NCRC
National Community Reinvestment Coalition

By: Josh Silver, *Senior Fellow, NCRC*

A Maryland CRA Law Would Marshall Considerable Resources for Increasing Racial Equity and Reinvestment

- A Maryland CRA law would apply to banks and credit unions with about $46 billion in assets. It would cover mortgage companies that made more than 68,000 loans in three years. The assets and lending activity are considerable resources that should have a CRA obligation for reinvesting in underserved neighborhoods.
- A state CRA law would help narrow racial and equity gaps in lending. In Baltimore City, for example, 33% of the loans went to African Americans whereas they constituted 62% of the population.
- State law can plug gaps in the federal law. Federal CRA applies to banks whereas other state laws in Massachusetts and Illinois also apply to mortgage companies and credit unions.

Executive summary: strong deeds but gentle words – the case for a Maryland CRA

Maryland's state motto is strong deeds but gentle words.[1] This maxim is a good way to approach the need for Maryland to enact a state Community Reinvestment Act (CRA). The strong deeds would be significant increases in loans, investments and services in communities of color and modest-income neighborhoods across the state – in both urban and rural areas. The gentle words would be the law's carefully balanced incentives which are not overly punitive or onerous but nonetheless provide effective motivation for banks and non-bank financial institutions to better serve overlooked communities.

A state CRA law is well worth the effort. It would apply CRA to institutions with tens of billions of dollars which offer tens of thousands of loans. State-chartered banks have about $38 billion in assets and state-chartered credit unions have almost $8 billion in assets. The top ten independent mortgage companies issued almost 68,000 home purchase loans in Maryland from 2018 through 2020.

Applying CRA to institutions with these sizable resources would channel significant increases in loans and investments to Maryland's neglected communities. Moreover, a state CRA law is needed to address sizable racial and income disparities in access to loans. In the state as a whole, lenders made 20% of their single-family loans to African Americans from 2018 through 2020 while 29% of the population was African American. The gap is even wider in Baltimore, a city that is 62% Black but where just 33% of loans went to African American borrowers.

While some gaps have narrowed modestly, underserved communities continue to be overlooked. For the state as whole, lending institutions made 32% of their loans to low- and moderate-income (LMI) borrowers during 2018-2020 while 31.6% of the population was LMI. A significant

[1] Maryland Manual On-Line: A Guide to Maryland and Its Government, https://msa.maryland.gov/msa/mdmanual/01glance/html/symbols/reverse.html

disparity, however, emerges in the City of Baltimore where LMI borrowers received 58% of the loans but were 73% of the residents.

A state law is not duplicative of federal law, but rather complementary, as other state CRA laws have demonstrated. It has the potential to address needs and neighborhoods not explicitly addressed by the federal CRA. A state law could authorize Maryland's Commissioner of Financial Regulation to conduct separate exams for counties. This provision would enable examiners to assess performance more rigorously in Baltimore City and underserved rural counties. In contrast, federal CRA exams usually rate performance on a metropolitan level that hides poor performance, which most often occurs in the underserved counties. In addition, a CRA law could instruct the examiners to consider the sustainability of lending by considering default and delinquency rates. This is particularly important for vulnerable and underserved communities and is often overlooked by federal CRA exams.

A state law could contain provisions designed to counter CRA ratings inflation and that would motivate improvements in performance to communities of color. On a federal level, banks pass their CRA exams about 98% of the time. A state law should counter this inflation by introducing a fifth rating and by requiring examination in underserved neighborhoods, which are disproportionately communities of color. Banks that fail their exams cannot receive deposits from a state agency. The Commissioner could also adjust fees based on ratings received.

CRA is one of the most effective economic development strategies a state can undertake. Studies have shown that the federal CRA has increased lending and banking services in modest income communities. A state CRA law could build on this success.

The gains in wealth a rigorous CRA would foster, driven by homeownership and small business ownership, would benefit the state many times over in terms of higher gross domestic output, higher tax revenues and reduced dependence on the state safety net. The founding ideals of this country include the pursuit of life, liberty and happiness. CRA expands the number of citizens that can achieve these aspirations. The joy of someone being the first in their family to own a home or start a small business cannot be overestimated. A state CRA law would enable stakeholders to pursue these great deeds with gentle words.

The sizable Maryland financial industry would provide significant resources for CRA activities

A state CRA would apply to banks with a state charter. The state of Maryland charters 23 banks with combined assets of $38 billion and a total of 248 physical branches. These banks serve all parts of the state including the counties closest to Washington DC as well as northern and western Maryland. The largest state-chartered banks are Sandy Spring and Eagle Bank while smaller banks include Woodsboro Bank and the Bank of Glen Burnie.[2] While federal CRA

[2] The Office of the Commissioner of Financial Regulation, *Directory of Maryland-Chartered Financial Institutions - Financial Regulation*, last updated March 15, 2022, https://www.dllr.state.md.us/finance/consumers/frdirfininst.shtml. The most recent federal CRA exams contained assets and branches for the state-chartered banks. CRA exams can be obtained from https://www.ffiec.gov/cra/ratings.htm

applies exams to these banks, the state law can require more attention to underserved areas in the state (more details below).

The state law should also apply to non-bank financial institutions including credit unions and independent mortgage companies. Maryland charters seven credit unions. While this may not seem like many institutions, these credit unions have a combined $7.6 billion in assets and serve 439,000 members.[3] The State Employees Credit Union has 245,505 members and the Municipal Employees Credit Union of Baltimore has 104,174 members.[4] The Point Breeze Credit Union in Hunt Valley in Maryland also has a sizable membership of more than 61,000 members.[5] It is important to ensure that all members of these large credit unions are served equitably. As discussed below, the CRA law in Massachusetts can serve as a model for applying CRA to credit unions.

Unlike banks and credit unions, independent mortgage companies do not have to be chartered by the state of Maryland in order for the state's CRA law to apply to them. Maryland's licensing of mortgage companies provides the authority for the state to apply CRA to these institutions. Large national-level mortgage companies making loans in the state include Quicken Mortgage, First Home Mortgage Corporation and Freedom Mortgage. During the years 2018 through 2020, the top ten independent mortgage companies made a total of 67,691 home purchase loans in the state (see Figure 1).[6]

Figure 1

Home purchase lending is a primary means of wealth creation. It would be in Maryland's best interest to ensure that these large lenders are providing equitable opportunities for people of all incomes and colors to obtain the American Dream of Homeownership. A CRA law would do so.

