

PREPARED REMARKS OF AARON GLANTZ
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BEFORE MEMBERS OF THE HOUSE FINANCIAL SERVICES COMMITTEE
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Chairman Meeks, Ranking Member Luetkemeyer, and members of the committee, my name is Aaron Glantz and I am a senior reporter at Reveal from The Center for Investigative Reporting, the oldest non-profit news organization in the country, focusing on in-depth investigative journalism. I have worked as a journalist for 23 years. Reveal's weekly, hour-long radio program airs on more than 500 public radio stations across the country and is listened to by millions of Americans.

These remarks were written with Emmanuel Martinez, a data reporter at Reveal, and the co-author, with me, of our investigation into modern-day redlining. I am grateful for the opportunity to testify today and share what we've learned, and the ways that the Community Reinvestment Act is falling short of its intended mission.

Why this story:

First, a word about why we launched our investigation. We were sparked by two straightforward questions:

Why, 50 years after the Fair Housing Act outlawed racial discrimination in mortgage lending, was the homeownership gap between blacks and whites greater than it was during the Jim Crow era?

Since 1977, banks have been required by the Community Reinvestment Act to lend in low-income neighborhoods and to low-income people.¹ But 40 years later, figures from the Census Bureau showed the average white family was worth 15 times more than the average black one.²

So, why wasn't the Community Reinvestment Act reversing the historic damage of racially discriminatory redlining?

¹ FFIEC, Community Reinvestment Act Purpose and Background: <https://www.ffiec.gov/cra/history.htm>

² "Median Value of Assets for Households, by Type of Asset Owned and Selected Characteristics: 2013," US Census Bureau, released 2017: <https://www.census.gov/data/tables/2013/demo/wealth/wealth-asset-ownership.html>

To answer these questions, we analyzed millions of publicly available government mortgage records covering two years. Here's what we found:

In 61 metro areas across the country, people of color were more likely to be denied a conventional mortgage than their white counterparts, even when they made the same amount of money, tried to borrow the same amount of money, and wanted to buy in the same neighborhood.³

We found this problem in big cities: Atlanta and Detroit, Jacksonville and St. Louis, Tacoma, Washington and right here in Washington, D.C. For African American borrowers, the greatest disparities were in southern cities – Mobile, Alabama; Greenville, North Carolina; and Gainesville, Florida. Latinos were most likely to be turned down in Iowa City. We found the same troubling pattern in military communities like Killeen, Texas, college towns, like Santa Fe, New Mexico; in Little Rock, Arkansas and Tulsa, Oklahoma.

Despite these disparities, 99 percent of national banks received a satisfactory or outstanding grade on their inspections under the Community Reinvestment Act. The law, we found, is full of loopholes that permit banks to evade the purpose of the law. Here are three that we spotlighted in our reporting.

Number one: The Gentrification Loophole

CRA is race-neutral and failed to anticipate gentrification. So banks can claim credit for lifting up communities of color while lending almost exclusively to upwardly mobile white newcomers⁴. We saw this in Point Breeze, an historically African American neighborhood in Philadelphia, where banks put \$154 million worth of home loans into the hands of white borrowers between 2012 and 2016, even as they denied nearly twice as many home loans to African Americans as they made in the neighborhood. This was true whether a black applicant wanted to buy a house, refinance an existing loan or take out a home equity line of credit.

³ Glantz, Aaron and Martinez, Emmanuel, "For people of color, banks are shutting the door to homeownership," Reveal, Feb. 15, 2018
<https://www.revealnews.org/article/for-people-of-color-banks-are-shutting-the-door-to-homeownership/>;
and Glantz, Aaron and Martinez, Emmanuel, "How Reveal identified lending disparities in federal mortgage data" Feb. 15, 2018:
https://s3-us-west-2.amazonaws.com/revealnews.org/uploads/lending_disparities_whitepaper_180214.pdf

⁴ Glantz, Aaron and Martinez, Emmanuel, "Gentrification became low-income lending law's unintended consequence," Reveal, Feb. 16, 2018:
<https://www.revealnews.org/article/gentrification-became-low-income-lending-laws-unintended-consequence/>

