

**NEWS RELEASE**  
**Center for Community Capital**  
**University of North Carolina at Chapel Hill**

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**States with tough anti-predatory lending laws post lower foreclosure rates, UNC Center for Community Capital study shows**

*Chapel Hill, N.C.* – States that adopted tough anti-predatory lending laws had lower foreclosure rates than states without those laws, according to a new study conducted by the UNC Center for Community Capital. In addition, after 2004, when the federal government exempted national banks from state anti-predatory lending laws, national banks increased their subprime lending the most in states with those laws. After this loophole opened in 2004, national banks made riskier loans, especially in states where other lenders remained subject to strict anti-predatory lending laws. These conclusions suggest that when state laws did apply, the laws did a better job of promoting quality lending.

The study, “State Anti-Predatory Lending Laws: Impacts and Federal Preemption,” examined patterns of lending and foreclosure before and after 2004, the year the U.S. Office of the Comptroller of the Currency created the “federal preemption” loophole that exempted national banks from laws enacted by some states to curb predatory lending. The study was funded by the North Carolina Department of Justice and the National State Attorneys General Program at Columbia University.

“Long before the foreclosure crisis, many states were trying to plug what they saw as holes in consumer protection at the federal level by enacting their own anti-predatory lending laws,” says center director Roberto G. Quercia. “Though laws varied from state to state, they were all trying to discourage lending practices that were harmful to borrowers, especially those that sap home equity and increase the risks of foreclosure.”

Specifically, center researchers found that:

- **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 were higher in states with strong anti-predatory lending laws than in those without. In addition, average debt-to-income ratios and loan-to-value ratios were lower in states with strong anti-predatory lending laws than in other states.
- **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 percent to 20 percent) occurred in those states where national banks had been subject to stricter state laws until 2004 but, after that date, gained a competitive advantage against other lenders who remained subject to higher state standards.

“It appears that state laws did a better job of ensuring home loan quality than federal regulation but their impact was diminished by preemption after 2004,” says Quercia. “State laws can only provide patchy protection if different types of lenders within a state are subject to different rules. Based on these results, we recommend that federal regulators set minimum standards — a floor, rather than a ceiling — and allow states to enact and enforce higher standards if they choose.”

The center’s latest findings come from the first of a two-part research project. In the first phase, researchers compiled findings from an extensive literature review on the impact of anti-predatory lending laws; established a classification system with coding to distinguish states that have anti-predatory lending laws from those that do not and identify the exemption status of lenders; analyzed origination and zip-code level delinquency patterns for each state; and reported results of its analyses. In the second phase of the project, center researchers will examine in more detail the correlation between legal climate and loan performance, holding other factors constant.

The full report is available at: [www.ccc.unc.edu](http://www.ccc.unc.edu)

Home ownership finance is a key area of research and analysis for the University of North Carolina at Chapel Hill’s Center for Community Capital, the leading center for research and policy analysis on the transformative power of capital on households and communities in the United States. The Center's in-depth analyses help policymakers, advocates and the private sector find sustainable ways to expand economic opportunity to more people, more effectively. For more information, visit: [www.ccc.unc.edu](http://www.ccc.unc.edu)