



NEW RESEARCH:

Home Owners and Lenders Flourish Under State Anti-Predatory Lending Laws

The Center for Responsible Lending has released the most comprehensive study ever conducted on state laws aimed against predatory lending. “The Best Value in the Subprime Market: State Predatory Lending Reforms”¹ shows that state laws are working well for credit-strapped families in the subprime market and for responsible lenders.

With strong state laws, homeowners get these advantages:

- Stronger protections with plenty of access to home loans
- Interest rates that are no different, or even lower, than rates in states that lack strong anti-predatory lending laws
- More responsible loans in a growing market

Unlike federal law, state laws can keep up with predatory “innovations” as they arise. State laws benefit everyone... except predatory lenders.

Stronger protections/plenty of access to home loans

State laws are working well to wipe out abusive lending practices, such as charging homeowners abusive prepayment penalties (steep fees for paying off high-cost subprime mortgages ahead of schedule). At the same time, the subprime mortgage market has continued to grow at a phenomenal rate, and subprime home loans remain readily available even in states with tough laws.

Comparable interest rates – and often lower

Consumers protected by state laws get stronger protections at no extra cost. Among states with laws, borrowers paid about the same interest rates on subprime loans in eight states. In 19 states, they paid lower interest rates.

More responsible lending

Even while state laws have cracked down on abusive loans, the subprime market has continued to flourish, growing from \$34 billion in 1994 to \$516 billion in 2004. This indicates that responsible lenders are increasing their business.

How strong are protections in your state?

For an overview of anti-predatory lending protections in each state, see [CRL’s State Legislative Scorecard](#).

¹ Available at http://www.responsiblelending.org/pdfs/rr010-State_Effects-0206.pdf

Fast Facts

- States with the strongest laws (such as New Mexico, Massachusetts and North Carolina) realized the biggest gains in fighting predatory loans while supporting a growing market for responsible subprime loans.
- In 26 out of 28 states with specific anti-predatory lending laws, there was no change in the availability of subprime mortgages OR there was an increase.
- In states with strong laws, families often save money through lower interest rates. A family with a \$200,000 loan would typically save \$1,000 during the first three years of a subprime mortgage.
- With sophisticated software used in today's mortgage market, the costs of complying with state laws is very low: about \$1 a loan.

State laws must be allowed to stand.

- Any federal law that overrides state laws would harm families who risk losing their savings or even their home to predatory lenders.
- HR 1295, introduced earlier this session in the House of Representatives by Reps. Ney and Kanjorski would weaken existing federal law and eradicate state laws that are working well.
- Only one current proposal – a bill introduced by Reps. Miller, Watt and Frank – is specifically modeled on the most effective state laws, and would allow the states to protect their citizens as needed in the future.

About the Research

The research assessed laws in 28 states by looking at six million subprime mortgages sold from 1998 through 2004—about $\frac{3}{4}$ of the subprime mortgage market. The study isolated the effects of state laws by controlling for other factors that might affect the results, including economic conditions and the creditworthiness of the borrowers.

To view a snapshot of predatory lending laws in your state, see CRL's Scorecard:
http://www.responsiblelending.org/fed_state_update/mortgagelaws.cfm

About the Center for Responsible Lending

The Center for Responsible Lending (CRL) is a national nonprofit, nonpartisan research and policy organization dedicated to protecting home ownership and family wealth by working to eliminate abusive financial practices. CRL is affiliated with Self-Help, the nation's largest community development financial institution.

For additional information, please visit our website at www.responsiblelending.org.