



Illinois Mortgage Bankers Association



MORTGAGE BANKERS ASSOCIATION

Joint Testimony

Mortgage Bankers Association and Illinois Mortgage Bankers Association
Potential Rules Relating to Residential Mortgage Lenders and Originators
Department of Financial and Professional Regulation
Hearing on Illinois Community Reinvestment Act

August 26, 2021

Thank you for the opportunity to provide testimony on the Advance Notice of Proposed Rulemaking (ANPR) as it relates to residential mortgage lenders and originators. In addition to this testimony, the Mortgage Bankers Association (MBA)¹ and the Illinois Mortgage Bankers Association (IMBA)² will be offering full written comments on all aspects of the ANPR in the weeks ahead. The comments that follow will focus on the initial views of the real estate finance industry regarding the application of the Community Reinvestment Act (CRA) by the Department of Financial and Professional Regulation (Department) to nonbank lenders.

While our organizations recognize that the CRA is now law for state licensed mortgage lenders in Illinois, it is important to state at the outset that the CRA concept is incompatible with the business models of independent mortgage banks (IMBs). Thus, our organizations' comments are intended to assist the Department in the difficult task of tailoring ill-suited bank regulation to a fundamentally different business model.

¹ The Mortgage Bankers Association (MBA) is the national association representing the real estate finance industry, an industry that employs more than 330,000 people in virtually every community in the country. Headquartered in Washington, D.C., the association works to ensure the continued strength of the nation's residential and commercial real estate markets, to expand homeownership, and to extend access to affordable housing to all Americans. MBA promotes fair and ethical lending practices and fosters professional excellence among real estate finance employees through a wide range of educational programs and a variety of publications. Its membership of more than 1,900 companies includes all elements of real estate finance: independent mortgage banks, mortgage brokers, commercial banks, thrifts, REITs, Wall Street conduits, life insurance companies, credit unions, and others in the mortgage lending field. For additional information, visit MBA's website: www.mba.org.

² The Illinois Mortgage Bankers Association (IMBA) is the oldest state non-for-profit trade association of mortgage bankers. Since 1920, the IMBA has continuously promoted mortgage banking and real estate financing and safeguarded and protected Illinois borrowers and its members, which include non-depository mortgage bankers, community and national banks, credit unions, title and mortgage insurance companies, mortgage servicers and secondary market mortgage loan purchasers, including government sponsored entities such as Fannie Mae, Freddie Mac and the Federal Home Loan Bank of Chicago, and state agencies, such as the Illinois Housing Development Authority. The IMBA has undertaken such activities by promoting mortgage education of applicants, borrowers and its membership, by making known the mortgage industry views, practices, activities and products available to its members and to the general public, and by representing the interests of its members and Illinois borrowers before legislative authorities, regulatory bodies and the courts.

The CRA addresses policy concerns that are tied uniquely to the acceptance of insured consumer deposits. Specifically, the CRA is meant to ensure that financial institutions accepting deposits from a particular community reinvest those deposits in that community and otherwise meet the credit needs of the residents, including consumer loans, mortgages, and small business lending. Put simply, it ensures that the deposits residents entrust to a bank are available to meet the credit needs of that community.

The IMB business model is fundamentally different than the bank business model. IMBs are designed to tap global financial markets to fund mortgages locally – in effect, IMBs draw capital from Wall Street and deliver it to Main Street. IMBs do not accept deposits, nor are they the beneficiaries of any other direct taxpayer backstops for their ongoing operations, such as access to federally-insured deposits, Federal Home Loan Bank advances and Federal Reserve Discount Window lending.

In addition, IMBs generally are monoline institutions – they do not offer depository or payments system services, nor do they offer other forms of consumer credit (credit cards, auto loans, personal loans), commercial or multifamily real estate lending, or small business commercial credit. Consequently, they generally only have one way of meeting the credit or other needs of the community – by making mortgages. And as demonstrated in additional materials attached to this statement, IMBs have a proven track record of strong and reliable lending to low- to moderate-income (LMI) borrowers and communities in Illinois and across the country.

