



California Mortgage Bankers Association
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The Honorable Monique Limon
Member, California State Senate
1021 O Street, Room 7330
Sacramento, CA 95814

RE: OPPOSITION to SB 1176 (Limon) New California Reinvestment Act Regulatory Regiment.

The California Mortgage Bankers Association (California MBA) represents over 350 member companies, including residential and commercial lender/servicers and industry solutions partners. Our members are committed to providing fair and equitable access to credit and are working with state and federal government and private sector stakeholders to develop new products and strategies to reach underserved markets and communities. The California MBA, however, must respectfully oppose SB 1176, given the number of concerns our member companies have. Most importantly, we believe the Community Reinvestment Act (CRA) regulatory structure which the bill would impose would do more harm than good with respect to mortgage lending for California consumers. Additionally, the federal CRA law is intended to cover a fundamentally different financial service business model than model of independent mortgage banks (IMBs) that make up the majority of our lender membership.

The federal CRA law is premised on the concept that institutions benefiting from federal deposit insurance and receiving deposits from the communities in which they operate have an obligation to reinvest a portion of those deposits back into these communities to help meet local credit needs. By contrast, IMBs do not take deposits from the communities they serve. Rather, they access funds from global financial markets and other sources of capital at their own risk and lend those funds into local communities. It is an important distinction to note that IMBs do not obtain deposit insurance or other benefits that federal or state-chartered banks enjoy, which is a primary reason for CRA requirements.

More importantly, IMBs are already providing 83 percent of the home purchase loans to low- and moderate-income (LMI) borrowers in California according to the most recently available Home Mortgage Disclosure Act (HMDA) data collected by the Consumer Financial Protection Bureau (CFPB). By comparison, in Massachusetts, the only state that currently has CRA requirements in place for IMBs, 62 percent of home purchase loans are made by IMBs. Further, HMDA data also show that IMBs in California originated 74 percent of home purchase mortgage loans to minority homebuyers compared to 62 percent in the Massachusetts. That 12-point gap is wider than the 7-point gap that existed in 2008, before Massachusetts passed its CRA law. If their state CRA has been effective, one would expect this gap to have narrowed, not increased.

The bottom line – CRA for nonbanks has failed to achieve its policy objective in Massachusetts. More than a decade after enactment of a CRA law for nonbanks, IMB lending to LMI and minority borrowers in Massachusetts has *not* outpaced lending by IMBs to those borrowers nationally or in other states that do not have a CRA requirement for nonbanks.

The type of state mandated CRA in SB 1176 is not just an illogical fit for IMBs, it is also unnecessary and a costly addition to existing regulatory burdens. California MBA's nonbank members are already closely regulated and examined by the California Department of Financial Protection and Innovation (DFPI) and are covered by Federal and state fair lending laws. They are also subject to supervision by the mortgage regulators

of every other state in which they are licensed. In addition to needlessly expanding this robust state and federal regulatory framework, the bill's new DFPI examination mandate would also add regulatory burdens that will raise costs, by imposing additional expensive examination fees and the potential for significant administrative fines. These costs cannot simply be absorbed by lenders and will likely impact their ability to continue to provide efficient and affordable financing for California's housing needs.

IMB lending practices are already reported through HMDA and publicly available through the CFPB. California legislators, regulators and advocate groups can easily access this data to develop reports analyzing a variety of different metrics for nonbank lenders. A new statute is not necessary to determine mortgage origination footprints statewide or in specific communities, as well as how nonbanks compare in reaching borrowers of color. A better strategy would be for policymakers to instead consider studying the publicly available HMDA data on mortgage lending to LMI and minority borrowers to first determine if there are in fact issues in the marketplace relative to IMBs and if so, make recommendations.

We are very concerned that the CRA regulatory burdens proposed in SB 1176 will only make the acute affordable housing challenges in our state worse for California consumers, especially when the comprehensive publicly available HMDA data makes it clear that IMBs are already providing the vast majority of home purchase mortgages to California's minority and LMI borrowers. We believe the requirements in SB 1176 will have the unintended consequence of detracting from the continuing efforts in California to promote and make available additional financing for affordable housing.

For the reasons listed above, the California Mortgage Bankers Association opposes SB 1176. Please feel free contact us with any questions.

Sincerely,

A handwritten signature in cursive script that reads "Susan Milazzo".

Susan Milazzo CEO
California MBA

cc: All Members, Senate Committee on Banking and Financial Institutions
Michael Burdick, Consultant, Senate Committee on Banking and Financial Institutions
Tim Conaghan, Consultant, Senate Republican Caucus