# What is Predatory Lending?

Predatory lending is any misleading or dishonest lending practice that targets uninformed homebuyers or borrowers with [poor credit](http://money.howstuffworks.com/personal-finance/debt-management/hurt-credit-score.htm). Minorities, nonnative English speakers and the elderly are some of the most popular targets for dishonest lenders. Predatory lenders might automatically charge a higher interest rate to a minority applicant, without regard for his or her credit history. More than half of refinance loans in predominantly black neighborhoods are subprime loans, compared to only 9 percent in white neighborhoods [source: Center for Responsible Lending].

Predatory lenders will use all kinds of pressure tactics to convince a homebuyer to sign. They might tell a borrower that this is his or her only chance to get a mortgage, that there's no one else in town who will give the buyer such a good deal, and that it will be gone tomorrow.

Sometimes a mortgage broker will **collude** with a certain mortgage lender and get a **kickback** if the victim signs a mortgage with an inflated interest rate. Or two lenders will run a **bait-and-switch** operation in which one lender baits a borrower with a highly attractive mortgage offer, but says it fell through at the last second. The second lender calls the same day with a less attractive offer, but capitalizes on the borrower's excitement to buy the house.

Sometimes a predatory lender will convince a homeowner to refinance his or her mortgage without any real financial benefit to the customer [source: U.S. Department of Housing and Urban Development]. The goal for the lender is to trick the homeowner into refinancing for a higher interest rate, or simply to collect any fees associated with the transaction. That's called **flipping** a loan.

A favorite tactic of predatory lending is to add in mysterious and excessive fees, service charges and unnecessary insurance policies that inflate the cost of a loan. Many people don't read the fine print of their mortgages, or assume that any service charges on their policy are standard. Some predatory loans carry fees that amount to more than 5 percent of the total loan [source: Center for Responsible Lending].

Up to 80 percent of all subprime loans carry something called a **prepayment penalty** [source: Center for Responsible Lending]. This is a fee that's charged if a borrower pays back too much of his mortgage too soon. While not illegal, this penalty traps borrowers into high-interest mortgages, even if their credit improves enough to qualify for a lower-interest refinancing.

The most blatantly illegal predatory lending tactic is **loan fraud**. With loan fraud, the lender lies about or conceals important information about the terms of a mortgage. He or she might quote one interest rate verbally, but write a much higher rate in the contract. Or the lender might encourage an applicant to lie about his or her salary or to sign documents with incomplete or incorrect information.