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[3] Credit union statistics obtained from National Credit Union Service Organization, https://ncuso.org/credit-union/md/

[4] The website of the State Employees Credit Union is https://www.secumd.org/

[5] The website of the Point Breeze Credit Union is https://www.pbcu.com/

[6] NCRC's fair lending tool analyzed the Home Mortgage Disclosure Act (HMDA) used in this report, https://ncrc.org/2021-fair-lending-report/#memberful_overlay

Persistent and stubborn disparities illustrate the need for a state CRA

Over the years, banks have made strides to increase their lending and service to traditionally underserved communities because of the spur of CRA. Banks have often been the market leaders paving the way for non-bank institutions to serve communities that are the focus of CRA. Despite progress, persistent and stubborn disparities compel stakeholders to further action. The disparities would have been worse without existing laws, but more oversight is needed.

This paper focuses on comparing lending trends at a state level to those in Montgomery County and the City of Baltimore. While disparities are often the largest in Baltimore, unequal access to lending is also significant in Montgomery County and the state as a whole.

Disparities in the share of loans to underserved populations need to be addressed.

The lending disparities by income of borrower are narrower than those by race. Since federal CRA exams assess lending by income but not race, it is possible that banks have made more of an effort to serve LMI borrowers than people of color. Single-family lending to LMI borrowers in the state as a whole and in Montgomery County is proportional to the population of LMI residents. For the state as whole, lending institutions made 32% of their loans to LMI borrowers during 2018-2020 while 31.6% of the population was LMI as shown in the table below.[7] A significant disparity, however, emerges in the City of Baltimore where LMI borrowers received 58% of the loans but were 73% of the residents (see Figure 2).

In contrast to lending to LMI borrowers, significant disparities appeared in lending to African Americans in all three geographical areas. Moreover, the disparities were the largest for African Americans than the other borrower groups examined. In the state as a whole, lenders made 20% of their single-family loans to African Americans from 2018 through 2020 while 29% of the population was African American. Baltimore City experienced a wider gap: 33% of the loans went to African Americans whereas they constituted 62% of the population (see Figure 3).

Lending to Hispanics exhibited considerable disparities in the state as a whole and in Montgomery County during 2018 through 2020. In Maryland, lenders made 4% of their loans to Hispanics but 9% of the population was Hispanic. In Montgomery County, 18% of the population was Hispanic but lenders issued just 10% of their loans to Hispanics (see Figure 4).

[7] NCRC's fair lending tool calculates averages for all lenders in a geographical area. Demographic statistics were obtained from NCRC's fair lending tool.

Figure 2

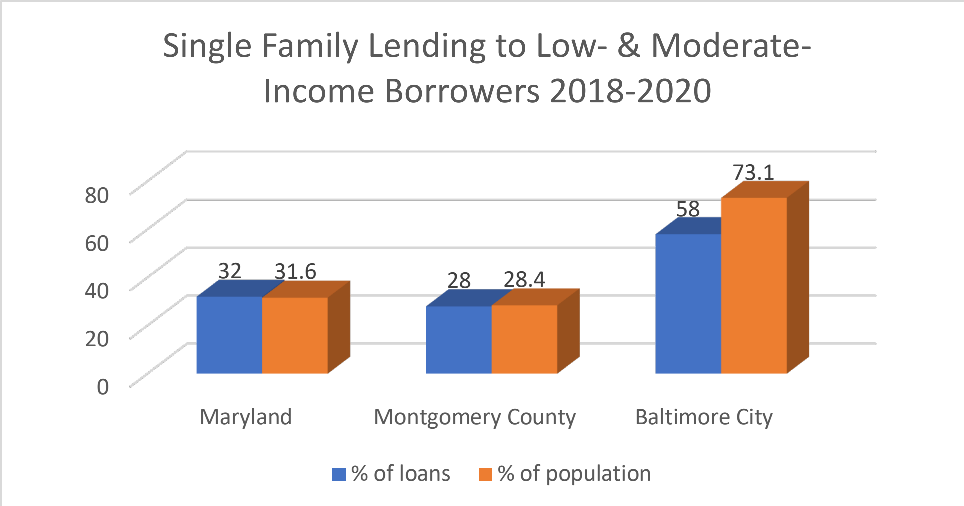


Figure 3

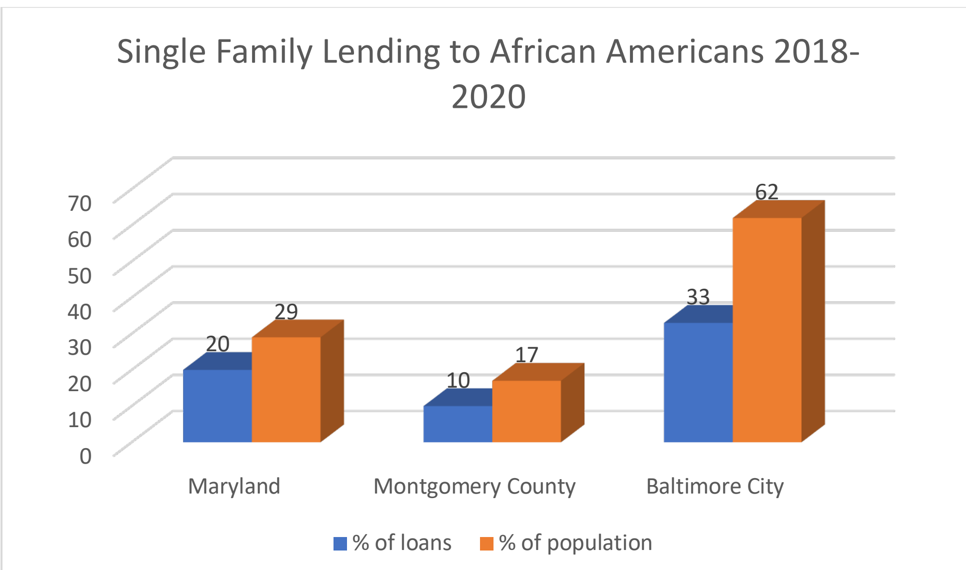
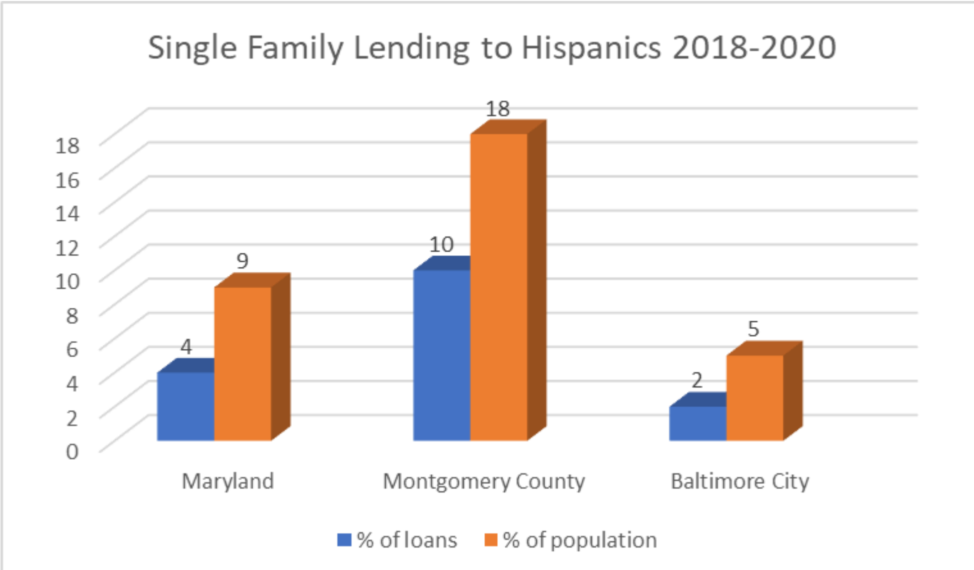


