

United States Senate

WASHINGTON, DC 20510-3005

October 24, 2008

Henry M. Paulson Jr.
Secretary
Department of the Treasury
1500 Pennsylvania Ave NW
Washington, DC 20220

Ben S. Bernanke
Chairman
Board of Governors of the Federal Reserve
20th Street and Constitution Ave, NW
Washington, DC 20551

Dear Secretary Paulson and Chairman Bernanke,

I am concerned about the recent false accusations blaming our current economic crisis on the Community Reinvestment Act (CRA). While I am used to the blame game in Washington, there are simply some accusations that are so far from the truth they must be challenged head on.

As you know, the Community Reinvestment Act requires federally regulated and insured financial institutions to invest and lend in low-income communities. It has been a successful tool in providing credit to underserved neighborhoods. Unfortunately, some have argued that this extension of credit is the root cause of our financial crisis. Nothing could be further from the truth; I do not believe that the CRA is the spark that led to this fire.

Earlier this year, Janet Yellen, President and CEO, Federal Reserve Bank of San Francisco, said that “There has been a tendency to conflate the current problems in the subprime market with CRA-motivated lending, or with lending to low-income families in general. I believe it is very important to make a distinction between the two. Most of the loans made by depository institutions examined under the CRA have not been higher-priced loans, and studies have shown that the CRA has increased the volume of responsible lending to low- and moderate-income households. We should not view the current foreclosure trends as justification to abandon the goal of expanding access to credit among low-income households, since access to credit, and the subsequent ability to buy a home, remains one of the most important mechanisms we have to help low-income families build wealth over the long term.” I could not agree more.

It is clear that the housing market—including subprime loans—is at the center of this storm, but the facts show that low-income, minority homebuyers are not vast receivers of subprime loans. In fact, according to the National Urban League, the vast majority of these loans went to white and middle to upper income borrowers. A new study out of the University of North Carolina at Chapel Hill reported that “home loan borrowers with similar risk characteristics defaulted at a much higher rate when they borrowed subprime mortgages than when they received loans made

primarily for Community Reinvestment Act (CRA) purposes.” Furthermore, Compliance Tech found that between 2004 and 2007, non-CRA financial service companies originated a majority of the subprime loans—another fact that demonstrates the lack of a connection between the CRA and our current crisis.

In conclusion, I urge you to make a public statement in support of the CRA not being the root cause of this crisis. While we may not agree on the actual cause, I am worried about the harm that this claim causes to the minority and low-income community and believe it is important to put an end to this false accusation. Thank you for your consideration and I look forward to your answer to this letter.

Sincerely,



ROBERT MENENDEZ
United States Senator