Maryland Consumer Rights Coalition

February 15, 2019

Joseph Otting
Comptroller of the Currency
Office of the Comptroller of the Currency
400 7th Street, SW
Washington, D.C. 20219

Dear Comptroller Otting:

The Maryland Consumer Rights Coalition (MCRC) and our partners appreciate the opportunity to comment on Wells Fargo's Community Reinvestment Act (CRA) performance evaluation. MCRC is a statewide coalition of individuals and organizations that advances economic rights and financial inclusion through research, consumer education, direct service, and advocacy.

On February 5, 2019, we held a listening session to present data on Wells Fargo's activities in Baltimore City and collect feedback on Wells Fargo's performance. The event included representatives from 20 neighborhood-based, economic and racial justice organizations, and community development corporations.

We urge the OCC and Wells Fargo to consider the credit needs and performance context of Baltimore City separately from the Baltimore-Columbia-Towson Metropolitan Statistical Area (MSA). The City has challenges and opportunities which are distinct from the surrounding counties which comprise the MSA. The median income in the MSA is $91,000. The median income in the City is half that amount: $46,641. Twenty-three percent of people in Baltimore City live in poverty, while the poverty rate of the wider MSA is 10.4%. Similarly, the City's population is 72% people of color while the larger MSA has 43% non-white residents. These stark differences are, in part, a product of Baltimore's history of redlining. Baltimore City pioneered housing segregation in the early 1900s, and that legacy persists today.

A study conducted by the National Community Reinvestment Coalition (NCRC) found the following:

- ***Disinvestment in most of the City and affluence in the suburbs.*** *Baltimore and the surrounding suburban counties show very different patterns of home purchase and small business lending.*

- ***In the suburbs, economics matter the most in mortgage lending.*** *The factors that are most useful in predicting home purchase lending activity are economic: median family income and the level of owner-occupancy in a neighborhood.*
- ***In Baltimore City, race matters most in mortgage lending.*** *Consistently across models, the most statistically significant factor in predicting mortgage lending is race. Mortgage lending is greater in neighborhoods with larger white than African American populations.*
- ***There are tremendous disparities in home lending for African American and white residents of Baltimore City****. The disparity ratio of loans to percentage of population is 210 percent for whites and 37 percent for African Americans.*
- ***It's much harder to get a mortgage loan in the poorer neighborhoods****. In Baltimore City, 70 percent of census tracts are low-to-moderate income (LMI), yet it is very difficult for borrowers of any income to be approved there, especially if they are African American.*
- ***Mortgage lending flows to wealthier areas.*** *An LMI applicant is 30 percent more likely to be approved for a mortgage loan in a middle- or upper-income area of Baltimore County than in an LMI neighborhood of Baltimore City*[1]*.*

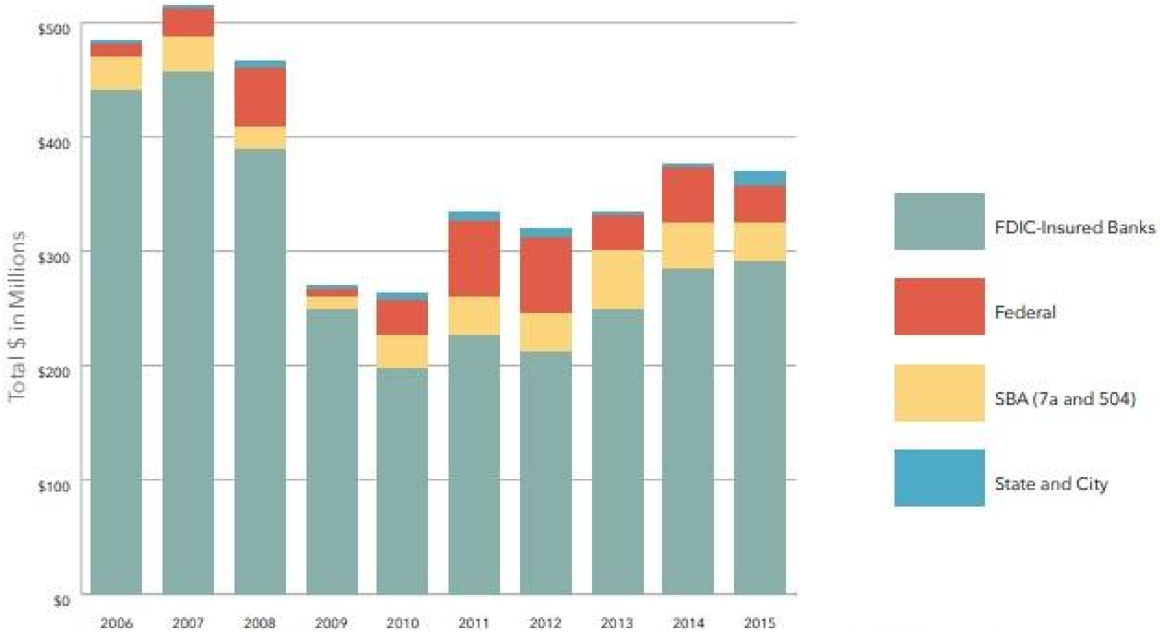
Other studies report similar findings in regard to lackluster capital flows into Baltimore City, and unequal flows within the City. An Urban Institute report released this month finds significant disparities in the flow of capital into and across Baltimore City. "Investment in Baltimore is highly concentrated. Neighborhoods that are less than 50 percent African American receive nearly four times the investment of neighborhoods that are over 85 percent African American. Low-poverty neighborhoods receive one and a half times the investment of high-poverty neighborhoods.[2]"