Number two: The Bank Branch Loophole

CRA only applies to banks when they have a branch in a city that takes deposits, exempting some of America's biggest banks from scrutiny in some of America's largest cities. That's the reason why JP Morgan Chase, the country's biggest bank, was not assessed under the Community Reinvestment Act here in Washington, D.C. It has a loan-making office for its brand for the wealthy, JP Morgan Private Bank, across the street from the White House, but no branches that take deposits. The result: it made 1,119 conventional home purchase loans here in 2015 and 2016, but only 23 to African Americans.⁵ After we published our investigation into Chase in March 2018, the company announced plans to open a network of retail branches in the District, including in low-income neighborhoods and communities of color.⁶ Because it is opening these branches, the bank will now be evaluated under the Community Reinvestment Act.

Number three: The Non-Bank Loophole

The Community Reinvestment Act doesn't apply to non-bank lenders, which make up an increasing share of the home loan market.⁷ Last May, we published a story on three mortgage companies controlled by Warren Buffett's Berkshire Hathaway.⁸ These lenders have become an increasingly important funder of the American dream in many of the country's largest cities. We reported that in 2017 Berkshire Hathaway's mortgage companies made 28,000 loans worth \$7.3 billion. In his letter to shareholders, Warren Buffett expressed enthusiasm that their "growth exploded." He said he looked forward to further expansion.

In our investigation, we found that as they expanded, Berkshire Hathaway's mortgage companies did not serve the entire community -- across the country, they put most of their offices in white neighborhoods, hired a primarily white staff of mortgage consultants, and lent overwhelmingly to white borrowers in majority-white neighborhoods.

We tracked Berkshire Hathaway's lending through three of its brands: Trident Mortgage Corporation, HomeServices Lending, and Prosperity Home Mortgage.

⁵ Glantz, Aaron and Martinez, Emmanuel, "Chase rarely lends to people of color in DC – and it's probably legal," Reveal, March 22, 2018:

<https://www.revealnews.org/article/chase-rarely-lends-to-people-of-color-in-dc-and-its-probably-legal/>

⁶ Glantz, Aaron and Martinez, Emmanuel, "Chase announces major expansion in DC," Reveal, April 19, 2018: <https://www.revealnews.org/blog/chase-announces-major-expansion-in-dc/>

⁷ Andriotis, AnnaMaria, "Banks No Longer Make the Bulk of US Mortgages," Wall Street Journal, Nov. 2, 2016, <https://www.wsj.com/articles/banks-no-longer-make-the-bulk-of-u-s-mortgages-1478079004>

⁸ Glantz, Aaron and Martinez, Emmanuel, "Warren Buffett's mortgage companies set up to cater to white clients," Reveal, May 3, 2018,

<https://www.revealnews.org/article/warren-buffetts-mortgage-companies-set-up-to-cater-to-white-clients/>

- In Philadelphia, Trident Mortgage made 1,721 conventional home purchase loans in 2015 and 2016, 47 of them to African Americans and 42 to Latinos.
- In Atlanta, HomeServices Lending made 1,358 conventional home purchase loans, 63 to African Americans and 46 to Latinos.
- In Washington, Prosperity Home Mortgage made 2,650 conventional home purchase loans, including 167 to African Americans and 144 to Latinos.

Because the Community Reinvestment Act only applies to banks, none of these institutions are assessed under the Community Reinvestment Act.

I should mention, however, that after our story ran, Trident took steps to improve its image. The company hired a director of community engagement who is African American. In addition, community activists and real estate agents in formerly redlined neighborhoods say the company has reached out to extend credit to people and neighborhoods it didn't not serve before.⁹

Modernizing the Community Reinvestment Act

Our reporting shows the Community Reinvestment Act is not fulfilling its mission. Today, the Treasury Department, OCC, and Federal Reserve are developing proposals to modernize its enforcement.

