

CENTER FOR RESPONSIBLE LENDING

Protecting homeownership and family wealth

Abusive lending practices cost borrowers more than \$25 billion every year.

In the late 1990s, homeowners began coming to Self-Help Credit Union seeking help to avoid foreclosure. Unfortunately, it was too late for many of these families. Unscrupulous lenders already had stolen their home equity—their greatest source of wealth and future financial security. The targets for this theft are often among our most vulnerable citizens, including the elderly and working families in minority communities.

In 1999, Self-Help worked with a state coalition to help pass the North Carolina Predatory Lending Law, the first such law in the country. In 2002, Self-Help established the Center for Responsible Lending to build on initial successes and expand our focus to include practices outside of mortgage lending, such as payday lending. Since then, CRL has conducted or commissioned landmark studies on predatory lending practices and the impact of state laws that protect borrowers. We have also supported state efforts to combat predatory lending and worked for regulatory changes to require responsible practices among lenders nationwide.



CRL MISSION

The Center for Responsible Lending is a nonprofit, nonpartisan research and policy organization dedicated to protecting homeownership and family wealth by working to eliminate abusive financial practices. CRL is affiliated with Self-Help, one of the nation's largest community development financial institutions. Please visit our website at www.responsiblelending.org.

BRINGING MARKET EXPERIENCE TO THE PURSUIT OF BETTER LENDING POLICIES

KEY RESEARCH FINDINGS

Predatory mortgage lending costs \$9.1 billion per year. (2001)

North Carolina's predatory lending law curbed harmful lending without reducing access to credit, saving NC borrowers \$100 million in the first year alone. (University of North Carolina research sponsored by CRL, 2003)

Payday lending costs \$3.4 billion annually. (2003)

Rural borrowers more likely than similar urban borrowers to receive abusive prepayment penalties on subprime loans. (2004)

Prepayment penalties do not result in lower mortgage interest rates for subprime borrowers. (2005)

Prepayment penalties on subprime loans are applied disproportionately in minority communities. (2005)

African-American neighborhoods have three times as many payday stores per capita as white neighborhoods, even when income is taken into account. (2005)



REGULATORY AND MARKET IMPROVEMENTS

Helped eliminate single-premium credit insurance in home loans, protecting two billion dollars in home equity annually. (2001)

Advocated for a change in Office of Thrift Supervision rules that had allowed certain state-chartered mortgage lenders to ignore state laws on prepayment penalties, saving more than \$1.3 billion in home equity annually. (2002)

Worked with a national coalition to encourage Freddie Mac to stop accepting loans with mandatory arbitration clauses. (2003) Fannie Mae followed suit, contributing to a significant decline in mandatory arbitration throughout the subprime industry.

STATE EFFORTS

Provided technical assistance in more than 30 states considering predatory mortgage lending reforms, including New Mexico, New Jersey, and Massachusetts, where strong new laws were passed. (2003, 2004)

Worked closely with local groups to help pass strong legislation in Georgia to curb payday lending, saving families an estimated \$92 million annually. (2004)



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PREDATORY MORTGAGE LENDING

In 2001, CRL estimated that predatory mortgage lending practices cost homeowners \$9.1 billion each year, and the costs continue to mount. Nearly all abusive mortgage lending occurs in the subprime market—home loans for people with impaired or limited credit histories.

During the past ten years, the subprime mortgage lending industry has experienced tremendous growth. Between 1994 and 2004, subprime mortgage volume increased more than 90 percent, rising from \$35 billion to \$530 billion. It is now the fastest growing sector of consumer finance.

Current federal law does not address many widespread



abuses, such as fee-packed refinances and exorbitant prepayment penalties. Fortunately, many states have passed predatory lending laws to supplement federal protections, and recent research shows these laws are working as intended. CRL encourages federal policymakers to partner with states while extending effective protections to borrowers nationwide.

PAYDAY LENDING

Research shows that predatory payday lending, also known as cash advance or deferred deposit, fails to help families solve financial crises. There are many more payday borrowers trapped in loans than there are occasional users—99 percent of payday loans go to repeat borrowers. Instead of benefiting borrowers, payday loans trap them in high-cost debt. Payday lending disproportionately affects military families, African-American families, and women.

The average payday borrower is flipped eight times by a single lender, paying \$800 to borrow \$325. Excessive payday lending fees



cost American families at least \$3.4 billion annually, and, because of the rapid growth of the industry, that cost appears to have tripled since 1999.

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OTHER LENDING ABUSES

Overdraft loans (also called “bounce protection” plans) are offered by banks to low-income consumers. Unlike traditional plans, abusive overdraft loans are not tied to the customer’s savings account or line of credit. In exchange for covering account overdrafts, banks charge fees ranging from about \$20 to \$35 for each transaction. Some banks also charge a per-day fee of two to five dollars. Because of a loophole in Federal Reserve rules, disclosure requirements for loans are not enforced, and institutions do not have to reveal that they are charging as much as 1,000 percent interest on the loans.

Tax refund anticipation loans (RALs) are short-term cash advances against a customer’s anticipated income tax refund. The loans come with high interest rates, ranging from about 40 percent to over 700 percent APR. Contrary to marketing claims, they do little to speed up the refund process, especially compared to turnaround time

when consumers file online and request a direct deposit to their bank. In 2003, there were over 12 million RAL borrowers.

Credit card abuses have increased as more Americans become dependent on “plastic.” Between 1989 and 2001, credit card debt in the U.S. almost tripled from \$238 billion to \$692 billion. Students and working families of limited means have become attractive targets for the marketing of cards that contain hidden transfer charges, exorbitant fees and interest rates.

Car title loans are marketed as small emergency loans, but they trap borrowers in a cycle of debt. A typical car title loan has a triple-digit annual interest rate, requires repayment within one month, and is made for much less than the value of the car. Car title loans put at high risk an asset that is essential to the well-being of working families—their vehicle.

SCOPE OF WORK

CRL’s staff includes attorneys, researchers, and policy analysts in North Carolina and Washington, DC who study and report on predatory lending matters and monitor legislative and regulatory activity in state capitols and in the US Congress. CRL’s work has five main components:

Policy and Technical Assistance: sharing market and legal knowledge with advocates and policymakers across the country interested in reforming lending practices.

Research: producing research on predatory lending to inform policymakers, regulators, and others on its extent and impact.

Coalition-Building: supporting national and state organizations concerned about predatory lending.

Litigation: partnering with other advocates to advance predatory lending litigation and submitting legal briefs on key legal issues.

Communications: promoting public awareness and providing a web-based archive of information for local legislators and advocates.