

Revisiting the CRA

A Policy Discussion

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New Approaches

- ❑ **What should be done with the CRA?**
 - ❑ Ellen: Modernize it by expanding its coverage to the whole financial marketplace
 - ❑ Larry: Modernize by replacing it with more appropriate mechanisms to deliver on the goals
 - ❑ Mark: Modernize it and transform the marketplace it regulates
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Why does CRA need to be modernized?

- ❑ Mark: The market has evolved away from form in which CRA was relevant: demographically, not geographically defined; multiple delivery channels
 - ❑ Ellen: Market players evolved: got bigger through mergers; non-regulated segment proliferated; types of products and services needed on demand side changed
 - ❑ Larry: It was misguided in the first place: requiring banks to make loans that they wouldn't have; enforcement ambiguous
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My view

- We need a better theoretical frame to understand CRA in dynamic context
 - Need to use the use the theory to guide development of a regulatory regime that evolves—or co-evolves—so that the approach is not obsolete soon after it is put into effect
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Coevolution theory

- Evolution of two or more entities brought about by reciprocal *selective pressure* between them
 - CRA—an example of *antagonistic coevolution* among lenders and regulators
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The Red Queen Problem

- “It takes all the running you can do, to keep in the same place”
 - A species in a coevolutionary setting must evolve quickly just to hold on to its ecological niche
 - CRA became obsolete because it could not evolve as quickly as the marketplace or market players
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The speciation problem

- Antagonistic co-evolution often spurs geographic speciation—the development of new species that are immune to the selective pressure exerted by the coevolving partner
 - Typically inhabit new geographic areas—e.g. the unregulated space where they have a reproductive advantage
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Main point

- If we understand CRA within a dynamic, co-evolutionary, framework then we might have a better chance of developing a system that is sustainable
 - Need to understand the whole lending ecosystem—the whole market, and both sides of it
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Sustainable systems of checks and balances

- We need to empower the third player to monitor and adjust the behavior of the two main players in the space—through the use of better information
 - We cannot rely on specific tools to get the job done—fair lending, antidiscrimination, etc.—more specific enforcement criteria will not contain evolutionary forces
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