

Introduction

Thank you for the opportunity to testify today Chairman Bachus, Ranking Minority Member Frank and other members of the Committee. We appreciate the willingness of the Committee to come to Boston for this field hearing and listen to testimony about the impact of recent bank mergers and the overall impact of the Community Reinvestment Act (CRA) and the Bank Holding Company Act. We particularly thank Congressman Frank for his strong support for the CRA and his successful efforts to encourage banks to make specific commitments to the communities they serve.

My name is Florence Hagins and I am the assistant director of the Dorchester-based Massachusetts Affordable Housing Alliance (MAHA). I am also a resident of Dorchester and the first recipient of a Massachusetts SoftSecond mortgage – a nationally-recognized affordable mortgage product for first-time homebuyers.

Background on MAHA

MAHA is a non-profit organization that works to increase public and private sector investment in affordable housing and to break down the barriers facing low-to-moderate income first time homebuyers. Our campaigns since 1985 have resulted in \$3.4 billion in increased investment in Massachusetts communities. MAHA has been involved in every major bank merger in Massachusetts since 1989. We launched the SoftSecond program with banks and the Massachusetts Housing Partnership Fund in 1991. We continue to sign multi-year CRA agreements with most major banks in the state detailing commitments to the program which is the state's most affordable mortgage product.

Our signature program is the SoftSecond mortgage program. The program is fourteen years old and has helped over 7,700 low and moderate income homebuyers buy their first home. MAHA negotiated the mortgage program with three banks in 1990 following the Federal Reserve Bank of Boston study on racial disparities in Boston's mortgage lending. The program was expanded statewide in 1992 and is now available in 285 cities and towns throughout the Commonwealth through 38 participating banks.

Buyers provide a 3% downpayment and receive two mortgages; one worth 77% of the purchase price and the soft second that equals 20%. Buyers pay no private mortgage insurance and most banks offer the product at a below-market interest rate negotiated with MAHA. A July, 2004 report by Jim Campen of the Gaston Institute at the University of Massachusetts/Boston for the Massachusetts Community and Banking Council found:

- SoftSecond loans have assisted families in over half of the cities and towns in Massachusetts. In recent years, the city of Boston and the western region of the state have each received about 30 percent of total loans, with the rest distributed throughout the state.
- The median household income of SoftSecond borrowers between 2001 and 2003 was \$36,600. During that period, over one-quarter (28.3 percent) of SoftSecond loans went to borrowers whose household incomes were less than half of the median income in their area. Almost all (97.2 percent) went to borrowers with incomes less than 80 percent of the area median.
- Statewide, between 2001 and 2003, 22.7 percent of SoftSecond loans went to Latinos (who account for just 5.0 percent of the state's households); 15.3 percent of loans went to blacks (who account for 4.7 percent of total households) and 4.5 percent of loans went to Asians (who account

for 3.1 percent of total households).

- Through the first quarter of 2003, the statewide SoftSecond delinquency rate was consistently below the delinquency rate for all mortgage loans in Massachusetts.
- Statewide, between 2001 and 2003, an average \$5,700 in public funds leveraged nearly \$200,000 in private mortgage financing per household. Since the program's inception in 1991, \$35 million in public funds have been spent, leveraging \$875 million in private mortgage financing.

Bank of America/Fleet merger

Bank of America's merger with Fleet Bank has a lot of potential for Massachusetts. On January 13, 2004 BofA signed an agreement with MAHA for 3,000 SoftSecond loans in Massachusetts over the next ten years. In addition, BofA made public commitments to other housing programs. They agreed to remain a member of the Federal Home Loan Bank of Boston. They agreed to remain fully invested in the Massachusetts Housing Investment Corporation (MHIC), a private lender and investor specializing in the financing of affordable housing and community development throughout Massachusetts. MHIC was founded in 1990 by a consortium of banks and other corporate investors to fill a critical gap in meeting the credit needs of affordable housing developers and owners who couldn't get financing for certain projects from traditional lenders. MHIC was asked to take on the most difficult projects and make them work. Similar to the SoftSecond program, MHIC started as a result of the bank/community negotiations in the aftermath of the Federal Reserve Bank of Boston study on racial disparities.

Bank of America agreed to convert a portion of its Chapter 102 loan commitment to the Massachusetts Housing Partnership to an \$18 million grant. A 1990 Massachusetts law requires that banks that purchase other banks set aside a percentage of the acquired assets located in Massachusetts as a loan to MHP, a statewide public/nonprofit affordable housing organization. Bank of America will provide a \$406 million loan in addition to the \$18 million grant.

Bank of America and MHP reached an agreement on the mandatory loan amount, and then the bank agreed to convert a portion of the loan into the \$18 million grant. The grant is key because it can be used in combination with traditional financing to promote housing that serves extremely low-income families, the working poor and homeless, and to develop housing that is smaller in scale and supported by the community.

And Bank of America agreed to participate in the Massachusetts Basic Banking program by offering low-cost checking and savings accounts, a voluntary program initiated in 1994 by the Massachusetts Community and Banking Council. On housing, Bank of America has made the right commitments.

