RESEARCH REPORT

DEBUNKING THE CRA MYTH – AGAIN

January 2013

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UNC Center *for* Community Capital
Research and analysis on the transformative power of capital

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Debunking the CRA Myth – Again

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Abstract

Since its enactment in 1977, the Community Reinvestment Act (CRA) has been the subject of extensive debate, which has intensified in the wake of the subprime crisis. One of the pernicious myths surrounding CRA is that it encouraged banks to make risky loans to low- and moderate-income borrowers. This argument has been made primarily by conservative think tanks, like American Enterprise Institute, who find it convenient to include CRA in their general position against governmental intervention in the private market. But efforts to blame CRA for the most recent crisis reflect a deep misunderstanding of the scope and scale of CRA and its implementation. Indeed, the "blame the CRA" story has been refuted by industry leaders and researchers time and time again.[1] Unfortunately, this narrative refuses to go away.

In this paper, we review the research evidence on CRA and show that there is no credible research to support the assertion that CRA contributed to an increase in risky lending during the subprime boom. In particular, we present a detailed rebuttal of a recent paper published by the National Bureau of Economic Research, titled "Did the Community Reinvestment Act Lead to Risky Lending," which purports to find evidence that "yes, it did."[2] The study is severely flawed, both in terms of the empirical analysis and in the authors' interpretation of the results, and thus fails to contribute to the existing literature on both the strengths and weaknesses of CRA. Rather than trying to place blame where none exists, we argue that the focus of the debate should be on how CRA can be modernized and improved to better reflect the current financial services landscape and meet the continuing credit needs of America's communities.

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[1] See, for example, Randall Kroszner (2009). "The CRA and the Recent Mortgage Crisis," in Revisiting the CRA: Perspectives on the Future of the Community Reinvestment Act, a Joint Publication of the Federal Reserve Banks of Boston and San Francisco, February 2009.; Ellen Seidman (2008). "It's Still not CRA," The Ladder (New America Foundation). Available online at http://assets.newamerica.net/blogposts/2008/its_still_not_cra-16871.

[2] Normally, we would not publish a detailed review of a working paper. However, groups like AEI are already using it to support their stock "Government-Did-It" narrative, raising concerns it will be wrongfully used to support policy reforms.

Background

In response to concerns over redlining, Congress enacted CRA in 1977 as one element of a wider set of laws intended to expand access to credit and reduce credit-related discrimination.[3] CRA established a "continuing and affirmative obligation" that federally insured banks and thrifts help meet the credit needs of the communities that they serve, including low- and moderate-income (LMI) areas, consistent with safe and sound banking practices. Regulators consider a bank's CRA record in determining whether to approve that institution's application for mergers with, or acquisitions of, other depository institutions. Since its passage, the CRA has undergone both regulatory and legislative revisions that have affected the way in which a bank is evaluated on its CRA performance, reflecting the ability of the act to be flexible and adaptable over time.[4] A key component of the CRA is the lending test (accounting for 50 percent of a large bank's CRA rating), which evaluates the bank's home mortgage, small-business, small-farm, and community-development lending activity.[5] Much of the scrutiny on CRA has focused on banks' originations of mortgage loans, although in fact CRA reflects a much broader approach to supporting community development and asset building in LMI communities.[6]

Despite claims to the contrary, CRA has never forced banks to make loans that were not in line with "safe and sound" lending practices. In deference to concerns about unprofitable loans, CRA does not establish quantitative lending targets nor does it provide much specific guidance as to how regulators should evaluate bank performance (Essene and Apgar 2009). As the late U.S. Sen. William Proxmire, one of the authors and key proponents for the passage of CRA, argued, "What we are trying to do here is not provide for any terrible sanction or require that [banks] make loans that aren't sound. Every loan should be sound…All we are saying is that the job that [banks] do in servicing community needs should be taken into consideration as one element in whether or not branching should be approved. It is a mild proposal, it seems to me." (Proxmire 1977: 323) Indeed, in both its intent and its enforcement mechanisms, CRA seeks only to underscore the "long-standing obligation to an institution's local service area implicit in existing law," and provide the regulatory agencies with the authority to enforce this principle.

