



THE FRANK HAWKINS KENAN INSTITUTE OF PRIVATE ENTERPRISE

The Center for Community Capitalism

Dr. Michael A. Stegman, Director

August 6, 2003

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

The June 25th, 2003 release of our paper, *The Impacts of North Carolina's Anti-Predatory Lending Law: A Descriptive Assessment*, generated several requests for a more detailed breakdown of subprime originations for borrowers who lie squarely within the mainstream of the subprime market—those with FICO scores in the range 581-660.

Using the same pre-law/post-law 7-quarter comparison periods we use in our paper, the data indicate that post-law subprime originations to borrowers with FICO scores in the 581-660 range fell by 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, where the decline is 17.3 percent. However, a substantial portion of the post-law drop-off is accounted for by significant reductions in refinance originations with abusive features such as long prepayment periods and balloon payments.

Origination data for this cohort are contained in the following five tables. The original paper can also be downloaded from this site.

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 1st 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