A review of federal Home Mortgage Disclosure Act (HMDA) data over the past decade shows that the overall market share of home mortgage lending in Illinois by IMBs has grown from 20% in 2010 to 55% in 2020. Over that same period, the IMB share of loans insured or guaranteed by the Federal Housing Administration (FHA) and the Department of Veterans Affairs (VA) in Illinois grew substantially. This market share grew from 34% to 87% for FHA loans and from 33% to 78% for VA loans. In addition, IMBs accounted for 41% of all loans insured or guaranteed by the Rural Housing Service of the Department of Agriculture (USDA) in 2020, compared to 11% in 2010. Given that these loans disproportionately serve LMI borrowers, first-time buyers, and veterans, it is no surprise that IMBs lead the market in serving the borrowers CRA is intended to support. For example:

- IMBs accounted for 68% of home purchase loans to LMI borrowers in Illinois in 2020. Conversely, depository institutions (credit unions, as well as banks covered by federal CRA requirements) accounted for 32% of home purchase loans to LMI households.
- In terms of loans originated to minority households for home purchases, IMBs accounted for 60% of these loans in Illinois in 2020, compared to 40% for depository institutions.

Proponents of extending CRA obligations to nonbank mortgage lenders often offer a false narrative that IMBs operate in an unregulated financial system. The Department should note that IMBs are subject to all the same state and federal fair housing and lending laws and consumer-facing regulations as depository institutions to ensure sound underwriting and high-quality lending on a nondiscriminatory basis. These standards include enforcement for violations of federal Unfair, Deceptive, or Abusive Acts and Practices (UDAAPs) law.

It is unfortunate that neither the Legislature nor the Governor held hearings to examine these issues before passing and enacting this law. Thus, it falls to the Department to determine how best to fit a square peg in a round hole. The conclusion from the Illinois data on IMB lending to LMI and minority households is straightforward – the CRA rule must be thoughtfully tailored to

ensure that excessive burdens and costs are not imposed on the very institutions that have spent the last decade growing their lending to LMI, minority, rural and veteran borrowers.

In promulgating its rules, the Department should seek to mitigate any unintended consequences resulting from such a hasty policy making process. The costs to comply, report and be examined for state CRA purposes cannot be absorbed simply – they ultimately will be passed through to Illinois borrowers. This economic reality will be felt disproportionately by LMI borrowers, as they are the ones who are working the hardest to afford their first home or to take advantage of the current historically low interest rates to refinance their homes and lower their monthly payments.

We therefore urge the Department to take a tailored approach to implementing this law and rely on data that is readily available to regulators and industry alike to establish its examination priorities. In keeping with the unique nonbank lender business model, the Department also should weight its examination priorities most heavily on the lending activities of the IMB. In doing so, we urge the Department to propose regulations that include a strong presumption of compliance with the state's CRA obligations for those IMBs that meet the following criteria (according to HMDA data):

1. the proportion of government-supported affordable housing program loans in the state (i.e., the lender's combined loans insured or guaranteed by FHA, VA, USDA, and the Office of Public and Indian Housing, as well as any loans originated through programs offered by housing finance agencies) is at least equal to the overall state proportion of these loans for that year; **or**,
2. the proportion of loans originated to LMI borrowers (as defined by the Department using HMDA data) by the lender is at least equal to the overall state proportion of loans to LMI borrowers for that year.

The Department's implementing regulations should seek to substantially lessen the CRA examination and reporting burden by providing a presumption of compliance (e.g., a rating of "satisfactory" or higher) for those institutions whose lending activities demonstrate they are meeting the mortgage credit needs of LMI, minority, rural and veteran households.

Of course, not every lender can exceed the averages. If an IMB lender does not meet either of these conditions above, the Department should not presume that lender is noncompliant with the provisions of state-level CRA requirements. The Department should provide ample opportunity for these companies to provide input on the full range of their business activities that support the important goal of expanding mortgage credit and housing opportunities to LMI borrowers and communities. Service activities (outreach, marketing, support for local housing counseling agencies and financial education, homebuyer fairs, etc.) should be considered, along with any community development investments, as part of an IMB's overall assessment.

We urge the Department to exercise caution in uncritical adoption of rules based on those adopted by the Massachusetts Division of Banking (DOB). As the Department knows, the DOB has been conducting IMB CRA exams in Massachusetts since 2009. It is reasonable to conclude, therefore, that lending in Massachusetts to LMI borrowers over the past decade should serve as a case study to assess its efficacy at stimulating more lending to LMI and minority borrowers compared to states without a nonbank CRA requirement.

If extending CRA obligations to IMBs were an effective policy measure, the rules in Massachusetts would be expected to result in faster growth in IMB lending to LMI and minority homebuyers after implementation compared to states without CRA requirements for IMBs. A comparison of the key HMDA data points does not reveal results that support narrow emulation of DOB rules. Instead, we urge the Department to embrace our proposed approach as the framework for regulations implemented in Illinois.

