02/23/2024 HB1135

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

IN OPPOSITION TO:
HB1135 – Financial Institutions – Community Benefit Plan Act of 2024

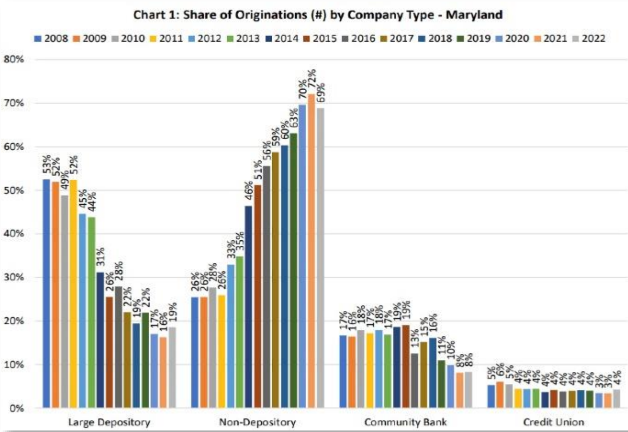
Economic Matters Committee
Hearing: 02/27/2024 at 1:00 PM

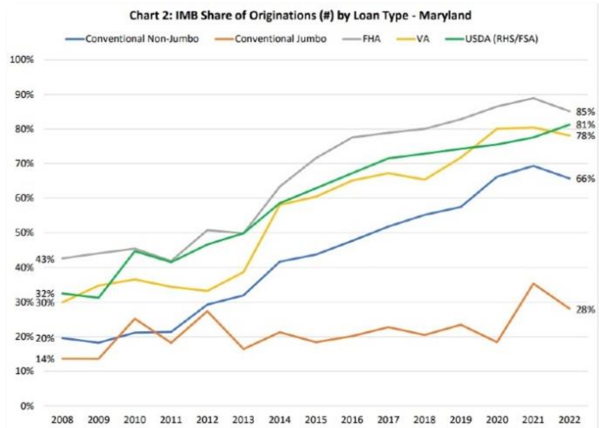
The Maryland Mortgage Bankers and Brokers Association, Inc. ("MMBBA") OPPOSES HOUSE BILL 1135.

The 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. HB1135 is a Community Reinvestment Act (CRA) bill masked as a community benefit plan. This proposal represents a solution in search of a problem and does not recognize the incompatibility of the CRA with the business models of Independent Mortgage Bankers (IMB's) and their historical lending activities. IMBs: do not have deposits to reinvest; do not have access to direct government support; already engage in sustainable lending in low- to moderate-income (LMI) communities; and are subject to robust oversight and supervision in every state they operate as well as from federal regulators. Moreover, HB1135 will impose additional regulatory costs at a time when IMB's are experiencing massive losses in mortgage origination.

Applying CRA to IMBs would be an ineffective and misguided policy choice. It also fails to answer why institutions already subject to CRA are complying with those mandates by making fewer mortgage loans nearly every year. **Instead, policymakers should seek to expand existing Federal and State affordable housing programs and work with stakeholders like the Maryland Mortgage Bankers and Brokers Association (MMBBA) to enhance or create new tools to expand homeownership to first time homebuyers.**

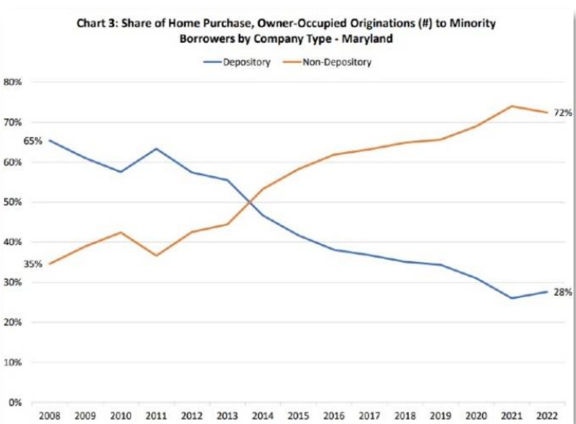
The IMB Lending Record in Maryland: Even a cursory review of Federal Home Mortgage Disclosure Act (HMDA) data for the State of Maryland available from the Consumer Financial Protection Bureau (CFPB) reveals the positive record of IMBs.

