Beware of Predatory Lending

If you're in the market for a loan, you are probably aware that some products are better than others. However, a few have such poor terms, fees, and interest rates that they are considered predatory. You can avoid predatory lending by knowing which loans fall into this category, and by taking steps to qualify for a higher quality product.

Predatory mortgage lending
For mortgage loans, predatory lending is the practice of a lender or broker pushing unreasonably expensive loans or refinancing deals. For example, they may:

- Talk you into a loan with an interest rate higher than you deserve.
- Persuade you to borrow more than you can afford to repay.
- Falsify documents or ask you to lie on the application.
- Lie or neglect to tell you about the terms of the contract.
- Not give you enough time to review the contract.

Other types of predatory lending
There are other types of predatory lending as well, and they are promoted to people with no or damaged credit who need money for emergencies. These loans come with exceptionally high interest rates and can feature terms that make repayment difficult:

- Payday loans. It is possible to borrow against your future income from a payday lender. However, the APR (interest expressed as an annual percent rate) is usually over 200 percent, and can go much higher if you refinance the loan instead of paying it off as soon as it comes due.
- Expensive unsecured loans. You can have many thousands of dollars immediately deposited into your account, but these loans often have APRs of 40 to 95 percent. The repayment term is typically five to ten years, so the ultimate payout is huge. A seven-year, $5,000 loan at 60 percent interest will eventually cost over $16,000 to repay!
- Car title loans. Your vehicle secures these short-term loans, so if you fail to pay, the lender can claim the property without having to sue you. While you have the option to roll the loan over, the interest rate is often 25 percent per month – which equals an annual rate of 300 percent.

How to avoid predatory lending
A primary defense against predatory lending is to become an informed consumer. Read all contracts carefully, paying close attention to interest rates and what can happen if you miss or are late on a payment. Look out for misleading marketing and high-pressure sales techniques too. Though these loans may be advertised as a way out of financial trouble, getting them often leads to higher and more expensive debt.

It is very important to know your financial limits, especially with mortgages. You can lose not just a lot of money but your home if you fall behind on your payments. A lender doesn't know how much you feel comfortable borrowing – you do. Never let someone talk you into taking out more than you can comfortably handle.

Building a positive credit history is also key. You can do this by paying all of your debt obligations on time, reducing balances, keeping older accounts active, only applying for necessary credit and having a mix of credit accounts (such as credit cards, charge cards, and installment loans). Once you've proven you can borrow responsibly, you increase your chances of being