Figure 4



Geographical analysis of lending offers another lens into how Maryland residents are faring in the current absence of a state CRA, with some meaningful differences compared to the above analysis of lending to various groups of borrowers. Lenders were not as successful in home purchase lending in LMI neighborhoods as they were in single family lending to LMI borrowers. Disparities by income of neighborhood were more pronounced than those by race of neighborhood, but racial disparities were also substantial. For the state as whole, the portion of home purchase loans issued in LMI neighborhoods was nine percentage points less than the percentage of families in LMI census tracts. In Baltimore City, the gap was more than 20 percentage points: Lenders issued 55.3% of their home purchase loans during 2018 through 2020 in these tracts but these tracts contained 76% of the City's families (see Figure 5).

Racial disparities were likewise significant with a five percentage point gap in the portion of loans made in communities of color in the state compared to the portion of families in these tracts.[8] The gap was narrow in Montgomery County at 3 percentage points but was about 20 percentage points in the City of Baltimore (see Figure 6).

[8] The NCRC fair lending tool defines a census tract as minority if 50% or more of the residents are people of color.

Figure 5

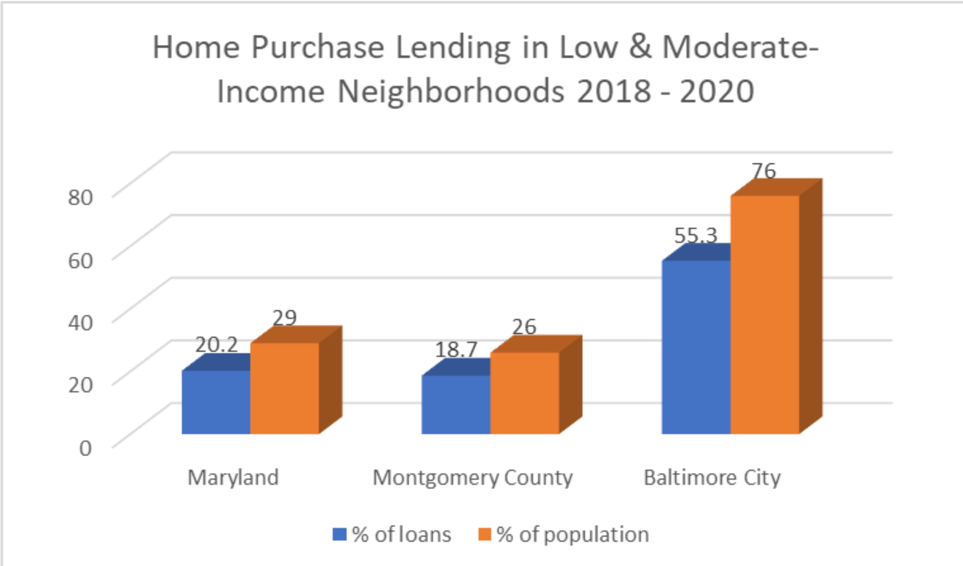
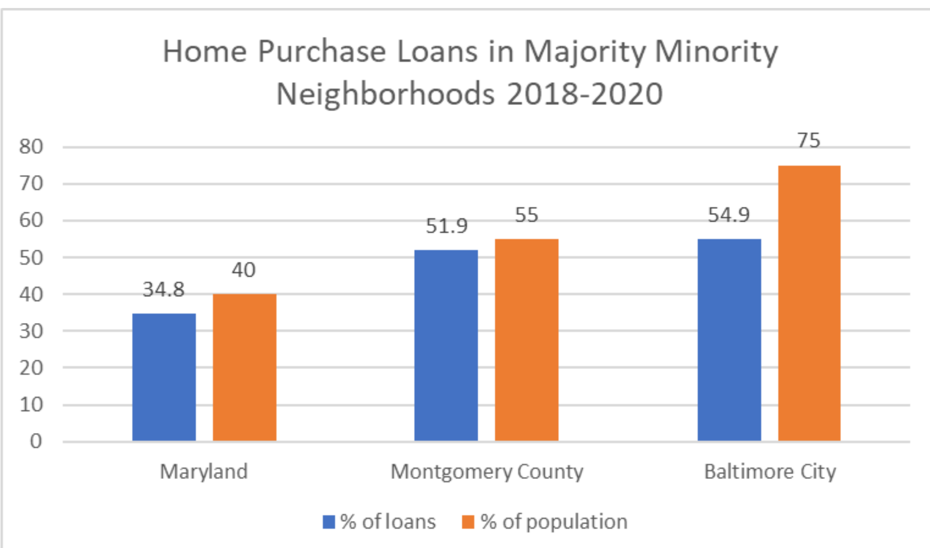


