Testimony offered on behalf of:
MARYLAND MORTGAGE BANKERS & BROKERS ASSOCIATION, INC.

IN OPPOSITION OF:
HB0392 – Financial Institutions –
Maryland Community Reinvestment Act

House Economic Matters Committee
Hearing: 2/15/2023 at 1:00 PM

The Maryland Mortgage Bankers and Brokers Association, Inc. ("MMBBA") **OPPOSES HOUSE BILL 0392.**

MMBBA unequivocally supports federal and state fair lending laws, as well as the work of the respective government agencies responsible for their enforcement in identifying and remediating discriminatory practices such as redlining. Our members are committed to providing fair and equitable access to credit and are working with government and private sector stakeholders to develop new products and strategies to reach underserved markets or communities.

However, HB0392, is the wrong approach to ensure fair lending to minority borrowers and low- and moderate-income (LMI) communities. The bill would inappropriately impose depository-like Community Reinvestment Act (CRA) mandates on non-depository independent mortgage banks (IMBs), state-chartered banks and credit unions. The bill is redundant, with respect to state-chartered banks as all FDIC-insured banks are already subject to federal CRA requirements. Credit unions hold the mission of serving a particular membership set with a "common bond." Thus, credit unions can only receive deposits from and make loans to their membership, which ensures that deposits are used to benefit the community of the credit union.

Most importantly, HB0392 does not recognize the incompatibility of the CRA with the IMB business model and their historical lending activities. IMBs do not collect deposits to reinvest and do not have access to direct government borrowing and grants through the Federal Reserve and Federal Home Loan Bank (FHLB) Board. IMBs are already deeply engaged in sustainable lending in LMI communities and are subject to robust oversight and supervision from multiple federal and state regulators.

A Depository Institution collects deposits and then lends mortgages derived from those deposits, whereas, IMB's use short term borrowings, or warehouse lines of credit (LOC), to obtain the funds needed to originate mortgages. The mortgages are sold in the secondary market which frees up the LOC for the IMB to create another mortgage for another borrower. As a result, IMBs licensed by Maryland import funds from global capital markets and lend those funds in Maryland communities to support homeownership. IMB's do NOT take in deposits or other resources from local communities, and therefore the concept of reinvesting does not apply. Rather, IMB's channel capital from outside of the community into productive uses within the community. At its core, this is an entirely different model of originating mortgages than the model used by banks, and it is not compatible with the requirements of CRA.

IMB's are invested in our communities and are by far the largest group of lenders offering loans to LMI borrowers and minority borrowers in the state of Maryland. In 2021, IMB's accounted for 89% of FHA loans, 80% of VA loans and 78% of Rural Development loans originated in Maryland. These loans historically have supported LMI borrowers in purchasing a home. 74% of purchase loans to LMI borrowers and 74% of purchase loans to minority borrowers in Maryland in 2021 received their loan from an IMB (see attached MBA Fact Sheet). No less that the nonpartisan Urban Institute in a report from February 2022 stated that "based on an analysis of mortgage loans made to owner-occupant home purchasers, we find that banks substantially underperformed nonbanks in serving borrowers and neighborhoods of color."

Without the ability to borrow at depository rates and from the Federal Reserve, and without direct access to the various FHLB grant programs, the financial burden forced on IMB's to lend at below market rates and offer down payment assistance to LMI borrowers through internal borrowings could eliminate the IMB in the marketplace. *This would be catastrophic to the availability of mortgage funds in Low to Moderate and Minority communities.*

For these reasons, the MMBBA urges an **UNFAVORABLE REPORT on House Bill 0392**.

