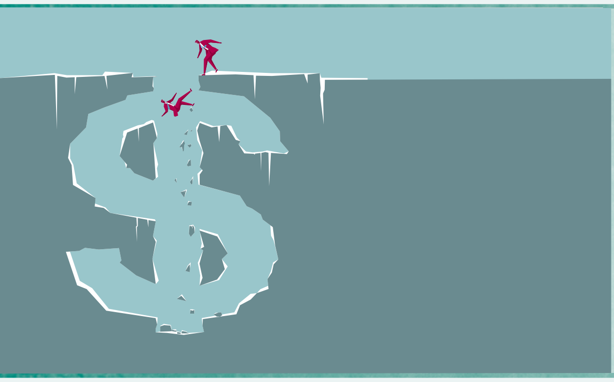

THE STATE OF LENDING:

The Cumulative Costs of Predatory Practices

EXECUTIVE SUMMARY

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EXECUTIVE SUMMARY

In this final chapter of *The State of Lending in America and its Impact on U.S. Households* series, we demonstrate the cumulative high costs of lending abuses, discuss lessons learned from efforts to address predatory lending, and suggest steps for further action. This chapter comprises the following sections:

- *Lending Abuses and Their Costs* describes how various types of lending abuses create excessive costs for families, communities, and the economy. Specific estimates are included where available.
- *Who Pays* discusses ways that consumers use credit and who is most affected by lending abuses. It also provides evidence that borrowers who fall prey to one abusive loan are often vulnerable to other lending abuses.
- *Cumulative Impact* draws from the previous two sections to describe how the costs of lending abuses compound for borrowers and communities.
- *A Role for Regulation* reviews past regulation of financial products and services, which has successfully prevented lending abuses while still preserving access to credit.

In this chapter, we show that the costs of lending abuses are substantial and wide-ranging. Although we cannot estimate the precise cost of all predatory lending practices, those that we can estimate establish that at a minimum hundreds of billions of dollars are drained from borrowers, communities, and the economy.

Specific findings in this chapter include:

- Loans with problematic terms or practices result in higher rates of default and foreclosure/repossession. For example, dealer-brokered auto loans, which often contain abusive provisions, are twice as likely to result in repossession as bank- or credit union-financed auto loans.
- The consequences of default, repossession, bankruptcy, and foreclosure are long-term. For example, one in seven job-seekers with blemished credit has been passed over for employment after a credit check, and borrowers who experience default pay much more for subsequent credit.
- The opportunity costs of abusive loans are significant. For example, during the same period that subprime loans peaked and millions of families unnecessarily lost their homes, families with similar credit characteristics who sustained homeownership experienced on average an $18,000 increase in wealth per family.
- Abusive loans have an impact on the economy as a whole. The foreclosure crisis depleted overall housing wealth and led to millions of job losses; predatory practices have been shown to diminish public trust and confidence in the financial system; and there is evidence that student debt is preventing economic growth, especially for young families.

- Across many financial products, low-income borrowers and borrowers of color are disproportionately affected by abusive loan terms and practices. Families with annual incomes below $25,000–$35,000 are much more likely to receive an abusive loan product. And in most cases, borrowers of color are two to three times more likely to receive an abusive loan compared with a white counterpart. The discriminatory effects of abusive lending clearly contribute to the widening wealth gap between families of color and white families.

- Loans with problematic terms are repeatedly concentrated in neighborhoods of color. Subprime mortgages and payday loans are two examples. Such concentration leads to a net drain of community wealth and value that could have been spent on productive economic activity and meeting vital community needs.

- Debt plays a profound role in the financial lives of most American households, with about three-quarters of households having at least one form of debt and many having multiple forms of debt. Indeed, most consumers are not simply mortgage holders, credit card users, payday loan borrowers, or car-title borrowers; they are likely to participate in more than one of these markets, often at the same time.

- Regulation and enforcement is an effective means for ending lending abuses while preserving access to credit. For example, the Credit Card Accountability and Disclosure Act of 2009 (Credit CARD Act) has continued to give people access to credit cards, while eliminating more than $4 billion in abusive fees and overall saving consumers $12.6 billion annually.