The Community Benefit Plan Act of 2024

Background

Redlining, the systematic denial of financial services, such as mortgages, to certain neighborhoods, perpetuated a cycle of segregation and economic inequality, effectively excluding predominantly Black neighborhoods and other communities of color from the benefits of homeownership and wealth accumulation. This discriminatory practice has left a lasting impact on the socio economic landscape of the state. Despite legislative efforts and increased awareness, the legacy of redlining continues to shape housing patterns and economic disparities in Maryland today.

One such legislative effort to reduce racial disparities in wealth due to redlining, is the Community Reinvestment Act of 1977 (CRA), a federal law that requires banks to help meet the credit needs of Low- and Moderate-Income (LMI) communities where they do business. CRA creates an incentive and affirmative responsibility for financial institutions to intentionally invest in LMI areas with the purpose of curbing discriminatory bank lending.

This bill is an incredible tool for holding financial institutions accountable. However, one major limitation of this law is that the CRA only targets FDIC-insured depository institutions, such as national banks, savings associations, and state-chartered commercial and savings banks. This means that credit unions and mortgage lenders are not held accountable for discriminatory lending practices.

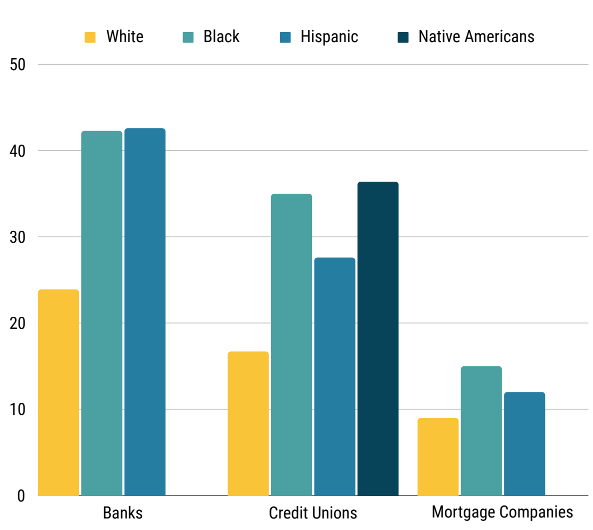
Marylanders use mortgage companies more than any other financial institution when purchasing a home

Problem

Consumer Financial Protection Bureau research shows that, nationally, a majority of mortgages – estimated to range between 60 to 70 percent – are originated by institutions that are not covered by the federal CRA, including loans originated by credit unions and residential mortgage companies. In Maryland, from 2018 to 2020, only half of the top ten mortgage lenders were[3] required to meet CRA obligations. The other lenders, mortgage companies and credit unions, made 55% of loans, indicating that most lending in Maryland is not covered by CRA.

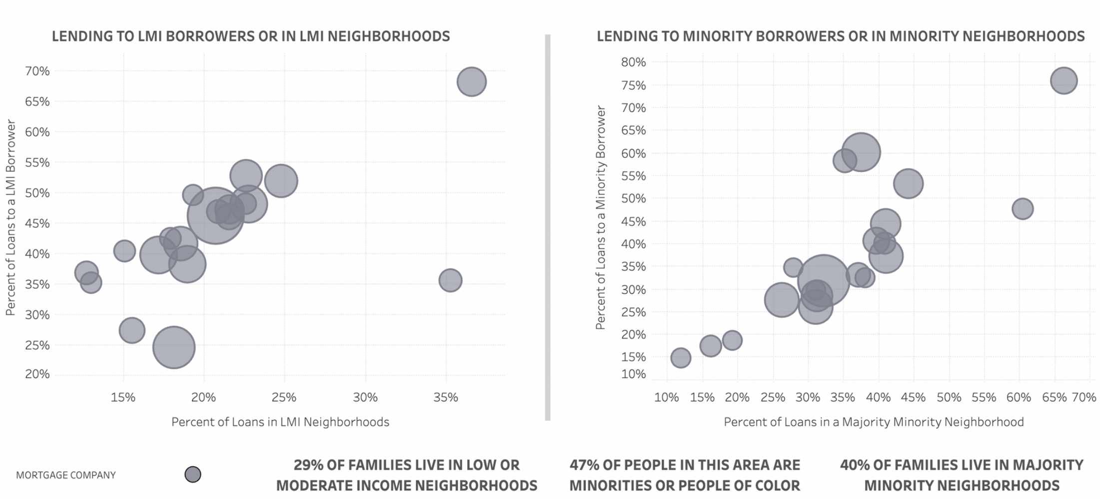
Unfortunately, these lenders not covered by the CRA have no obligation to invest in the communities they lend to.

