

## Types of Loans that Could Become Predatory:<sup>88</sup>

- **Payday Loans:** Also known as Deferred Deposit Service, payday loans are loans against paychecks. You must be employed and have a checking account to get this type of loan. Typically, you give the lender a post-dated check for the amount you wish to borrow, plus a fee. The length of the loan is usually around two weeks. On the agreed-upon date to pay back the loan, you either bring cash to the lender or let them deposit your post-dated check.
- **Pawn Shop Loans:** These loans are secured by a piece of property. Interest rates range from 2% to 25% per month, depending on which State you live in. Loan periods range from 30 days to 90 days, depending on the State. The collateral is sold if the interest or loan amount is not paid in the specified period.
- **Title Loans:** These loans are secured by your car's title. The lender determines how much you can borrow based on your car's value. Typically, car title loans range from \$250 to \$1,000, but can go as high as \$10,000. The duration of these loans is often 30 days. If you fail to make loan payments – even just one – the lender can repossess your vehicle.
- **High-L-TV (Loan to Value) Home Equity Loans:** Loans secured by the equity in your home but oblige you to pay more than your equity is worth. Some home equity lenders allow you to create a loan-to-value ratio of as much as 125%, which is risky because houses rarely sell for more than their fair market value.
- **Advance-Fee Loans.** The companies that offer this service do not directly lend money. Rather, they find lenders who will make a loan or issue another type of credit. While they claim high success rates, even for individuals who have poor credit histories, their fees can be very high. These companies should **never** require you to pay application, appraisal, or credit report fees before identifying a lender and completing the application.

**Note:** The interest rates and fees attached to most of these loans are much higher than those offered through conventional lenders (i.e. banks or credit unions). However, these loans generally make it quicker to qualify and obtain much-needed cash, so these types of lenders can often be the first choice for people experiencing a financial crisis. If you're undergoing financial stress and need a quick loan, it is important to understand the warning signs of predatory lending and review loan contracts *thoroughly* before signing them.

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<sup>88</sup> Original material from Peerlink National Technical Assistance Center.