



## The Need for A Maryland State Community Reinvestment Act

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### Background

The Community Reinvestment Act (CRA) is a federal law that requires banks to help meet the credit needs of Low- and Moderate-Income (LMI) communities they serve through loans, investments, products, and services. Passed in 1977 as part of the civil rights movement, CRA was designed to end the redlining that cut communities off from capital. The goal of CRA was to both curb discriminatory bank lending, known as “redlining” and “democratize capital” by creating a process in which financial institutions are charged with meeting the needs of the community and regulators assess the extent to which the banks have responded to and addressed community needs.

Regulators consider banks’ mortgage and small business lending as well as banks' support for community development, financing of affordable housing, economic development and homeownership counseling when rating a bank’s performance. The idea behind CRA is that banks make money from the deposits that they hold from members, loans they make, and services they charge communities; therefore, they should also reinvest some of those funds back into the communities where they hold deposits and have a footprint.

### The Need to Modernize

The banking industry has changed dramatically since 1977 and emerging technologies as well as the growth of non-bank lenders means there is a need to modernize, expand, and strengthen CRA to meet the needs of our communities and marketplace today. Although 98% of banks receive a “Satisfactory” or higher grade by federal regulators, bank lending patterns continue to exacerbate existing racial inequalities. A 2021 national analysis of the Paycheck Protection Program (PPP) lending found that in the majority of cities with a population of 1 million or more, the rate of lending to majority-white areas was higher than the rates for any majority-Latinx, Black or Asian areas<sup>1</sup>. For example, in Los Angeles, businesses in majority-white areas received loans at twice the rate that majority-Latinx tracts received, one and a half times the rate of businesses in majority-Black areas and 1.2 times the rate in Asian areas.

Our research found that in Baltimore, which is 62% Black and 30% white, PPP lending was not proportionate. While 54% of bank PPP lending went to majority-Black areas in Baltimore, three banks disproportionately lent to majority white areas, providing 33%, 51%, and 86% of their loans to majority white areas respectively<sup>2</sup>. This is only one example where lending continues to disappoint yet does not impact CRA ratings. A state CRA could set different grading standards that expressly encourage lending in low-income communities of color and a greater variety of financial products and services tailored to the needs of the community.

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<sup>1</sup><https://revealnews.org/article/rampant-racial-disparities-plagued-how-billions-of-dollars-in-ppp-loans-were-distributed-in-the-u-s/>