Figure 6

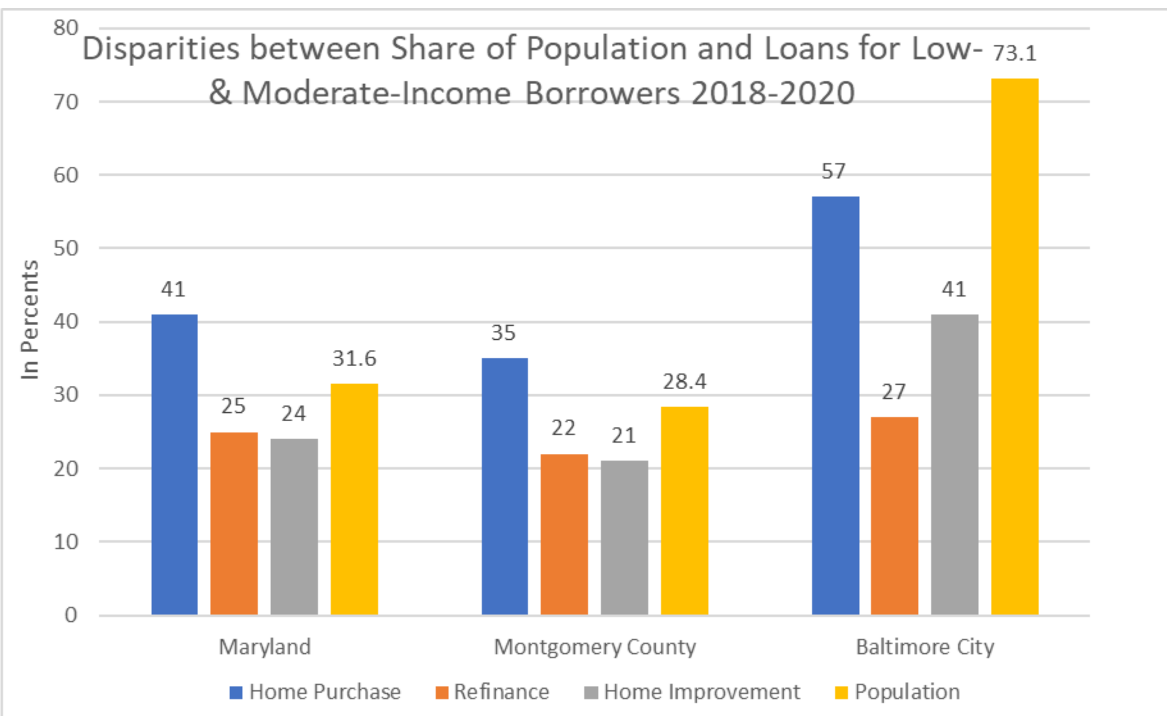


<u>Maryland CRA would need to address larger disparities in home improvement and refinance lending</u>.

Lending institutions were more successful in lending in proportion to the LMI population in home purchase lending than in refinance and home improvement lending as shown below in Figure 7. In the state as a whole during 2018–2020, lenders made 41% of their home purchase loans to LMI borrowers while LMI people were 31.6% of the state's population. In contrast, the portion of refinance and home improvement loans for LMI borrowers was 5 to 6 percentage points lower than the portion of the population that was LMI. In Baltimore City, lenders made a lower percentage of all types of loans to LMI borrowers than the percentage of the population that was LMI. The gap was most pronounced in refinance lending and home improvement lending.

CRA must ensure that lenders are serving various needs for credit. Lender success in home purchase lending is commendable but borrowers have needs for refinance and home improvement lending as well. Refinance lending enables borrowers to lower their interest rates or to cash out equity. Home improvement loans often entail financing for repairs or energy efficiency upgrades. A state-level CRA law applied to banks and non-banks and that examines success in various types and purposes of lending would be critical to striving for uniform success in meeting various needs.

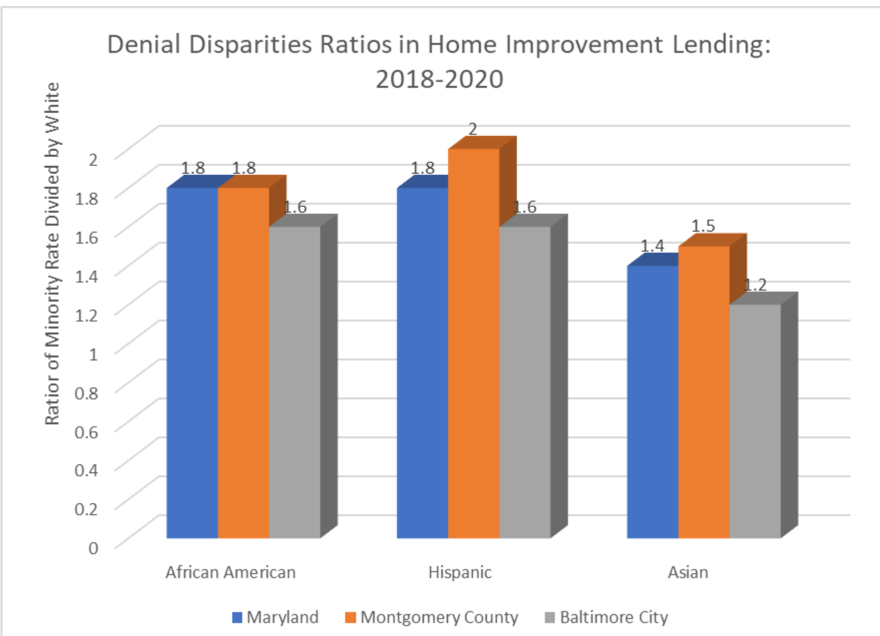
Figure 7



Home improvement lending is likely to be a particularly important need in Maryland. The state experiences cold winters and hot summers, putting a premium on financing for weatherizing houses and making them more energy efficient. In addition, as the tragic killing of Freddie Gray illustrates, houses in Baltimore City and other inner-city areas of the state need lead paint abatement.[9]

Yet lending institutions exhibited high denial rates for home improvement lending. During 2018-2020, lenders denied 38.1%, 32.6% and 50.5% of applications for home improvement loans to White borrowers in the state as a whole, Montgomery County and Baltimore City respectively.[10] People of color were denied between 1.5 to 2 times as often for home improvement loans than Whites (see Figure 8). Therefore, the resulting denial rates for people of color were often 70% or higher. For example, in Baltimore City, African Americans were denied for home improvement loans 1.6 times more often than Whites, who experienced a denial rate of 50.5%. This means that 80.8% of African American applicants for home improvement loans were denied in Baltimore City.

