# Americans for Financial Reform
Accountability, Fairness, Security

# Mortgage Relief and the Community Reinvestment Act

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## Mortgage Relief

One legacy of the sub-prime crisis is a deepening spiral of home foreclosures. With unemployment increasing, defaults and foreclosures are now spreading from homeowners with sub-prime loans to ordinary homeowners with conventional fixed rate mortgages that have become unaffordable due to economic hardships.

Foreclosure notices were filed on over 2 million homes in 2008, and that number is expected to increase during 2009. At the end of 2008, about 8 percent of all mortgages were delinquent; for sub-prime loans, the figure was 22 percent.

The current mortgage modification program, known as Making Home Affordable, spends $75 billion to give banks and other institutions financial incentives to modify the terms of mortgages. It excludes most homeowners whose mortgages exceed the value of their homes, as well as those who have fallen behind on their monthly payments. The *New York Times* reported that at most 55,000 mortgage loans had been modified under the program as of late May 2009. The number of homeowners in need of modification is well into the millions.

The portion of the Obama Administration's program that would have compelled refinancings in some cases—authorization for bankruptcy judges to modify home mortgage terms—was defeated by the senate after fierce industry lobbying.

The federal government needs a much more robust program of mortgage relief. It could include direct government refinancing at the Treasury borrowing rate, modeled on the Home Owners Loan Corporation of the 1930s, which eventually refinanced one American mortgage in five. It also could embrace the approach first proposed by the National Community Reinvestment Coalition in February 2008, under which the federal government would use its eminent domain power to acquire both whole loans and securitized mortgages, write down their value to current market value, and pass along the savings to the homeowner in the form of an affordable mortgage.

The goal of public policy should be to maximize the number of homeowners with distressed mortgages who keep their homes. Any other approach—including the current policy—will only permit the foreclosure crisis to drag down the value of other homes and prolong the general financial and economic crisis through the ripple effects of millions of home foreclosures.

## The Community Reinvestment Act

The Community Reinvestment Act (CRA) has been one of the most important tools for building wealth and revitalizing neighborhoods. CRA encourages banks to respond to a variety of needs in low- and moderate-income (LMI) communities by financing affordable rental housing, home ownership, and small business creation. It also democratizes oversight and encourages meaningful partnerships between financial institutions and LMI communities by enabling community organizations to intervene in proposed mergers or expansions and demonstrate whether banks have met the credit needs of the communities they serve.

CRA is also an antidote to the foreclosure crisis because it rewards banks for foreclosure prevention efforts such as counseling, modifying loans, and investing in funds that finance loan modification, and because it requires banks to meet the credit needs of all communities consistent with safety, soundness, and consumer protection principles. For these reasons, Congress must strengthen CRA as it applies to banks and expand CRA's reach to non-bank financial institutions.

## The CRA Modernization Act of 2009

The *CRA Modernization Act* of 2009, H.R. 1479, introduced by Rep. Eddie Bernice Johnson, would increase the responsiveness and accountability of banks to all communities, rural and urban. It would require CRA examinations in the great majority of geographical areas that banks serve. Currently CRA examines banks in areas where they have branches but not in areas where they lend through brokers. The bill would address racial disparities in lending by requiring CRA exams to consider lending and services to minorities in addition to LMI communities. The bill would require the reporting of race and gender of small-business borrowers as well as data regarding deposit and savings accounts. It would require the Federal Reserve Board to create a database on foreclosures and loan modifications, which would be similar in approach to Home Mortgage Disclosure Act data.

The bill would enhance the ratings system of CRA exams and require banks to submit public improvement plans, subject to public comment, when they earn low ratings in any of their service areas. It also would require federal regulatory agencies to hold more meetings and public hearings when banks merge or seek to close branches. Additionally, it would establish requirements for all affiliates and subsidiaries of banks, independent mortgage companies, mainstream credit unions, insurance companies and securities firms.

If passed, the *CRA Modernization Act* would leverage trillions of dollars in additional safe and sound loans and investments for America's neighborhoods. It would help steer the country out of the current financial crisis by requiring financial institutions to invest in our people and our communities. Policy makers must strengthen these forms of citizen participation and give more emphasis to the information consumers and community organizations provide.