Prior to the subprime crisis, research on CRA focused on whether the regulation was effective at expanding lending in LMI communities. The majority of studies have found that CRA has reduced

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[3] The CRA is one of several laws passed in the 1960s and 1970s intended to reduce credit-related discrimination and expand access to credit. The Equal Credit Opportunity Act (1974) and the Fair Housing Act (1968) explicitly prohibit discrimination on the bases of race, sex, or other personal characteristics. In addition, the Home Mortgage Disclosure Act (1975), which requires the disclosure of mortgage lending and application data, was enacted to increase transparency and to support public and private investment activity.

[4] For a good overview on CRA's legislative and regulatory history, see Sandra F. Braunstein, Director, Division of Consumer and Community Affairs, "The Community Reinvestment Act," Remarks before the Committee on Financial Services, U.S. House of Representatives February 13, 2008.

[5] As part of their CRA exam, large banks are also evaluated on their investments and services. Under the investment test, which accounts for 25 percent of the bank's CRA grade, the agency evaluates the amount of the bank's investments, its innovation, and its responsiveness to community needs. Under the service test, which makes up the remaining 25 percent of the bank's evaluation, the agency analyzes "the availability and effectiveness of a bank's systems for delivering retail banking services and the extent and innovativeness of its community development services." Different rules apply for "small" and "intermediate small" institutions. For more complete details on the CRA regulations, visit http://www.ffiec.gov/cra/default.htm for text of the regulations and Interagency Q&A.

[6] For example, as a result of CRA, banks have become important funders of affordable rental housing and community facilities, such as childcare centers and charter schools. CRA also supports broader community and economic development through investments in nonprofits and Community Development Financial Institutions.

information costs and fostered competition among banks that serve low- and moderate-income areas, thereby generating larger volumes of lending from diverse sources and adding liquidity to the market (Avery et al. 1996; Barr 2005; Belsky, Schill, and Yezer 2001; Evanoff and Siegal 1996; Litan et al. 2001). In a detailed review of CRA lending before the subprime crisis, the Joint Center for Housing Studies at Harvard University concluded that CRA had a positive impact on low- and moderate-income communities. In particular, their study notes that "CRA-regulated lenders originate a higher proportion of loans to lower-income people and communities than they would if CRA did not exist." (Apgar and Duda 2003: 176) A legal review conducted by Michael Barr in 2005 also concluded that, on balance, CRA is an effective response to mortgage market lending failures, enhancing access to credit for low-income, moderate-income, and minority borrowers at relatively low cost and more efficiently than a rules-based approach (Barr 2005).

In addition, research on CRA in the 1990s—the height of CRA enforcement—has shown that lending by institutions with a CRA obligation was not inherently more risky or less profitable than banks' other lending activities.[7] For example, research conducted by the Federal Reserve Board concluded that mortgage loans that satisfy the LMI element of CRA's Lending Test were at least marginally profitable for most institutions, and that CRA lending performed no differently than from other lending.[8]

Research on CRA and the Subprime Crisis

While CRA has been in effect over three decades, the upheaval in the mortgage market has led to renewed interest in CRA. There are a lot of good questions to be asked about CRA, particularly as we grapple with how to make lending work for the broader economy in a way that is safe and sound. Unfortunately, the focus of the debate has been on unsubstantiated conservative claims that pin the growth of subprime lending on CRA. It is important to emphasize that none of these claims have been backed by rigorous empirical research. Indeed, the majority of studies suggest that CRA played little to no role in the risky subprime and private lending of the mid-2000s and that CRA-motivated lending has performed relatively well by contrast.[9]