Home Loan Denial Rates by Race for CRA and non-CRA Lenders



While credit unions have a lower rate of denial overall (26%) compared to banks (28.9%), 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 American applicants 2.2 times as often.

Although mortgage companies have the lowest rates of denial, performance is uneven when it comes to lending in LMI areas.



A vast majority of mortgage companies lent less than 25% of loans to home buyers in LMI neighborhoods, despite the fact that 29% of families live in LMI neighborhoods.

Source: Data Source: 2018-2020 Home Mortgage Disclosure Act (HMDA) from the National Community Reinvestment Coalition (NCRC) Member 2021 Fair Lending Tool

One Maryland-based mortgage company, Homespire stands out, as it made a majority of loans to LMI and minority borrowers in LMI and minority neighborhoods. However, other lenders stand out for their lack of lending to underserved communities: Bay Capital Mortgage Company made 15% of loans to minority borrowers, Freedom Mortgage lent only 9% to LMI borrowers, and Bay Capital lent 11% to LMI borrowers.

Increased lending for expansions of homeownership, small business ownership, and community development in overlooked neighborhoods across the state leads to economic revitalization. We should be rewarding those mortgage lenders that lend to LMI and minority borrowers at a higher rate, and encouraging those that do not to catch up to their competitors.

Solution: HB1135 - The Community Benefit Plan Act of 2024

To increase reinvestment, the Community Benefits Act of 2024 would impose an obligation upon lending institutions to demonstrate public benefits in return for the privileges of receiving licenses to lend or approval for their applications to merge or open new branches.

The bill would require mortgage companies making 50 or more single family home loans to develop a community benefits plan (CBP) as part of their application for licenses or renewal of licenses. A CBP would include measurable goals over three years for lending and community development investments and services such as philanthropic grants or supporting or delivering housing counseling. Banks and credit unions seeking to merge would also be required to develop CBPs. A bank or credit union opening a new branch would be required to describe how the branch would benefit modest income communities and other underserved and distressed communities.

If one of these financial institutions is deemed to be intentionally neglecting their obligation to their community, or participating in discriminatory lending, this bill gives the Commissioner of Financial Regulation the authority to require the creation of a new plan, and in worst-case circumstances, the authority to deny the institution license renewal.

Mortgage loan originators are already required to renew their license every year with the office of Financial Regulation in order to continue conducting business in the state. The community benefit agreement is just one additional requirement of the licensing process that has the potential to vastly improve the economic landscape of Maryland.

This Bill:

- Only applies to mortgage companies operating in Maryland, state chartered banks, and credit unions
- Only applies to banks and credit unions when there's a potential merger or establishment of a new branch

This Bill Does NOT

- Require financial institutions to take on more risky debt. It only works to ensure that the reason for denying a borrower is based on measures other than race to end patterns of lending that consistently exclude majority minority neighborhoods from investment.
- Punish lenders already lending in LMI and historically disinvested communities. The bill rewards high performing lenders and encourages better performance from bad actors.

Who Benefits from this Bill?

- Historically disinvested communities in both rural and urban areas
- Borrowers of color
- Local community needs are better met for all communities

Breakdown of the Community Benefit Plan Act:

Community Benefit Plan Requirement: Regulated financial institutions (like state-chartered banks, credit unions, and certain mortgage companies) must create a "Community Benefit Plan" when applying for certain permissions or licenses. This plan outlines how the institution will provide financial products and services to low- and moderate-income individuals and underserved communities.

Plan Components: The Community Benefit Plan must set measurable goals for things like lending, investments, grants, and services targeted at underserved communities. These goals should be based on past activities and community input.

Community Development Activities: The bill defines various community development activities, including affordable housing initiatives, economic development projects, disaster preparedness efforts, and others, which financial institutions should engage in.

Disparity Study: The Commissioner of Financial Regulation must conduct a study to identify underserved areas and populations affected by discrimination, to inform the development of Community Benefit Plans.

Oversight and Reporting: Financial institutions must report on their progress in meeting Community Benefit Plan goals annually. The Commissioner will review these plans and may impose penalties if institutions fail to meet their obligations.

Community Reinvestment Fund: The Community Reinvestment Fund is established to finance community development activities. It receives revenue from penalties and fees imposed on financial institutions.

Community Benefit Review Committee: A committee, including members of the community, is formed to review the adequacy of Community Benefit Plans and make recommendations for improvement.

In essence, this bill seeks to ensure that financial institutions actively contribute to the well-being of the communities they serve, particularly those that are underserved or economically disadvantaged. It does so by requiring them to develop plans and invest resources in activities that benefit these communities, with oversight from regulatory authorities.

Let's Promote Economic Justice in Maryland, Support HB1135