



Predatory Lending

Predatory lending is any lending practice that imposes unfair or abusive loan terms on a borrower. It is also any practice that convinces a borrower to accept unfair terms through deceptive, coercive, exploitative or unscrupulous actions for a loan that a borrower doesn't need, doesn't want or can't afford.

Predatory lenders often target lower-income neighborhoods through aggressive marketing. They make false promises about easy access to credit to pay for home repairs or consolidate debt.

Warning Signs

- High-pressure and/or misleading marketing and sales efforts.
- Excessive fees and interest rates at levels well beyond what is needed to cover risk and make a reasonable profit.
- Excessive origination fees and/or unnecessary and overpriced products included in the loan balance (an example is single premium credit life insurance).
- Large prepayment penalties that trap borrowers in an unaffordable loan.
- “Balloon payments,” which are very large payments due at or near the end of the loan that are impossible to repay and result in foreclosure.
- “Loan flipping” in which a loan is refinanced 2 or 3 times a year that add new fees into the balance of the loan so that the loan balance keeps rising.
- Aggressive or abusive collection practices.

Predatory Lending is NOT the Same as Subprime Lending

- Subprime lending is when credit is extended to borrowers who might not be able to get a traditional loan because they are judged to be at a significantly higher risk of default than traditional bank lending customers.
- While most predatory loans are made to subprime borrowers, predatory lending uses marketing tactics, collection practices and loan terms that are intended to deceive and exploit borrowers.

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Protecting Your Income: Tips to Avoid Predatory Lenders

- Do some research on the lender—shop around for other options.
- Ask a lot of questions.
- Be cautious.
- Be aware of everything the contract states.
- Read carefully before you sign.
- Avoid balloon payments.
- Watch for high closing costs.
- Never act immediately - don't be afraid to say "no" or "let me think about it" if you start to get suspicious or feel pressured.

The **Consumer Financial Protection Bureau (CFPB)** is aimed at helping consumers avoid fraudulent or inappropriate financial products and services. Call (855) 411-2372, or visit www.consumerfinance.gov