

**Statement of**

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**Good morning. I'm Michael Calhoun, General Counsel for the Center for Responsible Lending. Thanks to PIRG for inviting us today and for holding this event.**

**The Center for Responsible Lending is a nonprofit, nonpartisan research and public policy organization working on predatory lending issues. CRL is an affiliate of Self Help, which is one of the largest community development lenders in the country.**

**Federal preemption is a complicated issue, but my message today is simple: Predatory lenders benefit from federal laws that override state protections. If federal preemption prevails, homeowners and other borrowers will lose.**

**Let me give you some examples in mortgage lending and payday lending. I'll begin with mortgages:**

**For the past 11 years, predatory mortgage lending has been addressed in the Home Ownership and Equity Protection Act, a**

**federal law known as HOEPA. HOEPA has become progressively outdated and weak as the subprime lending market has grown --- partly because of industry changes, and partly because unscrupulous lenders have exploited loopholes and found ways to circumvent the law. They have been successful: Predatory mortgage lending costs Americans an estimated \$9.1 billion every year.**

**A number of states have passed effective laws to curb predatory lending practices. My home state, North Carolina, was a pioneer in such legislation. The results have been excellent. Since the law was enacted, North Carolina citizens have saved an estimated \$500 million while the subprime market continues to grow and prosper.**

**Recently, two competing bills have been introduced in Congress to update HOEPA. One of them (H.R. 1182), based on the North Carolina law, strengthens federal protections while allowing states the option of passing stronger measures.**

**The other bill (H.R. 1295) would actually weaken some existing federal protections and override state laws that are effective.**

**For homeowners, the best option is the legislation that gives states freedom to supplement federal protections.**

**When fighting predatory lending, federal laws are a blunt instrument. Real estate is local. Enforcement is local. Issues that arise in Nebraska are likely to be different from those in New Jersey.**

**The mortgage industry has changed dramatically in recent years, and it will continue to do so. HOEPA has not been able to keep up with those changes. It is impossible for any federal law to stay current for long.**

**States are more nimble. State laws can keep pace with industry innovations and adapt more quickly to changing conditions. For example, some states have passed predatory lending protections to address damaging spikes in foreclosures.**

**Some states also have attempted to protect their citizens from payday lending, which is based on an inherently abusive business model designed to trap borrowers in debt. However, state efforts have been thwarted by preemption. The Federal Deposit Insurance Corporation allows payday lenders to “rent” bank charters to avoid state protections. The result is that payday lending is thriving, even in states where lawmakers have explicitly banned it.**

**To sum it up, the states have played a vital role in protecting borrowers and combating predatory lending. These efforts are being seriously undermined by preemption and the threat of**

**preemption. Any federal law should provide a floor, not a ceiling, for protecting borrowers.**

**Thanks for your attention. I'll be happy to take questions during the Q&A period coming up shortly.**