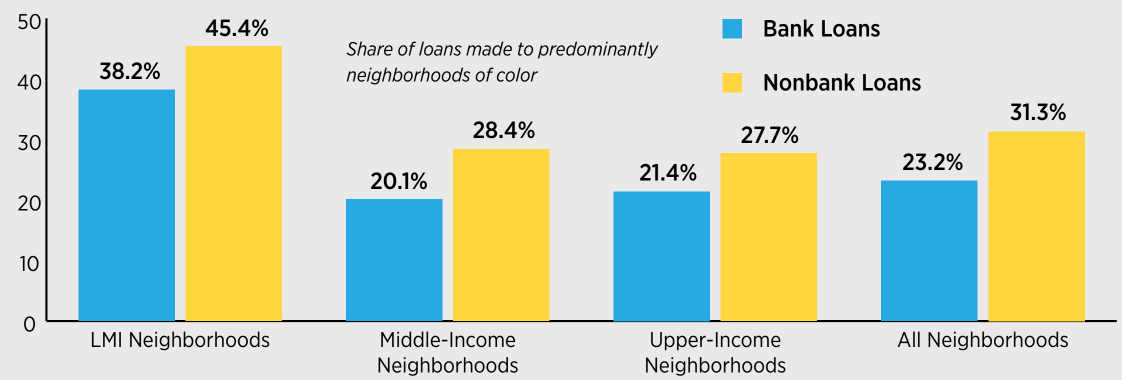
IMB POLICY SPOTLIGHT

Independent Mortgage Banks and Community Reinvestment Requirements: A Solution in Search of a Problem

Federal Community Reinvestment Act (CRA) law is premised on the view that institutions that benefit from federal deposit insurance and receive deposits from the communities in which they operate have an obligation to reinvest a portion of those deposits in these communities to meet local credit needs. Some states and federal policymakers have called to extend CRA obligations to independent mortgage banks (IMBs). Simply put, this is a policy proposal in search of a problem. Here's why:

- In contrast to banks, IMBs do not take deposits from the communities they serve. Instead, they access funds from global financial markets and other sources of capital at their own risk and lend those funds in local communities. In short, they import capital from Wall Street to Main Street.
- As noted in the MBA IMB Fact Sheet, IMBs are the primary source of mortgage credit — by a wide margin — for home purchases by LMI and minority households.
- Those results are in part due to the IMBs' growth in overall market share and their dominance in FHA lending. But a recent study from the Urban Institute shows that IMBs also outperform banks in LMI and minority lending as a percentage of their total business.
- The Urban Institute report examined what proportion of overall bank and nonbank home lending is extended to LMI and minority borrowers and communities. Urban found:
  - + IMBs made a larger percentage of their owner-occupied home purchase mortgages (31.3%) to borrowers of color than banks did (23.2%) (see Chart 1, right side).
  - + The strong performance by IMBs in lending to minority homebuyers holds across all area income levels (see Chart 1). For example, 43.5% of all homeowners in LMI neighborhoods are homeowners of color, but 45.4% of IMB loans in those same neighborhoods were made to minority homebuyers. By contrast, loans to minority borrowers accounted for only 38.2% of bank lending in those neighborhoods.
  - + The strong performance by IMBs is not simply a result of their dominance of government lending (see Chart 2). IMB lending for home purchases to minority borrowers and to minority neighborhoods exceeds bank lending across both government loan products (FHA/VA/RHS) and conventional loan products.

Chart 1. Across All Income Levels, Banks Make a Smaller Share of Loans to Borrowers of Color



Source: The Urban Institute and 2018–19 Home Mortgage Disclosure Act data
Notes: LMI = low- and middle-income. Owner-occupied purchase loans only.

Chart 2. Nonbanks Originate Larger Share of Their Loans to Neighborhoods and Borrowers of Color through Both Conventional and Government Channels

	Government Channel		Conventional Channel	
	Banks	Nonbanks	Banks	Nonbanks
Share of loans to neighborhoods of color	7.2%	11.7%	5.2%	7.3%
Share of loans to LMI neighborhoods of color	4.2%	6.3%	2.9%	3.9%
Share of loans to borrowers of color	28.6%	37.8%	21.8%	27.1%
Share of loans to LMI borrowers of color	11.7%	14.2%	6.7%	8.6%

Source: The Urban Institute and 2018–19 Home Mortgage Disclosure Act data
Notes: LMI = low- and middle-income. Data reflect owner-occupied purchase loans.

The Massachusetts CRA Experiment

- New CRA laws in New York and Illinois are modeled after a 2008 law enacted in Massachusetts, yet the data show faster growth in IMB lending to LMI and minority homebuyers in many states without CRA mandates for IMBs.
- For example, in Massachusetts, the proportion of purchase mortgages made to LMI homebuyers by IMBs increased from 27% in 2008 to 65% in 2021 — an impressive 140% increase, but no better than the growth in LMI share nationally.*
- Moreover, during the same period, results for IMB lending to LMI borrowers in New York and Illinois were better without a CRA mandate: The IMB share of home purchase loans to LMI families increased by 176% in New York and by 146% in Illinois over the same period.*

Better Policy Choices

- If CRA were an effective policy tool, one would expect CRA-covered banks to outperform nonbanks in LMI and minority lending.
- In addition, one would expect IMB performance in lending to LMI and minority households in Massachusetts to outperform states without a CRA requirement.
- Neither hypothesis is true, demonstrating that CRA for IMBs is unlikely to produce any benefits that would outweigh the regulatory burdens and costs incurred.
- Rather than enacting costly but unproductive new regulatory burdens, policymakers should work with IMBs to leverage their operational expertise and mission focus to expand and enhance the homeownership programs and tools the entire industry can use to serve LMI buyers, first-time buyers, and minority families, including:
  + Down payment assistance programs;
  + Mortgage revenue bonds;
  + Mortgage credit certificates; and
  + Integrating ECOA-compliant Special Purpose Credit Programs with state Housing Finance Agency programs.
- In addition, it is important for policymakers to address certain policy barriers that have limited banks' appetite for mortgage lending including FHA-related False Claims Act risk, burdensome FHA servicing rules, and punitive capital treatment for banks' holdings of mortgage servicing assets.

* **Source:** MBA analysis of 2008–2021 Federal Home Mortgage Disclosure Act (HMDA) data.