

When Creditors Are Predators

Summary of Materials Developed by Brenda Procter and Suzi McGarvey, University of Missouri Extension

Types of Predatory Lending	How does it work?	Who does it target?	The cost	Additional info
Rent-to-own	<p>Contracts let consumers rent goods for a weekly, bi-weekly or monthly fee. If the consumer completes the contract then person owns the item. If the contract is not completed, the store picks up the item.</p> <p>38% of rented items in the US are home electronics, furniture and appliances</p>	<p>Between December 1998 and February 1999, rent-to-own customers were disproportionately African-American, 31% were younger, 73% had a high school education or less, 59% made less than \$25,000, 62% had children in the home, 62% were renters and 68% lived in non-suburban areas.</p>	<p>In 1997, US rent-to-own stores charged fees with annual percentage rate equivalents from 16% to 275% for televisions and refrigerators.</p> <p>In 1997, about half of the rent-to-own stores in the US charged fees that translated to effective annual percentage rates of over 100% on one or more items.</p>	<p>Fewer than 25% of rent-to-own consumers rented long enough to own the item in 2003, according to industry reports.</p>
Refund anticipation loans (RAL's)	<p>After going to a paid preparer to get a tax return filled out and filed electronically, taxpayers can borrow up to the amount of the anticipated refund immediately.</p> <p>Taxpayers using RAL's get their money only about a week to 10 days quicker than if they would have had their refund direct deposited into a bank account.</p>	<p>A phone survey by the Consumer Federation of America found that RAL recipients tend to be less educated; work in service or semi-skilled/low-skilled jobs; rent instead of own a home; be female; be African-American; use other predatory lenders and be unbanked or overdrawn within the last year if they have a bank account.</p>	<p>Refund anticipation loans in the US carried annual percentage rates of 40% to over 1800% in 2004, according to the Consumer Federation of America.</p> <p>In 2003, about 79% of RAL recipients had incomes of \$35,000 or less.</p>	<p>If, for any reason, a tax refund does not come back from the IRS in the amount the preparer calculated, the taxpayer has to pay the loan company the full amount of the difference.</p> <p>A 1996 University of Georgia study found that 70% of consumers who had received a RAL did not realize they had received a loan.</p>
Payday loans	<p>A borrower writes a personal check to the payday lender, who holds the check for a period of 14 to 31 days. At the end of that period, the check is deposited, the borrower returns with cash to reclaim the check or the loan gets renewed and the borrower pays additional fees.</p>	<p>Missouri's most economically vulnerable individuals and families.</p> <p>In 2004, there were more payday loan stores than McDonald's restaurants in Missouri (over 1200 payday loan stores versus around 300 McDonald's restaurants).</p>	<p>Loan fees can be charged at any interest rate, but the borrower may not pay more than 75% of the original loan in interest and fees combined.</p> <p>The average annual percentage rate on a Missouri payday loan was 422% in 2006.</p>	<p>The Missouri Division of finance regulates payday lenders.</p> <p>Payday lenders can make small loans of up to \$500 in Missouri.</p> <p>A borrower's ability to repay a payday loan is not considered at the time of application.</p>

<p>Pawnshop loans</p>	<p>Pawnshop loans give consumers short-term cash if they are willing to “sell” (or pawn) an item for possible repurchase by a specific date at a prearranged fixed price. If the consumer does not pay off the loan within the agreed upon time period, the goods go to the pawnbroker.</p>	<p>Missouri’s most economically vulnerable individuals and families.</p> <p>The pawnbroker can sell any personal property used as collateral if the loan isn’t paid.</p> <p>They must wait until 60 days past the due date of the loan to sell the property.</p>	<p>The maximum interest rate that a pawnbroker may charge for a secured loan cannot exceed 2% per month.</p> <p>Pawnbrokers may also charge for the storage and security of pawned property, and these fees are not regulated. Actual APRs can be quite high when all fees are taken into count.</p>	<p>It is a felony for borrowers to pawn property they do not own if the value is more than \$100. It is a misdemeanor to pawn property you do not own that is worth less than \$100.</p>
<p>Subprime mortgages</p>	<p>A subprime mortgage is for borrowers with less than perfect credit. To compensate for the risk, the lender charges a higher interest rate.</p> <p>A subprime mortgage can be used to purchase or refinance a home.</p> <p>Unnecessary products, such as additional insurance, are often included with subprime mortgages.</p>	<p>Minority groups, women, military families and the elderly are often targeted by subprime mortgage providers.</p> <p>Between 1993 and 2001, subprime lenders grew by ten-fold, from about 100,000 mortgages to more than a million.</p>	<p>Predatory subprime mortgages contain excessive or unnecessary fees not necessarily connected to interest rates. Fees can be 5% or more of the loan compared to 1% for prime loans.</p> <p>80% of subprime loans come with adjustable interest rates and prepayment penalties.</p>	<p>An estimated 50% of borrowers with subprime mortgages could have qualified for prime loans.</p> <p>Rural homeowners are more likely to have subprime mortgage loans than urban borrowers.</p>
<p>Car title loans</p>	<p>Consumers can get quick cash through car title loans if they are willing to use their car as collateral. Title loans typically are due after 30 days and the lender holds the borrower’s car title until the loan is paid in full. After 30 days, the loan either gets paid or renewed for another 30-day cycle, or it goes into default and the vehicle gets repossessed.</p>	<p>Missouri’s most economically vulnerable individuals and families.</p> <p>A borrower may request renewal of a title loan after paying all interest accrued by the date of renewal. Beginning with the third renewal of any title loan agreement, and any subsequent renewal, the borrower must reduce the principal of the loan by 10% until it is paid in full.</p>	<p>The amount charged for a title loan cannot exceed 1.5% interest per month plus a fee to defray the ordinary costs of operations – but there are no limits set on the fees.</p> <p>The annual percentage rate equivalent for a title loan, if you consider both interest charges and fees, often exceeds 300%.</p>	<p>The minimum title loan term is 30 days.</p> <p>Car title lenders in Missouri can make small loans of up to \$5,000.</p>



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