

Office for Financial Success – Financial Tip of the Week
A service of the Personal Financial Planning Department
College of Human Environmental Sciences
University of Missouri-Columbia
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What is Predatory Lending?

Recently, the economy has shown a tendency toward treating all of us as if we were prey. This environment has encouraged legislators to take a harder look at most lenders. If you listen, you'll hear some of these lenders called "predatory lenders". Predatory lending is the practice of charging excessive fees for consumer loans or payment agreements that are damaging to the consumer's financial interests. Moreover, predatory lenders often use aggressive tactics and false claims to target unsuspecting, often low-income, households. What are the signs you may be dealing with a predatory lender?

Twelve Signs You May be Dealing with a Predatory Lender

1. The deal sounds too good to be true.
2. The lender pressures you to accept his offer or ignores your questions about the loan or payment agreement terms.
3. You are approved for a loan that is greater than you wanted, and you know you cannot make the higher payments.
4. There are fees in the loan or rental papers that the lender did not tell you about, and the lending agent keeps trying to add costs, such as credit insurance.
5. The loan or payment agreement takes away your right to take legal action if something goes wrong.
6. The interest rate is extremely high, or there is a hefty penalty if you pay off the loan early.
7. The lending agent asks you to sign blank papers to be filled in later.
8. You were promised your monthly payments would be lower in the future, but instead they are higher.
9. A lender focuses on low weekly or monthly payments - not the loan's total cost or the Annual Percentage Rate of interest.
10. You receive a call or letter from a lender pressuring you to refinance your loan several times a year even though this is not something you requested.
11. You pay up-front fees before you make application or sign any kind of agreement. Fees for a consumer loan should not be greater than 1% of the loan. Often with predatory loans fees can exceed 5%.
12. A lending agent tells you to provide information that is not true on the loan application, enabling you to be approved.

While these may sound far-fetched and ludicrous to you, it is estimated by the National Association of Consumer Advocates that predatory lending costs the unsuspecting among us over \$9 billion per year (<http://www.naca.net/predatory-lending-practices/>). While this number may seem small, in light of recent federal stimulus legislation, to the unsuspecting, often trusting,

consumers who are the targeted-prey of these lenders, these loans greatly impede those individuals' ability to reach financial success. In fact, I have personally had a low-income, single mother tell me that she used one of these loan sources, a payday lender, as she thought it was a way for her to increase her credit score. Trust me, it does not.

In closing, you know I am not a fan of borrowing money for anything that does not have the chance to appreciate in value; an education, a home, a business, or other investment. My best advice to you, however, if you must borrow money, is to first discuss it with your bank or credit union. If they won't loan you the money, the odds are better than 50/50 that you shouldn't be borrowing the money. If you are very financially pressed, perhaps financially depressed, I would suggest you call a local credit counseling agency. Not-for-profit credit counselors can be found through the following website:

http://www.cccstl.org/?referrer=google&consumer&credit&counseling&gclid=CKHLY_yPzpkCFQMqSwod9muAvA .

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