

## Community Investments Vol. 11, Issue 2 Editor's Notebook

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If a tree falls in a forest and no one is present, does it make a sound? This age-old philosophical question continues to provide endless hours of debate and still no answers. Here's another question to ponder: If the CRA is abolished, would banks still lend, invest and provide services to residents of low-moderate income geographies? While it is generally understood that the CRA presents a certain regulatory burden, it seems surprising that the debate around CRA still persists to the extent that it does, given that there is proof that CRA can be a profitable business venture. Some interesting evidence includes:

- Federal Reserve Board research cited annual loss rates on CRA loans from 1993 to 1997 as one third of one percent, A survey of large residential mortgage lenders showed that 98% of these lenders found CRA loans profitable, with 24 percent finding them as or more profitable than other loans, There is no evidence the loss rate for CRA small business loans is any higher than the loss rate for other (non-CRA) small business loans.
- A 1998 Bear Sterns study, conducted at the height of the economic turmoil in Asia, suggested that securities backed by CRA loans (targeted to low-moderate income individuals) were a "safe haven" for investors seeking alternate financing in a volatile market.

- A 1997 Fed study titled "The CRA and the Profitability of Mortgage-Oriented Banks" suggested that lenders active in lower-income neighborhoods and with lower-income borrowers appeared to be as profitable as other home mortgage lenders.
- A 1994 National Mortgage News article titled "Low-Income Lending Can Be Prudent" cited a United Jersey Bank statement indicating that its \$350 million low/moderate-income residential portfolio "is the best performing portfolio in the bank."

The banking industry has done an extraordinary job in responding to the needs of low- and moderate-income communities. The results, many of which have been driven by the existence of the CRA, are tangible in hundreds of communities throughout this country. While the debate continues about the need for the CRA, no one can argue that many business opportunities exist in new markets throughout the country. But, if the CRA goes away, will the motivation exist to discover and capitalize on these profitable and deserving markets?