<sup>2</sup> Baltimore City PPP Lending 2022

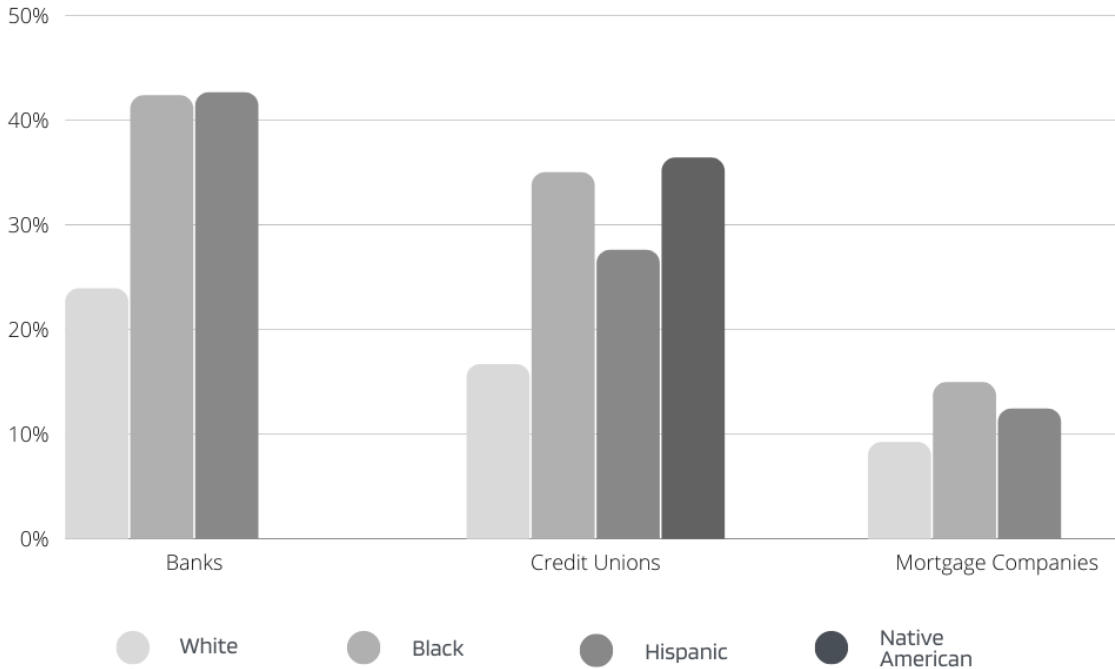


**Non-bank lenders.** Under the current federal CRA, many loans are originated by institutions with no obligations to reinvest or serve low-income communities and communities of color. The Consumer Financial Protection Bureau research shows that nationally, between 60 to 70 percent of mortgages are originated 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 required to meet CRA obligations. Mortgage companies and credit unions made 55% of home loans in Maryland<sup>3</sup>.

A state-level CRA is needed to close the racial lending gap in home mortgage loans in Maryland. For borrowers of color, the denial rate for originators for those covered by the federal CRA and non-CRA originators alike is disturbingly high. Between 2018 and 2020, Black borrowers across Maryland were denied at a rate 1.6 times higher than white applicants. This means that 26% of Black applicants were denied whereas only 16.4% of white applicants were denied. The denial rate for Hispanic borrowers was 1.6 times higher than white applicants. Maryland's population is only 29% Black and 9% Hispanic, but these populations are over represented in application denial rates. This trend is consistent across lenders covered by CRA as well as those with no CRA obligations. This demonstrates the need for both more stringent grading which can happen at the state level and extending coverage to non-bank lenders.

While denial rates for applicants of color are higher than denial rates for white applicants across all lender types, credit unions have a significantly higher rate of denial for borrowers of color than CRA covered institutions and other non-CRA lenders by far. Graph 1, below, explores this pattern in denial rates.

**Graph 1. Home Loan Denial Rates by Race for CRA and non-CRA Lenders**



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

While credit unions have a lower rate of denial overall (26%) compared to banks (28.9%), borrowers of color are denied at a higher rate compared to white applicants than borrowers of color at other lending institutions. Credit unions 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. Credit unions have a greater dependence on non-sufficient funds (NSF) and overdraft fees based on a recent review of data from the California Department of Financial Institutions than banks<sup>4</sup>. According to Maryland consumer attorneys representing low-income clients in debt collection cases, credit unions are also far more aggressive in their collection activities and tactics than banks and non-bank lenders.

