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Blame Game Gets Nasty When It Targets the Poor

By Michelle Singletary - Sunday, October 12, 2008; F01

I was raised by a grandmother who had to assign blame when anything went wrong. For Big Mama, there were never any accidents.

When I got into a car crash while driving her to a doctor's appointment, she blamed me. Never mind that it was the other driver who failed to yield the right of way.

"You shouldn't have chosen that street to turn down," Big Mama argued.

What my grandmother did following that accident is exactly what some politicians, columnists, television hosts and bloggers are doing right now when they blame America's economic earthquake on the Community Reinvestment Act of 1977, or CRA.

Passed by Congress in an effort to stop discriminatory banking practices against minorities and low- and moderate-income families, CRA compels banks to lend responsibly to customers in local communities where they take deposits.

As we fall deeper into financial trouble, people are looking to assign blame. Critics of CRA say that it has put pressure on banks to make subprime mortgages to poor people and minorities. Therefore, it's CRA's fault that we're experiencing a financial upheaval in our economy.

CRA "legalized the idea that lending institutions could not make loan decisions based solely on criteria such as income and ability to pay the loan back," a reader wrote to me.

That accusation and others like it are worth about as much as the stock of the failed mortgage companies -- the true culprits of this crisis.

CRA specifies that financial institutions cannot be forced to make loans or investments or provide services inconsistent with safe and sound banking practices.

No sir, it wasn't lending under CRA rules that took down the mortgage industry. It was greedy, reckless banking executives, lending officers and mortgage brokers who were supposed to properly screen borrowers and apply prudent loan underwriting standards. It was lax and inadequate federal and state regulation that allowed exotic and predatory mortgages to be sold to borrowers.

"There is no evidence that the Community Reinvestment Act was responsible for encouraging the subprime lending boom and subsequent housing bust," wrote Luci Ellis, an economist for the Switzerland-based Bank for International Settlements, last month in her working paper, "The housing meltdown: Why did it happen in the United States?"

In her study, which examined the calamity enveloping global financial markets, Ellis wrote that deposit banks covered by CRA "showed a lesser tendency to write subprime loans than lenders not subject to the act."

Even if you include subprime loans made by CRA-covered banks and thrifts, the vast majority of the toxic loans stinking up mortgage-backed securities had nothing to do with CRA compliance.

More than half of subprime loans were made by independent mortgage companies not subject to comprehensive federal supervision; another 30 percent of the loans were made by affiliates of banks or thrifts subject to routine examination or supervision, according to congressional testimony given earlier this year by Michael S. Barr, a professor at the University of Michigan Law School.

"The worst and most widespread abuses occurred in the institutions with the least federal oversight," Barr testified.

Traiger & Hinckley, a New York-based law firm that represents lenders complying with CRA regulation, took a look at whether the law encouraged irresponsible lending.

"CRA banks were significantly less likely than other lenders to make a high-cost loan," the law firm's report found. When CRA banks did originate high-cost loans, the average APR (annual percentage rate) was appreciably lower than the average APR on high-cost loans originated by other lenders.

Further, CRA banks were more than twice as likely as other lenders to retain originated loans in their portfolio, said Warren Traiger, a partner at Traiger & Hinckley.

"If more lenders were covered by CRA, the crisis would have been mitigated," Traiger said in an interview.

The investment banks that purchased, bundled and securitized subprime loans were not covered by CRA, points out Matthew Lee, executive director of Inner City Press, a nonprofit community advocacy group based in the New York borough of the Bronx.

"I see why this argument has gained traction," Lee said. "You have a law telling banks to lend to poor people. So now people wonder whether CRA is good."

It's important to dismiss this atrocious accusation against CRA. Going forward as financial institutions rein in their lending, we cannot go back to a time when low- and moderate-income families, including minorities, had great difficulty getting loans to buy a home. This group of borrowers can make good and profitable mortgage customers when the loans are made wisely and with sound and safe lending criteria.

"I'm offended that the poor are being blamed for this crisis when the exact opposite is true," Traiger said. "The well-to-do looking to become more well-do-to are to blame -- not folks looking to get a mortgage."