

# PREDATORY LENDING

Protect Yourself from Bad Borrowing



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## What is predatory lending?

Predatory lending takes the expression “too good to be true” to the extreme. Shady lenders target desperate consumers, luring them in with promises they’ll never fulfill and low rates that will rocket up later.

This predatory behavior is what gave these lenders their common nickname: **loan sharks**. They make their loans nearly impossible to pay back on purpose and may even threaten violence to get their money.

One common example of predatory lending is payday loans. They’re usually short-term loans with high interest rates that can be very difficult to repay. Unfortunately, predatory lenders can also target homeowners, which could mean you’re putting your home at risk.

While not all payday and short-term loans are bad, it’s essential to evaluate the terms of a loan carefully so you don’t trap yourself in an unfair contract. In fact, reading the terms carefully will be a theme throughout this publication. The best way to prevent falling prey to a predatory lender is to get smart about their tactics.

## How predatory lenders target you

You may have noticed that many payday loan companies and paycheck-advance storefronts pop up in financially unstable communities. This isn’t an accident. Predatory lenders target those with lower incomes because they’re easier to trap in a cycle of debt.

They may send out mail, call you on the phone, or run television commercials about the “great deals” they can offer consumers like you. But be cautious, and don’t fall for their claims right away.

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Predatory lenders bank on being able to convince you to buy what they're selling – literally. If they can get you to believe that you're getting a fair deal, you may skim over the details of the paperwork and skip research, which is just what they want.

You don't want to be this kind of customer. You want to read a contract thoroughly before you go through with a short-term loan, and keep an eye out for the following signs of predatory lending.

## **Signs of predatory lending**

While their promises may be too good to be true, predatory lenders go to great lengths to make their offers seem reasonable.

### **No credit check**

For those with bad credit, a lender emphasizing that they don't require a credit check may sound like a godsend. But this can also be a trick. Lenders know that by emphasizing their "no credit check" policy, they'll attract people who've already run into financial problems. Once you agree to their terms, they've got you trapped – even if you're already living paycheck-to-paycheck.

### **High fees**

If a lender requires high fees upfront, they may just take your money and run. Or, this may be a tactic that makes it harder for you to afford payments later. Either way, be wary of any upfront fees.

### **Requiring unnecessary insurance**

A lender may try to coerce you into paying for insurance for your loan. This is nearly always unnecessary and is likely a ploy for them to get even more money from you.

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## Requiring access to your bank account

Offering you the choice to set up direct payments from your bank account is one thing, but it's entirely different from requiring access to your bank account to secure a loan. Your privacy and security always come first. Don't let anyone talk you into handing over your bank account information if you aren't comfortable with it.

## Early payment penalties

It's logical to want to put extra money toward your loan payments when you can afford it. But to a predatory lender, this means they get fewer interest payments from you. That's why some lenders will penalize paying anything more than the required monthly payment.



## Packing

Lenders can “pack” their loans with hidden fees. You could even have to pay to process your loan, which is unnecessary. Read through the loan documents, and if you see any fees you don't understand, don't be afraid to ask about them. They may hesitate to give you a straight answer but keep pushing until you find out what the fee is for.

## Stacking

A reputable lender won't want you taking out multiple loans at once. This makes it more likely that you'll default. However, this is exactly what predatory lenders want. Often, they will pressure you to “stack” multiple loans.

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## Balloon payments

Balloon payments have this name because they “blow up” over time, meaning they start with low interest rates and then the interest rate shoots up, leaving you on the hook for larger monthly payments than you thought you signed up for. You’ll struggle to repay the loan as the payments get larger, which is exactly what these lenders want.

## Negative loans

Loans with “negative amortization” may seem great at first because the required monthly payments are so small. But they’re small for a reason: they aren’t designed to help you pay off the loan. In fact, they may not even cover the interest charges. Especially with this type of loan, it’s important to remember that if it sounds too good to be true, it probably is.

## How predatory loans can be harmful

Payday loans and other predatory lending schemes don’t just make it difficult on your wallet right now. They mess up your finances later. Here’s what damage these kinds of loans can do.

## High losses

Predatory lenders can suck your wallet dry, especially if they have access to your bank account. Their primary goal is to cheat you out of as much of your money as possible. Especially if you’re borrowing the money to make ends meet between paychecks, expect to struggle even more later.

