Predatory Lending

What is predatory lending?

Predatory lending is a practice that involves making a loan that the borrower does not need, does not want, or annot afford. Predatory lending typically involves deception or fraud, manipulation of a borrower through aggressive sales tactics, and taking unfair advantage of a borrower's lack of understanding about loan terms and conditions. In many cases, borrowers are deceived about the loan's true costs and terms or are pressured into signing loans they cannot afford. In a predatory loan, the primary benefit of the loan always goes to the lender, not to the borrower. In March of 2021, the Illinois Predatory Loan Prevention Act (PLPA) went into effect. The PLPA imposes a 36% APR limit on loans to residents of Illinois and uses the expansive definition of APR of the Military Lending Act to include various fees and charges that might otherwise be excusable from the APR.

Who are the most likely targets of predatory lending?

Borrowers who are most at risk are those who are faced with current financial crisis or difficulty–in other words, anyone encountering large and unusual expenses that are not a routine part of their annual family budget. Lenders frequently target low income, minority and elderly consumers, who they believe have poor credit or little access to traditional lines of credit. This includes, for example, elderly homeowners living on fixed incomes who need to pay for large home repairs such as a roof, furnace, or window replacement. Any homeowner who has value in his or her home also may be a target. Often the victims of various predatory lending practices are the poor and the elderly, whose home constitutes their only significant financial asset.

What should you watch out for?

- ***False or misleading promises*** – Be wary of claims that sound too good to be true, such as: "easy credit," "we say yes to anybody," "no out-of-pocket expenses," "easy payment terms," "no payment for 60, 90, 120 days, or more," and other come-ons. Be wary of lenders or brokers who guarantee loan approval regardless of your credit history or rating.
- ***Excessive fees*** – Look for all the charges that you will have to pay as a borrower. Up-front fees don't always come out of pocket, but can be included as part of the loan principal. Fees that might be charged to get the loan can include the payment of discount points, loan origination fees, underwriting fees, and countless other charges limited only by the lender or loan broker's imaginations. Don't agree to pay any charges that you have not been told about ahead of time, and don't agree to pay any charges that you don't understand particularly charges for credit insurance.
- ***High or adjustable interest rates*** – Find out what type of interest rate will be applied to the loan and if the rate is adjustable. Interest rates and fees vary widely and you should shop around by getting quotes from multiple lenders. Don't assume you will not qualify for a loan from a traditional lender. Those loans are less expensive than "subprime" loans. Under the PLPA, loans with an annual percentage rate (APR) in excesses of 36%, inclusive of certain fees and charges, are illegal except in very narrow circumstances. If the loan interest rate is adjustable, find out how much the rate can increase over the life of your loan. While a loan with an adjustable rate often starts out with reasonable monthly payments, the loan rate can increase over time, making it unaffordable. Also, check to see if you've been offered a teaser rate. A teaser rate is a low introductory interest rate that can increase during the loan term.

- ***End-of-loan features*** – Be aware of terms that don't come into play until the end of the loan. These features can include balloon payments (a large payment due at the end of a loan, typically following lower monthly payments) or "prepayment penalties" for paying the loan off before the end of the loan term.
- ***"Interest only" loans*** – Be extremely cautious of "interest only" loans. With this type of loan, your monthly payments pay only the interest you owe the lender for financing the loan. Unlike other loans, your payments will not reduce the principle amount that you owe the lender. At the end of an "interest only" loan, you will still owe the original amount you borrowed.
- ***Excessive loan amounts*** – Don't let a lender convince you to take out a larger loan than you need or can afford. Make sure you can really afford the monthly payments. As a general rule, responsible lenders look for mortgage payments to total no more than 29% of your total gross income. Borrowing against all of the value in your home leaves you without any cushion in case of emergency.
- ***Repeated refinancing or unnecessary refinancing*** – Be wary of any lender who tries to get you to refinance repeatedly or at higher interest rates without economic justification. This practice, called "loan flipping" or "churning," can vastly increase your overall debt and will get you a relatively small amount of cash compared to the refinanced amount. Each time the loan is refinanced, the lender charges fees that increase the amount you owe.
- ***Lenders who encourage you to misstate information*** – Don't let a broker or a lender convince you to misrepresent any of the information you provide. Don't let a broker or lender change your information without approval. The lender may suggest that you could qualify for a higher loan amount by including income on your loan application that doesn't exist, or by inflating your income on the loan application. Read the entire loan application carefully before signing to confirm the information is accurate. Make sure there are no blank spaces.

Educate Yourself Before You Borrow

It is important to fully understand your rights and responsibilities in matters regarding personal loans and home equity loans. If you are thinking about securing a loan by using your home as collateral, the Office of the Illinois Attorney General suggests that you consult with an attorney in private practice who represents your specific interests. Do not believe a lender or loan broker who advises you that you do not need the advice of your own attorney. In any case where a loan official, mortgage broker, loan broker, or salesperson insists that you do not need to have your private attorney review the loan contract, you should strongly consider taking your business elsewhere. Brokers may dupe borrowers into believing that they are acting in the best interests of the borrowers when their real financial loyalties are to the lenders.

The Office of the Illinois Attorney General encourages you to educate yourself on matters related to getting and using credit, borrowing money, and managing debt. The Federal Trade Commission has developed useful consumer education materials available on its website (https://consumer.ftc.gov/credit-loans-debt), including the following:

- Getting Credit
- Shopping for a Mortgage FAQs
- Home Equity Loans and Home Equity Lines of Credit
- Reverse Mortgages
- Using Your Home as Collateral
- High-Cost and Higher-Priced Mortgages
- Lending and Mortgage Servicing Practices That Can Hurt You

Other governmental agencies offer similar educational materials, including the following:

- The Consumer Financial Protection Bureau (https://www.consumerfinance.gov/)
- The FDIC (https://www.fdic.gov/resources/consumers/)
- The U.S. Department of Housing and Urban Development (https://www.hud.gov/resources)

You can contact the Federal Trade Commission at:
Federal Trade Commission, Midwest Regional Office
230 South Dearborn Street, Suite 3030, Chicago, IL 60604
(312) 960-5633
Call toll-free at 1-877-382-4357
Or visit their website at https://consumer.ftc.gov/.

You can also contact the Office of the Illinois Attorney General to file a consumer complaint for cooperative mediation at any time you feel you need assistance.

please visit
www.IllinoisAttorneyGeneral.gov

Chicago	Springfield	Carbondale
1-800-386-5438	1-800-243-0618	1-800-243-0607

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