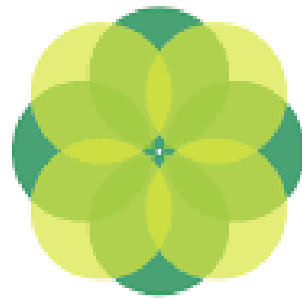


JUNE 2020

Predatory Lenders

Avoiding Scams and Unethical
Lending Practices



WEDI

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PREDATORY LENDING

What?

- Actions by financial lenders meant to "entice, induce, and assist a borrower in taking a loan that they otherwise are unable to pay back reasonably" (1)
- Common attributes of predatory loans include high interest rates, high fees, and mechanisms designed to strip the borrower of equity (2)
- Can leave victims with **decimated credit** and burdened with **unmanageable debt** (3)

Why?

- Predatory lending is designed to get its victims **trapped in a cycle of paying for loans** that they cannot afford, draining ill-informed entrepreneurs of their money

Who?

- WEDI have found OnDeck and Kabbage as lenders with a sizable focus in the Buffalo area (4)
- The following is a brief assemblage of popular predatory lenders (though there are many more):



(1) https://www.investopedia.com/terms/p/predatory_lending.asp

(2) https://www.investopedia.com/terms/p/predatory_lending.asp

(3) <https://www.debt.org/credit/predatory-lending/>

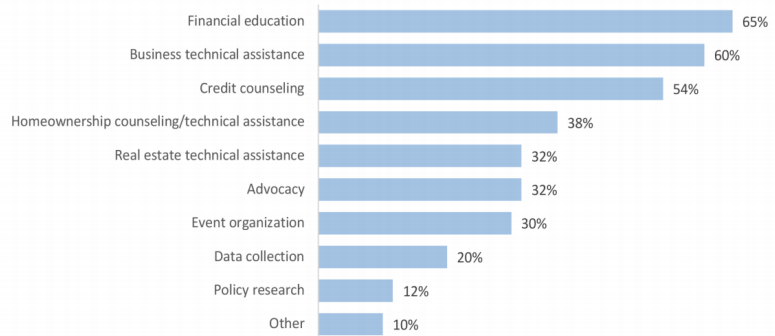
(4) Saakyan, Milena. "CDFI and Predatory Lending Report". Westminster Economic Development Initiative. June 2020.

PREDATORY LENDING VS. CDFIs

Community Development Financial Institutions (CDFIs) give low-income, historically disadvantaged entrepreneurs **a safer alternative** to predatory lending. They can provide loans and economic support to starting and developing businesses to foster economic opportunity (5).

In FY 2018, the CDFI Coalition reported over "280,000 loans in investments totaling over \$11 billion, including loans to nearly 15,000 small businesses" (6). The FDIC (Federal Deposit Insurance Corporation) has gone stating that borrowers **lose more than \$25 billion annually due to predatory lending**" (7).

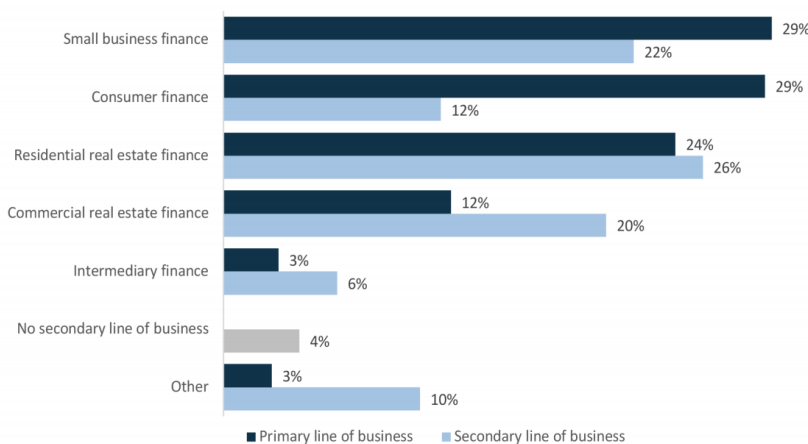
Development Services Offered N=876 observations from 248 CDFIs



Note: Percentages sum to more than 100 because respondents could select more than one answer. 'Other' primarily includes various one-on-one meetings to support clients.