As a journalist at a non-profit, non-partisan news organization I want to make one thing crystal clear: we take no position on any policy proposal. We are not here to offer solutions or proposals. We are here to simply present the facts we uncovered in our two-year long investigation.

One of the people I interviewed as part of that reporting was Tom Curry, the immediate, prior Comptroller of the Currency. Curry held that position from 2012 to 2017, and during those five years heading OCC, he found 99 percent of banks were doing a satisfactory or outstanding job of complying with CRA. How could that be, I asked him, when we found systemic denials of home loans to people of color in Atlanta, Detroit, St. Louis, Washington, DC and dozens of other cities?

⁹ Glantz, Aaron, "We exposed modern-day redlining in 61 cities. Find out what's happened since," Reveal, October 25, 2018
<https://www.revealnews.org/blog/we-exposed-modern-day-redlining-in-61-cities-find-out-whats-happened-since/>

This is what he said to me: “I think the results from your studies are unacceptable from the standpoint of what we want as a nation and to make sure that everyone shares in economic prosperity.”¹⁰ Curry said that after 40 years the Community Reinvestment Act was showing its age.

We also repeatedly requested an interview with Joseph Otting, the current Comptroller of the Currency. He turned us down. Had Comptroller Otting agreed to talk with us, I would have asked him both about his plans for CRA reform and about his record as an executive at OneWest Bank, the position he held prior to his appointment.

Otting was CEO of OneWest from 2010 to 2015. When he was in charge, government records show only 1 percent of home purchase loans went to African Americans and 3 percent to Latinos,¹¹ even though the bank was headquartered in Southern California. Nonetheless, it received a “satisfactory” rating under the Community Reinvestment Act.¹²

Had he sat for an interview, I would have asked Otting if that rating was fair, just and correct.

Thank you very much for your time. I look forward to your questions. A description of our methodology is included in our written testimony for the record.

How we found what we found:

We based our analysis on publicly available government data released through the Home Mortgage Disclosure Act, which requires mortgage lenders to report basic information about loan applications to ensure fair lending practices. The government data reflects nearly every time someone tried to buy a home in a given year and includes information about the borrower, the type of loan that’s being sought, and the location of the property.¹³

¹⁰ Reveal, “The Red line: racial disparities in lending,” February 17, 2018,

<https://www.revealnews.org/episodes/the-red-line-racial-disparities-in-lending/>

¹¹ PBS NewsHour, “How a legal loophole benefits neighborhood newcomers, while leaving long-time residents behind,” February 19, 2018

<https://www.pbs.org/newshour/show/blacks-and-latinos-say-they-have-trouble-getting-home-loans-in-philadelphia-heres-whats-happening>

¹² Community Reinvestment Act Performance Evaluation: OneWest Bank National Association, Office of the Comptroller of the Currency, August 2, 2015, <https://www.occ.gov/static/cra/craeval/jun17/25079.pdf>

¹³ Home Mortgage Disclosure Act Code Sheet:

<https://www.ffiec.gov/hmdarawdata/FORMATS/2016HMDACodeSheet.pdf>

To determine whether a disparity in lending existed, we used a statistical technique called binary logistic regression, used by academic experts, regulators, and law enforcement. This type of regression assesses the relationship between multiple independent variables and a single binary output. In this case, the output was whether a mortgage was denied.

We separately analyzed data from 2015 and 2016, looking at nine independent variables against loans that were denied. Those factors included:

- The race/ethnicity of applicant
- Gender of the applicant
- Whether there was a co-applicant
- Applicant's income
- Loan amount
- Ratio between the loan amount and the applicant's income
- Racial and ethnic breakdown by percentage for each census tract
- Ratio of a census tract's median income compared to the metro area's median income
- Regulating agency of the lending institution

Lending institutions say credit scores play an important role in their decision to approve or deny an application, providing crucial information about whether an applicant is likely to make his or her loan payments.

