



Financial Crisis in Tennessee and the Need for a Consumer Financial Protection Agency

September 2009 Estimates and Projections

A flawed federal regulatory system focused on protecting banks at the expense of consumers is a key cause of the financial meltdown now devastating the U.S. economy and global economic stability. Regulators' failure to curb abuses in subprime mortgage lending has led to record levels of mortgage foreclosures and widespread distress in the entire housing market. And the ensuing bank losses, lending cut-back, and drop in consumer confidence have precipitated a recession affecting all segments of the U.S. economy. As a result, today we are seeing the highest unemployment figures in a quarter century, record revenue shortfalls at every level of government, and severe reductions in the ability of American families and small businesses to access credit at a time when they most need it.

As the following snapshot shows, the economic crisis spurred by the failure of federal regulators to protect consumers has had severe consequences for Tennessee, with **106,328** families past due on their mortgages as of the end of June 2009 and **121,324** foreclosures expected between 2009 and 2012. In addition, foreclosures will cost the state's families a staggering **\$3,860.0 million** in lost home equity. These costs are compounded by impact of other the abusive financial products such as payday loans and overdraft loans.

The Consumer Financial Protection Agency (CFPA) that Congress is considering would be best-positioned to provide consumers with the protection the current regulatory structure has failed to provide.

Tennessee Mortgage Delinquencies and Foreclosures

Foreclosure projections 2009-2012: 121,324
Total Foreclosure Starts Q1-2008 through Q2-2009: 42,674
Total Foreclosure Sales Q1-2008 through Q2-2009: 20,826
Total foreclosure inventory end Q2-2009: 19,041
Total past due mortgages end Q2-2009: 106,328
4Q Annual Change in Foreclosure Starts, ending Q2-2009: 29%
Change in Foreclosure Starts from Q3-2006 to Q2-2009: 90%

Tennessee Lost Wealth

U.S. lost home equity wealth due to nearby foreclosures, 2009-2012: \$1.9 trillion
Tennessee lost home equity wealth due to nearby foreclosures, 2009-2012: \$3,860 million
Tennessee number of homes experiencing foreclosure-related decline: 1,456,250
Tennessee average loss per home affected: \$2,651

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Squelched State Consumer Protection Laws

Tennessee higher-rate mortgages made by institutions with federal regulator that preempted state laws (2006): 21%

Tennessee mortgages of all types made by institutions whose federal regulator preempted state laws (2006): 34%

Overdraft Loan Costs

U.S. cost of overdraft lending: \$17.5 billion

Tennessee estimated share of overdraft fees: \$357.7 million

U.S. Share of overdraft loan fees from debit card transactions: 46%

U.S. median amount of credit extended in debit card overdraft loan: \$13

U.S. median amount of overdraft loan fee: \$34

Tennessee Payday Lending Experience

Number of payday lending stores in Tennessee: 1,481

Annual payday loans per store: 3,165

Average payday loan size: \$233

Maximum APR of two-week \$100 payday loan: 460%

Total payday loan volume: \$1,091.8 million

Total payday loan volume from churning: \$829.7 million

Total payday lending fees paid annually: \$146.7 million

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Sources & Notes

Mortgage

Mortgage Bankers Association, *National Delinquency Survey*

Hope Now Alliance, *State Loss Mitigation Data June 2009*, available at <http://www.hopenow.com/industry-data/State%20Loss%20Mitigation%20Data%202009%20Jun%202009.pdf>

Center for Responsible Lending, *Soaring Spillover: Accelerating Foreclosures to Cost Neighbors \$502 Billion in 2009 Alone; 69.5 Million Homes Lose \$7,200 on Average* (May 2009) available at <http://www.responsiblelending.org/mortgage-lending/research-analysis/soaring-spillover-3-09.pdf>

Federal Financial Institutions Examination Council, *2006 Home Mortgage Disclosure Act data*. The federal regulators that preempted state consumer protection laws include the Office of the Controller of Currency, Office of Thrift Supervision and National Credit Union Administration

Overdraft/Payday Lending

Center for Responsible Lending, *Out of Balance: Consumers pay \$17.5 billion per year* (July 2007).

Center for Responsible Lending, *Phantom Demand: Short-term due date generates need for repeat payday loans, accounting for 76% of total volume* (July 2009).

Notes

State overdraft fee estimates based on adult population estimates from U.S. Census.

Payday data is from most recent annual report from state regulators. Number of payday lenders, loan volume, loans per store, and average loan size from CRL's Phantom Demand report. If total fees are not reported by state regulator, estimated total fees are obtained by multiplying the typical finance charge in that state by the total loan volume.