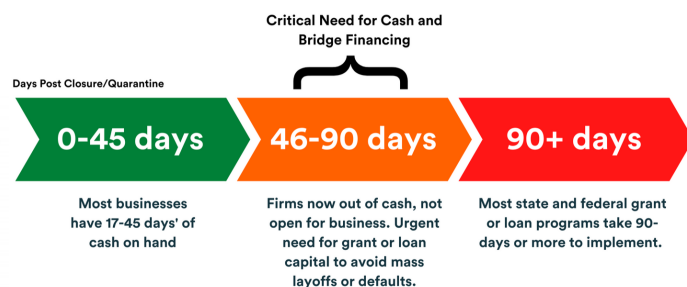
In 2018, CDFIs provided business development services to over 1.1 million individuals. The most popular services provided included financial education and business technical assistance (8).

Primary and Secondary Lines of Business N=543 CDFIs



Most CDFIs partake in small business finance as their primary line of business (8).

Small Business COVID-19 Cash Crunch



The lack of revenue caused by the sudden pandemic has put many small businesses in immediate need of cash, resulting in a massive surge in potential victims for predatory lenders.

(5) https://www.cdfifund.gov/Documents/CDFI_infographic_v08A.pdf

(6) <https://cdfi.org/wp-content/uploads/2019/03/2019-CDFI-Report-Complete-FINAL.pdf>

(7) <https://www.fdicig.gov/publications/reports06/06-011-508.shtml>

(8) https://www.richmondfed.org/-/media/richmondfedorg/community_development/resource_centers/cdfi/pdf/CDFI_report_2019.pdf

HOW ARE THEY MARKETED?



We Actually Want to Lend to Small Business

Access	Speed	Technology	Experience
\$1.7 billion deployed to date	Funding in as fast as 24 hours	1000's of data points evaluated per application	BBB A+ rating

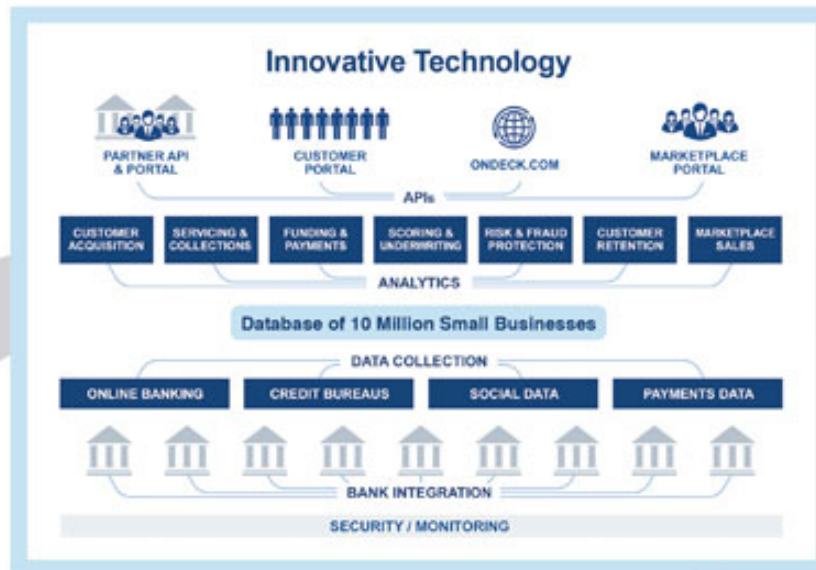
Apply
Online in minutes



Quick application with minimal to no paperwork

Few Specifics

Emphasis on Ease



Emphasis on Speed



Approve
Rapid response

OnDeck Score provides a real-time lending decision



Fund!
In as fast as 24 hours

HOW ARE THEY MARKETED?



10 Mins in the Future - Kabbage Ad

567,884 views · Mar 8, 2019

👍 12 💬 2 ➦ SHARE ≡ SAVE ⋮



Kabbage
2.88K subscribers

SUBSCRIBE

- **Showing people living in luxury, "this could be you" mentality**
- **"10 Mins in the Future" - selling that they can make your dreams come true quickly**
- **No mention of loan interest rates**

PREDATORY LENDING MARKETING KEY TAKEAWAYS

GET MONEY QUICKLY

Predatory lenders understand the individuals that come to them are in **immediate need for cash**. Getting a monetary boost in many situations can seem like the difference between staying in or out of business. Therefore, they are likely to accept whatever terms and conditions are associated to the loans as a matter of desperation.