Figure 8



Maryland's CRA must address cost and sustainability of loans.

A state CRA law must consider the cost of loans as well as access to loans. In order to best meet credit needs, loans must be affordable and sustainable for borrowers, so borrowers have the best chance to increase their equity and make timely payments. High-cost and abusive loans are not meeting needs since they create high debt burdens for borrowers and often lead to borrower delinquency and foreclosure. Furthermore, a loan does not need to be predatory in order for cost considerations to be worrisome. If closing costs are persistently higher for a particular group of lenders or to a particular group of borrowers, this could represent unnecessary wealth extractions

[9] Janell Ross, *Why you should know what happened in Freddie Gray's life — long before his death*, Washington Post, December 19, 2015, https://www.washingtonpost.com/news/the-fix/wp/2015/12/19/why-you-should-know-what-happened-in-freddie-grays-life-long-before-his-death/

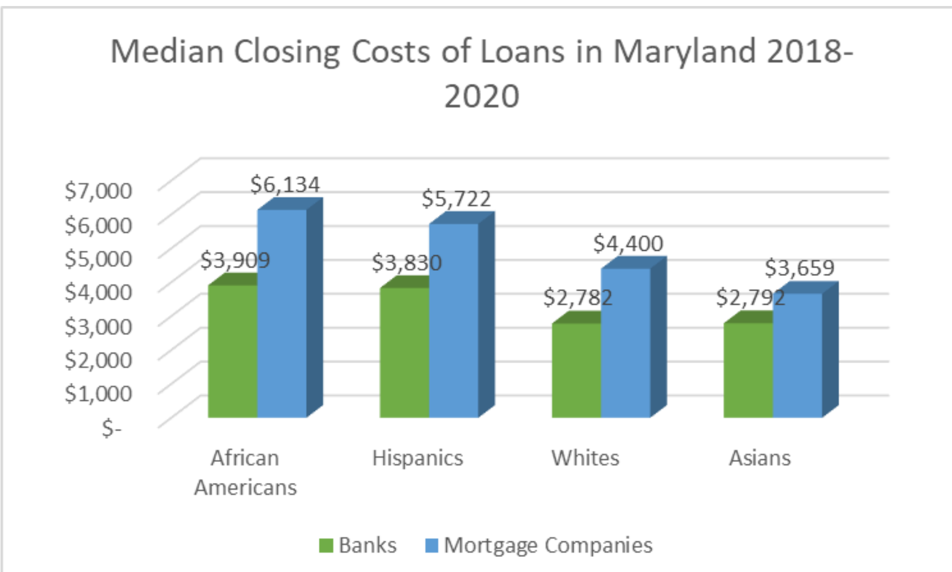
[10] NCRC's fair lending tool uses aggregate denial rates for all lenders reporting HMDA data in a geographical area.

and wealth transfers from a borrower group to a group of lenders. CRA ratings must be downgraded in the case of predatory loans and should also be influenced if costs for a particular lender are significantly higher than for its peers.

For the state as a whole, mortgage companies had substantially higher median closing costs for borrowers than banks.[11] Part of this difference is due to mortgage companies' greater use of government-guaranteed loans that have higher closing costs than conventional loans. Nevertheless, CRA exams should encourage lower loan costs overall and narrowing of racial and ethnic disparities in these costs.

As illustrated in Figure 9 below, the median closing cost was $2,225 higher for African Americans if they received a loan from a mortgage company than a bank. The difference in median closing costs for Hispanics, Whites and Asians was $1,892, $1,618 and $867, respectively. The magnitude of this difference increases exponentially if these medians are multiplied by the hundreds or thousands of racial and ethnic minority borrowers using mortgage companies compared to banks. This represents significant wealth transfers from a group of borrowers to a group of lenders that is not necessary and could be significantly reduced by a robust CRA.

Figure 9



Inconsistent and mediocre performance of state-chartered banks and non-banks

A state CRA law, if rigorously implemented, would motivate lending institutions lagging their peers to improve their fair lending performance. The laggards would either fail their CRA exams or barely pass them, which would provide an impetus to do better. In addition, local public agencies, religious institutions and customers can direct their business to lending institutions that receive the highest ratings. A combination of carrots and sticks would narrow the current

[11] Calculations from NCRC's fair lending tool.

inconsistencies among institutions in terms of their fair lending performance by motivating more of them to perform well.

When considering home purchase lending to LMI borrowers and neighborhoods, large volume lending institutions performed unevenly.[12] If a state CRA law improves the performance of the laggards, the improvement would significantly increase the number of loans to LMI borrowers. The table below reveals the performance of lending institutions overseen by Maryland as well as nationally chartered institutions overseen by federal banking agencies. If a robust state CRA law enhances the performance of state-chartered institutions, nationally chartered ones may react to the increased competition in LMI markets by also bolstering their performance.

As shown in Figure 10 below, the percentage of loans ranges from a top lender making 68% of its home purchase loans to LMI borrowers to lenders at the bottom issuing 13% and 25% of their loans to LMI borrowers in Maryland.[13] Likewise, a gap of about 30 percentage points separates the top and bottom performers in LMI tracts during 2018 through 2020.

Figure 10

Home Purchase Lending to Borrowers & Tracts - State of Maryland 2018-2020				
Type of lender	*Name*	*# of loans*	*% to LMI borrowers*	*% to LMI tracts*
Top performers				
Mortgage Company	Homespire	4,011	68%	37%
Bank	Sandy Spring	2,928	46%	29%
Bottom performers				
Credit Union	State Employees CU of MD	1,710	37%	20%
Mortgage Company	NVR Mortgage Finance	8,477	25%	18%
Bank	First National Bank of Pennsylvania	1,466	13%	8%

A sizable gap also occurred in Baltimore City during 2018-2020 among the top and bottom performers to people and communities of color.[14] A top bank with 400 loans issued 68% and 75% of its home purchase loans to people and communities of color, respectively. In contrast, a bottom mortgage company with 320 loans made just 14% and 31% of its loans to people of color and in communities of color, respectively (see Figure 11).

