Allowing National Banks to Ignore State Lending Laws Encouraged Risky Lending

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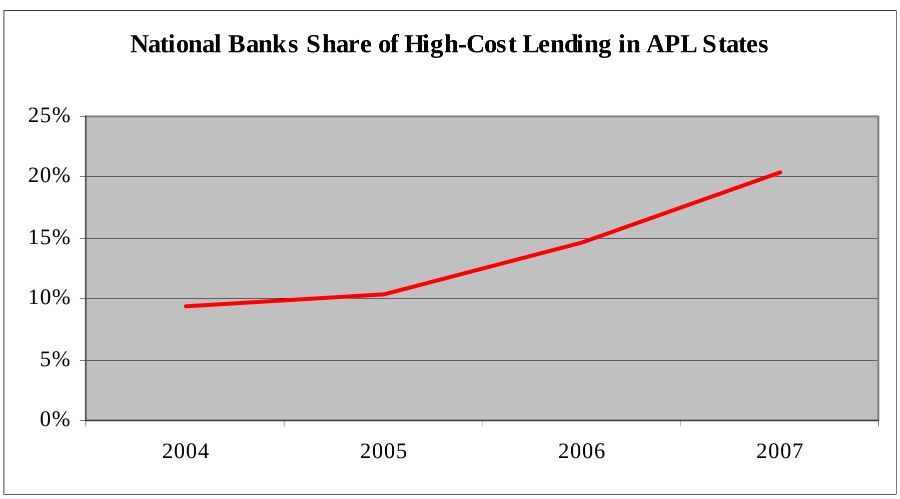
A report by the Center for Community Capital at the University of North Carolina provides evidence that allowing national banks to ignore state lending laws encouraged these banks to increase subprime lending, and that states with stronger lending laws have had lower foreclosure rates.[1] The study analyzes lending patterns and loan performance before and after 2004, the year the U.S. Office of Comptroller of the Currency exempted national banks from state anti-predatory lending laws through "preemption." A brief summary of the research:

- **States with strong anti-predatory lending laws fared better during the foreclosure crisis.** They posted lower delinquency and foreclosure rates than states without such laws. (As of June 2008, the foreclosure rate was 12 percent higher in states without anti-predatory lending laws.)
- **Mortgage loans made in states with strong anti-predatory lending laws were less risky.** Average credit scores, debt-to-income, and loan-to-value ratios indicated less risk in states with strong anti-predatory lending laws than in those without.
- **National banks showed a marked increase in subprime lending following federal preemption.** From 2004 to 2007, national banks dramatically increased their share of the subprime lending market. The biggest jump (from 9 to 20 percent) occurred in those states where national banks had been subject to stricter state laws until 2004.



Source: HMDA data

[1] Lei Ding, Roberto Quercia, & Alan White, *State Anti-Predatory Lending Laws: Impact and Federal Preemption Phase I Descriptive Analysis,* Center for Community Capital (October 5, 2009), available at www.ccc.unc.edu/documents/Phase_I_report_Final_Oct5,2009_Clean.pdf.