



THE FRANK HAWKINS KENAN INSTITUTE OF PRIVATE ENTERPRISE

*The Center for Community Capitalism*

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## **Impact of the North Carolina Predatory Lending Law on Subprime Mortgage Loans to Borrowers with FICO Scores Between 581-660**

### **The Center for Community Capitalism's Response to the Comptroller of the Currency's July 24<sup>th</sup> Incorrect Reference to the Center for Community Capitalism's Study**

In remarks before the Federalist Society in Washington, D.C. on July 24<sup>th</sup>, Comptroller of the Currency John D. Hawke, Jr., mistakenly stated that subprime loan originations to borrowers with FICO scores between 581 and 660 fell by 30 percent in the 18 months after the North Carolina predatory lending law was passed, basing his finding on data that OCC analysts incorrectly derived from our recently released paper on the impacts of the North Carolina predatory lending law.

Using the same pre-law/post-law 7-quarter comparison periods we use in our paper, post-law subprime originations to borrowers with FICO scores between 581 and 660 actually fell by just 2.3 percent relative to the pre-law baseline, while first lien purchase originations to this same group increased by 59.7 percent. Consistent with the patterns reported in our paper for all subprime lending, the post-law decline for the 581-660 FICO score group is centered in the refinance sector of the market. But even here, the decline is just 17.3 percent, *not* 30 percent, with a substantial portion of the post-law drop-off accounted for by significant reductions in refinance originations with abusive features such as long prepayment periods and balloon payments.

The cause of the incorrect inference from the data reported in our paper was OCC analysts' inability to take account of the large number of loans included in our table of total subprime originations that lacked reported FICO scores. While we remove these loans from our FICO-based analysis, without access to our loan-level database, OCC staff could not do likewise, thereby overestimating the decline in lending to the 581-660 FICO group.

Origination data for the 581-660 FICO score cohort are contained in the following five tables, while a copy of our original paper can be downloaded from this site.

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Table 1

Number and Relative Change in Subprime Loans to Borrowers with FICO Scores  
Between 581 and 660  
7 Quarters Before and After NC Law  
North Carolina, Selected Southern States, Remainder of the South, and U.S.

Period	NC	SC	VA	TN	GA	Rest of South	Entire US
Pre-Law (Q1 1998 – Q3 1999)	8,881	4,669	6,140	7,062	11,633	65,760	299,750
Post-Law (Q3 2000 – Q1 2002)	8,681	5,352	7,358	8,618	14,813	82,391	374,862
% Change [(pre-post)/pre]	-2.3%	14.6%	19.8%	22.0%	27.3%	25.3%	25.1%

Source: Loan Performance database and authors' calculations

Table 2

Number and Relative Change in Subprime 1<sup>st</sup> Lien Purchase Loans to Borrowers with  
FICO Scores Between 581 and 660  
7 Quarters Before and After NC Law  
North Carolina, Selected Southern States, Remainder of the South, and U.S.

Period	NC	SC	VA	TN	GA	Rest of South	Entire US
Pre-Law (Q1 1998 – Q3 1999)	1,661	871	1,257	1,399	3,502	19,633	73,553
Post-Law (Q3 2000 – Q1 2002)	2,653	1,550	2,406	2,559	4,781	30,896	119,786
% Change [(pre-post)/pre]	59.7%	78.0%	91.4%	82.9%	36.5%	57.4%	62.9%

Source: Loan Performance database and authors' calculations

Table 3

Number and Relative Change in Subprime Refinance Loans to Borrowers with FICO Scores Between 581 and 660  
7 Quarters Before and After NC Law  
North Carolina, Selected Southern States, Remainder of the South, and U.S.

Period	NC	SC	VA	TN	GA	Rest of South	Entire US
Pre-Law (Q1 1998 – Q3 1999)	6,874	3,579	4,600	5,349	7,701	43,052	213,481
Post-Law (Q3 2000 – Q1 2002)	5,682	3,648	4,457	5,418	9,443	47,205	235,281
% Change [(pre-post)/pre]	-17.3%	1.9%	-3.1%	1.3%	22.6%	9.6%	10.2%

Source: Loan Performance database and authors' calculations

Table 4

Number and Relative Change in Subprime Refinance Loans with Prepayment Penalty Terms of 3 Years or Greater,  
Borrowers with FICO Scores Between 581 and 660  
7 Quarters Before and After NC Law  
North Carolina, Selected Southern States, Remainder of the South, and U.S.

Period	NC	SC	VA	TN	GA	Rest of South	Entire US
Pre-Law (Q1 1998 – Q3 1999)	1,377	157	1,723	2,742	4,255	18,751	82,904
Post-Law (Q3 2000 – Q1 2002)	408	724	2,743	3,836	5,920	25,305	115,876
% Change [(pre-post)/pre]	-70.4%	361.1%	59.2%	39.9%	39.1%	35.0%	39.8%

Source: Loan Performance database and authors' calculations

Table 5

Number and Relative Change in Subprime Refinance Loans with Balloon Payments,  
 Borrowers with FICO Scores Between 581 and 660  
 7 Quarters Before and After NC Law  
 North Carolina, Selected Southern States, Remainder of the South, and U.S.

Period	NC	SC	VA	TN	GA	Rest of South	Entire US
Pre-Law (Q1 1998 – Q3 1999)	1,048	407	474	588	718	3,216	20,611
Post-Law (Q3 2000 – Q1 2002)	568	180	489	316	435	2,715	19,535
% Change [(pre-post)/pre]	-45.8%	-55.8	3.2%	-46.3%	-39.4%	-15.6%	-5.2%

Source: Loan Performance database and authors' calculations