Again, CRA requirements will impose greater compliance costs and higher examination expenses that will raise costs for consumers and may discourage IMBs from expanding or establishing operations in the state. Sensible regulations should be tailored to mitigate burdens on those institutions that are already “doing the work.” We urge Illinois to adopt exam priorities and a presumption of compliance for those institutions whose lending data clearly demonstrate they are serving the LMI, minority, veteran, and rural households the CRA is designed to support.

Lastly, we note that none of the forgoing is intended to suggest that depository institutions are not critically important to the housing ecosystem and our local communities. In addition to their own consumer mortgage lending, they provide the critical warehouse lending facilities to IMBs that have allowed IMBs to grow. Depository institutions also serve LMI communities across a much wider array of products and services than monoline IMBs. The point of sharing these data is to urge the Department to take a focused and tailored approach to its rules that recognizes the unique attributes of the IMB business model.

MBA and the IMBA thank the Department for holding this and other hearings. Thank you for the helpful 120-day period provided to respond to the ANPR, as well. We respectfully request an opportunity to meet directly with Department staff to discuss our associations’ views and to answer questions. For additional information, please feel free to contact Barbara Zajicek at the IMBA (BarbaraZajicek@att.net) or William Kooper at the national MBA (wkooper@mba.org).

Attachments

- Illinois and Massachusetts HMDA data sheets
- *Independent Mortgage Banks: Financing the American Dream*

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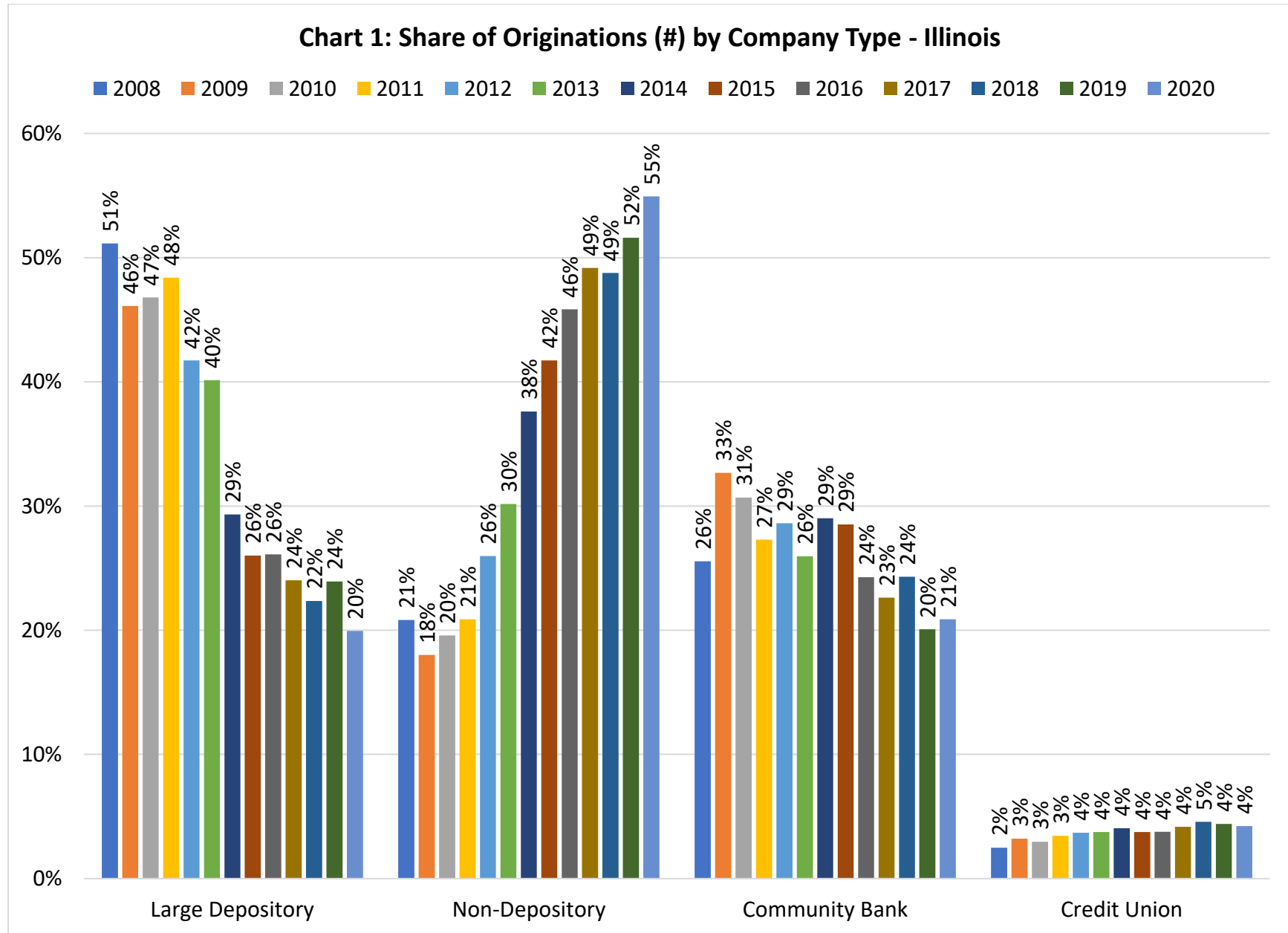
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IMB Fact Sheet – Illinois

