Predatory and Alternative Lending

This program is made possible by a grant from the FINRA Investor Education Foundation through Smart investing@your library®, a partnership with the American Library Association.
Workshop Topics

• Types of Predatory Lending
• Who is targeted
• What can you do if you are caught up in predatory lending Your consumer rights
• Alternatives to predatory loans
• Resources
What’s So Bad?

http://youtu.be/B6k93iVau-w
Predator

A person or group that ruthlessly exploits others.
Predatory Lending

A lending business that ruthlessly exploits financial needs of others.
Business that Make Predatory Loans

- Check-cashers
- Pawn shops
- Storefronts
- Online
Cash Advance

Write a personal check to lender for the borrowed amount plus a fee
- Interest rates likely to be above 400%

On date your loan is due you must pay the loan and fee fully in cash or let the lender automatically deposit your check
Loan periods are typically 14-30 days.

The Trap:
- Most people are unable to repay loan in a two week period
- Go to other lenders to get money to pay off first lender
- Lenders will continue to submit your check to a bank regardless of fund availability
- Many borrowers will incur overdraft fees for checks returned by banks
Auto Title Loans

Borrowers sign over their car title as collateral for securing loan
- 400% + interest rate

Loans are usually due in 30 days

The Trap:
- Lender can repossess the vehicle
- The borrower does not have a car and they still have to repay the loan
Other Types of Loans to Beware: Pawn Shops

• Borrower brings in personal belongings to use as collateral
• Lender determines the amount of loan based on value he/she places on belongings
• If the lender defaults on loan, the lender keeps the property to resell
Other Types of Loans to Beware: Rent-to-Own

• Buyer purchases item from a rent-to-own store over a period of time
• Weekly payments include interest, rental fees, sales tax
• Total cost usually double the amount of retail price of item

Retail Price: $600
Rent-to-Own Price: $38.00 for 48 weeks
Your REAL Cost: $1,872
Other Types of Loans to Beware: Refund Application Loans

• Tax preparer gives borrower a loan for the anticipated amount for state/federal tax refund
• Borrower authorizes the tax preparer to receive the refund
• If the actual amount of tax refund is lower than the amount borrowed, the borrower will have to pay the difference to the tax preparer
What Can Go Wrong

• Inability to repay
  -> Rollovers -> Additional fees
• Bank account closure
• Increased likelihood of bankruptcy
• Increased hardship
  – Loss of ability to buy food, pay rent, etc.
Your Consumer Rights

• Debt collectors may not lie when collecting debts, such as falsely implying that you have committed a crime
• Debt collectors must identify themselves to you on the phone
• Debt collectors must stop contacting you if you ask them to do so in writing

Source: Federal Trade Commission
Alternatives to Predatory Lenders

- Find another source for funds
- Check with a credit union
- Borrow from friends and family
- Work with existing creditors
- Use a credit card
- Use account overdraft
- Get financial counseling
- Build an emergency fund
Your Consumer Rights

• Debt collectors may contact you only between 8 a.m. and 9 p.m.

• Debt collectors may not contact you at work if they know your employer disapproves

• Debt collectors may not harass, oppress, or abuse you
Who is at Risk

• Poor credit history
• Unbanked
• Social Security Disability/Supplemental Security Income recipients
• Elderly
• Ethnic minorities
Protection for Military Personnel

• Interest rates cannot exceed 36%
• Most fees included in the rate
• Creditors may not:
  – Require access to a check or bank account to obtain loan
  – Mandate dispute arbitration
Identifying Predatory Lending

- Annual percentage rate 36% or more
- Requires borrower to turn over a post-dated check or access to a bank account
- Requires borrower to turn over car title
- Repayment due in a single balloon payment in short amount of time
- Aggressive collection tactics (i.e. threatening to have you arrested)
Resources

- Consumer Financial Protection Bureau  
  www.consumerfinance.gov/complaint/

- Utah Attorney General  
  800.244.4636  
  www.attorneygeneral.utah.gov

- National Foundation for Credit Counseling  
  www.nfcc.org
Thank you!

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