

# N A A H L

**NATIONAL ASSOCIATION OF AFFORDABLE HOUSING LENDERS**

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To the Editor:

The only thing toxic about Edward Pinto's Sept. 28 Open Forum column, "CRA Actually Is Toxic Lending," is the column itself. Mr. Pinto's "research" into Community Reinvestment Act (CRA) lending is just another effort in a campaign blaming CRA for the financial and housing meltdown.

Mr. Pinto tries to link CRA lending to Fannie Mae and Freddie Mac's downfall by asserting that CRA loans are "nonprime/subprime", and that the GSEs bought CRA loans to fulfill their affordable housing goals mandate. Like other critics, he offers up CRA as a scapegoat for the crisis because it allegedly led to lax lending standards.

Mr. Pinto's opinions – because that's what they are – are wrong. The facts of the matter are if more of the mortgages during the housing boom had been originated by CRA lenders, we all would have much been better off.

A 2008 report by the University of North Carolina's Center for Community Capital found that "community reinvestment loans have a lower default risk than subprime loans, very likely because they are not originated by brokers and lack risky features such as adjustable rates and prepayment penalties." In addition, in its analysis of loan performance of mortgages made to low income homeowners who participated in CRA-funded homeownership counseling, NeighborWorks America concluded that the foreclosure start rate for those loans in the second quarter of 2008 was 0.21 percent, five times less than the overall market's foreclosure start rate of 1.08 percent during the same period.

Also, the Federal banking regulators, all appointed by the Bush Administration, say CRA lending did not trigger the mortgage meltdown that kicked off the financial crisis. Research by the Federal Reserve found that only six percent of all the higher-priced loans were extended by CRA-covered lenders to lower-income borrowers or neighborhoods, leading a former Fed governor to conclude that "This result undermines the assertion by critics of the potential for a substantial role for the CRA in the subprime crisis."

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Mr. Pinto's repetition of his opinions still doesn't make them facts. He contends that 50 percent of CRA originations were acquired by Fannie Mae and Freddie Mac to fulfill their HUD-mandated affordable housing goals, thereby making such "goals rich" loans a "proxy for CRA performance." NAAHL's members, the country's leading CRA lenders, would be surprised to learn that the GSEs bought so many CRA loans, since they spent years trying to sell their consumer-friendly CRA mortgages into the secondary market to replenish their loan funds, but Fannie Mae and Freddie Mac consistently snubbed them.

Instead, as the June 10, 2008 Washington Post article, "How HUD Mortgage Policy Fed the Crisis," documents, HUD, then the goals regulator for Freddie Mac and Fannie Mae, allowed the companies to 'game the system' to maximize profits on mortgages made to median income and minority borrowers. As the Post put it, "HUD stuck with an outdated policy that allowed Freddie Mac and Fannie Mae to count billions of dollars they invested in subprime loans as a public good that would foster affordable housing."

It's clear that Fannie Mae and Freddie Mac's activities helped fuel the extreme rise of subprime mortgages in the shadow banking sector that ultimately crashed the housing market, but their affordable housing goals and CRA had nothing to do with it. James Lockhart, until recently the GSEs' regulator, said earlier this year "In retrospect it was a **perversion of the [HUD] goals process for them [GSEs] to get goals credit for mortgages that were designed to fail.**" A September 2009 GAO report on the GSEs substantiates the Post's conclusions about Fannie Mae and Freddie Mac's mortgage investments.

We shall continue to defend CRA against disinformation from Mr. Pinto and others, and our members will continue their CRA lending and investment in low and moderate income communities, helping to expand needed affordable housing and boost community and economic development.

Sincerely,

Judith A. Kennedy  
President and CEO