First, CRA-motivated loans represented only a very small portion of the subprime lending market. Nearly half of all subprime loans between 2004 and 2006 were originated by independent mortgage companies (IMCs) not covered by CRA at all (Avery, Brevoort, and Canner 2007). Most of the rest of the subprime lending undertaken by banks or their mortgage company subsidiaries and affiliates did not qualify for CRA credit. In a detailed review of lending in 2005 and 2006, the height of the subprime boom, economists at the Federal Reserve Board of Governors found that only six percent of subprime loans were subject to CRA review, meaning that they were extended by CRA-obligated lenders to lower-

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[7] The 1990s saw increased CRA enforcement for a variety of reasons, including increased bank mergers and acquisitions following the 1994 Riegle-Neal Interstate Banking and Branching Act, increased scrutiny of lending practices by the media and activism by housing advocacy groups, and tougher enforcement of CRA by the Clinton Administration.

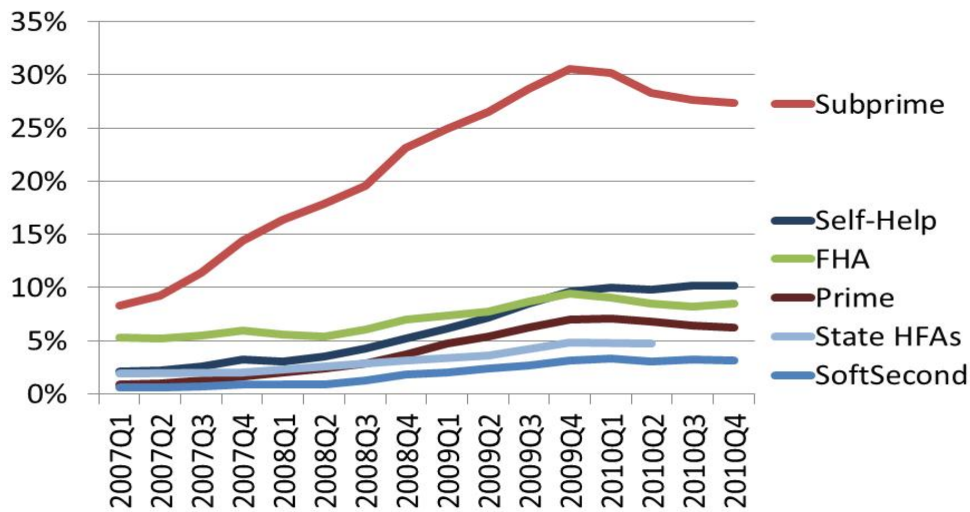
[8] See Board of Governors of the Federal Reserve System, Report to the Congress on Community Development Lending by Depository Institutions (Washington, DC, 1993), 1–69; and Board of Governors of the Federal Reserve System, The Performance and Profitability of CRA-Related Lending (Washington, DC, July 2000), 1–99, available at http://www.federalreserve.gov/BoardDocs/Surveys/CRAloansurvey/cratext.pdf.

[9] The Financial Crisis Inquiry Commission reviewed all the evidence and concluded that "the CRA was not a significant factor in subprime lending or the crisis." See the FCIC, Financial Crisis Inquiry Commission Full Report, available online at http://fcic-static.law.stanford.edu/cdn_media/fcic-reports/fcic_final_report_full.pdf, p. 27.

income borrowers or in lower-income tracts within their CRA assessment areas (Kroszner, 2008).[10] Such loans (high-cost loans that were actually CRA-eligible) represented only 1.3 percent of all mortgages made in 2004-2006—certainly not enough to set off a global financial disaster (Park, 2010).