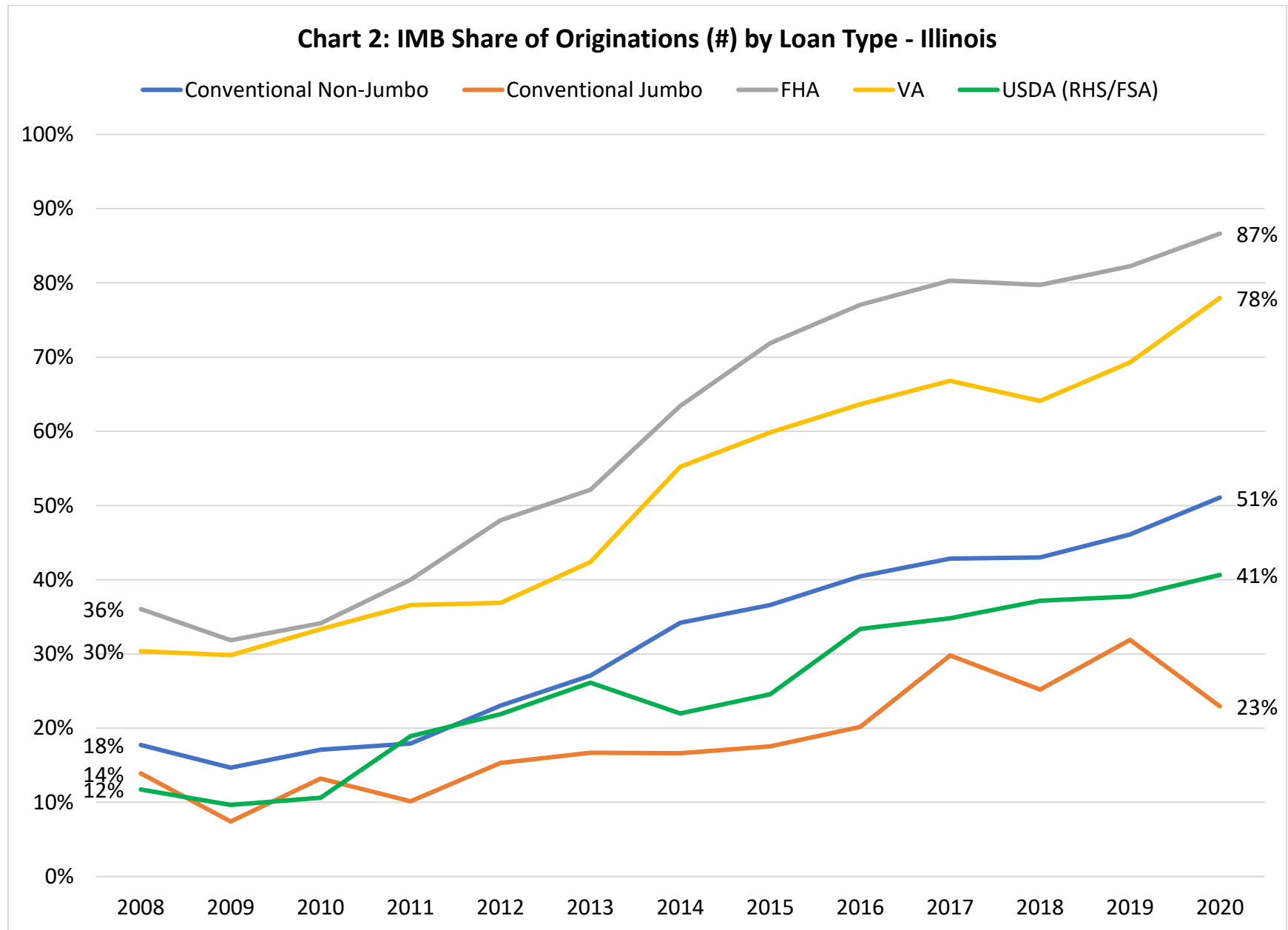
**The Important Role of Independent
Mortgage Banks in Financing
the American Dream**

Source: Federal Home Mortgage Disclosure Act Data. Note 2020 is the most recent year for which data are available.

