



**Testimony HB 1213**

**Economic Matters**

**February 22, 2021**

**Position: FAVORABLE**

Dear Chairman Davis & Members of the Economic Matters Committee:

The Community Development Network of Maryland (CDN) is the voice for Maryland's community development sector and serves nearly 200 member organizations. CDN focuses on small affordable housing developers, housing counseling agencies and community-based non-profits across the state of Maryland. The mission of CDN is to promote, strengthen and advocate for the community development sector throughout Maryland's urban, suburban and rural communities. CDN envisions a state in which all communities are thriving and where people of all incomes have abundant opportunities for themselves and their families.

HB 1312 requires certain credit grantors to consider alternative methods of evaluating an applicant's creditworthiness, including the applicant's history of utility payments, school attendance, and work attendance when determining whether to accept an application for a primary residential mortgage loan or an extension of credit.

Access to credit is a cornerstone of financial security and a critical asset-building tool. Being able to borrow money under reasonable terms supports long-term household savings and facilitates purchases that contribute to wealth building. But many Marylanders are "credit invisible," meaning they have no or low credit scores, preventing them from accessing affordable credit products. The issue is particularly pronounced for households of color and low-income families.

According to Prosperity Now, a national organization committed to creating opportunity economic justice, Black and Hispanic households are nearly twice as likely to be credit invisible or "unscorable" than White families and while the median FICO score for those who live in majority-White communities is around 720, the median score for neighborhoods whose populations are primarily people of color is about 650.

The way credit scores are traditionally calculated does not necessarily capture a person's creditworthiness. The major scoring models consider payments for some expenses, while not factoring in regular, on-time payment of others. For example, expenses like mortgages and credit cards are routinely taken into account, while recurring payments like rent are often not reported to the agencies. Unfortunately, the type of expenses that are usually reported do not accurately gauge the credit risk of many consumers, particularly low-income borrowers and borrowers of color (e.g., wealthier households are more likely to have mortgages, while less wealthy households tend to rent). These traditionally unreported routine payments are considered "alternative" sources of data and, along with rent, can include nonfinancial information. The reporting of rent, utility and telecommunications payments has

the potential to create a much more inclusive credit market. Research shows the inclusion of rent, utility and phone payments (whether landline or mobile) can boost scores or create scores for previously “invisible” consumers without weakening the predictive power of the score and without compromising consumer safety.

Finally, this bill is in line with the recommendations of the Maryland Senate report on Equity and Inclusion. African Americans and Hispanics face greater challenges than their nonminority counterparts in getting credit and getting favorable loan terms for mortgages and business start-up. On the state level, Maryland had the third highest proportional losses of bank branches, with 246 bank branches closing, representing a 13.8% loss. Financial institutions offer residents the ability to access loans, establish deposit accounts, and avoid high transaction fees for check cashing and other services. Closure of financial institutions’ branches can have serious effects on the surrounding communities, exacerbating the number of underbanked or unbanked individuals.

A recent report from The Center for Responsible Lending shows that over 90% of small minority-owned firms did not receive funds through the federal Paycheck Protection Program, a response to the economic downturn caused by COVID-19, indicating the difficulty in minority firms accessing financial support programs. Further, Black-owned business application rates for new funding are 10 percentage points higher than White-owned firms, but their approval rates are 19 percentage points lower.

Our state has a unique opportunity to look at alternative credit review as an opportunity to level the playing field to improve community health and revitalization, and take action to close the divide in access to capital for black, Hispanic and low-income Marylanders. in ways that less affluent states cannot. This is critical to creating more opportunity for people throughout our state.

We respectfully request a favorable report.

Submitted by Claudia Wilson Randall, Executive Director, Community Development Network of Maryland