Second, there is evidence that CRA loans have been less likely to go into foreclosure than subprime loans more generally. In fact, research suggests that CRA may have protected borrowers from the risky lending practices that were dominant in the marketplace over this time period. A study by the UNC Center for Community Capital found that prime loans originated between 2003 and 2006 through a CRA-motivated program—Self-Help's Community Advantage Program—were significantly less likely to be in default than were subprime loans made to borrowers with similar income and risk profiles (Ding et al. 2011).[11] In addition, research has shown that Self-Help loans performed significantly better than the subprime market as a whole (Figure 1).

Figure 1: CRA Loans in the Self-Help Community Advantage Program Perform Significantly Better than Subprime



Sources: Mortgage Bankers Association; Self-Help;
Massachusetts Housing Partnership; Moody's Investor Service

Similarly, studies conducted by researchers at the Federal Reserve Bank of San Francisco have shown that low- and moderate-income borrowers who received their loan through CRA lenders within their assessment area were significantly less likely to receive a subprime loan or loan with a risky product feature than those who received their loan from an independent mortgage company, even after

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[10] The Board economists also looked at whether CRA motivated banks to purchase riskier loans bundled in mortgage securities—another way that they could meet their CRA lending obligation. Again, they found that the scale of these transactions were small. CRA-covered institutions purchased less than two percent of the higher-priced and CRA-credit-eligible loans originated by independent mortgage companies (Kroszner 2008).

[11] The authors identified that the broker-origination channel, an adjustable interest rate, and a prepayment penalty, which are much more popular in the subprime market, contribute substantially to the elevated risk of default among subprime loans. When broker origination is combined with the features of adjustable rate and prepayment penalty, the default risk of a borrower is four to five times as high as that of a comparable borrower holding a CRA-type product (Ding, et al. 2011).

controlling for borrower and neighborhood risk characteristics (Laderman and Reid, 2009; Reid and Laderman, 2011).[12] Additional studies using different data and methods have confirmed this positive effect of the CRA, and all provide evidence that CRA did not encourage risky lending (Avery and Brevoort, 2011; Hernández-Murillo et al., 2012; Nelson et al., 2011). In other words, the CRA may have actually promoted responsible lending and the origination of good loans—especially to low- and moderate-income borrowers within a bank's assessment area—even as overall mortgage lending standards deteriorated during the subprime crisis.

Did CRA Encourage Risky Lending? No, It Didn't.

In stark contrast to this wide body of research, a new study released by the NBER claims to find that CRA did, in fact, promote risky lending (Agarwal et al. 2012). But a careful read of the paper reveals that the authors' evidence fails to stand up to scrutiny and that their bold claim is built on weak analysis and a lack of understanding of how the CRA works.

First, and most importantly, the paper relies on an identification strategy based on the timing of CRA exams, but their understanding of the CRA exam process is deeply flawed. In the paper, the authors compare the lending behavior of banks with an impending CRA exam (the "treatment banks") to the lending behavior of banks without an upcoming exam (the "control banks"). They find that banks with a scheduled CRA exam demonstrate "elevated lending" in the three quarters before and the three quarters after the scheduled exam date, and that this elevated lending is somewhat higher in low- and moderate-income tracts (which are CRA-eligible).[13] They measure elevated lending as a relative increase in the rate at which loan applications are converted to originations, not on the actual amount of loans made.[14] The authors claim that this increased conversion rate, relative to the conversion rate of control banks, is evidence of the banks trying to "do well" on their exam – raising their lending in CRA-eligible neighborhoods as their exam approaches so that the examiners will give them a higher CRA rating.

The problems with their analysis start with their assumption that the three quarters before and after an onsite CRA examination is conducted are "when incentives to conform to CRA standards are particularly high." While the CRA exam timeframe might make for a good identification strategy,[15] the six-quarter

[12] Importantly, they found that banks with a CRA obligation were significantly less likely to originate subprime loans than were other mortgage lending institutions not covered by CRA, and that these protections were more important in lower-income communities.