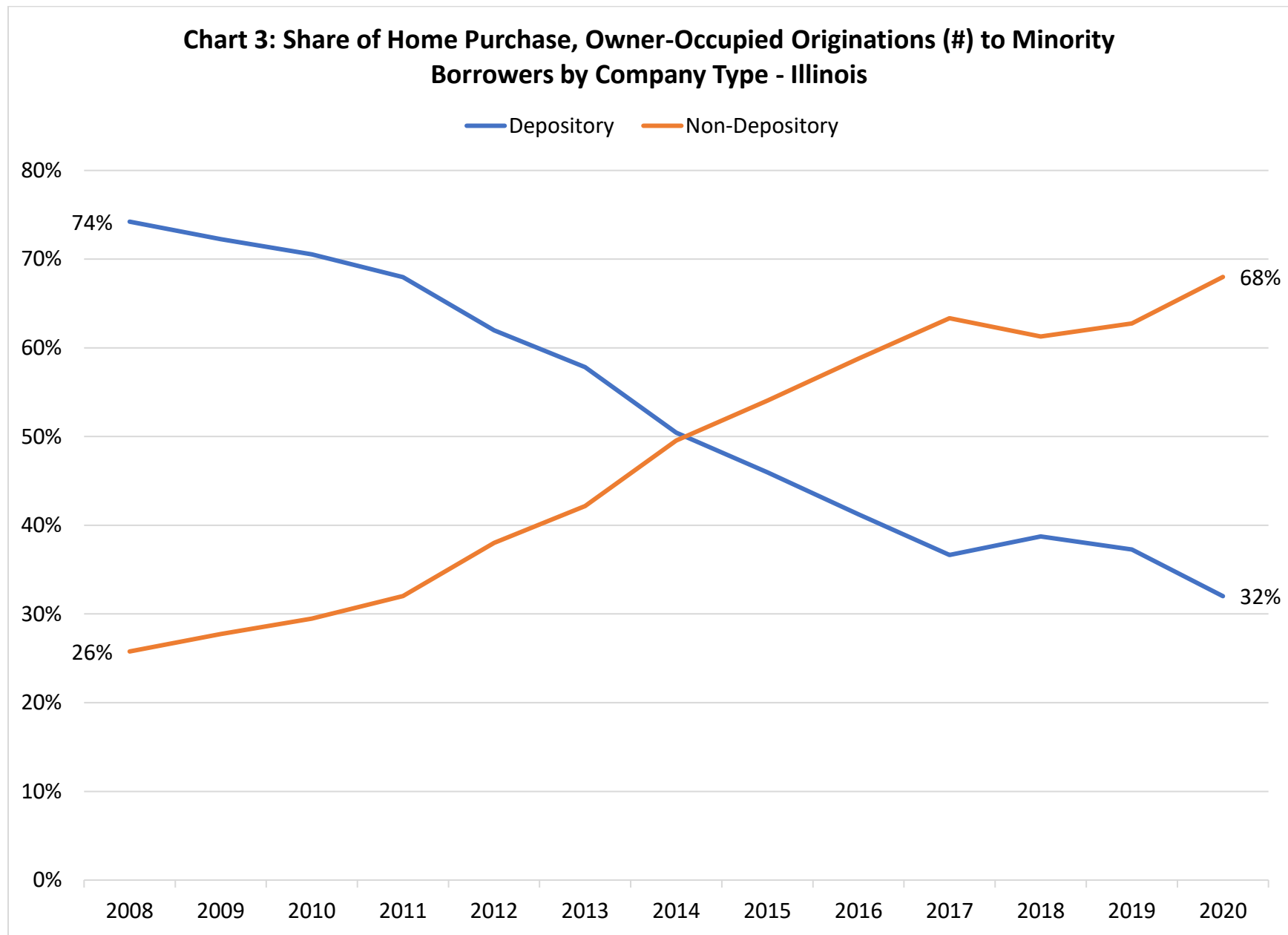
The nationwide IMB share of overall single-family origination volume (in units) climbed from 25% in 2009 to 63% in 2020. In Illinois, the IMB share climbed from 21% in 2008 to 55% in 2020 (Chart 1).