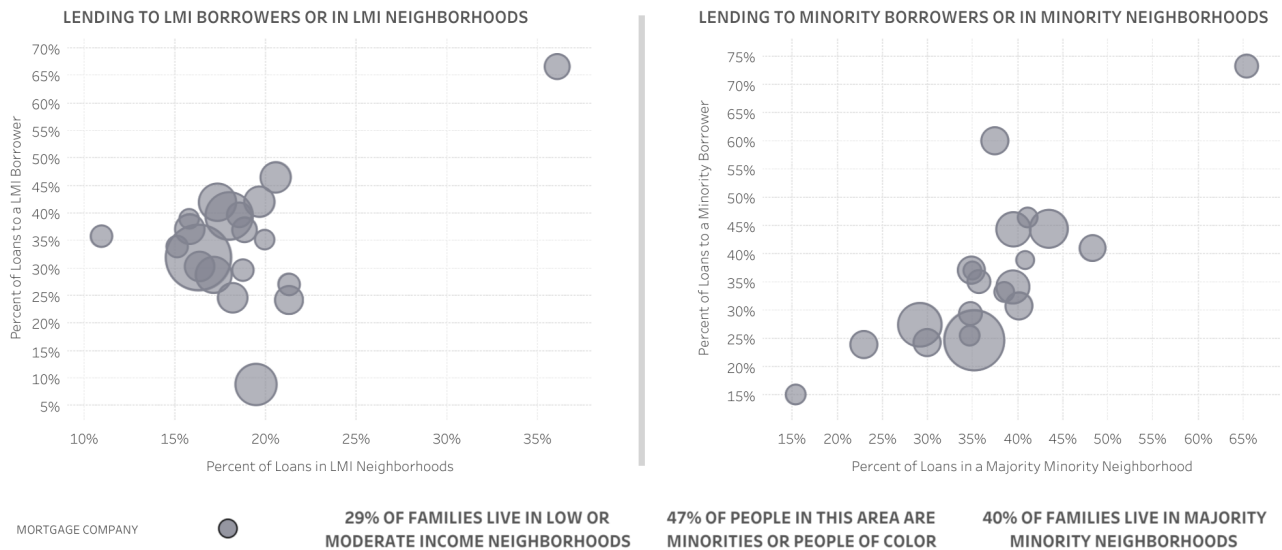
Mortgage companies have the lowest rate of denial. A fair number of mortgage companies do a good job lending to LMI and minority borrowers in LMI and minority neighborhoods. However, performance is uneven. As shown in Graph 2 below, Homespire stands out as it made a majority of loans to LMI and minority borrowers in LMI and minority neighborhoods. However, there are also lenders that stand out for their lack of lending to underserved communities: Bay Capital Mortgage Company made 15% of loans

4

[https://dfpi.ca.gov/wp-content/uploads/sites/337/2023/04/Annual-Report-of-Income-from-Fees-on-Nonsufficient-Funds-and-Overdraft-Charges\\_2023.pdf](https://dfpi.ca.gov/wp-content/uploads/sites/337/2023/04/Annual-Report-of-Income-from-Fees-on-Nonsufficient-Funds-and-Overdraft-Charges_2023.pdf)

to minority borrowers, Freedom Mortgage lent only 9% to LMI borrowers, and Bay Capital lent 11% to LMI borrowers. Expanding CRA obligations to include mortgage companies would provide these firms with an incentive to do better and be innovative with their lending. Extending CRA obligations to mortgage companies could also encourage these companies to adopt other CRA services like housing counseling to increase their CRA grades.