Respectfully,

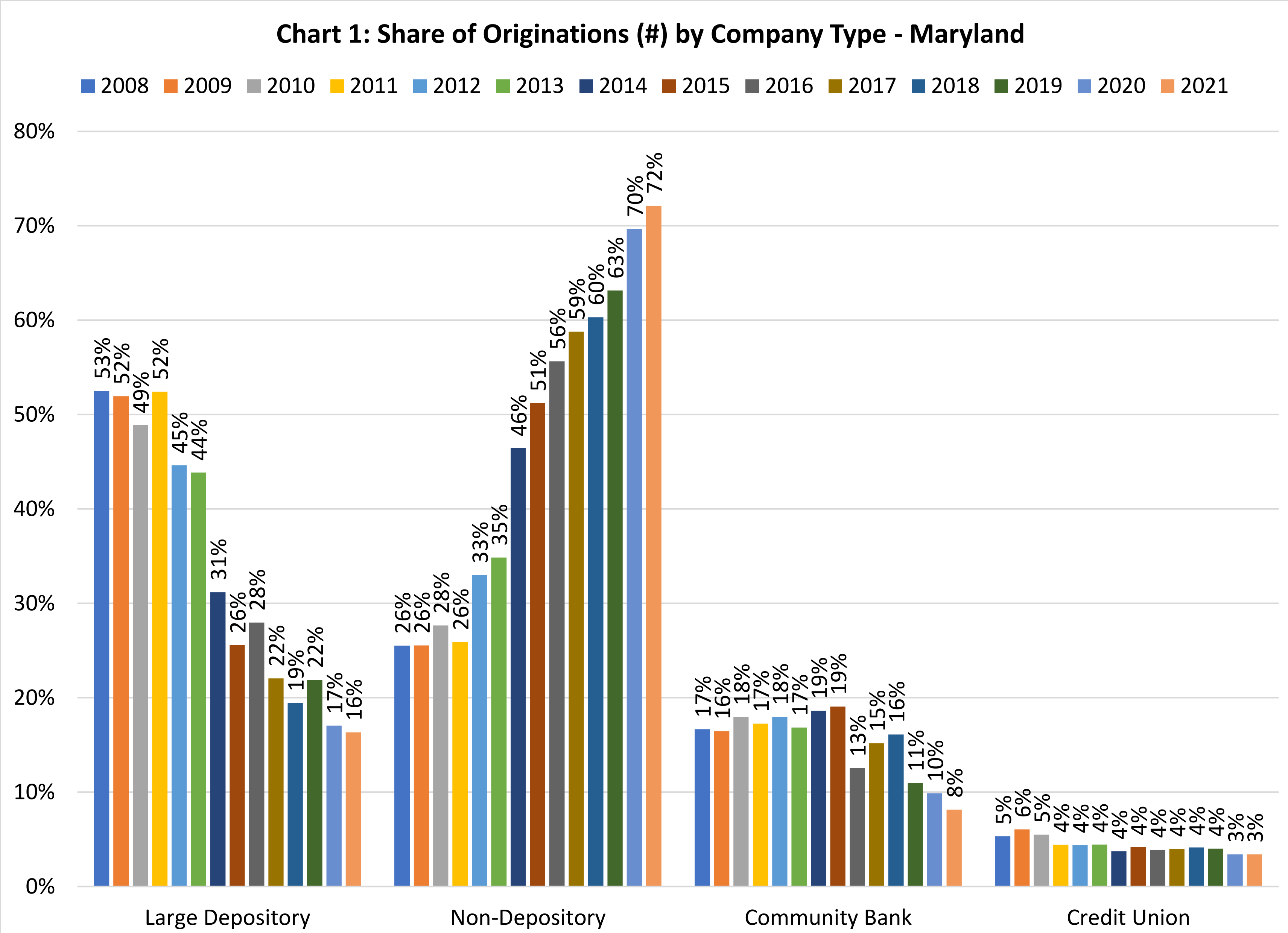
Timothy J. Gough, Co-Chair, MMBBA Legislative Committee
tgough@baycapitalmortgage.com - (410) 320-0852