[12] Calculations from NCRC's Fair Lending Tool.

[13] Since Homespire is a mortgage company, we checked its median interest rate for home purchase loans for 2021 compared to all lenders operating in the state. The median rate at 3.125% was about 12.5 basis points higher than the median for all home purchase loans. While the rate is higher, it does not appear that Homespire is a high cost lender. Price, affordability and sustainability of loans is an aspect of CRA and fair lending performance that CRA exams should assess. Author's calculations from HMDA data provided by the CFPB website https://ffiec.cfpb.gov/data-browser/data/2021?category=states

[14] Fairway Independent Mortgage Company, like Homespire, had a median interest rate in 2021 of 3.125% or 12.5 basis point higher than the overall median for Maryland. Author's calculations using HMDA data from CFPB websites.

Figure 11

Home Purchase Lending to People of Color & Communities of Color - Baltimore City 2018-2020				
Type of lender	*Name*	*# of loans*	*% to people of color*	*% to minority tracts*
Top performers				
Bank	M&T Bank	400	68%	75%
Mortgage Company	Fairway Independent Mortgage Company	366	54%	68%
Bottom performers				
Bank	USAA Federal Savings Bank	132	40%	43%
Mortgage Company	Residential Mortgage Services	320	14%	31%
Credit Union	Tower Federal Credit Union	92	9%	29%

The CRA exams of the banks chartered in the state of Maryland have judged their performance as fair to mediocre. Of the 23 state-chartered banks, 22 received the rating of Satisfactory and just one received the rating of Outstanding on their most recent exams.[15] In other words, 22 of the banks had scores ranging from a "B" to a "C." For example, of the seven large banks chartered in Maryland (as defined in the federal CRA regulations), two received a Low Satisfactory on their lending test, meaning they did a mediocre job offering retail loans to LMI borrowers and communities. Similarly, two banks received a Low Satisfactory on their investment test, reflecting a relatively low level of investments in instruments like the Low Income Housing Tax Credits. Finally, two others also scored Low Satisfactory on their Service Test, indicating low levels of branching and services to LMI communities. Hopefully, performance would be invigorated by a well implemented state CRA law.

Evidence of CRA's effectiveness

Despite uneven enforcement, CRA has successfully leveraged loans, investments and services. Between 2009 and 2020, banks have made more than $2.58 trillion in home loans to LMI borrowers or in LMI census tracts across the country. They made $856 billion in loans to small businesses with revenues under $1 million.[16]

CRA motivates increases in lending due to the public accountability it imposes. CRA exams are public, meaning that a bank's performance in the geographical areas on the exam is revealed to anyone wishing to scrutinize the bank's service to its community. Federal Reserve economists have found that when a census tract becomes CRA eligible – because it is designated as LMI and is in a geographical area on a CRA exam – lending to LMI borrowers and census tracts increases.

When a census tract gained CRA eligibility as a LMI tract due to a metropolitan area boundary change, Federal Reserve economist Daniel Ringo found that lending by a single bank increased by 2% to 4% from 2003 to 2004. Moreover, Ringo found that the impact was greatest for low-income borrowers, those with less than 50% of area median income, than for moderate-income borrowers, those with between 50 to 80% of area median income. He hypothesized that banks face less competition in extending loans to low-income borrowers than to moderate-income

[15] Most recent exams retrieved from federal bank agency websites.

[16] NCRC calculations see https://public.tableau.com/app/profile/ncrc.research/viz/CRAQualifiedLending2009-2020/Dashboard1

borrowers, so efforts to increase lending to these customers–prompted by the new CRA eligibility of the tracts–were more effective at filling unmet demand.[17]

Similarly, Lei Ding and colleagues at the Philadelphia Federal Reserve Bank updated Ringo's analysis and applied it to Philadelphia when the Office of Management and Budget (OMB) changed metropolitan area boundaries in 2013. They concluded that when census tracts lose CRA eligibility because they were no longer considered LMI, the number of home purchase loans decreased by between 10% and 20%.[18] Lastly, Ding, Bostic and Lee found a similar impact in small business lending.[19]

If Maryland applies CRA to mortgage companies and credit unions, the impacts documented in the Federal Reserve studies would apply. In other words, these institutions would likely increase their lending to LMI and other underserved populations due to increased public accountability.

The experience of states with CRA laws indicate that mortgage companies and credit unions would make more loans and engage in more activities in traditionally underserved communities if CRA applied to them. For instance, since 2007, Massachusetts has applied its Community Reinvestment Act (CRA) law to independent mortgage companies. Mortgage companies receiving a license to make loans in Massachusetts are examined and rated by the state's Division of Banks (DOB). They undergo an exam that assesses their performance in making retail home loans to LMI borrowers and communities. The exam also scrutinizes and rates their community development services and investment activities.

A NCRC report examined 50 mortgage company CRA exams, starting with the most recent year available at the time of the report, 2020, and going back to 2016. The paper found that mortgage companies with higher ratings on their lending test made higher percentages of loans to LMI borrowers and in LMI tracts. The Massachusetts' CRA exams were effective in awarding higher ratings to companies that made a higher proportion of loans to LMI populations. Due to increased public accountability and visibility, the exams were thus likely to be effective over the medium- to long-term in encouraging more companies to perform at levels corresponding to higher ratings.[20]

Mortgage companies that offered community development (CD) services and grants had higher ratings on the service test than those that did not. Two lenders in NCRC's sample had High

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[17] Daniel Ringo, Federal Reserve Board, *Mortgage Lending, Default, and the Community Reinvestment Act*, June 15, 2017, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2585215, pg. 4 and 13.