Despite its importance in lending decisions, credit score data is not included in the HMDA dataset, so we couldn't control for this important variable, that banks claim is the main controlling factor. However, banks conceal the scores claiming the data to be proprietary, and the Freedom of Information Act specifically exempts the financial information from being released to the public.¹⁴

Lenders have criticized our analysis for not including credit scores.¹⁵ The Dodd-Frank Act mandates that credit score and debt-to-income ratio be disclosed under the Home Mortgage Disclosure Act. But mortgage lenders have successfully deflected efforts to implement the law – so the data remains secret. Last year, Congress passed a bill that exempts nearly 85 percent of lenders from disclosing such information.¹⁶

¹⁴ Reporters Committee for Freedom of the Press:
<https://www.rcfp.org/federal-foia-appeals-guide/exemption-8>

¹⁵ Email to Reveal from Mike Fratantoni, Chief Economist, Mortgage Bankers Association:
<https://www.documentcloud.org/documents/4364490-MBA-Statement-to-Reveal.html>

¹⁶ SB 2155 would exempt lenders who originate 500 mortgages/500 open-end lines of credit for each of the two preceding years from new HMDA disclosures added by the Dodd-Frank Act. Many independent

For our analysis, we focused on conventional home purchase loans for one- to four-unit properties where prospective borrowers said they would live, similar to the subset the Federal Reserve analyzes when it tracks lending trends. While a substantial number of applicants of color borrow through the Federal Housing Administration loan market, we wanted to gauge relative access to a bank's standard product – conventional mortgages – between applicants of color and white ones.

The regression analysis showed that people of color were more likely to be denied a conventional mortgage in 61 metros out of a possible 409.

That is not to say that this problem doesn't exist in the other 348 metros.

We had to develop one statistical model – one set of independent variables – and apply it to all metros in the country. Those metros are diverse in terms of population, median income, and housing stock, so it could be that some of those metros not among the 61 need a more specific, well-tailored model to make lending disparities visible.

Reveal conducted two other analyses in addition to the regression. A census tract analysis helps show the geographic aspects of mortgage lending data. This census tract-level data can be used to identify where loans are being made and denied for every census tract in the country juxtaposed with the racial and ethnic demographics of that particular tract.¹⁷

For example, we used this analysis to zero in on one Philadelphia neighborhood, Point Breeze. We found that black residents make up nearly nearly three-quarters of the neighborhood's population, but nearly 80 percent of the loans there went to white applicants.

We were also able to use this analysis to look at metro areas as a whole. In the Philadelphia metro, we found that white applicants received 10 times as many loans as black applicants, even though they make up a similar percentage of the total population.

analysts estimate 85 percent of banks would be exempt under this provision. See Associated Press, March 29, 2018:

<https://www.bostonglobe.com/business/2018/03/12/senate-bill-would-diminish-banks-mortgage-disclosure-s/BzHIT3hMp0G7z1pxFFZqLI/story.html>

¹⁷ A full explanation of our methodology in analyzing Home Mortgage Act data can be found in our white paper:

https://s3-us-west-2.amazonaws.com/revealnews.org/uploads/lending_disparities_whitepaper_180214.pdf

Lastly, we compiled a market share analysis that we used to find lenders that dramatically favor white borrowers over people of color.

This analysis breaks down the number of applications, loans made and denials by race and ethnicity for each lending institution in each metro in the country. We also included variables that show the proportion – or share – of all applications, loans made and denials for each institution in each metro area.

For example, Trident Mortgage Company is Philadelphia’s biggest conventional mortgage lender. The company accounted for 10 percent of all applications in the Philadelphia metro that came from white applicants, and a similar share of the loans that went to white borrowers. But Trident had a significantly smaller percentage in applications received from and loans made to black borrowers, less than 4 percent for each. This analysis shows Trident is a mortgage company that favors white borrowers.

We made all this data and analysis available to the public through our interactive map and through a texting application.¹⁸ The data also can be downloaded in its spreadsheet format.¹⁹

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¹⁸ Reveal: <https://apps.revealnews.org/redlining/>

¹⁹ Reveal:

<https://www.revealnews.org/article/how-we-identified-lending-disparities-in-federal-mortgage-data/>