Housing Action Illinois
A stronger Illinois begins at home

WOODSTOCK INSTITUTE
Advancing Economic Security and Community Prosperity

March 15, 2021

Via email only: lamont@lamontjrobinson.com

Representative Lamont J. Robinson, Jr.
286-S Stratton Office Building
Springfield, IL 62706

Subject: Support for IL Community Reinvestment Act (IL CRA) without Change

Dear Representative Robinson:

Housing Action Illinois and the Woodstock Institute support the creation of the Illinois Community Reinvestment Act (IL CRA) as contained in Senate Bill 1608, passed during the January 2021 lame duck session. We are writing to point out our concerns with House Bill 3694, as it would repeal most of the IL CRA provisions.

Creating the IL CRA will support the banking, credit, and other financial service needs of low- and moderate-income (LMI) communities throughout Illinois and, if robustly implemented, can have a significant positive impact on the Illinois Legislative Black Caucus' efforts to promote economic access, equity, and opportunity to stop systemic racism.

As you know, areas with a Black majority population generally suffer from a lack of access to banking and lending capital, crucial ingredients to create healthy markets where locally-owned businesses and housing markets can thrive.

An example of systemic racism that IL CRA can help remedy is unequal access to affordable mortgage loans based on race. A recently published academic study,[1] which analyzed loans originated by independent mortgage brokers across various markets throughout the nation, found that minorities pay between 3% and 5% more in fees than similarly qualified whites when obtaining a loan through the same white broker.

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1 *Does Borrower and Broker Race Affect the Cost of Mortgage Credit*? Brent W Ambrose, James N Conklin, Luis A Lopez. The Review of Financial Studies, August 7, 2020. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3006793

Locally, a June 2020 report from WBEZ and City Bureau revealed wide racial disparities in mortgage lending between Chicago's white communities and the city's Black and Latino neighborhoods. Calling it modern-day redlining, the analysis found that in Chicago, lenders have invested more in a single white neighborhood than all the black neighborhoods combined.[2]

The IL CRA will complement the federal Community Reinvestment Act. With respect to state-chartered banks, a state CRA will enable the State to help direct state-chartered banks' lending, services, and investments to promote *state*-specific priorities, such as efforts to assist existing LMI residents to be able to remain in affordable housing in their neighborhoods.

A state CRA, implemented by the Division of Banking (DOB) of the Illinois Department of Financial and Professional Regulation (IDFPR), will be more accessible and transparent than the complex regulatory system implemented by the three massive federal banking regulators. Compared to federal regulators, we believe DOB will be better able to facilitate community input and involvement and a robust assessment of community needs, which are the core components of the CRA. For credit unions and mortgage companies, which do not have federal CRA obligations, a state CRA will spur significant investment by these institutions into LMI neighborhoods.

We know that opponents of the IL CRA will argue that the federal CRA is sufficient to assess whether financial institutions are meeting the credit needs of LMI communities.

However, research by the federal Consumer Financial Protection Bureau shows that, nationally, a majority of mortgages—we estimate between 60 to 70 percent—are originated by institutions that are not covered by the federal CRA, including loans originated by residential mortgage brokers and credit unions.

The credit union industry has actually grown into a $1.6 trillion industry by the end of 2020, with 80% of that concentrated in large credit unions that only have 6% of their branches serving low-income communities. The largest credit unions regularly compete with banks for business but have the cost advantage of being non-profit while, at the same time, paying $120 million for the naming rights to an NBA stadium. This is a far cry from the impression that the industry sells to legislators whenever there is an effort to ask them to prove their impact to low- and moderate-income (LMI) communities. Small credit unions are the saving grace of the industry, with 2 out of every 3 branches serving low-income neighborhoods while representing only 20% of the funds available in the industry.

