

Predatory Lending in Philadelphia

A Conversation with Local Advocates

What is a Subprime Loan?

- ❑ Subprime loans are loans that are given to borrowers with higher interest rates and fees and less favorable terms than those given by the lenders to their best or “prime” customers.
 - ❑ Many subprime loan customers qualify for prime rates from legitimate lenders
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What makes a subprime loan “predatory”?

- There are a number of indicia of a Predatory Loan. The common elements running through all of them are **fraud, deceit, overreaching and unconscionability**
 - In a predatory loan the borrower does not fully understand the terms of the loan or the tradeoffs that are required to get the loan. Instead, the borrower is misled about the loan terms.
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Key Elements of a Predatory Loan

1. Loan is higher than what was requested, sometimes as much as 5 or 10 times higher
 2. Loan to Value ratio is higher than requested
 3. High Interest Rate
 4. Adjustable Interest Rate: can go up, but will never go below the initial rate
 5. Balloon payment
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Key Elements of a Predatory Loan (cont)

6. **Pre-Payment Penalty**
 7. **Inclusion of other consumer debt:** borrower required to payoff other obligations he or she did not desire to pay off
 8. **High fees paid to others:** often will exceed 8% of the amount of money available for the borrower's use
 9. **Extra products:** borrower will be required to purchase products such as credit, life or disability insurance in connection with the loan
 10. **Mandatory Arbitration:** requires borrower to surrender his or her access to courts in pursuing claims against lender
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Who We Are

Irwin Trauss, Esquire

Philadelphia Legal Assistance
42 S. 15th Street, Suite 500
Philadelphia, PA 19102

Phone: (215) 981-3800
Fax: (215) 981-3870(fax)
Email: itrauss@philalegal.org

Montgomery Wilson,
Esq.

Community Legal Services
Law Center North Central
3638 N. Broad Street
Philadelphia, PA 19140

Phone: (215) 227-2400
Fax: (215) 227-2435
Email: mwilson@clsphila.org
