Predatory Lending and Payday Lending

Brief Overview

Predatory lending is defined by inequitable market practices that result in charging inflated fees and interest rates for loans that borrowers might not be capable of repaying. Refinancing loans over a short time period results in the borrower's inability to improve his/her financial situation in the long run. Borrowers are also misinformed about the terms of the loan, which forces them into a financial contract that devalues their credit history and jeopardizes their financial future.

Predatory lending is disproportionately common in populations with low-incomes or those with poor or no credit histories. The Center for the Study of Social Policy identified two forms of predatory lending that are significantly common in these populations:

- **Predatory mortgage lending** occurs when lenders offer loans using dishonest lending practices such as prepayment penalties and negative amortization, which significantly reduces a family's home equity and could potentially lead to foreclosure. It has been estimated that each year, predatory mortgage lending results in a loss of $1.9 billion for American families.

- **"Payday" lending** is defined as the practice of offering short-term, high-interest loans on the condition that the lender obtains authorization to obtain payment from the borrower. The majority of "payday" borrowers end up incurring greater debt and are unable relieve themselves from the high-interest payments. In turn, this has a serious impact on their ability to apply for conventional loans in the future.

Fast Facts

◊ A typical two-week payday loan has an annual interest rate ranging from 391 to 521 percent. [1]
◊ The typical payday borrower remains in payday loan debt for 212 days of the year. [1]
◊ There are more than two payday lending storefronts for every Starbucks location nationally. [1]
◊ Research shows that payday borrowers are more likely to have credit card delinquency, unpaid medical bills, overdraft fees, and even bankruptcy. [1]
◊ It is estimated that predatory mortgage lending costs Americans more than $9.1 billion each year. [2]
◊ On competitive loans fees generally equal less than 1%, while on predatory loans the fees are often more than 5% of the entire loan amount. [2]

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Works Cited

1. "Fast Fact: Payday Loans," Center for Responsible Lending.
http://www.responsiblelending.org/payday-lending/tools-resources/fast-facts.html

2. "Predatory Lending," National Association of Consumer Advocates
http://www.naca.net/issues/predatory-lending

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