Again, keep in mind that direct debit withdrawals from your bank account can be difficult to stop. A predatory lender can drain your account before you can stop them.

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## A cycle of debt

The more you can't repay, the more money you'll have to borrow. Predatory lenders count on this, and they want you to take out loan after loan after loan. You could get trapped in a dangerous cycle of debt.

## Damaged credit

Missed payments can wreck your credit, and fast. A no-credit-check lender may still report to the credit bureaus, meaning falling behind on this type of loan can be just as bad for your credit. It can make it hard to borrow later, whether it's a personal loan, a car loan, or even a mortgage.

## Lost property

If you are tricked into borrowing against your home's equity through a predatory lender, you risk losing your home if you can't repay. Be especially cautious with any loan against your equity. Caution should also be used with title loans, which borrow against your vehicle title.

## Laws that protect you

The government recognizes the risks of predatory lending, and there are certain laws that protect consumers from these situations. Here are a few acts that protect you.



## Truth-in-Lending Act (TILA)

This law does exactly what it sounds like: it ensures that lenders tell you the truth. Enacted in 1968, the TILA mandates that lenders give you all terms of a loan in writing before you sign. If

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a lender avoids giving you the written terms or gives you false information, they are violating this act.

## **Credit CARD Act**

The “CARD” in Credit CARD Act stands for “Card Accountability Responsibility and Disclosure.” It bars credit card companies from increasing interest rates without telling users or using new interest rates on old balances.

## **Equal Credit Opportunity Act (ECOA)**

According to this act, no lender is allowed to discriminate against a borrower because of their color, race, sex, national origin, marital status, age, religion, or their public assistance status. This means they can’t charge you more fees or a higher interest rate due to any of these factors. You can report any lender who discriminates against you for one or more of these reasons.

## **What to do if you spot a predatory lender**

Predatory lenders should be reported to the Federal Deposit Insurance Corporation (FDIC) as soon as possible.

To file a complaint, mail details of the lender and their transgressions to this address:

Federal Deposit Insurance Corporation

Toll-free: 1- 877-275-3342 (1-877-275-ASK-FDIC)

Mail: Consumer Response Center

1100 Walnut St, Box #11

Kansas City, MO 64106

Not sure what to write? USA.gov has a sample letter that you can fill out: <https://www.usa.gov/complaint-letter>

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Or fill out an online form here:

<https://ask.fdic.gov/FDICCustomerAssistanceForm/>

You can also complain to the Consumer Financial Protection Bureau (CFPB) on this page:

<https://www.consumerfinance.gov/complaint/>

By reporting predatory lenders, you don't just protect yourself. You protect your whole community from their schemes. Don't be afraid to report a bad lender!

## Alternatives to expensive loans

Your financial situation may have you feeling cornered. But trust us — you have options.

### If you need money fast...

Predatory lenders prey on the desperate. Even if you need money fast, take a deep breath and consider all of your options. Better to take your time now than pay more later!



### Credit union loans

Some credit unions offer short-term loans at reasonable rates. If you're a member of a credit union, ask about your options.

### Short-term bank loans

Like credit unions, some banks may also offer short-term loans. The terms may not be as good, but it's worth looking into if you have a good credit score that could help you get a low interest rate.



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## **Credit cards**

You can also use credit cards for unexpected expenses, but we recommend against it. Like predatory loans, credit card debt can increase quickly and be difficult to repay.

## **Borrow from someone you know**

As hard as it may be to ask, a friend or family member may be willing to help you. Just make sure you can afford to pay the money back and lay out the terms of the loans carefully to avoid ruining a relationship.

## **If you're paying down debt...**

Taking out a risky loan to pay off your debt may only sink you further into debt. You have better options.

## **Consider a consolidation loan**

A consolidation loan is a personal loan you use to pay off all your debts at once. You then only have to make one monthly payment instead of multiple. Usually, the interest rate on this bank loan will be lower than the interest rate on your credit cards. However, this depends on the strength of your credit score.

## **Explore balance transfer offers**

If credit card debt is your problem, this may be your answer. A balance transfer credit card enables you to roll over balances from multiple cards onto the new, low-interest card. Be careful, though. The low-interest offer usually only lasts a year or less. Don't ignore the fine print!

