CENTER FOR RESPONSIBLE LENDING

Banking Regulation and State Sovereignty in Financial Services

National Conference of State Legislatures

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July 25, 2010

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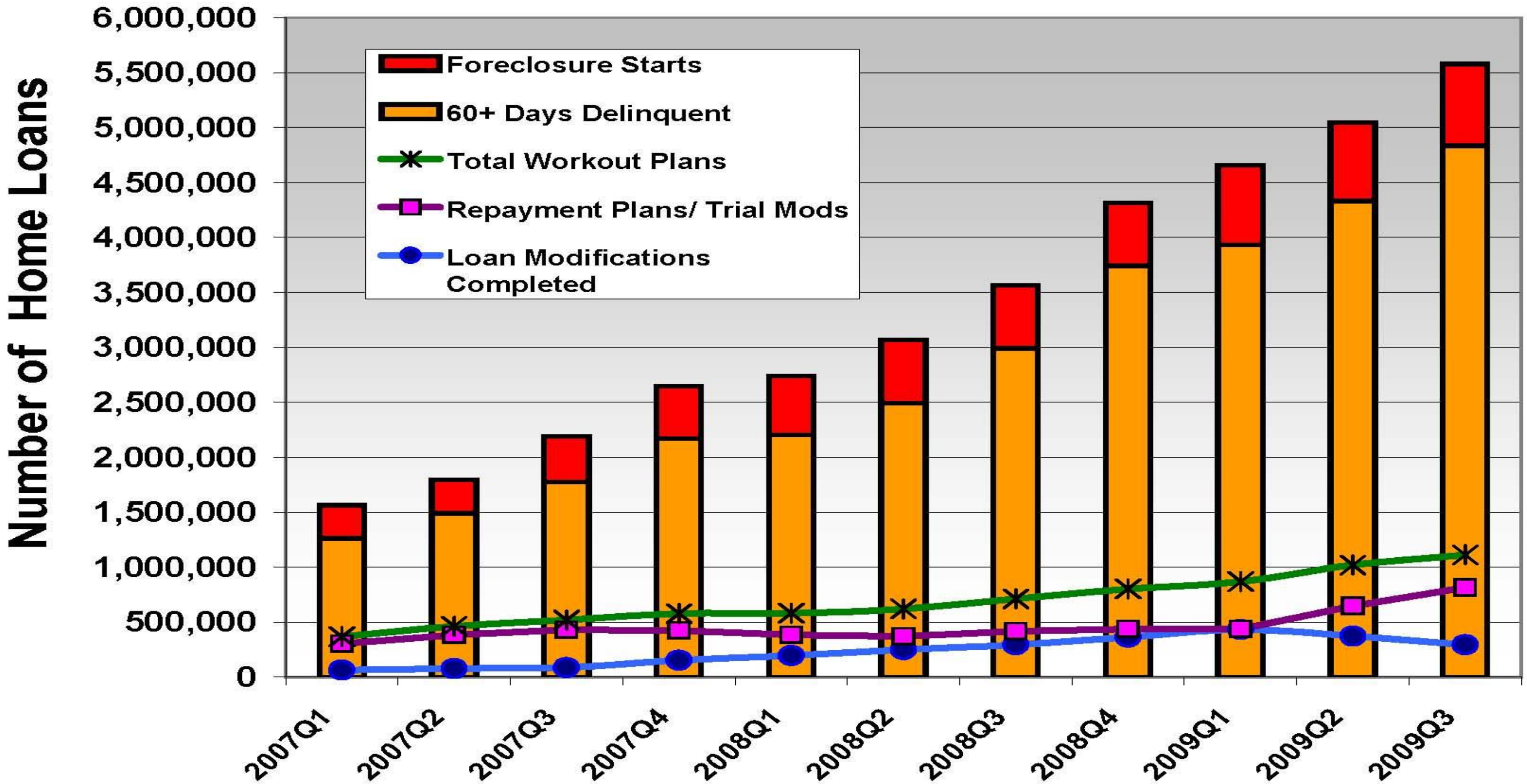
Self-Help & CRL

- **Self Help, 1980**
  - Nonprofit community development financial institution
  - Mission: Create & protect ownership for people of color, women, rural residents & low-wealth families
  - $5.3 billion in over 63,000 borrowers
  - Home loans and small business loans

- **Center for Responsible Lending, 2002**
  - Nonprofit, non-partisan policy organization
  - Protect homeownership & family wealth
  - Work to eliminate abusive financial practices