MORTGAGE BANKERS ASSOCIATION

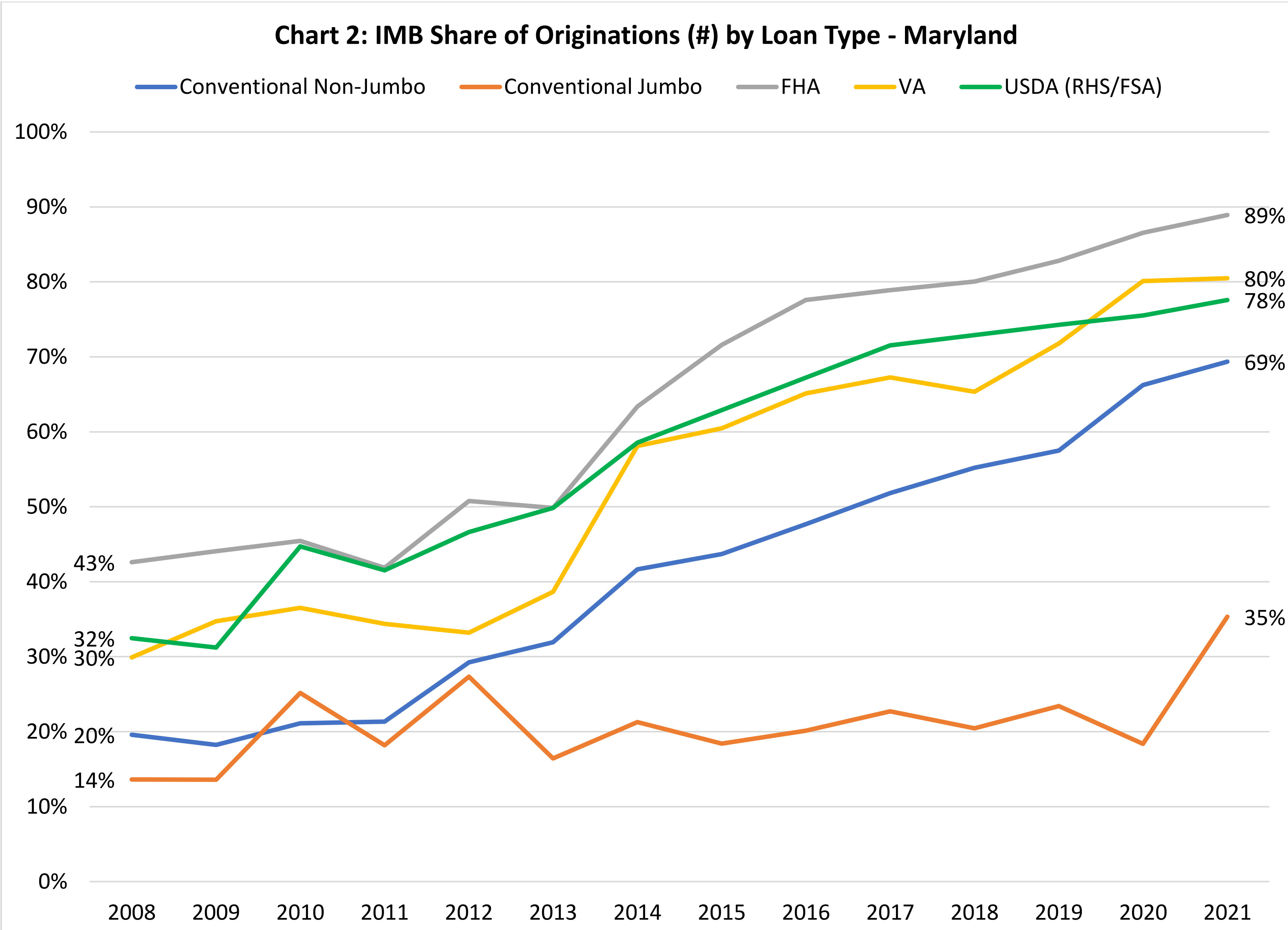
IMB Fact Sheet – Maryland

The Important Role of Independent Mortgage Banks in Financing the American Dream

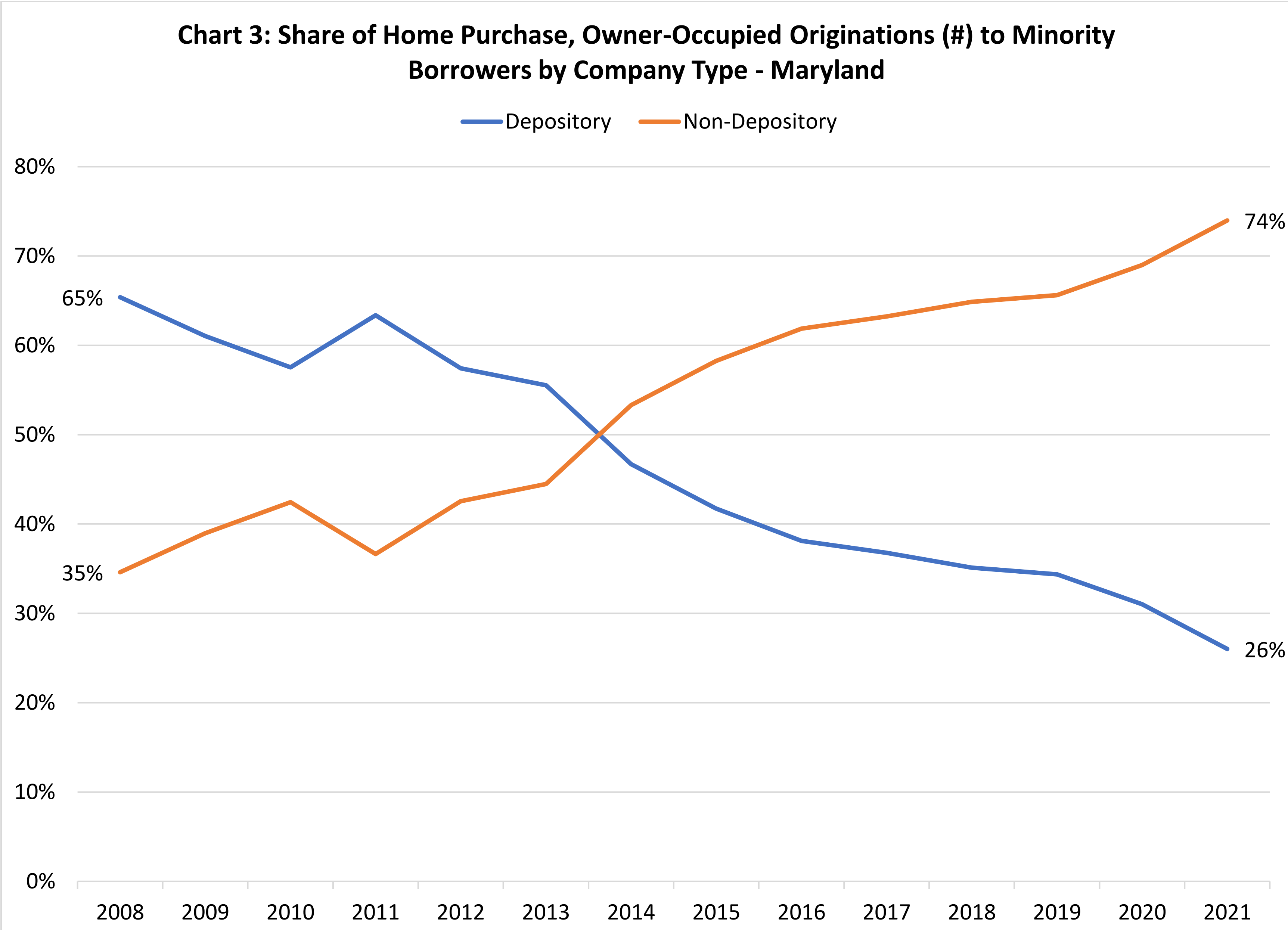
Source: Federal Home Mortgage Disclosure Act Data. Note - 2021 is the most recent year for which data are available.
The nationwide IMB share of overall single-family origination volume (in units) climbed from 24% in 2008 to 66% in 2021. In Maryland, the IMB share climbed from 26% in 2008 to 72% in 2021 (Chart 1).