[13] The FFIEC classifies census codes into "low," "moderate," "middle," and "upper" income tracts to determine CRA eligibility. Census tracts are categorized by the median family income for the tract relative to the median family income for the metropolitan statistical area (MSA) in which the tract is located. Low- and moderate-income tracts are those with a median income of less than 50 and between 50-80 percent of the MSA, respectively.

[14] Although a minor point in comparison to the paper's larger flaws, the authors do not appear to consider other possible outcomes of a loan application, which could introduce bias into the results. There are eight possible outcomes for a loan application (1. loan originated, 2. application approved but not accepted, 3. application denied by financial institution, 4. application withdrawn by applicant, 5. file closed for incompleteness, 6. loan purchased by financial institution, 7. preapproved request denied by financial institution, 8. preapproval request approved but not accepted).

[15] There's some question of whether the presence of an exam is valid as an identification strategy. Large banks are supposed to be examined every two years. If this is the case, then large banks are CRA-sensitive (per the authors) 18/24 months (75%) of the cycle. Instead of turning up their lending during CRA-sensitive times, it would be possible to assert that large banks are in fact turning down their lending for brief (and carefully timed) periods of CRA insensitivity. We're not convinced this makes sense. In addition, because the exams are held every couple of

window around the scheduled exam date used in this paper rarely corresponds to the actual period that is covered by the CRA exam.[16] In other words, they're measuring the wrong thing, looking for an effect of CRA over a time period that doesn't correspond with the timing of the loans that are actually subject to a CRA exam.

Take the latest CRA exam of JPMorgan Chase, which was scheduled for June of 2011.[17] Using the methodology described in the paper, Agarwal and his colleagues would have assessed JPMorgan Chase's lending between October 2010 and March 2012 (the three quarters before and after June 2011). But one look at the CRA Performance Evaluation—the public record of the exam—shows that JP Morgan Chase's June 2011 exam covered its mortgage lending from January 2007 to December 2010[18]—reflecting almost no overlap between the actual review period and the authors' timeframe for a purported "CRA" effect. Moreover, a careful reading of the tables in the Performance Evaluation reveals that the lending test actually evaluated Chase's market share of mortgage lending only through 2009, due to the unavailability of Home Mortgage Disclosure Act (HMDA) data for 2010 at the time of the exam.[19] Even in the most generous interpretation of the methodology presented in the paper, only one quarter of the lending measured would have actually counted toward Chase's CRA grade. While cramming might work for an exam in college, no CRA officer would suggest that a bank wait until the last possible quarter to make CRA-eligible mortgage loans and then continue that lending well past the exam date. The lack of correspondence between the authors' identification strategy and the loans actually assessed as part of the exam suggests that attributing their findings to CRA is a gross misrepresentation of reality.[20]

Second, the paper's claim that "CRA loans" (loans made by treatment banks during the period surrounding the CRA exam date) were riskier is not well supported by the evidence presented. First, the authors themselves find that the "CRA loans" were in no way ex-ante different than loans made by

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years, the banks are continually being evaluated on their lending. In other words, even if they don't have an exam in 2007, at some point their lending record in 2007 will be part of a subsequent exam.

[16] A review of performance evaluations for 20 banks overseen by the FDIC, the OCC, and the Federal Reserve all show that the period of evaluation for mortgage lending under CRA usually ends at least six months before the exam date. In addition, evaluations tend to go only through the end of a calendar year since it is more challenging to evaluate partial year data, for example, when examiners are looking at year-over-year trends or comparing the bank to other lenders. In some cases, large bank exams will cover different periods for the loans, services, and investments components of the exam. To truly understand which lending period is covered in an exam, it is important to look at the actual review period in the Performance Evaluation.

[17] See http://www.occ.gov/static/cra/exam-schedule/craq211.pdf.

[18] The Performance Evaluation for JP Morgan Chase can be found at http://www.occ.gov/static/cra/craeval/jul12/8.pdf.