Bank of America has a chance, as they enter this market, to be the lender of choice for low and moderate income residents in Massachusetts. With its commitment to the Massachusetts SoftSecond program and its impressive portfolio of existing mortgage programs, BofA has a product mix that is second to none. In recent years, however, Fleet and other bank lenders have lost market share to mortgage companies. BofA has the capacity to turn that around, especially in low and moderate income markets.

It will take an aggressive commitment to better serve these markets. BofA needs to hire more loan originators, hire more originators from diverse backgrounds, increase its marketing in low to moderate income neighborhoods, and provide good and timely customer service throughout the mortgage process. We have had discussions with Anne Finucane of Bank of America and we are in agreement that staffing levels for loan originators need to be significantly increased in the Boston market. We appreciate the commitment that Bank of America has made to increase its staffing levels in the mortgage area.

In addition, BofA senior management will need to emphasize the importance of increased production in the SoftSecond program. In the first eleven months, we have seen mixed results under the BofA

SoftSecond agreement. BofA has exceeded its commitment of 150 loans outside of the city of Boston by closing 165 mortgages, making them the #1 lender in the program statewide. In Boston, however, the numbers tell a far different story. BofA has closed 52 loans in the city of Boston against a commitment of 100 loans – making them only the third largest SoftSecond lender in the city of Boston.

MAHA has had limited interaction with the bank on job and employment issues. As stated above, we believe the bank recognizes the need to step up employment levels in its mortgage departments and we applaud them for that. We remain concerned about relatively thin levels of staff responsible for community development. In the past, Fleet had two community development staffers for the Commonwealth of Massachusetts. Today, one community development staff person is responsible for the whole state plus Rhode Island.

MAHA has very high hopes for BofA. We believe that Bank of America can be an important partner with community groups across Massachusetts and bring the resources of a large, national bank to communities like Dorchester. But we expect BofA to lead and work aggressively to be the best bank on the block.

Sovereign/Seacoast merger

MAHA has also reached agreement with Sovereign Bank, prior to its merger with Seacoast, for commitments to the SoftSecond loan program. Sovereign has committed to a total of 575 SoftSecond loans during the next three years – 275 in Boston and 300 in the balance of the state. In 2004, Sovereign's commitment is for 75 loans in Boston and 100 outside of Boston. Through November, 2004 they have closed 61 loans in Boston making them the second largest SoftSecond lender in the city. Outside of Boston, Sovereign has closed another 83 loans which ties them for second largest SoftSecond lender outside of Boston.

During the merger process, MAHA encouraged Sovereign officials to make specific commitments to New Bedford and the South Coast region of Massachusetts. Sovereign officials have been willing to do this – pledging to make 25 SoftSecond loans per year in the region. In addition, Sovereign has taken the advice of Congressman Frank and is working with the Massachusetts Housing Partnership to direct a portion of the loan resources from its state Chapter 102 commitment to the New Bedford area.

Comments on Community Reinvestment Act and Bank Holding Company Act

The Committee has asked us to address the adequacy of the CRA and the Bank Holding Company Act in protecting communities' interests. We offer the following comments on that subject.

One weakness of the CRA, or at least CRA as it is enforced by federal regulators, is that banks are not compelled to enter into signed, written agreements with community groups. Many choose instead to make "public commitments". Agreements can be enforced and generally include more specific commitments. With some banks, any detail that exists about a commitment is in the press release the bank uses to announce the commitment. Real community commitments are negotiated with representative community organizations. Any other serious relationship between a bank and its customers, partners, and vendors is typically in the form of a written agreement. CRA commitments should be no different.

CRA is a law that needs to be expanded. As we have mentioned above, banks have lost market share to mortgage companies. Many of these mortgage companies fall outside of CRA review yet they are the dominant lenders in the mortgage market. In Boston in 1990, banks covered by CRA controlled 78% of the mortgage lending market. Last year, that bank market share percentage had slipped to 23%. Yet, banks covered by CRA lend to lower income and minority borrowers at a rate more than double that of largely non-CRA covered mortgage companies. In Massachusetts, MAHA has worked with Senator

Jarrett Barrios, Senator Andrea Nuciforo and Representative Marie St. Fleur to file the Homeownership Investment Act which would apply CRA-like responsibilities to the largely unregulated mortgage companies.

Congress must beware of efforts by federal regulatory agencies to weaken CRA. The Office of Thrift Supervision recently raised the small bank threshold from \$250 million to \$1billion allowing many banks to eliminate the investment and service components of the three pronged CRA test. The Federal Deposit Insurance Corporation seems poised to follow the lead of the OTS. These changes represent a dangerous precedent which significantly weakens an important and effective law.

We also support expanding CRA to include disclosure of race information on small business loan data and to specifically include areas such as diversity in employment and procurement from minority-and women-owned business enterprises. The Bank Holding Company Act could be strengthened to encourage more public hearings when bank mergers are proposed. Hearings like the one held by the Federal Reserve Bank during the Bank of America/Fleet merger and today's follow-up hearing by this Committee serve to focus the attention on the level of specific commitments banks are making to customers and communities. A law that encouraged more such hearings, and the scrutiny that accompanies these forums, would be welcome news to low and moderate income neighborhoods throughout the country.

We thank you for the opportunity to testify today and we would be happy to answer any questions.