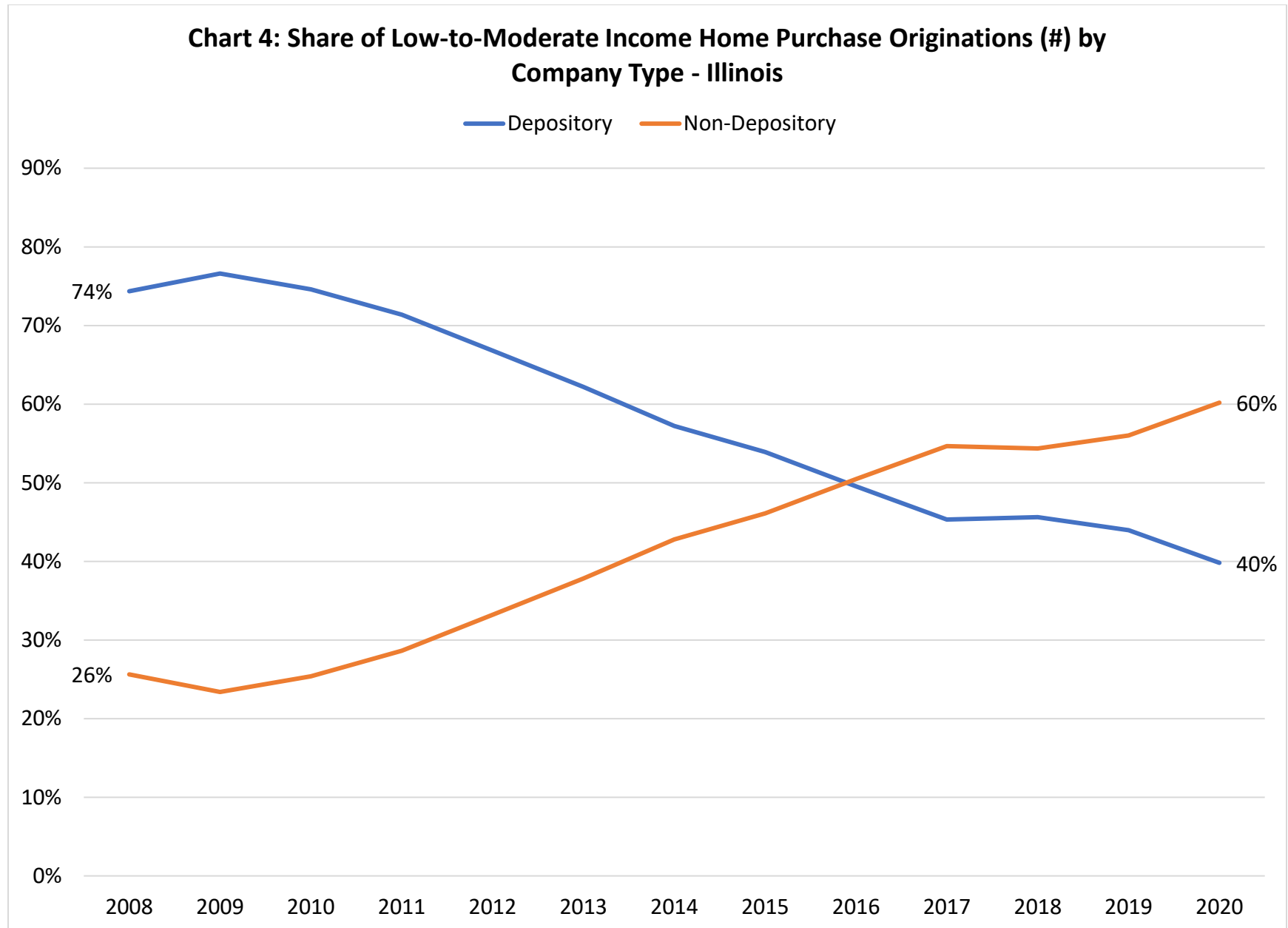
By 2016, IMBs became the predominant lender segment in both purchase loans and refinances. In addition, since 2008, IMBs have gained significant market share in every loan type category — government (FHA, VA, and Rural Housing Service), conventional, and even jumbo. In Illinois, the share of these loans originated by IMBs in 2020 was 87% of FHA loans, 78% of VA loans, and 41% of RHS loans (Chart 2).



Given their market focus on government lending, during 2020 IMBs in Illinois originated 68% of home purchase mortgage loans to minority homebuyers, which is up from 26% in 2008 (Chart 3), and higher than the IMBs' overall market share (55%) in Illinois in 2020



In Illinois, IMBs accounted for 60% of home purchase loans to low- and moderate-income (LMI) borrowers in 2020, which is up from 26% in 2008 (Chart 4). Indeed, IMBs' share of loans to LMI borrowers is higher than their overall market share (55%, see Chart 1).

