



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

BEN S. BERNANKE
CHAIRMAN

November 25, 2008

The Honorable Robert Menendez
United States Senate
Washington, D.C. 20510

Dear Senator:

Thank you for your letter of October 24, 2008, requesting the Board's view on claims that the Community Reinvestment Act (CRA) is to blame for the subprime meltdown and current mortgage foreclosure situation. We are aware of such claims but have not seen any empirical evidence presented to support them. Our own experience with CRA over more than 30 years and recent analysis of available data, including data on subprime loan performance, runs counter to the charge that CRA was at the root of, or otherwise contributed in any substantive way to, the current mortgage difficulties.

The CRA was enacted in 1977 in response to widespread concerns that discriminatory and often arbitrary limitations on mortgage credit availability were contributing to the deteriorating condition of America's cities, particularly lower-income neighborhoods. The law directs the four federal banking agencies to use their supervisory authority to encourage insured depository institutions--commercial banks and thrift institutions that take deposits--to help meet the credit needs of their local communities including low- and moderate-income areas. The CRA statute and regulations have always emphasized that these lending activities be "consistent with safe and sound operation" of the banking institutions. The Federal Reserve's own research suggests that CRA covered depository institutions have been able to lend profitably to lower-income households and communities and that the performance of these loans is comparable to other loan activity.¹

Further, a recent Board staff analysis of the Home Mortgage Disclosure Act and other data sources does not find evidence that CRA caused high default levels in the subprime market. A staff memorandum discussing the results of this analysis is included as an enclosure.

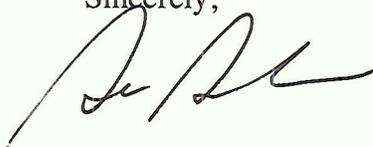
¹ The Performance and Profitability of CRA-related Lending Report by the Board of Governors of the Federal Reserve System, submitted to Congress pursuant to section 713 of the Gramm-Leach-Bliley Act of 1999, July 2000. Refer to www.federalreserve.gov/BoardDocs/Surveys/CRAloansurvey/

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As the financial crisis has unfolded, many factors have been suggested as contributing to the current mortgage market difficulties. Among these are declining home values, incentives for originators to place loan quantity over quality, and inadequate risk management of complex financial instruments. The available evidence to date, however, does not lend support to the argument that CRA is to blame for causing the subprime loan crisis.

Sincerely,

A handwritten signature in black ink, appearing to be "R. Menendez", written in a cursive style.

Enclosure