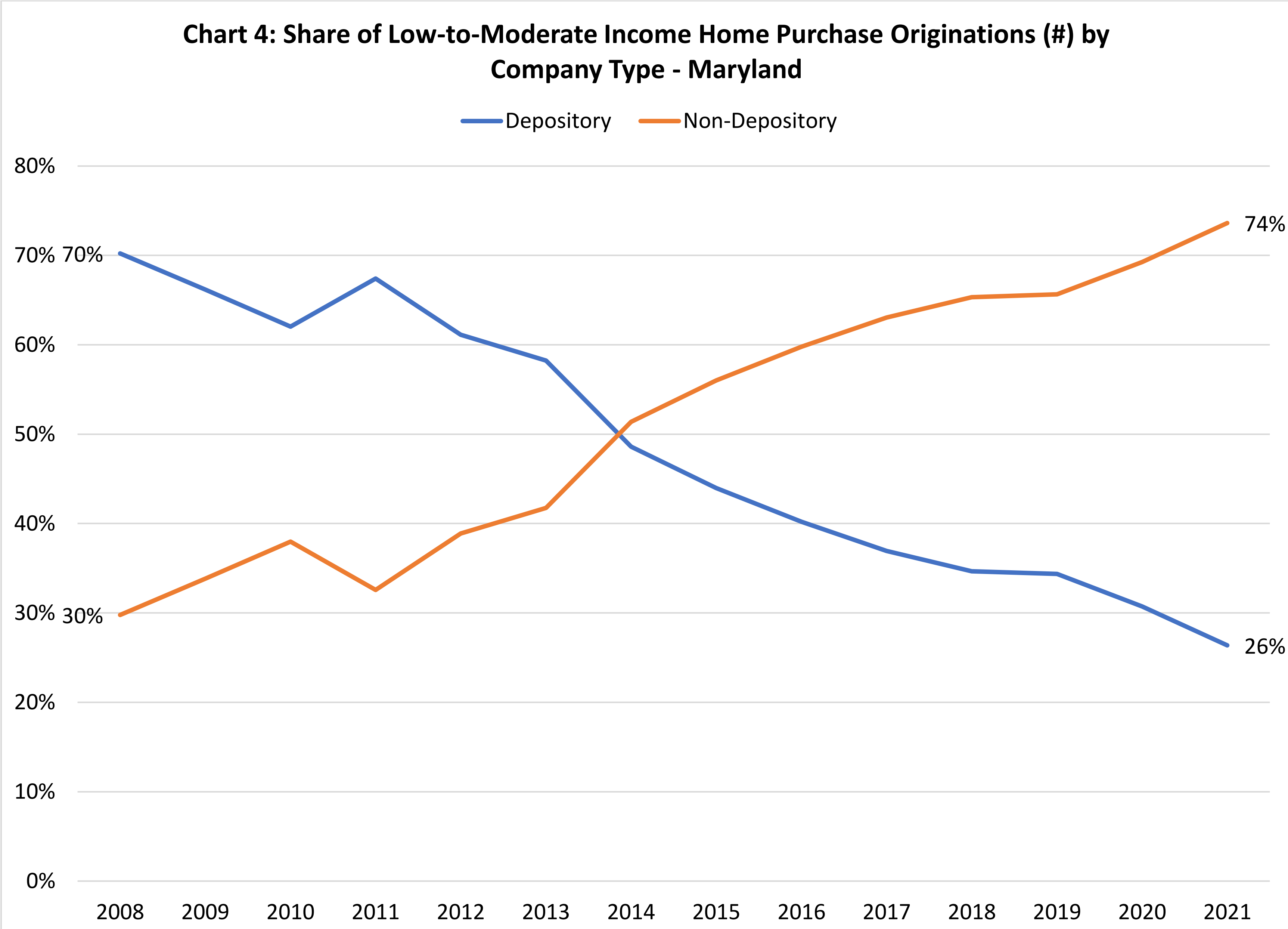
By 2016, IMBs became the predominant lender segment in both purchase loans and refinances. In addition, since 2008, IMBs have gained significant market share in every loan type category — government (FHA, VA, and Rural Housing Service), conventional, and even jumbo. In Maryland, the share of these loans originated by IMBs in 2021 was 89% of FHA loans, 80% of VA loans, and 78% of RHS loans (Chart 2).



