**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,

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