[19] Because of the time it takes to process the HMDA data, the aggregate data needed to determine market share for a specific year are not available until September of the following calendar year (e.g., the aggregate HMDA data for 2010 was not available until September of 2011). As a result, data for 2010 was unavailable to the Office of the Comptroller of the Currency (OCC) at the time of the exam and so could not be used for any of the market-share tests. This means that any increased lending in the six quarters before the exam date (January 2010 through June 2011) would have had no effect on the OCC's analysis of market share for this exam.

[20] Another important assumption underlying their identification strategy is that the timing of the CRA exam is "exogenous" in that it is set by policy and not influenced by something that would influence bank lending behavior. However, the CRA exam frequency is not at all exogenous—banks with lower past-CRA ratings are reviewed more often than banks with higher CRA ratings. See http://www.federalreserve.gov/boarddocs/caletters/2003/0312/caltr0312.htm. This could introduce bias, as their 'treatment' banks are more likely to be those with the worst lending records.

banks not facing a CRA exam, concluding that there is "no meaningful change in the observable characteristics of loans made by treatment group banks relative to control group banks around the CRA exam." For example, borrower incomes, FICO scores, loan amounts, and loan-to-value ratios are all similar between the treatment and control banks. Moreover, the average FICO score for loans made by banks undergoing a CRA evaluation is 714, well above the FICO score of 640 generally associated with subprime or riskier lending. Indeed, only four percent of the loans in their main CRA sample are "subprime," suggesting that the loans made by banks undergoing CRA exams were generally high-quality, low-risk loans. The authors also don't find any increased incidence of balloon or interest-only loans, riskier product features that have subsequently been associated with a higher risk of default.[21] If CRA was driving lenders to make riskier loans, we should see evidence of these looser underwriting standards in the observed FICO score, loan-to-value ratio, or loan characteristics.

To make their case that the "CRA loans" were in fact riskier, the authors claim that loans made by "treatment banks"—those with a CRA exam—had higher delinquency rates, measured at one and two years after origination. But their evidence is far from compelling. Critically, they find a delinquency effect for only one of the three periods studied—there was no pattern of higher delinquencies for the loans made by "treatment banks" in either the 1999-2003 or 2007-2009 time periods. The differential appears only in the 2004-2006 period, which suggests that the overheated subprime and private-label market is a more likely driver than CRA (which was in effect during the entire period). In fact, the authors specifically attribute this effect to the then vibrant private-label securities market, which gave lenders an easy outlet for their risky loans in that time period, and contrast that with the stricter requirements of the GSEs that prevailed in the other time periods.

Moreover, they again seem to be looking at the wrong loans to make their point. Strikingly, the loans with the worst performance were the ones made three quarters after the exam date—clearly not loans that mattered for the actual CRA exam. Loans made before the CRA exam period registered virtually no change in defaults two years after origination.[22] Moreover, in a footnote, the authors point out that their findings of "elevated lending" and defaults during the subprime boom were "driven by non-CRA tracts," casting further doubt that these loans were made to fulfill any regulatory obligation.

It is also helpful to put their findings in perspective: among the "CRA loans" in their main sample, they find an average 90-day delinquency rate of four percent two years after origination. Analysis of LPS data shows that this is relatively low; for example, the 90-day delinquency rate for all loans originated in 2006 and 2007 after two years was well above 10 percent. Even within their subprime sample, the default rate for the "CRA loans" is markedly lower than the market as a whole, suggesting that their research is picking up the deterioration in loan performance more generally, rather than anything having to do with CRA specifically.[23]

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[21] The only anomaly is a difference in loans with limited documentation, which Agarwal et al. find is higher among CRA exam banks. However, they only observe the effect in non-CRA eligible tracts and for loans made two quarters before the exam date, leading us to question the robustness of this finding.