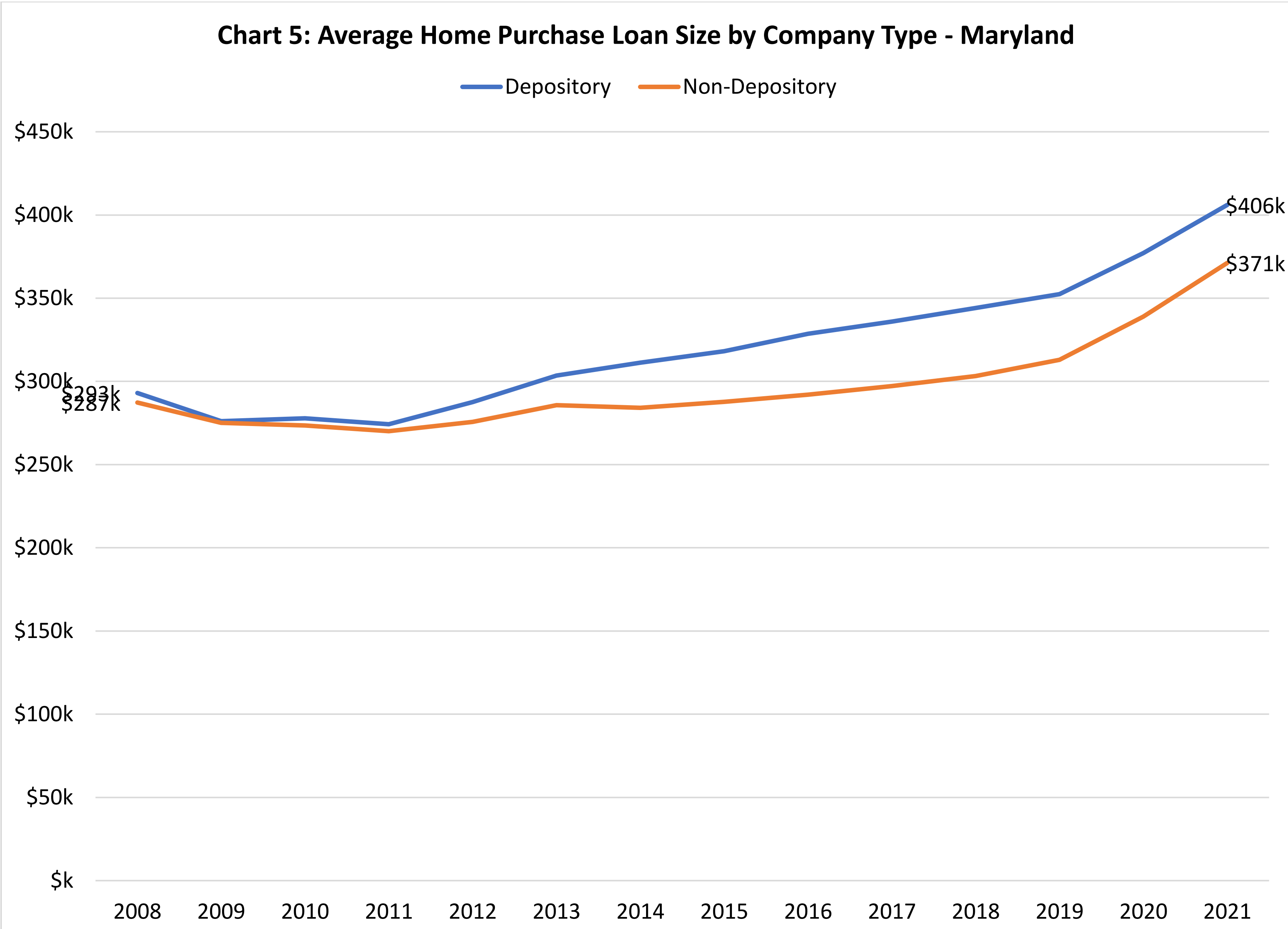
Given their market focus on government lending, during 2021 IMBs in Maryland originated 74% of home purchase mortgage loans to minority homebuyers, which is up from 35% in 2008 (Chart 3), and higher than the IMBs' overall market share (72%) in Maryland in 2021 (see Chart 1).