**Graph 2. Mortgage Company Lending in LMI & Minority Neighborhoods**

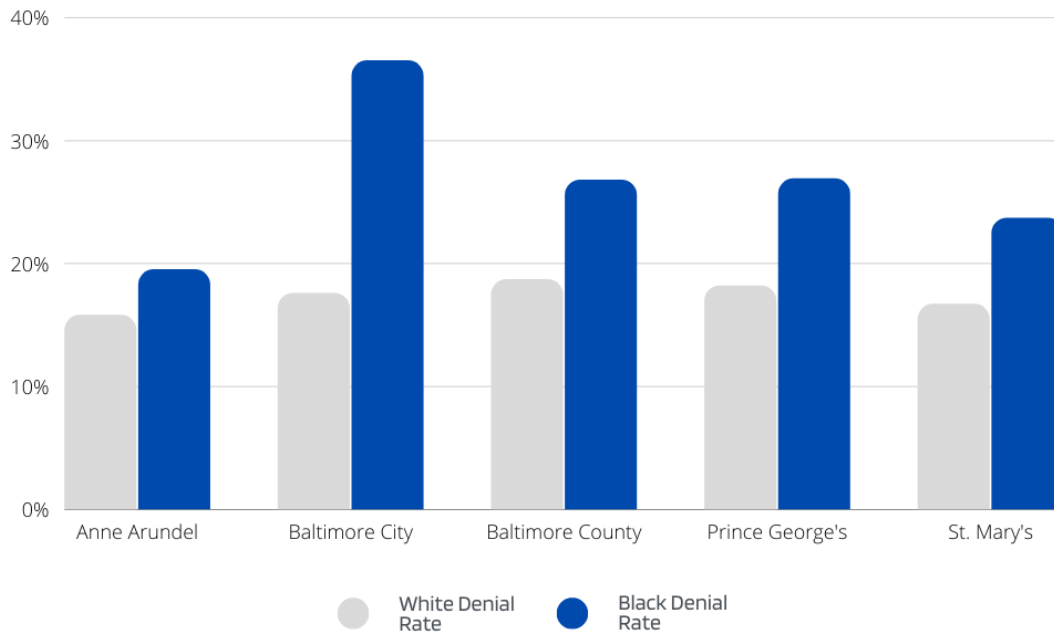


Data Source: 2018-2020 Home Mortgage Disclosure Act (HMDA) from the National Community Reinvestment Coalition (NCRC) Member 2021 Fair Lending Tool

**Problems with the Current Law**

**Race-Neutral.** Although CRA was passed to address ‘redlining’ a discriminatory practice that has harmed Black residents’ ability to own homes and access credit, the law itself rates banks on investments in low-income communities but remains silent on race. This limits the positive impact CRA could have in communities of color which continue to struggle to secure equitable investment. Graph 3 examines white applicant home loan denial rates compared to Black applicant denial rates in select counties in Maryland. Home loans include home purchase, refinancing, home improvement, and home equity loans. The graph clearly demonstrates that racial disparities in lending persist.

**Graph 3. Home Loan Denial Rates by Race by County**

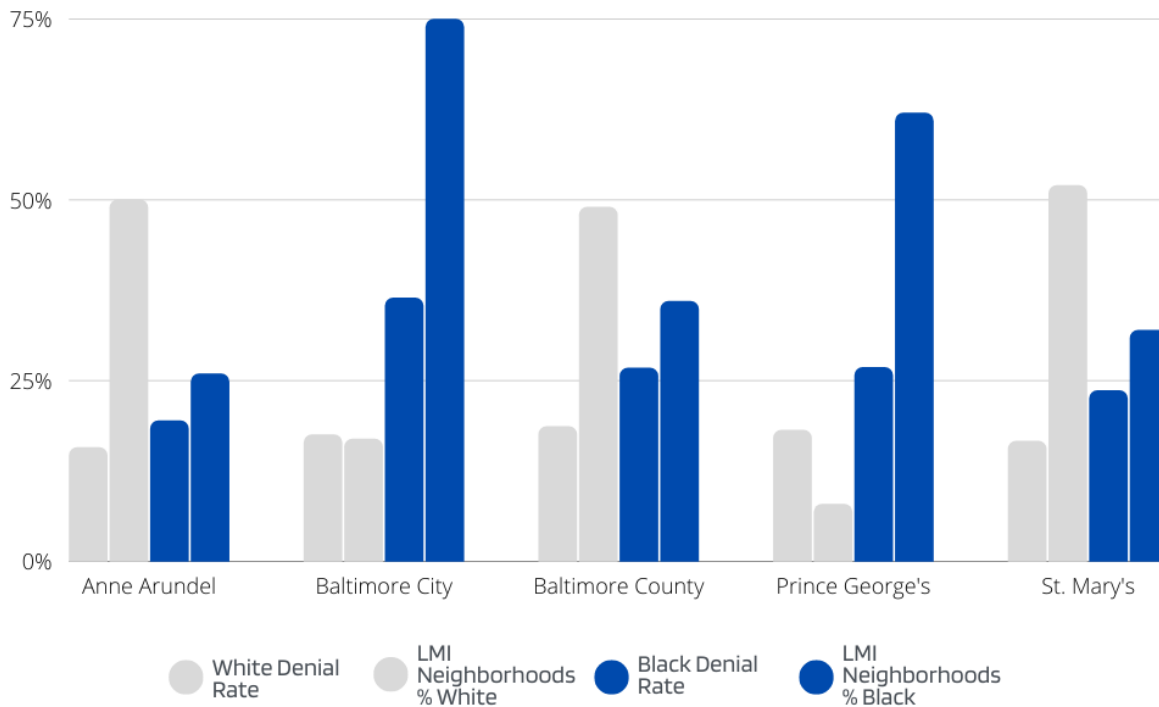


*Data Source: 2018-2020 Home Mortgage Disclosure Act (HMDA) from the National Community Reinvestment Coalition (NCRC) Member 2021 Fair Lending Tool*