## **Talk to a credit counselor**

Not sure which direction to turn? Look for a nonprofit credit counseling service and speak with a certified credit counselor

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for free. You'll get a free debt and budget evaluation, and the counselor will help you find the best debt relief solution for you.

You may be a good match for a debt management program (DMP). A DMP rolls all of your monthly debt payments into one, while minimizing interest and stopping fees. Additionally, it won't do lasting damage to your credit score like a high-interest loan could.

## Finding a legitimate lender

Most of this publication has been about the dangers of predatory lenders. But how do you actually find a good one? There are a few simple steps you can take to ensure the lender you work with is trustworthy.



### Learn more about the lender

Explore their website, call their offices, and check their social media accounts. Do everything you can to verify that the lender is a real business that can answer your questions and treat you with respect. Check to see how long they've been in business so you know you're not working with a fly-by-night company that will disappear on you.

### Read complaints

You wouldn't go to a restaurant without reading a review. So why borrow money without reading what other people have to say? Go through the Better Business Bureau (BBB), Consumer Financial Protection Bureau (CFPB), and Federal Trade Commission (FTC) databases to read complaints about various lenders. You can also check independent, third-party review

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websites, consumer reports and rip-off report sites.

## The opposite of predatory lending: Proactive vs. reactive

The best steps you can take to avoid predatory lenders are proactive steps toward financial independence. It's hard to be tricked by predatory lenders if you're not desperate for help. Start by tracking your expenses and make your way to planning your financial future.

### Expense tracking

Before you start a budget, you need to know how much you actually spend in a month. Using paper and pencil, a spreadsheet, or an app like Mint, keep track of every dollar you spend in one month.

Analyze what you've spent when the month is over. Where do you need to cut back? Could you be putting more into savings? Use your insights to inform the next step: creating your budget.

### Budgeting

Your budget should be reasonable and include all of your needs. Don't try to cut expenses by too much or you won't be able to stick to it. Aggressive goals can be good sometimes, but they can also frustrate you and cause you to quit.

Here's a budgeting sheet from the "Budgeting Made Easy" publication from the same series that you can fill out:

Expenses	Budgeted	Actual
Mortgage/Rent	\$	\$
Real Estate Taxes	\$	\$
Homeowners Insurance	\$	\$

Car Loans/Lease Payments	\$	\$
Car Insurance	\$	\$
Student Loan Payments	\$	\$
Student Loan Payments	\$	\$
Alimony/Child Support	\$	\$
Medical Insurance	\$	\$
Savings (5% is your starting goal)	\$	\$
Credit Card Debt (totalled from the credit card worksheet)	\$	\$
Phone Bill	\$	\$
Electric/Gas/Oil/Fuel Bill	\$	\$
Water Bill	\$	\$
Cable/Internet/Television Bill	\$	\$
Groceries	\$	\$
Household Supplies	\$	\$
School Supplies	\$	\$
Clothes	\$	\$
Recreation	\$	\$
Movies/Plays	\$	\$
Video Streaming Services	\$	\$
Dining Out	\$	\$
Sporting Events	\$	\$
Magazines/Newspapers	\$	\$
Barber/Beauty Salon	\$	\$
Hobbies	\$	\$
Charity	\$	\$
Other	\$	\$
Other	\$	\$
Other	\$	\$
Other	\$	\$
Other	\$	\$
Other	\$	\$
Other	\$	\$
Other	\$	\$
Total	\$	\$

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## Planning for the future

Being proactive means having a plan. If you don't have a plan, then you make reactive decisions, like taking out a payday loan even though you know it's a bad idea. Most people think that financial planning is all about retirement, but that's not the only thing you should be prepared for.



A big part of planning for your future is adding emergency savings to your budget. Set aside a small amount each month to give you a financial cushion in case of unexpected expenses. We recommend having two to three months of expenses saved up, but if you're starting from scratch, begin with a goal of \$1,000 and work your way up from there.

## Remember: You're smarter than predatory lenders

They have their tricks, but you know how to detect them! Use your head – and your gut – and you will be able to make the right choices. If it doesn't feel right and the contract doesn't make sense, stay away. You have options.

And if you're still confused, you can always give Consolidated Credit a call. We're always here to help you stay on solid financial ground.