In Maryland, IMBs accounted for 74% of home purchase loans to low- and moderate-income (LMI) borrowers in 2021, which is up from 30% in 2008 (Chart 4). Again, IMBs' share of loans to LMI borrowers is higher than their overall market share (72%, see Chart 1).



IMBs also tend to serve borrowers needing lower-balance loans. In Maryland, the average loan amount on home purchase loans for IMBs in 2021 was $371,000 compared to $406,000 for depositories. These lower balance loans tend to serve first-time homebuyers and low- and moderate-income communities (Chart 5).



IMB FACT SHEET

Independent Mortgage Banks: Financing the American Dream

Today's IMB sector plays a crucial role in serving the single-family mortgage market with sustainable mortgage products through all economic cycles.

Independent mortgage banks (IMBs) are nondepository institutions that typically focus exclusively on mortgage lending. Mortgage bankers have originated and serviced loans since the 1870s, and IMBs have been an important component of the mortgage market for more than a century. Over the past decade, IMBs have become the primary source of mortgage credit for low- and moderate-income, as well as minority, homebuyers.

According to Home Mortgage Disclosure Act (HMDA) data, there were 881 IMBs in 2021 operating in all 50 states. IMBs are a diverse market segment and range in annual production volume from less than $10 million to more than $336 billion. Companies range from fewer than 100 employees to several thousand. IMBs strengthen our housing finance system by bringing together local market knowledge and specialized business processes. Their market presence diversifies risk across a larger number of lenders and servicers, and fosters greater competition and innovation.

The Facts About IMBs

- **Mortgage Banking Is a Time-Tested Business Model.** The independent mortgage banking model has existed for more than 100 years, and provides important market diversification.
- **IMBs Serve Critical Borrower Segments in Their Local Markets.** IMBs focus on loans for home purchase and on government-insured or -guaranteed loans. Today, IMBs are the primary source of mortgage credit for low- and moderate-income borrowers, minority households, and first-time homebuyers.
- **IMBs Are Well Regulated at Both the State and Federal Levels.** IMBs are regulated and monitored by both state and federal regulatory agencies. All of the federal and state consumer protection rules apply to IMBs, just as they do for depository institutions. IMBs are the only lenders in the market whose loan officers are required to be individually licensed and tested. Additionally, FHA, VA, Ginnie Mae, the government-sponsored enterprises, and warehouse lenders all exercise regular counterparty oversight, establish minimum financial standards, and require regular financial reporting.
- **Independent Mortgage Bankers Support Their Communities, Consumers, and the American Economy.** There are almost 900 IMBs active in the market today, the vast majority of which are locally owned institutions serving their communities by bringing mortgage funds from Wall Street to Main Street.
- **IMBs Have Skin in the Game.** IMBs have made significant, market-leading investments in technology and infrastructure for both mortgage origination and long-term servicing for their customers.

