# Department of Legislative Services

Maryland General Assembly
2004 Session

## FISCAL AND POLICY NOTE

House Bill 1537 (Delegate Carter, *et al.*)
Economic Matters

## Task Force to Study Subprime Lending

This bill creates a Task Force to Study Subprime Lending to review the subprime lending market in Maryland and determine the extent of abuse to borrowers, particularly in predominantly African American and low-income neighborhoods, that results from predatory subprime lending practices. The task force must provide recommendations regarding solutions to stop predatory lending abuse. The task force must report its findings and recommendations to the Governor and the General Assembly by June 30, 2005. The Department of Housing and Community Development (DHCD) will provide staffing.

The bill takes effect July 1, 2004 and terminates June 30, 2005.

## Fiscal Summary

**State Effect:** Any expense reimbursements for task force members are assumed to be minimal and absorbable within existing budgeted resources. Potential minimal increase in general fund expenditures for staffing costs in FY 2005 only.

**Local Effect:** None.

**Small Business Effect:** None.

## Analysis

**Current Law:** The Commissioner of Financial Regulation generally regulates the mortgage lending industry in Maryland. The federal Office of the Comptroller of the Currency also has jurisdiction.

**Background:** Subprime loans play a significant role in today's mortgage lending market, for individuals who fail to qualify for prime, conventional loans. A recent analysis by the U.S. Department of Housing and Urban Development (HUD) shows that the number of home purchase subprime applications increased from 327,644 in 1997 to 783,921 in 2000. These loans tend to cost more and sometimes have less advantageous terms than prime market loans. Additionally, subprime lenders are largely unregulated by the federal government, according to HUD. Data shows that minorities are the primary applicants for a subprime loan, and many of the borrowers who take out these loans could qualify for loans with better rates and terms.

While the subprime mortgage market is a legitimate industry, within it are predatory lenders who provide borrowers, particularly the elderly, with loans that come with extremely expensive terms and conditions, often through deception. The typical predatory loan is: (1) in excess of those available to similarly situated borrowers from other lenders elsewhere in the lending market; (2) not justified by the creditworthiness of the borrower or the risk of loss; and (3) secured by the borrower's home.

HUD studied subprime lending in Baltimore City and other metropolitan areas and concluded in 1998 that the number of subprime refinance loans originated in Baltimore increased over tenfold between 1993 and 1998 and that subprime loans accounted for 37% of all refinance loans in low-income neighborhoods, compared with 5% in upper income neighborhoods.

**State Expenditures:** DHCD advises that it can provide administrative support for the task force with existing resources but substantial research activity may require additional personnel or contractual services. The Department of Legislative Services notes that there are considerable data on this subject and that the Commissioner of Financial Regulation could potentially provide some support; accordingly, any general fund expenditures would not be significant.

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## Additional Information

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** Department of Housing and Community Development, U.S. Department of Housing and Urban Development, Department of Legislative Services

**Fiscal Note History:** First Reader - March 23, 2004
mh/mdr

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