In addition, the credit union industry often states that there is no evidence indicating that they are complicit in "modern-day redlining," but that is because there is no data from which to assess their performance. While there is no presumption of guilt with regard to credit unions or

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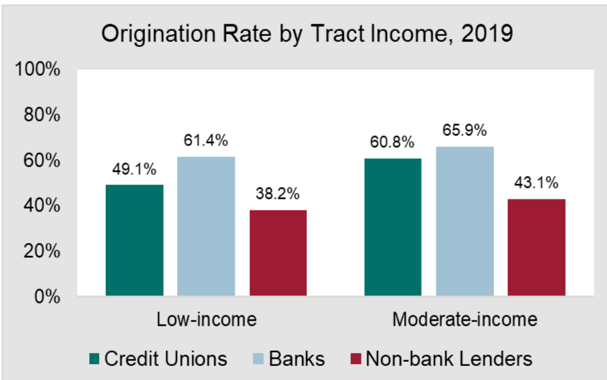
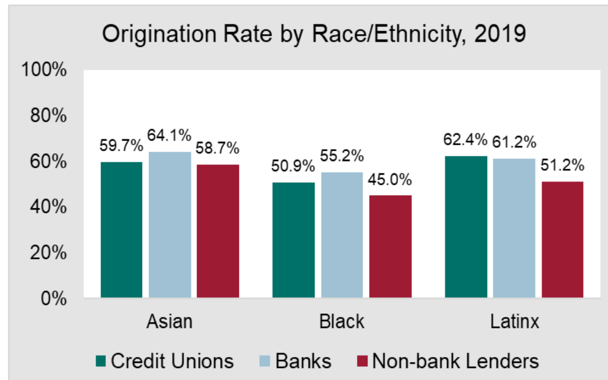
[2] *Where Banks Don't Lend.* Linda Lutton and Alden Loury, WBEZ; Andrew Fan, City Bureau. June 3, 2020. https://interactive.wbez.org/2020/banking/disparity/

mortgage companies, the State and its residents are well served by having the DOB verify the equitable origination of mortgages that credit unions claim.

Importantly, as demonstrated in the two charts below, data collected via the federal Home Mortgage Disclosure Act (HMDA)[3] demonstrate that, at a national level, credit unions are doing worse than banks in terms of the rate of mortgage approvals/originations to low- and moderate-income applicants, and slightly worse serving Asian and Black borrowers.





For those concerned with overlapping federal and state CRA regimes, we know that enforcement of the federal CRA has not been particularly robust, even before recent attempts to undermine the law by the Trump Administration. Financial institutions that have violated anti-discrimination and deceptive practice laws and regulations continue to garner Satisfactory CRA ratings from federal regulators.

Opponents of IL CRA will also argue that the law will create an overly burdensome regulatory environment for state-regulated financial institutions overseen by IDFPR. However, the regulatory burden on state-chartered banks will be minimized by provisions in SB 1608 allowing State examiners to partner with federal examiners during federal CRA exams. State regulators at IDFPR already partner with the Federal Deposit Insurance Corporation (FDIC) on certain bank examinations.

The impact of IL CRA will actually be to even the playing field in Illinois, as credit unions and mortgage companies will be held to the same standard as banks, which, nationally, have been losing market share to non-bank lenders. For example, in July 2020, Quicken Loans replaced Wells Fargo as the lender doing the most mortgage originations in the country.

When SB 1608 is signed into law, Illinois will join New York, Connecticut, and Massachusetts in having state CRA laws. Massachusetts and Illinois will be the only two states that cover all three main segments of the mortgage lending market: banks, credit unions, and mortgage companies.

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[3] Home Mortgage Disclosure Act (HMDA) data and background information is available at https://www.consumerfinance.gov/data-research/hmda/.

After the IL CRA is signed into law, there will be a rule making process, with draft rules to be developed by IDFPR and final approval by the Joint Committee on Administrative Rules (JCAR). We are confident that the rulemaking process will provide an opportunity for all stakeholders, including regulated financial institutions and consumer-oriented groups, to provide input to promote fair and balanced implementation of IL CRA.

In closing, IL CRA will provide a means for state government to provide oversight regarding how well state-regulated financial institutions are serving the residential, small business, and consumer credit needs of people in urban, suburban, and rural communities, particularly those that most suffer from systemic disinvestment based on race.

If you have questions or comments, please contact Brent E. Adams, Senior Vice President of Policy & Communication for Woodstock Institute, at badams@woodstockinst.org or 312-368-0310 x2028; or Sharon Legenza, Executive Director for Housing Action Illinois, at sharon@housingactionil.org or 312-939-6821.

Thank you for considering our perspective.

Sincerely,

Housing Action Illinois
Woodstock Institute