Graph 3 indicates that the denial rate in counties across Maryland are higher for Black borrowers than they are for whites. Between 2018 and 2020, Black borrowers across Maryland were denied by all lending institutions at a rate 1.6 times higher than white applicants. This means that 26% of Black applicants were denied whereas only 16.4% of white applicants were denied. This disparity is larger in Baltimore City where Black applicants were denied 2.1 times as often as white applicants.

Furthermore, denial rates by race do not fluctuate with the income of borrowers. In all counties, and for all races, the leading reason for denial is credit. Income is a closely related factor that can demonstrate a lender's ability to repay a loan. In Graph 4, the relationship between denial rates and income is expressed through a comparison of denial rates by race and percent race make-up in LMI neighborhoods. LMI neighborhoods are defined as a neighborhood where the Median Family Income (MFI) is 80% or less of the MFI in the metro area. White denial rates remain consistent across counties despite fluctuations in the percent of white residents in LMI neighborhoods. In contrast, Black denial rates increase when the LMI population increases.

**Graph 4. Home Loan Denial Rates and LMI population by Race by County**



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

Most devastatingly, Graph 4 indicates that race is a more significant predictor of denial than income or creditworthiness. It would be assumed, because credit is the leading factor behind denial rates, that a high LMI population would indicate higher denial rates, but this is not the case. For example, Anne Arundel has a large white LMI population, yet white denial rates remain similar with denial rates across the state and with white denial rate in counties with more affluent white populations. This is the same for St. Mary's County.

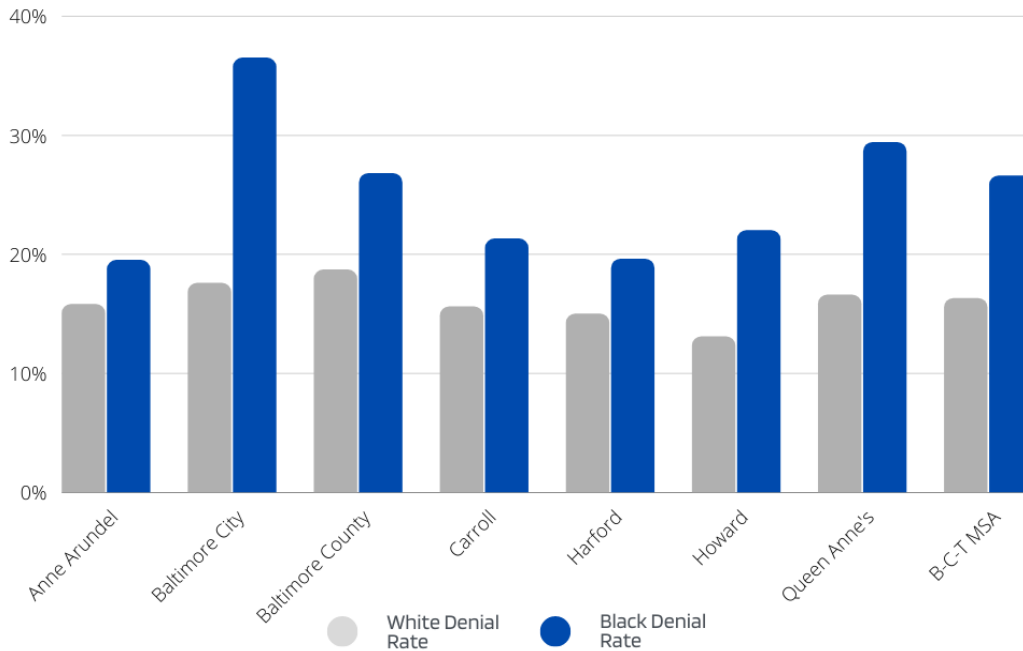
Conversely, the Black denial rate increases with a higher Black LMI percentage. Baltimore City displays the most distinct increase of denial with an increase in LMI population by race. Baltimore City's percentage of Black residents in LMI neighborhoods is 75% and the Black denial rate is 36.5% where the average Black denial rate across the state is only 26%. This shows that in Maryland, denial rates increase with LMI populations, but only for Black borrowers.