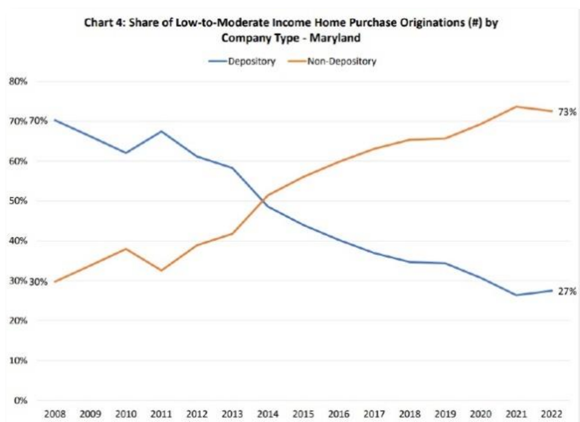




The nationwide IMB share of overall single-family origination volume (in units) climbed from 24% in 2008 to 62% in 2022. In Maryland, the IMB share climbed from 26% in 2008 to 69% in 2022 (Chart 1).

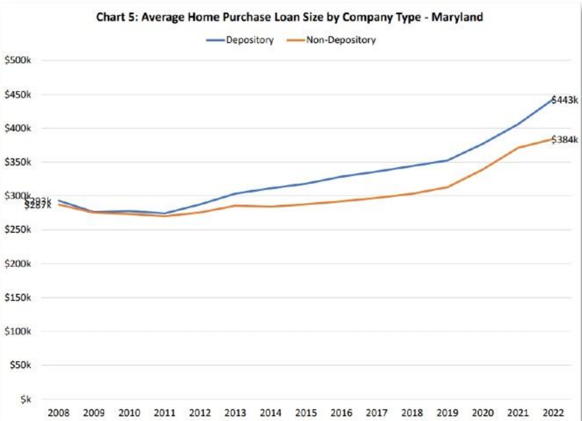
By 2016, IMBs became the predominant lender segment in both purchase loans and refinances. In addition, since 2008, IMBs have gained significant market share in every loan type category — government (FHA, VA, and Rural Housing Service), conventional, and even jumbo. In Maryland, the share of these loans originated by IMBs in 2022 was 85% of FHA loans, 78% of VA loans, and 81% of RHS loans (Chart 2). FHA's recent actuarial report showed that 82% of purchase endorsements served first-time homebuyers (as of September 2023).





Given their market focus on government lending, during 2022 IMBs in Maryland originated 72% of home purchase mortgage loans to minority homebuyers, which is up from 35% in 2008 (Chart 3), <u>and higher than the IMBs' overall market share (69%) in Maryland in 2022 (see Chart 1)</u>. In Maryland, IMBs accounted for 73% of home purchase loans to low- and moderate-income (LMI) borrowers in 2022, which is up from 30% in 2008 (Chart 4). <u>Again, IMBs' share of loans to LMI borrowers is higher than their overall market share (69%, see Chart 1)</u>.

IMBs also tend to serve borrowers needing lower-balance loans. In Maryland, the average loan amount on home purchase loans for IMBs in 2022 was $384,000 compared to $443,000 for depositories. These lower balance loans tend to serve first-time homebuyers and low- and moderate-income communities (Chart 5).



<u>Policymakers Should Instead Support Solutions</u>: Rather than burdening IMBs with unnecessary, duplicative, and expensive new CRA exams, policymakers should expand homeownership options the industry has already operationalized, and thousands of middle-class families have used to transition from rental housing to homeownership.

- Downpayment assistance programs
- Affordable housing tax credits
- Programs offered through state HFAs

<u>Also, MMBBA encourages passage of Community Development Financial Institutions (DCFI) reform legislation HB0223 (Delegate Queen), which would provide underserved communities with an affordable homeownership tool already available in 43 other states.</u>

<u>Record Losses in Mortgage Origination:</u>

Independent mortgage banks (IMBs) and mortgage subsidiaries of chartered banks reported a pre-tax net loss of $1,015* on each loan they originated in the third quarter of 2023, an increase from the reported loss of $534 per loan in the second quarter of 2023. Net income has been in the red for six consecutive quarters and the Mortgage Bankers Association (MBA) estimate additional losses to continue. We are witnessing numerous institutions either merging or exiting our business. HB1135 directs the Commissioner to increase the annual assessment fee of licensed institutions to cover the costs this bill will create. Additional assessment fees on licensed financial institutions during a period marked by record losses could have a detrimental impact on the availability of lending to underserved communities. These communities would face even greater difficulty in obtaining loans and financial services, further widening the gap in access to capital and hindering economic growth and opportunity in these areas.

For these reasons, the MMBBA urges an <u>UNFAVORABLE REPORT on House Bill 1135.</u>

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***MBA Press release dated November 14, 2023:**
https://www.mba.org/news-and-research/newsroom/news/2023/11/14/imbs-report-net-production-losses-in-the-third-quarter-of-2023