[22] The results indicate that loans originated three quarters before the exam and loans originated in CRA-eligible tracts two or three quarters before the exam by "treatment" banks exhibited no greater 90-day delinquencies a full two years after origination than those made by non-treatment banks, and those originated one quarter before had only a .2 to .5 percentage point increase in 90-day delinquencies a full two years after origination.

[23] A study by the Federal Reserve Bank of St. Louis found that approximately 10 percent of subprime mortgages originated between 2001 and 2005 were delinquent or went into default within the first year of origination (Demyanyk 2009). In their subprime sample, Agarwal et al. (2012) find a 90+ day delinquency rate of only six percent one year after origination, again suggesting that they are picking up the "better" loans in a bad market.

Finally, it is unclear from the paper whether the authors understand and accounted for other factors associated with bank structure, market segmentation, and CRA implementation. When CRA was passed in 1977, banks were largely locally based, and collected the vast majority of their deposits in the areas in which they had their main office. But the financial landscape has changed considerably, and accurately measuring how bank size and geographic scope influences both their CRA lending profile and the exam process is critical to understanding the real impact of CRA (Avery, Courchane, and Zorn 2009).

For example, the authors find that the effect of CRA "treatment" only holds for the 49 big banks studied—those with assets greater than $50 billion. For the 5,647 small banks (with assets less than $1 billion), the presence of a CRA exam actually decreases the rate at which applications are converted to originations, suggesting that the authors' findings are not nearly as robust as they claim.[24] Not only are the effects not robust across sizes of banks, they are not robust across time periods. The 1999-2003 period—during which CRA was enforced most strongly—shows no change in conversion rates or loan performance. In contrast, the 2004–2006 period, when the authors do find an effect, was when regulations governing CRA were eased and the importance of CRA declined (Apgar and Essene 2009; Park 2010). Indeed, it was during this time period that the Office of Thrift Supervision led an (unsuccessful) effort to unilaterally loosen CRA for institutions with more than $1 billion in assets[25] and that thrifts (and particularly their subsidiaries) increased their share of subprime lending. In other words, risky lending increased when CRA enforcement became weaker, which casts further doubt on the authors' interpretation of their results.

The fact that they only find the CRA effect for big banks also raises questions as to whether they distinguished loans made within a bank's CRA assessment area, or whether the loan was made by a bank affiliate or subsidiary.[26] One of the important aspects of CRA is that the exam focuses on lending within the bank's assessment area—usually the MSA in which the bank operates its branches and deposit-taking ATMs. However, there is no mention of assessment areas in the paper's empirical strategy; "CRA-target tracts" are defined only as low- and moderate-income tracts. The affiliate/subsidiary distinction is also important: banks have broad discretion in choosing whether to include lending by their affiliates and subsidiaries as part of their CRA evaluation, thus creating a regulatory loophole that complicates any attempts at assessing a bank's overall CRA record. Previous research has shown that banks covered by CRA were more likely to make higher quality loans within their assessment areas than in other areas, and that many banks pushed their subprime business to their affiliates and subsidiaries to evade scrutiny (Reid and Laderman 2011; Avery, Courchane, and Zorn 2009).[27,28]

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[24] Moreover, the average conversion rate calculated for the 49 big banks studied (69%) is significantly lower than for the small (85%) and medium (74%) banks in general, such that the increase in conversion rates observed among 'treatment' big banks at their peak only approaches the regular baseline conversion rate of smaller banks.
[25] See 70 Fed. Reg. 10023.
[26] Importantly, there has been a fundamental shift in where large banks make loans. Since 1994, large banks have dramatically reduced their share of loans within their assessment areas, while the share for small banks has remained relatively constant (Avery, Courchane, and Zorn 2009)
[27] For example, Avery and his colleagues found that much of the lending of large banks, even within assessment areas, was done through affiliates rather than directly by depositories and were, therefore, likely subject to a different degree of regulatory scrutiny (Avery, Couchane, and Zorn 2009).
[28] There is growing research evidence that locally based lending is an important factor in determining whether lower-income borrowers have access to fair credit, suggesting that there are significant lending differences among banks of different sizes and within/outside of their assessment areas or MSAs where they have branches (Coulton

In sum, just because a loan is made to a low-income borrower or in a low-income tract does not mean that it is a CRA loan. In evaluating the impact of CRA, all these details matter, and bank structure and market segmentation are important variables to control for. Otherwise, it's hard to tease out what the analysis is actually capturing.