[18] Lei Ding and Leonard Nakamura, *Don't Know What You Got Till It's Gone: The Effects of the Community Reinvestment Act (CRA) on Mortgage Lending in the Philadelphia Market*, Working Paper No. 17-15, June 19, 2017, https://www.philadelphiafed.org/community-development/housing-and-neighborhoods/dont-know-what-you-got-till-its-gone

[19] Lei Ding, Raphael Bostic, and Hyojung Lee, Effects of CRA on Small Business Lending, Federal Reserve Bank of Philadelphia, WP 18-27, December 2018, https://www.philadelphiafed.org/community-development/credit-and-capital/effects-of-the-community-reinvestment-act-cra-on-small-business-lending

[20] Josh Silver, *Massachusetts CRA For Mortgage Companies: A Good Starting Point For Federal Policy*, NCRC, July 2021, https://ncrc.org/massachusetts-cra-for-mortgage-companies-a-good-starting-point-for-federal-policy/

Satisfactory ratings on the service test; both offered CD services like homebuyer or homeownership counseling and one of them provided CD grants. Of the 23 mortgage companies earning a Satisfactory rating on the service test, 17 offered CD services and 10 provided CD grants. Of the 23 companies receiving a Needs to Improve rating on the service test, 18 did not offer either CD grants or services. Four of them provided CD grants and one provided a CD service.[21]

Therefore, the CD service test is important in that it encourages mortgage companies to participate in establishing an infrastructure or support system for lending to underserved populations unfamiliar with the process of purchasing homes. This is critical to ensuring that vulnerable populations receive responsible and safe and sound loans.

In addition, Massachusetts CRA exams reveal that a state CRA law can leverage important community development investments and services from credit unions. For instance, St. Mary's Credit Union with assets of $877 million at the time of its 2020 CRA exam[22] had an asset level similar to that of Point Breeze Credit Union chartered by the State of Maryland.[23] St. Mary's had a field of membership consisting of residents and people working in Middlesex, Worcester, Norfolk and Suffolk counties.

During the evaluation period, the credit union made 12 community development loans totaling $12.9 million. These loans helped finance small business and economic development and were made via Small Business Administration (SBA) programs or programs offered through the Federal Home Loan Banks. In addition, the credit union made more than $270,000 in grants for homeless shelters and other social service providers. Finally, credit union employees participated in homebuyer seminars and retirement planning activities.

The Align Credit Union, with assets of $717 million as of its 2021 CRA exam and based in Lowell, Massachusetts, made $14 million in community development loans during its evaluation time period, up substantially from the $2 million in its previous exam. This is direct evidence that CRA exams stimulate significant improvements in performance. Align also made 235 qualified investments totaling about $357,613, a substantial boost from its previous exam. The credit union made one equity investment in the Lowell Downtown Venture Fund, which makes capital available to small businesses. In addition, the credit union participated in financial education provided by four local public schools.[24]

State CRA laws are needed even though a federal CRA law exists

Federal CRA law only applies to banks, not to mortgage companies and credit unions. As described above, state CRA laws apply to non-banks as well as banks. Massachusetts' CRA law is one of the first in the country and has applied to non-banks for several years. New York has a

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[21] Ibid.

[22] St. Mary's exam can be downloaded via https://www.mass.gov/doc/st-marys-credit-union-cra-pe/download

[23] Information on assets for Maryland credit unions was obtained from https://ncuso.org/credit-union/md/

[24] The CRA exam for Align can be accessed via https://www.mass.gov/doc/align-cu-cra-pe/download

CRA law that was just amended last year to apply to mortgage companies.[25] Illinois recently passed a CRA law that will apply to banks, mortgage companies and credit unions.[26]

Maryland would not be the first state with a CRA law, nor would it be the first state that would apply a law to non-banks. Yet, it would still be one of the pioneering states and could encourage other states to do the same after the law demonstrates successful outcomes.

If Maryland enacted a CRA law, it would be enormously beneficial to underserved populations as it would apply to institutions with tens of billions of dollars in assets that make tens of thousands of loans. Maryland would leverage substantial resources for affordable housing, economic development and community facilities. In addition, Maryland would provide leadership for states across the country.

State CRA laws need to assess and rate performance in targeted underserved counties that federal CRA does not.

While the federal CRA has been effective, state CRA exams are likely to scrutinize lending, investments and services in more detail and in a greater variety of geographical areas than federal exams. Federal examination staff need to conduct exams for more than 4,000 banks and often do not have the resources to assess activity in as many geographical areas as state exams could. For example, the Federal Reserve Bank of Richmond's 2021 exam of Sandy Spring Bank assessed activity in the Washington-Baltimore-Arlington, DC-MD-VA combined statistical area (CSA) and included two partial metropolitan statistical areas (MSA): the Baltimore Columbia-Towson, MD MSA and the Washington-Arlington-Alexandria, DC-VA-MD-WV MSA.[27]

This exam covered 18 counties and cities across the District of Columbia, Maryland and Virginia. However, the exam assessed performance in the 18 counties and cities combined and did not conduct separate evaluations in various counties in Maryland, Virginia or in the District of Columbia. Therefore, the exam did not provide detail on how performance in Baltimore or other areas in Maryland compared with performance elsewhere. The residents and stakeholders in Maryland have a right to know how this large bank performs in its local communities in which it does business and from which it receives deposits.

In addition, federal CRA exams often focus on metropolitan statistical areas (MSAs) as a whole. MSAs are usually composed of cities, suburban areas and rural counties. NCRC recommends that state CRA laws conduct separate analyses of urban, suburban and rural areas, which will have a variety of different needs. As described above, the success of lending institutions in

[25] Governor Hochul Signs Legislation Expanding New York Community Reinvestment Act to Non-Depository Mortgage Lenders, November 1, 2021, https://www.governor.ny.gov/news/governor-hochul-signs-legislation-expanding-new-york-community-reinvestment-act-non-depository

[26] For information on the Illinois law, see the Illinois Community Reinvestment Act: Advanced Notice of Proposed Rulemaking, Illinois Department of Financial and Profession Regulation, August 2021, https://idfpr.illinois.gov/News/2021/2021%2007%2020%20IL%20CRA%20Advance%20Notice%20of%20Proposed%20Rulemaking%20Outline.pdf

[27] To access the 2021 Federal Reserve exam, type in Sandy Spring Bank in this search engine: https://www.federalreserve.gov/apps/CRAPubWeb/CRA/BankRatingResult

meeting needs across geographical areas varies. Scrutinizing performance in a variety of urban and rural areas can often be accomplished by exams conducted on a county level.

It is important that state law dictates that exams are not conducted only on a MSA level but can include other geographical areas such as counties. A state law could authorize exams on a county level.

Federal CRA is colorblind – so state laws need to examine performance in communities of color.

