Statement by New Jersey Institute for Social Justice:
National study shows that New Jersey's predatory lending law has effectively reduced abusive lending in the state

A major study released on February 23 by a national research organization has shown that New Jersey's anti-predatory lending law, the New Jersey Homeownership Security Act (NJ HOSA), has accomplished its key goals of reducing abusive lending and lowering the costs of subprime mortgages. Notably, the report finds that the NJ law reduced problematic subprime loans by over 35%. The study further shows that NJ HOSA has achieved these results without reducing access to non-abusive subprime mortgages in the state. In fact, following the law's enactment, New Jersey has had higher levels of responsible subprime lending than any other state in the study.

Undertaken by the North Carolina-based Center for Responsible Lending (CRL), this study examines predatory lending reforms in 28 states and is based on a comprehensive data source that provides detailed information on six million mortgages made over a seven-year period. The results applicable to New Jersey show that as a result of NJ HOSA:

1. **There has been a major decrease in New Jersey families receiving subprime loans with abusive terms.**

   Based on an analysis of the number of subprime loans that contained problematic terms, the study found that the number of New Jersey families who received subprime loans with such terms dropped precipitously following the enactment of NJ HOSA. The problematic practices include subprime loans with balloon payments or prepayment penalties and subprime loans made to borrowers who had credit scores greater than 660 and full documentation. By comparing New Jersey to states without effective laws, the study shows that the New Jersey law prevented more than 6,500 abusive subprime mortgage loans a year.

2. **New Jersey families pay less for subprime mortgages than they would have otherwise.**

   Using a sophisticated analysis that accounts for market changes and compares New Jersey loan pricing to that in states without strong anti-predatory lending laws, the study found that the cost of subprime loans decreased for New Jersey borrowers. More specifically, the study finds that the interest rate on fixed rate subprime loans without prepayment penalties dropped almost a third of a percentage point (32 basis points) and adjustable rate subprime loans also decreased a statistically significant amount. This represents a major saving for New Jersey families. For borrowers with a $200,000 loan, it amounts to $1500 in savings in the first three years of a loan, and more than $15,000 over the loan's full term.

3. **Responsible subprime credit remains available to New Jersey borrowers.**

   The study also analyzed the availability of subprime credit without abusive loan terms and found that, following the passage of NJ HOSA, New Jersey continues to have the highest rate of non-abusive subprime lending of any state studied. Post-enactment, the rate of subprime loans without abusive terms made per month was five times greater than that of states without anti-predatory lending laws. Independent analysis confirms that the volume of subprime lending in New Jersey is at an all-time high.

For more information, contact Ken Zimmerman or Yahonnes Cleary at (973) 624-9400. For the report, see http://www.responsiblelending.org/reports/stateeffects.cfm

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Key facts about the Center for Responsible Lending study

- Recently released by the North Carolina Center for Responsible Lending (CRL), "The Best Value in the Subprime Market: State Predatory Lending Reforms" is the first comprehensive look at the effect of predatory lending laws. The study examines the effect of reforms in all 28 states that had predatory lending laws in effect by the end of 2004, including New Jersey, which passed the New Jersey Homeowners Security Act (NJ HOSA) in November 2003 and was amended effective May 2004.

- The study relies on a rich industry dataset never before used in this way to measure the effect of state predatory lending laws. The dataset includes information on over 6 million subprime loans made nationally over a seven year period (1998-2004), accounting for over three-quarters of the overall subprime market.

- Borrower and loan information in the dataset includes borrower credit score, loan-to-value (LTV) ratio, loan origination date, and borrower zip code. The study further supplements this loan information with local economic and mortgage market data.

- The study examines the effect of state predatory lending laws on 1) overall subprime lending levels; 2) the number of "targeted" subprime loans (i.e. those carrying abusive terms such as balloon payments, prepayment penalties or made to borrowers with credit scores over 660); and 3) the costs that borrowers pay for subprime loans, measured mainly by interest rates.

Key facts about subprime lending in New Jersey before and after NJ HOSA

- Prior to enactment of NJ HOSA, the number of subprime loans carrying abusive terms had increased to unprecedented levels from less than one-quarter of all subprime loans in 1998, to nearly two-thirds in 2002. However, following enactment of NJ HOSA, the share of abusive loans fell sharply, accounting for less than 15 percent of all subprime loans in 2004.

- The ratio of loans with problematic terms to loans without targeted terms made to New Jersey borrowers fell sharply from 1.4 one year before the law to 0.2 one year after implementation. These figures are in sharp contrast to neighboring Pennsylvania, whose state law does not add effective protections and the ratio increased from 3.1 to 5 during this period. In other words, in New Jersey, there are five loans without problematic terms for every problem loan, while in Pennsylvania it is exactly the opposite.

- Following NJ HOSA, the interest rate on fixed rate subprime loans without prepayment penalties dropped almost a third of a percentage point (32 basis points) and adjustable rate subprime loans also decreased a statistically significant amount compared to states without strong predatory lending protections. This figure controls for economic and mortgage market conditions as well as the qualifications of borrowers. In other words, for New Jersey borrowers with a $200,000 loan, this amounts to $1500 in savings in the first three years of a loan. This savings estimate neglects considerable savings from other aspects of the law, particularly provisions aimed at reigning in runaway fees and pernicious prepayment penalties.

- Following implementation of NJ HOSA, mortgage loans available to New Jersey borrowers with limited income and credit histories has continued to rise to unprecedented levels. The overall number of subprime loans made in New Jersey increased more than fivefold from less than 10,000 in 1998 to nearly 50,000 in 2004. Although the number of subprime loans in New Jersey increased at a lower rate than predicted by CRL researchers, they report that the markedly high levels of subprime lending in New Jersey may have produced a level of market saturation that limits the predictability of their model for the New Jersey market.

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