**Assessment Areas.** Banks self-select the assessment areas in which they are graded. Unsurprisingly, banks often choose large metropolitan areas so that counties where they are already performing well can effectively obscure the record in lower-performing areas. Assessment Areas are often large geographical regions that encompass vastly different metropolitan counties. For example, Baltimore City



is part of the Baltimore-Columbia-Towson Metropolitan Statistical Area (MSA) which includes Anne Arundel, Baltimore City, Baltimore County, Carroll, Harford, Howard, and Queen Anne’s Counties. These counties vary dramatically in terms of population size, demographics, and lending rates.

**Graph 5. Home Loan Denial Rates by Counties within the Baltimore-Columbia-Towson MSA**



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

As the graph above illustrates, there are great variations in population and denial rates between counties comprising the Baltimore-Columbia-Towson MSA. Rating bank performance across the MSA does not serve the specific needs of neighborhoods or vulnerable populations that CRA was designed to meet. For example, Baltimore City is 28% white and only 17% the white population lives in LMI neighborhoods compared to Anne Arundel County where 71% of the population is white and 50% live in LMI neighborhoods. The denial rate in Baltimore City is 27.4% (17.6% white, 36.5% Black) compared to 16.6% in Anne Arundel (15.8% white, 19.5% Black). See Graph 5 above for more comparisons.

**The Solution**

The solution is to expand and strengthen CRA laws at the state level. In Connecticut, Massachusetts, New York, and Illinois state CRA laws provide oversight for state regulated financial institutions not covered by the federal CRA and improve access to credit for communities of color in urban, suburban areas, and rural communities.



Massachusetts, New York, and Illinois laws recognize that a CRA obligation should be broadly applied to bank and nonbank lenders to promote and improve community reinvestment. A study conducted by the National Community Reinvestment Coalition (NCRC) found that expanding CRA obligations to mortgage companies in Massachusetts has led to higher performance in retail lending and community development activity in LMI communities, effectively motivating improvements in CRA performance<sup>5</sup>.

### **Maryland State CRA**

Maryland should expand and strengthen CRA at the state level. A strong Maryland State CRA should:

- Establish CRA obligations for mortgage companies and credit unions thereby ensuring that the vast majority of lending in the state must meet CRA requirements which increases lending in historically disinvested communities;
- Expand grading requirements to explicitly include assessments of lending in distressed or underserved communities or populations in order to increase lending to communities and borrowers of color;
- Assess performance by county to create a meaningful obligation in both urban centers and rural counties to ensure needs are established and met at a more local level than what is currently practiced; and
- Create stronger enforcement mechanisms that increase CRA performance. A passing grade would be required for mortgage companies to be licensed and a passing grade would be required in order for financial institutions to hold municipal and state deposits. Working alongside federal examiners, the Office of Financial Regulation would provide a state assessment of lenders.

### **Conclusion**

A robust Maryland State CRA would ensure that the thousands of loans originated, and the billions of dollars held by state financial and lending institutions are invested in communities equitably. Harnessing these investment dollars is key to increasing economic development for historically disinvested communities - expanding pathways to homeownership, small business ownership, and access to financial products and services.

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<sup>5</sup> <https://ncrc.org/massachusetts-cra-for-mortgage-companies-a-good-starting-point-for-federal-policy/>