Our overarching criticism of this paper—and of commentators using it to make sweeping statements about CRA—is that the authors seem to have jumped to conclusions not well supported by the analysis provided. The findings of elevated conversions are not consistent across lender sizes or across time periods, and the preponderance of evidence in the paper suggests that the examined "CRA loans" were not riskier. But most fundamentally, the loans considered in the analysis are unlikely to be CRA-motivated to begin with. While we appreciate the empirical challenges of isolating the effect of CRA, given the lack of correspondence between the paper's econometric strategy and the reality of CRA exams, we don't believe that this paper adds to the body of knowledge regarding the law's effectiveness.

The Future of CRA

Like the authors, we believe that it is critical to understand the role that CRA plays in the mortgage market and to honestly assess its strengths and where it falls short.[29] Certainly, the CRA is not perfect. But let's stop making CRA a scapegoat for the subprime crisis and instead focus our research capabilities on evaluating how it can help to support a stronger and more equitable mortgage market going forward. Indeed, the crisis has taught us that the federal government has an important role in mediating and regulating the flow of mortgage credit. On one hand, this includes policies that will limit the origination of loans that are unsafe and unsound and that close regulatory loopholes that allowed independent mortgage companies to operate outside of many consumer protections. On the other hand, it requires laws that encourage lenders to provide access to financing in a safe and sound manner.

Indeed, there still remain considerable disparities in access to credit, both by income and by race, and CRA is a critical element of efforts to ensure that all families can access safe and sustainable mortgages. For example, innovations motivated by CRA—such as Self-Help's Community Advantage Program[30]—have demonstrated how banks' CRA obligations can be leveraged to expand sustainable homeownership, even for very low-income families (Quercia et al., 2011).[31] More CRA-motivated demonstration pilots—coupled with a research evaluation component—could help us identify other

et al. 2008, Ergungor 2007, Reid and Laderman 2011). While more research is needed in this area, it suggests that controlling for assessment area lending is a critical variable in CRA analysis.

[29] For a good review of diverse viewpoints on how CRA has not kept up with a changing financial landscape, see the compendium by the Federal Reserve Banks of Boston and San Francisco, available online at http://www.frbsf.org/publications/community/cra/index.html.

[30] Launched in 1998, CAP is a partnership of Self-Help, a large community development financial institution based in Durham, N.C., Ford Foundation, and Fannie Mae. Under CAP, Self-Help purchases mortgages originated through the CRA-related lending activities of participating lenders. Self-Help then sells those loans to Fannie Mae; because the loans do not meet Fannie's underwriting guidelines, Self-Help retains the risk of the loans, using a $50 million grant from the Ford Foundation as recourse against loans that fail.

[31] Since its inception, CAP has enabled 46,000 low-income families to buy homes. The median CAP borrower earned $33,000; about 40 percent of the mortgages are to single female-headed households and about 40 percent are to minority borrowers. Fewer than four percent of the loans ended in foreclosure, despite the fact that CAP borrowers tend to have subprime credit scores and often put less than 10 percent towards a down payment. (Quercia et al, 2011).

successful strategies for linking families to financial services and helping them to build assets. In addition, let's not forget all the other ways CRA supports a healthy economy, from expanding access to credit for small businesses to investments in community facilities (such as schools and daycare centers) and affordable housing. Rather than blaming CRA for a mess caused primarily by those not subject to its reach, the focus should be on figuring out how to leverage its strengths and make it even more effective going forward.

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