Johns Hopkins University's 21st Century Cities Initiative published a study of capital availability for Baltimore businesses, *Financing Baltimore's Growth: Measuring Small Companies' Access to Capital* which found that Baltimore City has born the brunt of the consolidation trend among financial institutions. Between 2006 and 2015, CRA-covered banks have been responsible for the largest share of total small business lending by dollar amount, but they have also seen the steepest decline since the recession and have not fully rebounded to pre-recession levels. The report also found that deposit-taking banks in Baltimore are primarily lending to businesses via

[1] Home Mortgage and Small Business Lending in Baltimore and Surrounding Areas. NCRC. November 2015.
[2] *The Black Butterfly*. Urban Institute. February 2019.

credit card loans, which have less favorable terms for borrowers. This graph from the report shows the outsized importance of banks in Baltimore's small business lending landscape[3].

SOURCES OF LOAN FINANCING BY TOTAL $ AMOUNT
BALTIMORE CITY SMALL BUSINESSES, 2006-2015




Sources: U.S. Small Business Administration 7a and 504, FFIEC CRA Reports, Export-Import Bank, CDFI New Markets Tax Credits, CDFI CIIS, Opportunity Finance Network CDFIs, Baltimore Development Corporation, Maryland Department of Commerce, and Maryland Department of Housing and Community Development.

The lack of investment in Baltimore City provides opportunities for financial institutions. The FDIC's 2017 National Survey of Unbanked and Underbanked Households found that 21.1% of households in the Baltimore-Columbia-Towson MSA are unbanked or underbanked. Given the differential between lending, branching, and income between Baltimore City and the wider MSA, it is reasonable to expect that the plurality of un-and-underbanked households are within City limits. As can be seen in these maps created by NCRC, alternative financial services outnumber bank branches in Baltimore City. Furthermore, alternative financial service providers are better distributed across the City, while banks branches are concentrated in wealthier and

[3] Financing Baltimore's Growth: Measuring Small Companies' Access to Capital. Johns Hopkins University 21st Century Cities Initiative. September 2017.

whiter census tracts. This indicates that Baltimore has a strong, largely untapped market that traditional financial institutions are failing to serve.

Wells Fargo is a very important player in Baltimore's market. As of June 30, 2018, Wells Fargo was the third largest bank by deposit share, holding $2.8 billion or 11.01% of deposits. Wells Fargo owns 16.2% of branches in Baltimore City. Among first lien mortgage lenders, Wells Fargo is the top bank lender in Baltimore City and is ranked fifth overall as measured by mortgage applications received in 2017, the most recent data available. Wells Fargo is also ranked fifth for business lending in the City, as measured by total dollars lent in 2017.