DIVERT ATTENTION FROM THE KEY DETAILS

Predatory lenders try to distract their users with **trivial or irrelevant information** as to hide their true intents. This can be done many ways, such as through promises of a rich future **without describing any potential annual percentage rate or interest rates**. It is a flashy show meant to shift your focus towards the prospect of receiving money without thinking of the potential consequences.

SELLING AN EFFORTLESS PRODUCT

If a business owner is turned down by a bank for a loan, they will likely be pleased with a product that **does not involve much paperwork or hassle to get**. Predatory lenders frame their products this way to appear as saving graces and instant fixes to any situation.



COMMENTS FROM EXPREDATORY LENDER

The interviewee was an employee of a Midwest community lender for several months that partook in predatory lending. They have since left the company, denouncing its immoral practices.

"Loan officers are incentivized to mislead the borrower. Say you take out a loan; they give you a bit of a grace period where you don't have to pay anything - great! However, when it comes time to cough up the cash, you may find it difficult to pay it back: life gets in the way, business may be slow, or the loan rates may be too high. So, you go back to the lender saying you are having difficulties with paying, and they act as if they are helping you by offering more loans without asking too many questions or providing add-ons such as credit life insurance or credit disability insurance. What many don't realize is that those **insurances are performance metrics for lenders** and that the insurance companies are subsidiaries of credit lenders, following a very vertically integrated model. Essentially, they cooperate as a single entity to get borrowers attached to as many insurance policies as possible. **The more insurances you get, the more bonuses you can receive as a lender.** Meanwhile, the business owner is digging themselves deeper and deeper in a financial hole, and their **credit is plummeting** all the while."

"They market themselves to **low-income individuals with poor credit** and who rely on public assistance, any implication that they may not manage their finances well."

"The goal of a predatory lender is not for a client to pay off a loan, but rather to **always have them paying something.** They want to be the only place a small business owner can go to get help."

"The lenders are inherently in a position of power, having money that the small business needs. Common things that the lenders would do is hide the fact that the insurance is part of the loan, or state that it is a requirement of the loan. However, lenders must show the borrower the monthly payment and price differences without the insurances, otherwise it is **misleading and illegal.**"

"With a CDFI, there is no bonus for lenders for how many loans you lend out in a month. CDFIs are not solely driven by the bottom line, unlike predatory lenders, so they **do not have to take advantage of people** to make sure they are okay. They may not provide the same speed, but it is to ensure that you will be financially stable after acquiring your loan. They have **experts readily available to assist you** in your financial needs, and reputations for personal, non-malicious services."

ADVICE FROM CDFIS

"Actively **ask questions** such as 'What is the APR?' and 'Are there penalties for paying loans early?' If they are overly vague and avoid questions it is a major red flag."

"Develop strong relationships with our credit counselors and solutions department. We aim to shift the standard for lending practices to a more character-based system, in which there is honest communication between small businesses and all levels of our financial resources. Money is a very personal thing, so we want you to know we care about your financial well-being more than anything."

*- Representative from
Alternatives Federal Credit Union,
a Certified CDFI*



"If you pay more than 12% for a loan interest rate, come talk to us, a fellow CDFI with a fair interest rate reputation, or a Chamber of Commerce representative."

"We offer Community Loan funds which provide 0% interest loans for nonprofits. **Fellow CDFIs can help entrepreneurs receive low/reasonable rate loans**, but I implore than owners mitigate their emotions when seeking financial support; do your research in lenders before you commit to them and **do not feel pressured into entering a financial agreement.**"



ADVICE FROM CDFIS

"Don't immediately jump on every offer you get, **take your time and think it through!**"

"Transparency is key in a financial relationship. If you feel that there is information being refrained from you, be hesitant and ask for clarifications. Many times, these are people's livelihoods on the line. You deserve to feel comfortable with your money, and do not let any organization make you think otherwise."



"There needs to be **better financial education** in public schools, stronger consumer financial protection bureaus at every state level, and **regular reviews of every type of these programs.**"

"The difference between CDFIs and predatory lenders is that **CDFIs care about the people behind the money.**

Predatory lenders will pressure you into decisions that you do not understand, but CDFIs want your business to succeed. We want you to see you thrive, while the alternative lenders want to keep you around making payments for as long as possible."

- *Representative from Pathstone,
a Certified CDFI*

PathStone



Connecting You to Opportunities