Mortgage Product Substitution and State Anti-predatory Lending Laws: Better Loans and Better Borrowers?

Published: 08 June 2012

Volume 40, pages 273–294, (2012) Cite this article

Atlantic Economic Journal

Chapter © 2016	**Article** 19 July 2022	**Article** Open access 11 September 2015

Notes

1. Until passage of the Dodd-Frank Act in 2010, mortgage regulation was fragmented and many large originators were exempt from state APL laws. National banks, federal thrift institutions, and their operating subsidiaries were exempt from state APL laws. In addition, some states with those laws exempted state-chartered depository institutions from having to comply with state APL laws under so-called wild card provisions.

2. The APR and the true borrower cost can deviate substantially because the APR

7. A handful of cities and counties passed predatory lending ordinances of their own. As a result of state enactments or court decisions, these ordinances either never took effect or only took effect briefly. Mini-HOEPA laws are not the only type of state APL laws. Some states have older laws that regulate prepayment penalties or balloon payments. Of the states with mini-HOEPA laws, thirteen combine an older APL law with a newer mini-HOEPA statute. Other states have an older APL law, but no mini-HOEPA law. By January 1, 2007, only six states —Arizona, Delaware, Montana, North Dakota, Oregon, and South Dakota —had no APL laws or laws regulating prepayment penalties, balloon clauses, or mandatory arbitration clauses in residential mortgages. Federal law preempted portions of these state laws at various times for certain types of lenders and loan products. See Bostic et al. (2008) for more detail.

North Carolina, South Carolina, New Mexico, and New Jersey.

13. Given the aggregated nature of the empirical approach, it is impossible to provide very precise measures of how mortgage use changed while holding borrower credit quality constant. However, we created two subsamples to provide some preliminary results. The first sample restricts the observations to only those loans with credit scores one standard deviation below the mean (FICO of less than 589). The second sample restricts the observations to those loans with LTVs one standard deviation above the mean ($LTV > 90$). The results for these two subsamples, which include credit and down payment constrained borrowers, are very similar to Table 2 on most dimensions except the use of interest only loans. In particular, interest only loans tend to be used more frequently in both of the constrained subsamples (odds ratios of 2.79 for FICO less than 589 and 3.21 for LTV greater than 90)

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Acknowledgements

Susan Wachter acknowledges the assistance from the Research Sponsors Program of the Zell/Lurie Real Estate Center at Wharton.

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