**Lending**

*Mortgage Lending*

In 2012, after federal investigators found that Wells Fargo and other large banks routinely signed foreclosure related documents outside the presence of a notary public and without verifying that the information therein was accurate, Wells Fargo and four other large banks agreed to the National Mortgage Settlement. This unprecedented settlement required the banks to, among other things, provide homeowners with loan modifications, including first and second lien principal reductions. Wells Fargo dragged its feet in fulfilling the terms of the settlement, to the detriment of homeowners. In Maryland, during the first nine months of the mortgage settlement, only 193 homeowners received a principal reduction loan modification from Wells Fargo, while 263 homeowners qualified for a short sale. In December 2012 alone, 475 mortgage loans that Wells Fargo owned went into in danger of going into foreclosure. In other words, more than twice as many Wells Fargo homeowners fell into danger of losing their homes in one month as Wells Fargo had offered affordable relief to in the prior nine months of the settlement.

Also in 2012, Wells Fargo settled a fair housing suit brought by the City of Baltimore which alleged that the bank engaged in "reverse redlining" – steering otherwise qualified borrowers of color into subprime mortgage products. In the settlement, Wells Fargo agreed to make $425 million in prime mortgage loans in Baltimore with $125 million going to LMI neighborhoods.

Despite this commitment, Wells Fargo's mortgage lending lags behind its peers. Our analysis of Wells Fargo's HMDA reporting from Baltimore City in 2017 shows that Wells Fargo Bank reported 1,655 applications in Baltimore in 2017. Home purchase loans to owner-occupants on single-family homes represented 758 mortgage applications with just 242 of those having a first-lien. It is unusual to have home purchase loan applications without a first-lien requirement as collateral. Our analysis focused on those loans with a first lien. With 242 applications Wells

Fargo was the fifth largest lender in Baltimore, and the largest bank lender, with non-bank mortgage lenders comprising the top four positions. The approval rate for Wells Fargo home purchase applications was low, at just 67%, which was the lowest of the banks among the top ten mortgage lenders and among the lowest of all of the top ten lenders. The approval rate for the top ten mortgage lenders ranged from 63% for NFCU, a credit union to 85% for First Home Mortgage, a non-bank. The average approval rate was 74.8%. Wells Fargo's meagre approval rate resulted in just 163 home purchase loans. Nationally, Wells Fargo makes more mortgage loans than any other bank, yet in Baltimore City it lags far behind its peers. Similarly, Wells Fargo was near the bottom in terms of loans to LMI and minority borrowers as well as lending in LMI and minority census tracts.

Wells Fargo made fewer loans in 2017 than in previous years. They made 208 home purchase loans in Baltimore in 2015 and just 163 in 2017, with an average year over year decline of 10%. This is in contrast to an increase in mortgage lending by the top 50 lenders in Baltimore City. In 2015, the rest of the top 50 lenders reported 2,799 home purchase loans; in 2017 that same figure grew to 3,805 home purchase loans. Wells Fargo total loan dollars declined between 2015 and 2017. In 2015, Wells Fargo loaned $69 million to Baltimore homebuyers, a figure that has fallen to $54.5 million in 2017. In this same period, Wells Fargo's peer lenders have increased their lending on average 17% each year, going from $807.5 million in 2015 to $1.13 billion in 2017.

**Recommendations**:

- Develop both a pipeline strategy and products that reflect Baltimore's unique market including credit repair programs, down payment assistance, and collaborations with existing homeownership promotion programs.

*Business Lending*

Wells Fargo is the fifth largest small business lender in Baltimore, in 2017 they made about $23 million in small business loans. Of the small business loans, 55% were in LMI neighborhoods, with 286 loans averaging $42,000. Wells Fargo's business lending was evenly split between larger business and small businesses, with 55%, (or $12 million in loans) going to businesses that report less than $1 million a year in revenue. This is generally a positive sign, Wells Fargo makes a larger share of their business lending to small businesses in LMI neighborhoods than most of the other top business lenders in Baltimore.

Recommendations

- Develop Baltimore's entrepreneurs and thereby increase the number of jobs available in the City by increasing investment in very small businesses by offering trainings for small business aspirants and through increased lending – especially by offering microloans of $20,000 and less to neighborhood businesses.

*Community Development Lending*

We are not aware of Wells Fargo's community development lending activities in Baltimore City.