Homes At Risk vs. Foreclosure Prevention Efforts

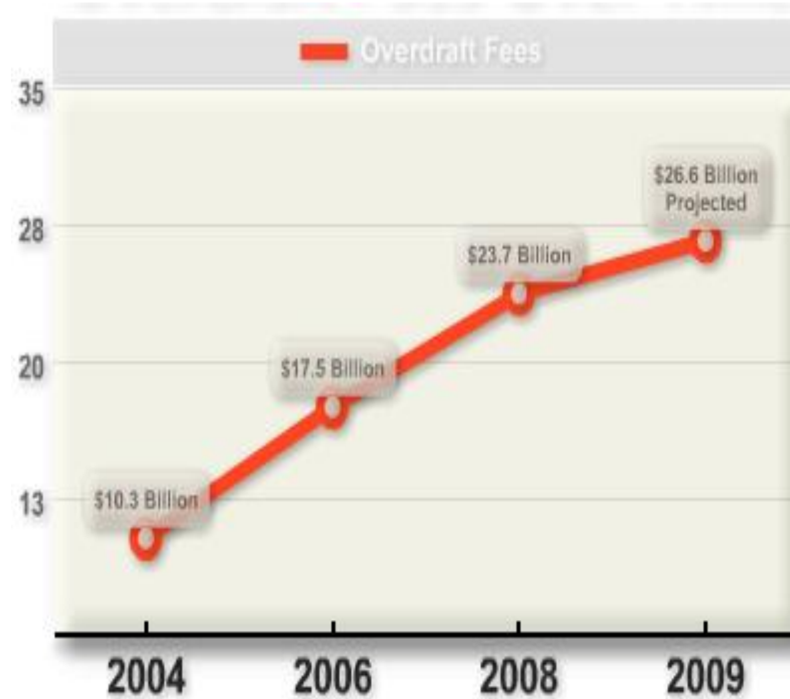


Sources: *MBA National Delinquency Survey, Hope Now*

Foreclosures cost everyone

- **Unprecedented, unabated**
  - 2.5 million completed foreclosures between 2007-2009
  - Over 9 million more foreclosures by the end of 2012
- **Massive spillover cost**
  - $1.86 trillion: lost wealth from 2009-2012
  - $20,300: average lost wealth per neighbor of foreclosed home
- **Disproportionate impact on communities of color**
  - Borrowers of color were more 3 to 5 times more likely to get risky loans than comparable white counter parts,
  - Greater share of African Americans (8%) and Latinos (8%) have lost their home, than white counterparts (4.5%).
  - End result is a wealth drain of more than $350 billion from African American (193 billion) and Latino (180 billion) communities

Equity-stripping, high cost consumer loans



Payday loans' phantom demand:
Because of 400% APR and ensuing debt trap, the typical borrower pays $405 in interest for a $300 loan and is indebted for 4.5 months

Overdraft Fee Explosion:
With a 135% growth since 2004, and no limits on cost or frequency, more money goes to banks' overdraft fees than families' veggies

How did we get here?

- **Dangerous products and practices** greatly inflated the housing bubble, and the resulting foreclosures are magnifying the damage of the bubble's collapse.

- **Wall Street demand** for the riskiest , highest cost loans was the central cause of this dangerous lending. Wall Street was aided by lenders responding to that demand and credit ratings agencies that provided high ratings on demand.

- **Overly broad preemption and regulators' blind eye** failed to restrain the abuses that led to today's crisis, even though early warning signs forecasted the ensuing tsunami.

Financial Reform Highlights

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- **Prohibitions on abusive mortgage lending practices** such as kickbacks for steering people into high-rate loans when they qualify for lower rates.
- **A Consumer Financial Protection Bureau** (CFPB) to stop unfair practices before they become pervasive and possibly trigger another taxpayer-funded bailout.
- **Stronger foreclosure prevention** including an emergency loan fund to help families at risk of losing their home because of unemployment or illness.
- **State authority:** Permitting states to enact stronger provisions as needed for their residents will help them quickly respond to new problems as they arise on a local basis.

Lessons for States

- Need not wait for federal government to act.
- States still well-positioned to drive next steps, just as they've done historically on lending rules.
- Greater room for state enforcement of bad practices occurring in own borders
- States empowered to address foreclosures to stabilize communities and economies, e.g. loss mitigation standards

For more information:

Visit: www.responsiblelending.org

State-specific facts: http://bit.ly/CRLStateFacts

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