The Independent Mortgage Banker Business Model

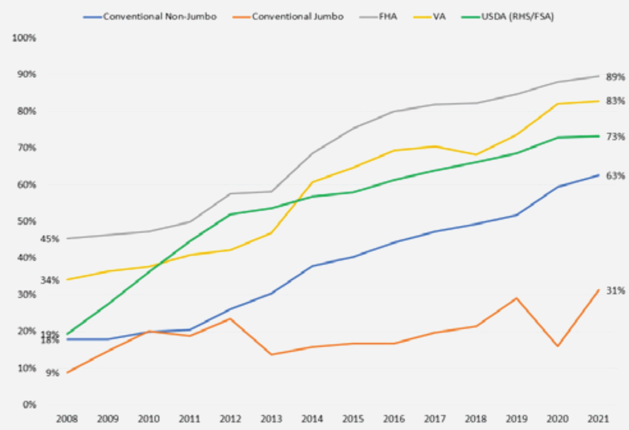
- IMBs are nondepository institutions and typically use short-term borrowings chiefly from banks, known as warehouse lines of credit, to originate their loans. The borrowing is secured by the funded loans until the loans are sold to an investor (typically Fannie Mae or Freddie Mac) or issued as securities (typically guaranteed by Ginnie Mae).
- As a result, the mortgage banking business model serves as an “importer” of capital to local communities, moving investment dollars from the capital markets on Wall Street to make home mortgages available on Main Street.

- IMBs are typically monoline companies, focused exclusively on providing home mortgage financing, mortgage servicing, and other closely related services. They operate through all market cycles and across all delivery channels (retail, broker wholesale, and correspondent).
- Most IMBs are privately held companies, owned and operated by a single individual or small number of owners whose personal net worth is fully invested in the company. This aligns the owners with the success of the enterprise, providing skin in the game and strong incentives to manage the business prudently for the long term.
- More recently, several IMBs have grown large enough to secure backing from private equity investors, arrange larger and more sophisticated commercial financing facilities, and raise capital as publicly held companies.
- Despite the economic and financial shocks from COVID-19 in 2020 and 2021, IMBs performed well. IMBs, working with their warehouse banks, obtained the additional capacity to meet the record spike in demand for mortgages. In addition, IMB servicers maintained sufficient liquidity and operational capacity to provide extended forbearance to millions of borrowers experiencing hardships, while advancing timely principal and interest payments to investors in federally-backed mortgage securities.

Bridging the Gap: IMBs' Role in Serving Low- and Moderate-Income and Minority Households

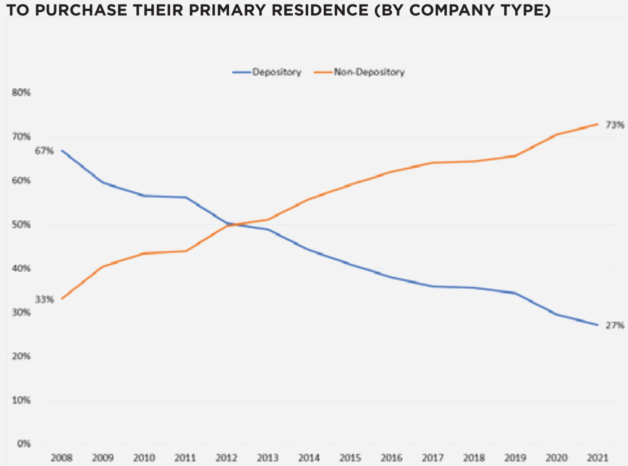
- IMBs have been around for more than a century. Their share of home mortgage lending has ebbed and flowed with broader developments in the market. Historically, IMBs have focused their lending on loans guaranteed by FHA and VA.
- More recently, IMBs have stepped into the void created as some bank lenders retreated not only from government lending, but from the mortgage market generally, in the aftermath of the 2008 financial crisis.
- While the IMBs' share of HMDA-reporting entities has remained steady in recent years, accounting for just over 20% of all reporting companies, they have grown their share of overall origination volume from 24% in 2008 to 66% in 2021.

FIGURE 1: SHARE OF ORIGINATIONS (#) BY LOAN TYPE



Source: Home Mortgage Disclosure Act (HMDA) data, 2008–2021

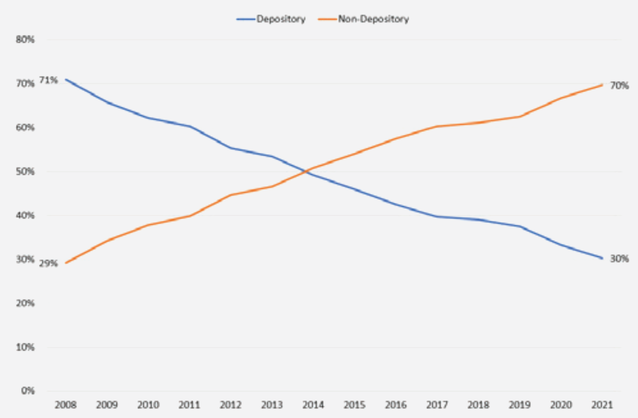
FIGURE 2: WHERE MINORITY HOUSEHOLDS HAVE OBTAINED FINANCING TO PURCHASE THEIR PRIMARY RESIDENCE (BY COMPANY TYPE)



