

Predatory Lending

Predatory Lending: Any lending practices that enforce deceptive, unfair, and/or abusive loan terms on borrowers. These loans benefit the lender by 1) having high fees and interest rates, 2) taking away the borrower's equity, or 3) putting a borrower in a more expensive and lower credit-rated loan. Federal agencies use the term “predatory lending” as a catch-all for numerous illegal activities in the loan industry.

Predatory lenders take advantage of a borrower's lack of financial knowledge. Lenders may be accused of tricking a borrower into believing that an interest rate is lower than it actually is, or that the borrower's ability to pay is greater than it actually is.⁸⁶

Predatory lending typically occurs on loans backed by some kind of collateral, such as a car or a house, so that if the borrower defaults on the loan, the lender can repossess or foreclose their assets and sell them for profit. People with poor credit scores, low-income families, BIPOC borrowers, elderly folks, military service members, and people in financial crisis are disproportionately targeted by predatory lenders.⁸⁷

Warning Signs of Predatory Lending:

- There are excessive fees attached to the loan.
- The lender tries to convince you to take out a loan greater than what you can afford to pay back.
- The lender tries to make an expensive loan look as inexpensive as possible.
- The lender promises you one type of loan but gives you a different one.
- The lender links your loan to your assets, like your home, instead of your income.
- The lender increases the price of your loan at the end of the loan term (a balloon payment) without disclosing it up front.
- The lender makes promises of frequent refinancing as needed.
- The lender charges extra high interest rates to low-income neighborhoods, where finding a bank to borrow from often can be difficult.

⁸⁶ Adam Hayes. “Predatory Lending.” *Investopedia*, February 27, 2021.

https://www.investopedia.com/terms/p/predatory_lending.asp

⁸⁷ Amy Livingston. “How to Spot & Avoid Predatory Lending (& What to Do If You're a Victim).” *Money Crashers*, March 5, 2019. <https://www.moneycrashers.com/spot-avoid-predatory-lending-victim/>