Federal CRA focuses on income of borrowers and census tracts. However, as described above, persistent and stubborn lending disparities continue to be present along racial and ethnic lines. NCRC strongly recommends that CRA exams also consider race. One approach that would withstand legal scrutiny is for CRA to consider lending, investing and services to underserved populations and census tracts.

NCRC developed a methodology for identifying underserved census tracts as those with low numbers of loans per capita. Using our methodology, NCRC discovered that underserved tracts had a population that was, on average, 57% people of color.[28]

CRA cannot afford to remain color blind if policymakers truly want to extend its benefits to all underserved populations. A state law could stipulate that the Commissioner of Financial Regulation in the Maryland Department of Labor conduct exams that consider activities in underserved census tracts.

Federal CRA inflation needs to be countered with state laws.

Federal CRA exams pass about 98% of banks and about 90% receive Satisfactory ratings.[29] Ratings inflation reduces the pressure on banks to perform; more rigorous exams increase their motivation to make loans, investments and services in underserved communities. A state law could include five ratings instead of the four for federal CRA exams. This should reveal more distinction in bank performance and reduce overall ratings inflation. Also, a state law could prohibit an institution with a failed rating from receiving deposits from a state agency. Finally, the Commissioner can adjust fees based in part on ratings, which should add more incentive to perform well.

State laws need to increase requirements for public participation.

A state law could provide more opportunity for public input and partnership building with banks that need to improve their performance. An effective way for banks to improve performance is if they engage with communities in addressing unmet needs. If a bank receives a low rating,

[28] NCRC's Full Public Comment Letter On Community Reinvestment Act Interagency Rulemaking, https://ncrc.org/ncrcs-full-public-comment-letter-on-community-reinvestment-act-interagency-rulemaking/, see discussion towards the beginning under the sub-header, *The question the agencies did not ask in the NPR: how to incorporate race in CRA exams*

[29] Josh Silver and Jason Richardson, *Do CRA Ratings Reflect Differences In Performance: An Examination Using Federal Reserve Data*, NCRC, May 2020, https://ncrc.org/do-cra-ratings-reflect-differences-in-performance-an-examination-using-federal-reserve-data/

specifically Low Satisfactory or worse, either overall or in an individual assessment area, it must submit an improvement plan subject to public comment and regulatory approval. In addition, when a lending institution seeks to merge or to renew its license, it must submit a community benefits plan subject to public comment describing performance goals for loans, investments and services to traditionally underserved communities. The federal CRA law and regulations do not have these provisions. Maryland should show its leadership, adopt these critical provisions, and encourage their replication on the federal level.

Common objections to state CRA laws not compelling

Independent mortgage companies are likely to object to a state law by asserting that they perform better than banks in making loans to LMI borrowers and people of color. NCRC has found fluctuating performance over the years. In 2017, the average bank issued a higher percentage of loans to LMI borrowers than the average mortgage company.[30] During the period from 2018 to 2020, the performance flipped with mortgage companies outperforming banks.[31]

Several caveats need to be considered. The findings in these studies are national while performance on a local level varies. In addition, median costs for mortgage company loans are higher than for banks as described above. Lastly, independent mortgage companies rely on Federal Housing Administration (FHA) loans to a greater extent than banks. FHA loans help mortgage companies serve LMI populations. Mortgage companies, therefore, cannot claim that their performance is entirely due to their efforts. They are receiving substantial assistance from the federal government in the form of loan guarantees. In return, CRA laws should monitor whether they are making loans to underserved populations in an affordable and responsible manner.

In our estimation, one of the strongest arguments for applying CRA to independent mortgage companies is that performance is not uniform. As noted above, while some mortgage companies perform in a commendable manner in terms of reaching underserved populations in Maryland, other large mortgage companies lag their peers by a considerable extent in CRA and fair lending performance. Improving their performance via a state CRA law would increase access to credit for people of color and LMI borrowers. This will help the state achieve success in its goal to narrow wealth disparities and bolster economic growth.

Credit unions on their part will argue that their charters specify that they are required to focus on populations lacking access to mainstream banking. This was true a few decades ago when credit unions were tethered closer to community-based institutions such as churches. However, they are now sprawling institutions including those in Maryland with members in the tens of thousands. A state law such as the one in Massachusetts should ensure that they are serving their

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[30] Jason Richardson and Josh Silver, *Home Lending To LMI Borrowers And Communities By Banks Compared To Non-Banks*, NCRC, April 2019, https://www.ncrc.org/home-lending-to-lmi-borrowers-and-communities-by-banks-compared-to-non-banks/

[31] Jason Richardson, Joshua Devine, Jad Edlebi, *2020 HMDA Preliminary Analysis*, NCRC, August 2021, https://www.ncrc.org/2020-hmda-preliminary-analysis/

membership equitably and are supporting the development of local nonprofit institutions that are helping formerly redlined communities increase their access to banking services and products.

Conclusion

Maryland policymakers would be true to the state's motto of strong deeds and gentle words if they enact a CRA law. CRA would be a significant source of resources for affordable housing and economic development and would be instrumental in Maryland's efforts to grow economically and achieve its objectives of racial equity and inclusion most recently articulated forcefully by Governor Wes Moore.

Appendix – Banks charted by the State of Maryland

Note: BayVanguard Bank is the only bank with an Outstanding CRA ratings on its more recent exam.

Name
Bank of Glen Burnie
Bank of Ocean City
BayVanguard Bank
Calvin B. Taylor Banking Company of Berlin, MD
Cecil Bank
CFG Community Bank
Chesapeake Bank and Trust Co.
Community Bank of the Chesapeake
Congressional Bank
EagleBank
Farmers and Merchants Bank
Farmers Bank of Willards
First United Bank and Trust
Glen Burnie Mutual Savings Bank
Harbor Bank of Maryland
Harford Bank
Hebron Savings Bank
Middletown Valley Bank
Peoples Bank
Provident State Bank, Inc.
Queenstown Bank of Maryland
Sandy Spring Bank
Woodsboro Bank

State-Chartered Credit Unions

Name
Central Credit Union of Maryland, Inc
Destinations Credit Union
HAR-CO Credit Union
Municipal Employees Credit Union of Baltimore
Point Breeze Credit Union
Post Office Credit Union of Maryland, Inc.
State Employees Credit Union of Maryland, Inc.