Source: Home Mortgage Disclosure Act (HMDA) data, 2008–2021

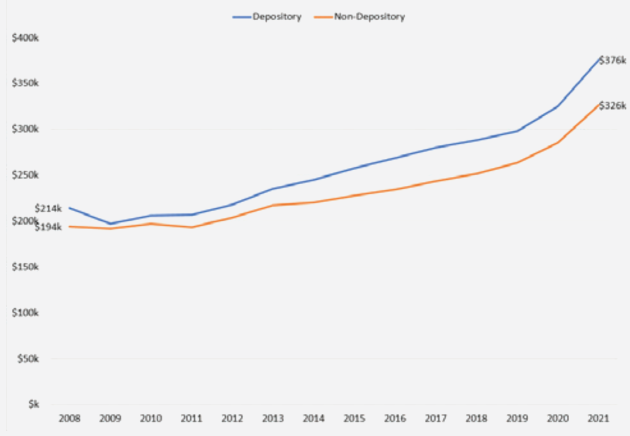
- More importantly, IMBs have become the primary source of credit for FHA, VA, and Rural Housing Service (RHS) borrowers. These government-backed programs predominantly serve low- and moderate-income families and first-time homebuyers in underserved markets.
- In 2021, IMBs accounted for more than 89% of FHA loans, 83% of VA loans, and 73% of RHS loans. (See Figure 1.) Prior to the financial crisis, federally insured depositories accounted for most of such lending.

FIGURE 3: WHERE LOW- AND MODERATE-INCOME HOUSEHOLDS OBTAIN HOME PURCHASE FINANCING (BY COMPANY TYPE)



Source: Home Mortgage Disclosure Act (HMDA) data, 2008–2021

FIGURE 4: AVERAGE LOAN AMOUNT FOR HOME PURCHASES (BY COMPANY TYPE)



Source: Home Mortgage Disclosure Act (HMDA) data, 2008–2021

- As overall IMB market share has grown, IMBs have become the primary source of home purchase mortgages for minority households. In 2021, IMBs accounted for 73% of home purchase mortgages to minority homebuyers. (See Figure 2.) Further, IMBs originated 70% of all home purchase loans for low- and moderate-income borrowers. (See Figure 3.)

IMBs also tend to serve borrowers needing lower-balance loans. The average loan amount for home purchases originated by IMBs in 2021 was $326,000, compared to $376,000 for federally insured depositories. (See Figure 4.)

Federal and State Oversight Of IMBs Is Robust

- IMBs are subject to state supervision in every state in which they do business. They are also regulated at the federal level, where the Consumer Financial Protection Bureau (CFPB) has supervisory, investigative, and enforcement authority over their lending practices and consumer compliance.
- Each year, the typical IMB faces numerous financial and consumer compliance exams from state and federal regulatory agencies. Under the auspices of the Conference of State Bank Supervisors (CSBS), state regulators have increased the frequency and rigor of state onsite examination programs for IMBs, including the use of multistate exams for larger IMBs, which are often conducted in coordination with the CFPB. In 2021, the CSBS began implementing an integrated supervisory platform called Networked Supervision that improves information sharing and coordination of IMB supervision across the states.
- In addition, Fannie Mae, Freddie Mac, Ginnie Mae, and the FHA have minimum net worth and liquidity requirements for all approved lenders and routinely monitor their performance. In the wake of the financial crisis, minimum capital standards were increased substantially, and then again in 2015, along with higher liquidity requirements. In August 2022, the Federal Housing Finance Agency (FHFA) and Ginnie Mae jointly issued a robust new capital, net worth, and liquidity framework for sellers and servicers of loans to the GSEs and for Ginnie Mae issuers. In coordination with that effort, the CSBS released a model prudential framework that aligns with these standards, which states may adopt and use in examinations. Together, these actions put in place a comprehensive financial oversight regime for IMBs.
- Warehouse lenders also closely monitor IMBs for counterparty risk, as they will look to the IMBs and the underlying collateral to get paid back in the event of a default.
- Finally, IMBs are the only mortgage lending business model that requires all individual loan originators employed by the company to be tested and licensed in each state in which they operate.