

**The House Committee on Financial Services, U.S. House of Representatives
“Mortgage Lending Disparities”
Roxbury Community College, Reggie Lewis Track and Athletic Center
1350 Tremont Street
Boston, Massachusetts
Monday, October 15, 2007
11:00 a.m.**

Testimony of Thomas B. Kennedy, Senior Vice President, Sovereign Bank New England

On behalf of Sovereign Bank New England, I am providing written testimony for the record in addition to my oral testimony provided on October 15, 2007.

I would like to address the manner in which Sovereign Bank approaches the mortgage lending market, and the various steps we have taken over the years to increase the bank’s lending especially to the low- and moderate-income borrowers.

Senior Management

The implementation of the bank’s Community Reinvestment Plan comes from the top leadership of the bank. John P. Hamill, Chairman of Sovereign Bank New England, and Joseph Campanelli, **President &** CEO of Sovereign Bank, have been leaders in seeing that the bank’s community development priorities are integrated in all appropriate business lines. They recognize maintaining the bank’s Outstanding CRA rating is not just a matter of compliance but also a demonstration of the bank’s commitment to reinvestment in local communities. Patrick Sullivan, President of the bank in

Massachusetts, is responsible for seeing the Community Reinvestment Plan in Massachusetts not only meets but also exceeds the goals set for every major business line. The combined leadership and involvement of top management at the local level keeps Sovereign in the forefront of community development. They recognize the bank can do good by doing well.

History of Community Reinvestment Commitments

When Sovereign Bank purchased divested assets as a result of the Fleet/BankBoston merger in March 2000, the bank publicly made a bank-wide three-year community reinvestment commitment of \$3.7 billion dollars. This commitment reflected specific allocations in the states where we have a principal banking presence. That goal was exceeded by 150 percent bank-wide and the Massachusetts commitment of \$613 million by 175 percent.

The bank entered into an enhanced three-year agreement (2000-2002) with the Community Advisory Committee (CAC) in Massachusetts. We met or exceeded these commitments. In addition, we made a public commitment with the CAC for five years (2004-2008) of \$3.6 billion in Massachusetts. The bank is on target to meet or exceed these goals as well. These latest formal commitments with the CAC are part of a larger bank-wide public commitment (2006 –2010) of \$16.3 billion dollars. Again, the bank is meeting or exceeding these goals to date.

In addition, the bank made commitments to the Massachusetts Affordable Housing Alliance to originate Soft Second mortgages for the period of 2000-2006 for first time homebuyers. The effort was slow in getting started, but in 2006 the bank was recognized as the top originator of Soft Second mortgages in the Commonwealth. We are currently in the final stages of approving an additional commitment for the next four years (2007-2010).

Furthermore, we committed to establishing advisory boards in our principal New England banking markets. These boards are made up of a diverse group of local community and business leaders. We report on a quarterly basis to these advisory boards on the progress we are making toward achieving these commitments. The Commonwealth Advisory Group serves Massachusetts.

Mortgage Lending and Denial Rate Disparities

Sovereign Bank maintains a strong presence in mortgage lending with 2006 showing total applications of 9,984 for conventional (33%) and refinancing (67%) in the Commonwealth of Massachusetts. Of that total, 12% were from minority borrowers.

The denial rate disparity was more than double for minority (27%) v. white (11%) for the Commonwealth as reported by our primary federal regulator, the Office of Thrift

Supervision after it analyzed our 2006 HMDA data. In the City of Boston, white originations were 38% while minority originations were 55% yet the denial rate between whites (14%) v. minorities (28%) narrowed slightly when compared with the rest of the Commonwealth. The reasons for denials are many and varied, ranging from poor credit, debt to income ratios and appraisal values. We continue to work closely with those borrowers who appear to be heading for a denial seeking additional information and offering products that may overcome a denial. While the denial disparity rates have increased in recent years, Sovereign continues to address this issue and, through efforts initiated by the bank, is attempting to bring these denial rates closer to parity, after controlling for credit underwriting differences.

**Sovereign Bank's Approach to Mortgage Lending in Low- and Moderate-Income
and Minority Communities**

Sovereign Bank –*America's Neighborhood Bank*® approaches mortgage lending as a local enterprise through the following initiatives:

Personnel

Loan officers are located in branch offices or loan production offices through the bank's footprint. In Roxbury, MA, the bank has a large production office with lenders representing major ethnic groups and who are able to speak multiple languages such Spanish, Portuguese, Chinese, Vietnamese, French Creole as well as English. The lending officers are involved in local community agencies, including participating in

first time homebuyer seminars, where their presence demonstrates the bank's commitment to its local communities and marketing mortgage products to members of those communities.

Products

The bank has over 35 Affordable Mortgage Products that are designed to meet the needs of all qualified borrowers. The pricing of these products is consistent through the bank's footprint offering adjustable and fixed rate loans. In addition, the bank has become the leading originator of the Soft Second Mortgage, the Commonwealth's most affordable first time mortgage program. The success of this program is a demonstration of participation and collaboration of local municipalities and state government, banks and the community groups creating an affordable product while serving the needs of low- and moderate-income individuals.

Partnerships

In 2006 the bank partnered with over 36 not-for-profit agencies, public-private agencies and organizations in first time homebuyer education and counseling programs. The bank made charitable contributions totaling \$175,000 to these groups. In addition, the bank has work closely with programs initiated by the Commonwealth and the City of Boston to address rising foreclosures rates and has offered to participate in foreclosure prevention programs.

Procedures

The bank has a Second Look program for all mortgage applications, including low- and moderate-income borrowers, which are to be denied. The program reviews are reasons for denial, looking for possible alternative products, which may provide the borrower with their loan.

Marketing

Through our own channels of advertising and promotion, the bank informs the public of an array of mortgage products. In addition, we partner with the Massachusetts Housing Partnership to promote the Soft Second mortgage program.

The bank is responsive to the changing borrowing needs of its customers but in all its efforts does not vary from responsible and sound lending practices. We are disturbed by the rising presence of non-regulated mortgage lenders who offer products with terms and conditions that we believe are contributing to higher priced loans. We believe that our pricing and products are responsible and fit the long needs of our borrowing customer.

I hope this provides you with a better understanding of Sovereign's commitment to serving local communities by reinvestment through mortgage lending. It is Sovereign's firm belief that our success is clearly linked to the health and vitality of the communities in which we live and work.

Thank you once again for inviting me to speak before your committee. I am happy to answer any questions you may have.