



THE GREATER METROPOLITAN ASSOCIATION OF REALTIST, INC.

February 22, 2021

The Honorable Delegate Dr. Pamela Queen  
Maryland House of Delegates  
District 14 Representative  
224 House Office Building  
6 Bladen Street, Annapolis, MD 21401

Dear Delegate Queen:

On behalf of the Greater Metropolitan Association of Realist, "GMAR," I am writing you in support of HB 1213, "Determination of Creditworthiness-Alternative Methods" a bill to require certain credit grantors to consider alternative methods of evaluating an applicant's creditworthiness when determining whether to accept an application for a primary residential mortgage loan or an extension of credit that will generally decide credit worthiness by certain banks and other financial institutions.

GMAR, founded in 2020 in Maryland, as the 111<sup>th</sup> Chapter of the National Association of Real Estate Brokers, "NAREB," shares NAREB's primary purpose of creating "Democracy in Housing" with a primary focus of increasing Black Homeownership in Maryland and throughout the US. GMAR is also committed to the grand scheme of closing the financial and wealth gaps between Black and White communities by not only increasing Black Homeownership but also by creating real estate opportunities for Black brokers, salespersons and other real estate professionals.

Armed with NAREB's long, storied and successful history of advocacy and support of policy and legislation supporting Black Homeownership, and based on current data regarding the extension of credit to Black people in the State of Maryland, GMAR fervently believes that historical, systemic racism, including racial discrimination in extending credit to Black borrowers, remains the greatest barrier whether for the purchase of a house, car or even a major appliance. GMAR therefore wholly believes in the need for the enactment of HB 1213 to establish the intended alternatives to determining an applicant's credit worthiness in Maryland.

An applicant's Fair Isaac and Company (FICO), or Vantage scores, purportedly objective, as determined and reported by the "Big 3," Equifax, Transunion, and Experian, typically comprise the applicant's entire credit history. This singular method for determining the applicant's credit worthiness or credit scores primarily controlled by the Big 3; however, does not always accurately reflect the applicant's ability to make timely payments nor the applicant's willingness to be bound by contract to repay the borrowed amount. Neither does the traditional system of collecting and reporting an applicant's credit data account for structural racism, negative economic shifts in the market such as inflation, recession and even by the current pandemic, which together more so than ever, conspire to disproportionately and negatively impact the credit worthiness of thousands of Black people, the most beset by these calamitous impacts on credit worthiness. Historical and current data continue to reflect that a vast majority of Black applicants for credit have comparatively lower credits scores even when considering the demographics of age and gender

than have white applicants for credit.

For example, according to 2020 SHIBA Report commissioned by NAREB, In 2018, 53 percent of Black mortgage borrowers obtained Federal Housing Administration (FHA) or Veterans Administration (VA) loans, compared to 23 percent of White borrowers. At the same time, 73.6 percent of White homebuyers obtained conventional loans, while 45 percent of Black homebuyers took out conventional mortgages. Black applicants are also more than twice as likely to have their applications rejected, and this has been the case consistently over time. Regardless of race or ethnicity, debt to income (DTI) and credit history are the most common reasons cited for loan rejection, although the proportions of rejections due to DTI and credit history are significantly higher for Black applicants. Also, Black applicants were more likely than White applicants to be rejected due to issues with collateral or incomplete applications. Low credit score readings are also no different for age demographics nor for Black women or for men.

Typically the applicant's raw credit scores, income and debt to income ratio are the main factors considered by home lenders in evaluating an applicant for the extension of credit. Today the average credit score needed to secure a conventional federally backed home mortgage loan ranges between 670-685 far above the average credit scores of potential Black homebuyers across every demographic. And if Black Homebuyers are unable to meet the conventional loan criteria, then as in the recent past, they will typically become the prey of predatory lenders eager and willing to extend them credit at oftentimes exorbitant if not usury rates. Moreover some potential Black homeowners may be marginalized and impaired by their credit scores and may never become homeowners. As such, if HB 1213 is not enacted, the credit score debacle will continue to be a major barrier to Black Homeownership in the State of Maryland.

HB 1213's purposed alternative methods of evaluating the creditworthiness of an applicant including: 1. History of rent or mortgage payments; 2. History of utility payments, 3. School attendance; and, 4. Work attendance, as much as an applicant's history of creditors, credit inquiries, debts, judgments and slow or no payments closely forecasts an applicant's trustworthiness and responsibility to repay borrowed funds and should be an integral if not an inextricable part of evaluating an applicant's credit worthiness. The applicant's history of rent, mortgage and utility payments are not always historically collected nor positively reported by the Big 3, making these factors subordinate to the applicant's current raw credit score in evaluating the applicant's credit worthiness particularly when taken as a snapshot closer to the applicant's application for credit.

Other alternatives to evaluating an applicant for credit worthiness included in HB 1213, such as school and work attendance are also important factors to this process. The level of the applicant's completed education including college and graduate and doctoral work are significant forecasters of the applicant's credit worthiness. Applicants for credit having completed high school, college and/or post-graduate work are more likely than applicant's without these levels of education to successfully repay borrowed funds. Regular work attendance not only demonstrates the applicant's discipline and commitment to upward-mobility, it is also a significant and obvious indicator that the applicant will more likely remain gainfully employed throughout the loan repayment period.

Therefore GMAR strongly supports the enactment of HB 1213, to require banks, credit unions, savings and loan associations to consider the stated alternatives to evaluating an applicant's credit worthiness provided under this bill. GMAR further believes that HB 1213 will

greatly help to increase Black homeownership, much needed in the state of Maryland.

Respectfully Yours,

*Nichelle McDuffie Hagins*

Nichelle McDuffie Hagins,

GMAR President

*Ronald A. Wright*

Ronald A. Wright

1<sup>st</sup> Vice President, GMAR

Chair, Legislative Committee