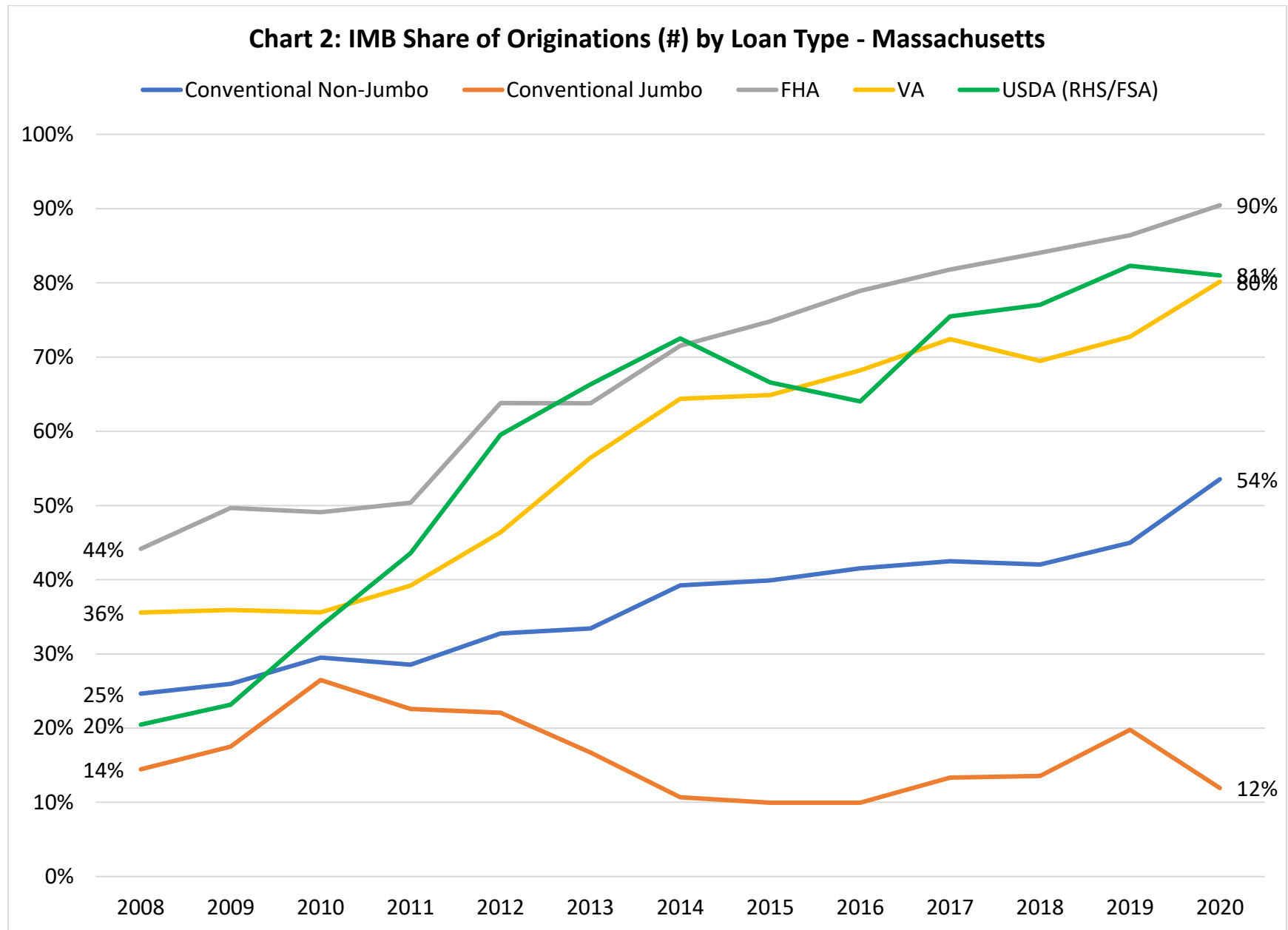


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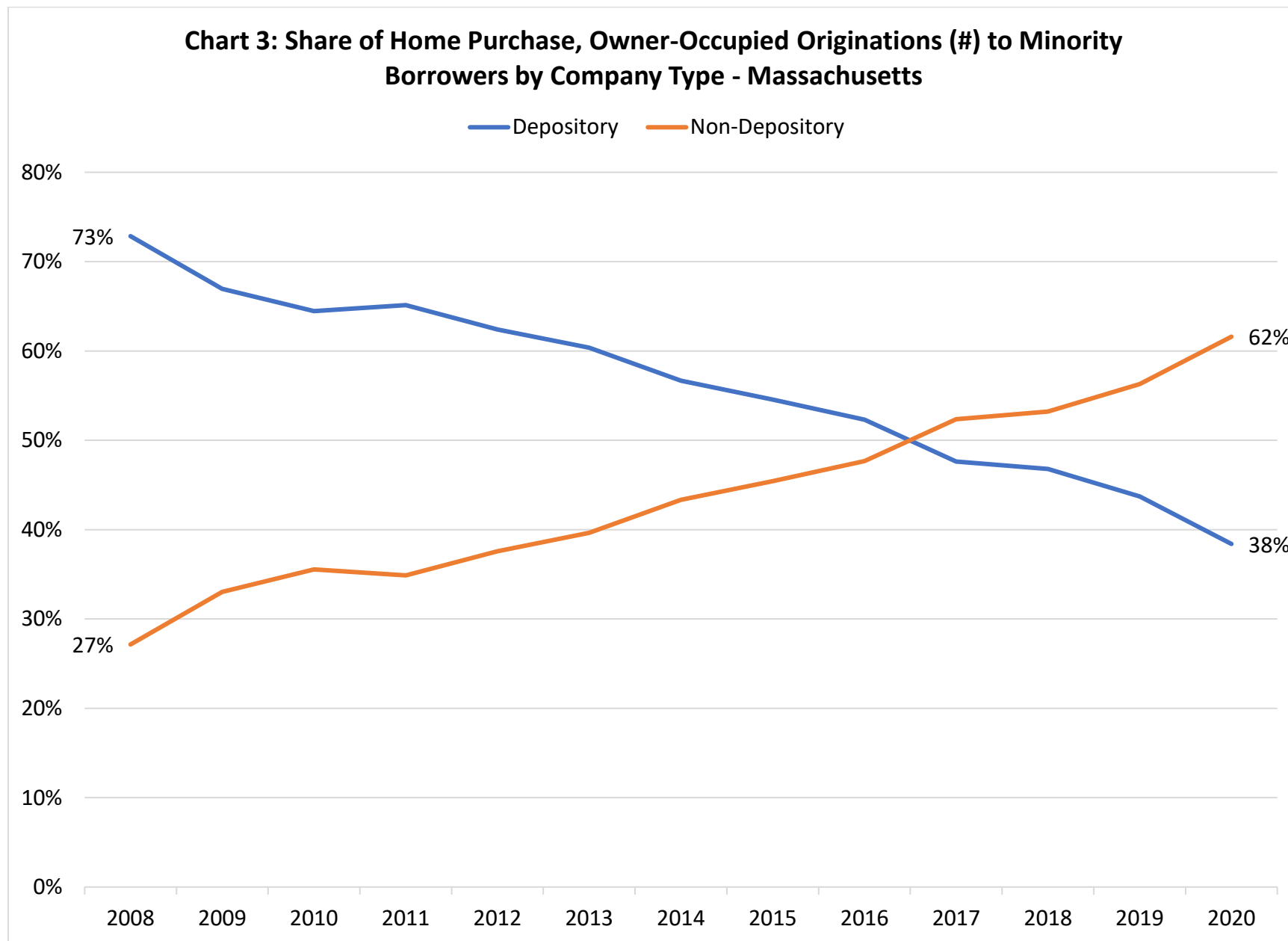
MORTGAGE BANKERS ASSOCIATION

IMB Fact Sheet – Massachusetts
The Important Role of Independent
Mortgage Banks in Financing
the American Dream

By 2016, IMBs became the predominant lender segment in both purchase loans and refinances. In addition, since 2008, IMBs have gained significant market share in every loan type category — government (FHA, VA, and Rural Housing Service), conventional, and even jumbo. In Massachusetts, the share of these loans originated by IMBs in 2020 was 90% of FHA loans, 80% of VA loans, and 81% of RHS loans (Chart 2).



Given their market focus on government lending, during 2020 IMBs in Massachusetts originated 62% of home purchase mortgage loans to minority homebuyers, which is up from 27% in 2008 (Chart 3), and higher than the IMBs' overall market share (55%) in Massachusetts in 2020 (see Chart 1).



In Massachusetts, IMBs accounted for 62% of home purchase loans to low- and moderate-income (LMI) borrowers in 2020, which is up from 27% in 2008 (Chart 4). Again, IMBs' share of loans to LMI borrowers is higher than their overall market share (55%, see Chart 1).