Recommendations

- Provide public updates on community lending activities at the State, MSA, and City level.
- Develop low-interest loans for community development in Baltimore City. Community Land Trusts are taking on a more significant role in Baltimore City's community development strategy, and we would like to work with Wells Fargo to develop loan and mortgage products to support this work.
- Invest in the development and growth of grocery stores serving LMI neighborhoods which have been identified as food deserts.

**Investment**

Baltimore's lending landscape is unique and can be challenging for large, national banks to adequately serve. Community Development Financial Institutions are a key tool to bring flexible capital to communities while protecting banks from risk. We are not aware of any investment Wells Fargo has made into CDFIs serving Baltimore City. We urge Wells Fargo to increase its investment in loan funds that serve LMI communities and borrowers in Baltimore City. In addition, we encourage Wells Fargo to explore partnering with nonprofits to develop a lease-purchase program that allows households to rent a home for a period of time before taking on the mortgage and ownership of the property. Lease-purchase programs allow households to build a positive credit history and increase their savings in preparation for the responsibility of a mortgage, while at the same time "locking in" lower interest rates and house prices.

**Services**

*Branching*

It's commendable that Wells Fargo has  a branching network that reflects the racial demographics of the City. People of color represent 72% of the population of Baltimore City and the average minority population of census tracts with Wells Fargo branches is 67%. However, just 50% of Wells Fargo's branches in Baltimore City are located in LMI census tracts.

Since its arrival in Baltimore City in 2010 via the acquisition of Wachovia Bank, Wells Fargo has opened two full service branches, one in a low-income census tract comprised of 72.63% people of color, and one in a middle-income census tract comprised of 40.08% people of color. Wells Fargo has also opened three "limited service mobile branches" in a moderate income census tract with 98.05% people of color, a moderate-income census tract with 95.21% people of color, and a middle-income census tract with 40.40% people of color. Wells Fargo closed one branch in a middle-income census tract with 14.98 % people of color.

Recommendations

- Open branches – especially full service branches – to serve Baltimore's LMI communities.
- Design products and outreach campaigns that help consumers overcome the challenges of engaging in the traditional financial system. Listening session attendees report that Wells Fargo branches are not well-staffed and communities would benefit from consistent staffing at branches. We also encourage the elimination of overdraft fees on basic checking accounts.

*Community Engagement*

Wells Fargo has failed to connect with communities and economic justice organizations in Baltimore. Attendees at the listening session were not familiar with any specific CRA products available in the community or investments Wells Fargo has made in the City. Collaboration with neighborhood-based and economic justice organizations is critical to successfully serving the credit needs of Baltimore City's LMI neighborhoods.

Recommendations

- Increase engagement with and financial support of neighborhood-based, economic justice and racial justice organizations.
- Proactively market CRA products and services in LMI neighborhoods and communities of color.

- Provide City-specific lending data publicly so nonprofits and community organizations can monitor bank's performance in real time. In particular, we would like to see data demonstrating Wells Fargo has fulfilled the terms of the 2012 settlement with the City.

As both a local and a national leader, Wells Fargo must use its power to lead in lending to LMI borrowers and LMI neighborhoods. Unfortunately, historically Wells Fargo has engaged in discriminatory and abusive practices – especially in communities of color. While there are some indications that Wells Fargo is attempting to change its practices, overall we find that Wells Fargo has failed to meet the credit needs of Baltimore City's LMI communities.

Recommendations

- Increase engagement with and financial support of neighborhood-based, economic justice and racial justice organizations
- Proactively market CRA products and services in LMI neighborhoods and communities of color
- Provide City-specific lending and investment data publicly so nonprofits and community organizations can monitor bank's performance in real time.

We call upon Wells Fargo to develop a Baltimore City-specific community reinvestment plan to address shortcomings highlighted in this letter.

To that end, we request a meeting with the bank to discuss opportunities for reinvestment in Baltimore City including creative approaches to expanding the branch network, tactics for developing a pipeline of credit-worthy small business entrepreneurs and homeowners, and products designed to serve Baltimore's unique needs.

Thank you for your consideration of our input. I look forward to answering any questions and moving forward with this dialogue soon.

Sincerely,

Marceline White
Executive Director
Maryland Consumer Rights Coalition