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**Testimony to the House Economic Matters Committee
HB1135 Financial Institutions - Community Benefit Plan Act of 2024
Position: Favorable**

February 22, 2024

The Honorable C.T. Wilson, Chair
House Economic Matters Committee
Room 231, House Office Building
Annapolis, Maryland 21401
cc: Members, House Economic Matters

Honorable Chair Wilson and members of the committee:

We are writing to express our strong support for HB1135, The Community Benefit Plan Act of 2024, a crucial piece of legislation aimed at addressing the longstanding issues of redlining and economic disparities in the state of Maryland. This bill presents a targeted approach to encourage financial institutions left uncovered by the federal Community Reinvestment Act to actively contribute to the well-being of our communities, especially those that have been historically disinvested.

The legacy of redlining has left a lasting impact on the socio-economic landscape of Maryland, perpetuating segregation and economic inequality. While legislative efforts such as the CRA have sought to address these issues, there remain significant gaps in accountability. A majority of mortgages, estimated between 60 to 70 percent, are originated by institutions not covered by the federal CRA, including credit unions and residential mortgage companies. In Maryland, only half of the top ten mortgage lenders were required to meet CRA obligations from 2018 to 2020, leaving a substantial portion of lending in the state untouched by CRA oversight.

The Community Benefit Plan Act of 2024 requires mortgage companies making 50 or more single-family home loans a year to create a plan to actively engage in lending and community development with measurable metrics and investments over a three-year period. Banks and credit unions only when seeking mergers or opening new branches will then develop CBPs, outlining how these endeavors will benefit low to moderate income communities and other underserved areas.

Although credit unions only make up a small portion of mortgage loans in Maryland, about 5%, there are vast racial disparities in their loan denial rates. They deny Black applicants at a rate 2.1 times higher than white applicants, Hispanic applicants at a rate 1.6 times higher, and Native



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American applicants 2.2 times as often.¹ While credit unions are meant to report expressly to their members, these disparities are proof enough that they should, at least occasionally, be occasionally required to consider their community impact and lending patterns.

Independent mortgage banks on the other hand have much lower rates of denial, but are able to cherry-pick the applicants with the best credit scores and income to approve within certain areas and leave behind everyone else. This is the kind of practice that allows the legacy of red-lining to persevere.² Mortgage companies are already required to reapply for their license to do business every year.³ Adding the community benefit plan requirement creates an avenue for communities to engage with the financial institutions that profit off of them and bring more transparency to the lending process.

The bill grants the Commissioner of Financial Regulation the authority to ensure compliance and, in extreme cases of intentional neglect or discriminatory lending, deny license renewal. This added requirement is a small but significant step that has the potential to vastly improve the economic landscape of Maryland by holding financial institutions accountable for their community responsibilities.

By requiring financial institutions to engage in affordable housing initiatives, economic development projects, disaster preparedness efforts, and other community development activities, the bill ensures a comprehensive approach to addressing the diverse needs of underserved communities.

This bill is a crucial step towards fostering economic revitalization in underserved communities across Maryland. Your support for this bill represents a meaningful commitment to addressing the persistent issues of redlining and economic disparities in our state.

For these reasons, we urge your favorable report.

Sincerely,
Zoe Gallagher, Policy Associate, Economic Action Maryland
Habacuc Petion, Executive Director, Rebirth Inc

¹ NCRC 2021 Fair Lending Report

²<https://fairlendingdiversity.com/how-origination-leakage-cherry-picking-destroy-your-bottom-line-increase-regulatory-risk/#:~:text=Cherry%2DPicking%20is%20when%20an,are%20more%20likely%20to%20close.>

³ <https://labor.maryland.gov/finance/industry/frmlo-licensing-video-transcript.pdf>