The State of Lending in America & its Impact on U.S. Households

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First report in a series on how predatory lending undermines the financial security of U.S. households

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FOREWORD

The financial crisis in 2008 rocked the largest financial firms in the United States and pushed the entire economy into deep recession. American families were hit hard by plunging home prices, foreclosures and job losses. Reckless mortgage lending practices fueled a housing boom and bust and left millions of families with unsustainable home loans.

In *The State of Lending in America and its Impact on U.S. Households (State of Lending)*, the Center for Responsible Lending (CRL) assesses the impact of the financial crisis on American families, showing the magnitude of the damage to their financial security—that is, their household balance sheet. In addition, this study looks at a broad range of current lending practices and their impacts.

Two trends are clear. First, families were already struggling to keep up before the financial crisis hit. The gap between stagnant family incomes and growing expenses was being met with rapidly increasing levels of debt. Second, the terms of the debt itself have acted as an economic weight and a trap, leaving families with less available income. This debt often punished those who tried to get ahead by pushing them into long term financial distress, such as foreclosures and crushing levels of student debt.

CRL's research and analysis is particularly important amid the signs of an economic recovery. While many are enjoying the relief of the rebounding stock market and improving job opportunities, many others still struggle. For example, while the overall housing market is reviving, five million families have already lost their homes, an even greater number are still at great risk of foreclosure, and nearly a fifth of mortgage holders owe more than their homes are worth. The impact on families of color is even greater. They were three times as likely to be targeted with abusive subprime loans as other borrowers with the same credit record, and they have lost a generation of hard earned family wealth. The consequences will be profound and long lasting.

Families who experienced foreclosure were uprooted and often lost both their home and their largest financial asset. The large numbers still facing foreclosure are at risk of the same. Those underwater on their home loans face deep financial holes and are unable to sell their homes or move to new jobs. As a result of the crisis, African-American and Hispanic households' wealth plunged nearly in half so that it is now only one twentieth and one fifteenth, respectively, of that of white households. And the unemployment rate for those families is still stuck in the mid-teens, even though the overall unemployment rate has improved.

Legislation enacted in response to the financial crisis put in place important reforms, even though it did not go as far as I and others advocated. Much of the actual new structure and rules were delegated to the financial regulators to set out. Remarkably, many of the firms who would have gone out of business without massive government assistance now are again fighting hard against rules that would prevent the types of financial wagering and over-leveraging that produced the recent crisis.

One important reform was the creation of the Consumer Financial Protection Bureau, consolidating consumer protection into a single agency and providing much needed oversight of the so-called "shadow" or nonbank financial sector. We did a very poor job of protecting consumers prior to the crisis, with disastrous consequences for our economy. We need an agency focused exclusively on consumer protections and the CFPB already has begun setting out strong, uniform consumer protections for financial products, and taking action against those who engage in deceptive practices. We must not weaken this agency.

Notably, CRL predicted the crash of subprime mortgages in 2006, though its warnings were not heeded. *State of Lending* is again a warning. If abusive lending practices are not reformed, we again will all pay dearly.

To be sure, borrowers also have an obligation to behave responsibly, but to make reasoned choices they must be given full and understandable information about the benefits and risks of credit products and be protected from inherently abusive practices. Abusive practices not only harm the family that loses its home to an unaffordable mortgage, the student saddled with excessive education loans, the person who pays thousands of dollars extra in kickbacks on their loan when they buy a car, or the consumer who receives a "fee harvester" credit card where the charges far exceed the credit extended; they also profoundly harm neighborhoods, communities, and cities, and hold back our entire economy.

Trapping families in financial marginalization keeps them from succeeding and from making their full contribution to the whole community and economy. They are unable to advance and generate prosperity for themselves and are blocked from increasing the prosperity of others as well. We face a choice of returning financial services to a role of advancing economic progress or letting it again become a drain on individual households and a drag on our economy. *State of Lending* sets forth a path for consumer finance to be both profitable for responsible lenders and a tool for success for American families.

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INTRODUCTION

The State of Lending in America and its Impact on U.S. Households (State of Lending) tells the story of the financial products that American households use to handle everyday transactions, acquire major assets such as homes and automobiles, build savings and wealth, and provide a secure future for their children.

This report describes how predatory lending practices have sometimes corrupted traditional financial products and undermined the benefits that these products are intended to provide. It outlines how payday loans, excessive overdraft fees, and unfair or deceptive debt collection practices trap borrowers in long-term debt, preventing them from getting ahead or saving for the future. It presents a picture with data of the overall financial status of U.S. households today—income, spending, debts, and wealth—and the centrality of household financial health to our nation's economic well-being. And it demonstrates the significant role lending practices play in the lives of everyday Americans, and explains why protecting fair, affordable access to credit is vital to the future for both consumers and the American economy.

State of Lending will be released in three parts. The first part tells the story of financial challenges that consumers have faced in the past decade: stagnant incomes, increasing expenses, declining asset values, and higher levels of debt. Combined, these factors have made American households more vulnerable to predatory lending practices. This part of the report also documents both past and current lending abuses in traditional financial products and the impact these have on American families; it includes chapters on *Mortgages, Auto Loans, Credit Cards*, and *Student Loans.*

The second part of *State of Lending* will cover *Payday and Car Title Loans, Overdraft Fees,* and *Bank Payday Loans*—"short-term" financial products that trap consumers in expensive, long-term debt.

The final part of the report will focus on abusive practices in debt collection and include chapters on *Mortgage Loan Collection and Servicing, Student Loan Collection and Servicing, Debt Settlement,* and *Debt Buyers and "Zombie" Debt.* It will conclude with a chapter documenting how lending abuses often target the same populations and have a cumulative—and particularly disastrous—impact on low-income households and communities of color.

Passage of the 2010 Dodd-Frank Wall Street Reform and Consumer Protection Act was a turning point in efforts to protect the financial well-being of American families. *State of Lending* demonstrates, however, that considerable threats to household financial security and wealth-building remain. Just as the Credit Card Act of 2009 instituted effective consumer protections against abuses in credit card financing, further regulatory and legislative actions can halt other predatory lending practices that exist today, and prevent the rise of new abuses.

The work of the Consumer Financial Protection Bureau offers a unique opportunity, as this federal agency is specifically charged with protecting consumers from unfair lending practices. Similarly, state regulation and enforcement—along with efforts by financial institutions to adopt responsible lending practices—continue to play an important role. *State of Lending* is intended to outline these opportunities and needs, and inform the critical debate on how to rebuild our economy and invest in the future of American families.