

Foreword

The Community Reinvestment Act (CRA), enacted in 1977, has fostered access to financial services for low- and moderate-income communities across the country. Together with other antidiscrimination, consumer protection, and disclosure laws, the CRA remains today a key element of the regulatory framework, encouraging the provision of mortgage, small business, and other credit, investments, and financial services in low- and moderate-income neighborhoods.

Yet, since the passage of the act, the financial landscape has changed dramatically. How well has the CRA kept up over 30-plus years? Wherever one stands on the answer to this question, there is a general consensus on the need to reexamine this important regulation in the context of financial modernization.

To commemorate the 30th anniversary of the CRA, the Federal Reserve Bank of Boston hosted a special forum in October 2007. Researchers, regulators, bankers, nonprofit practitioners, and community advocates participated in the event. The discussion began with a speech on the legislative intent of the original act. Speakers addressed the changes and consolidation in the banking industry, the growth of nonbank providers of financial services, the major revisions to the CRA and to the examination process, innovations at the state level, and the demographic changes in low- and moderate-income communities. The event closed with a discussion of the future of the CRA, including proposed alternatives. Overall, this discussion underscored the need for an even deeper look at the CRA.

To tackle the many-sided issue of CRA reform, the Federal Reserve Bank of Boston partnered with the Federal Reserve Bank of San Francisco in assembling a team of experts to share their ideas, opinions, and research. The authors who contributed to this project include academic researchers, current and former regulators, community development practitioners, and financial

service industry representatives. Of course, they have various, and sometimes divergent views, but they possess a common desire to improve the regulatory system to ensure access to financial services for all in a safe and sound way.

In this volume, we capture many different perspectives on the past and future of the CRA, provide facts, and highlight possible reforms—all in an effort to foster debate. Our efforts were helped considerably by the participation of Ellen Seidman of the New America Foundation, whose knowledge and expertise was invaluable in identifying topics and authors for this volume.

We also address the critics of the act who have pinned the blame for the subprime mortgage crisis on the CRA. There is no empirical evidence to support the claim that the CRA is responsible for the crisis, as several authors in the volume make clear. First, former Federal Reserve Governor Randall Kroszner argues in a speech included in this volume that the CRA did not contribute to any erosion in safe and sound lending practices. He specifically cites an analysis by the Federal Reserve Board that revealed that 60 percent of higher-priced loans went to middle- or higher-income borrowers or neighborhoods not covered by the CRA, and only six percent of all higher-priced loans were extended by CRA-covered lenders to lower-income borrowers or neighborhoods in their CRA assessment areas. Moreover, a research paper by the Federal Reserve Bank of San Francisco in this volume finds that loans originated by CRA-covered lenders were significantly less likely to be in foreclosure than those originated by independent mortgage companies not covered by the CRA.

The current financial crisis challenges us to reconsider the entire financial regulatory system, including updating the CRA. Proposals calling for reform have rightly been offered in this volume. We welcome a reasoned debate about solutions.



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