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Bill Clinton Helped Cause The Housing Crisis.

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History

The **Community Reinvestment Act** (or **CRA**, Pub.L. 95-128, title VIII, 91 Stat. 1147, 12 U.S.C. § 2901 *et seq.*) is a United States federal law that requires banks and savings and loan associations to offer credit throughout their entire market area and prohibits them from targeting only wealthier neighborhoods with their services, a practice known as "redlining." The purpose of the CRA is to provide credit, including home ownership opportunities to underserved populations and commercial loans to small businesses. It has been subjected to important regulatory revisions.

The CRA was passed into law by the 95th United States Congress in 1977 as a result of national grassroots pressure for affordable housing, and despite considerable opposition from the mainstream banking community. The CRA mandates that each banking institution be evaluated to determine if it has met the credit needs of its entire community. That record is taken into account when the federal government considers an institution's application for deposit facilities, including mergers and acquisitions.

The bill encouraged the Federal National Mortgage Association, commonly known as Fannie Mae, to enable mortgage companies, savings and loans, commercial banks, credit unions, and state and local housing finance agencies to lend to home buyers. It also encouraged the Federal Home Loan Mortgage Corporation, commonly known as Freddie Mac, to buy mortgages on the secondary market and sell them as mortgage-backed securities on the open market.

Enter Bill Clinton

In 1995, as a result of interest from President Bill Clinton's administration, the implementing regulations for the CRA were strengthened by focusing the financial regulators' attention on institutions' performance in helping to meet community credit needs.

These revisions with an effective starting date of January 31, 1995 were credited with substantially increasing the number and aggregate amount of loans to small businesses and to low- and moderate-income borrowers for home loans. These changes were very controversial and as a result, the regulators agreed to revisit the rule after it had been fully implemented for seven years. Thus in 2002, the regulators opened up the regulation for review and potential revision.

Part of the increase in home loans was due to increased efficiency and the genesis of lenders, like Countrywide, that do not mitigate loan risk with savings deposits as do traditional banks using the new subprime authorization. This is known as the secondary market for mortgage loans. The revisions allowed the securitization of CRA loans containing subprime mortgages. The first public securitization of CRA loans started in 1997 by Bear Stearns. The number of CRA mortgage loans increased by 39 percent between 1993 and 1998, while other loans increased by only 17 percent.

Other rule changes gave Fannie and Freddie extraordinary leverage, allowing them to hold just 2.5% of capital to back their investments, vs. 10% for banks. By 2007, Fannie and Freddie owned or guaranteed nearly half of the \$12 trillion U.S. mortgage market. Thus leading us to the problems of today.

Just like all other administrations, the effect of a presidency often isn't felt until after he leaves office. Clinton reaped the benefits of the Reagan/Bush era, and George W. Bush, is having to deal with the problems created by his predecessor and are now coming to fruition.

27 comments:

[Mary Ann S.](#), Sep 27, 2008