

## Hawks, Vultures, and Elephants, Oh My: Predatory Lenders vs. Credit Unions



### Borrower Beware

It happens to the best of us: poor credit. It isn't hard to develop. One unpaid \$100 mobile phone bill and 4 years later, and your credit history is poor enough to make a banker shut their laptop so fast it blows your hair back. No loans for you. No mortgage. No line of credit. No further questions.

So what happens if you have poor credit (or a poor income profile) but want to refinance your mortgage to pay for emergency home repairs? What if you want a line of credit to pay for surprise car repairs? What if your son is going to college and you need a loan to help him cover unexpected living expenses? What if you promised your family a vacation and need help getting there? What if you lived beyond your means for a few months and can't afford to pay your credit card bills?

There are so many valid reasons to seek out credit. Unfortunately, if you do not check the proper boxes on applications, you may be left without the help you seek at a larger financial institution. What do you do then? Increasingly, [people are seeking out help from shadow lenders](#) that advertise same day loans, or payday loans that give you \$300 for \$20. It seems so tempting to accept "help" from these lenders when big banks won't give you "the money you need".

## Shadow Lenders

Non-bank lending is booming in Canada. This shadow lending market is dominated by two popular credit options: installment loans and payday loans. Other credit options include tax refund advances, alternative mortgages, and cash advances. Although the terms and conditions of these loans vary by lender, they share a common predatory nature: like birds of prey, these lenders circle desperate borrowers and take advantage of their compromised position. Shadow lenders offer credit to “risky” borrowers at high interest rates with loan terms that benefit lenders and hurt borrowers. As such, activists refer to this growing practice as “[predatory lending](#)”. Look up and you can see their shadows blocking the sky over the lending markets.

[Predatory lending](#) is characterized by the unfair, deceptive, or fraudulent practices of some lenders during the loan origination process. In this process, lenders deceptively convince borrowers to agree to unfair and abusive loan terms, or systematically violate those terms in ways that make it difficult for the borrower to defend against them. Without proper federal regulations for many of these lenders, consumers are left without proper protection and often find themselves paying high interest rates for years after their initial loans were granted, and thus struggling to escape their excessive debt load.

## The Tiny Hawks: Payday Loans

These loans are the tiny hawks of the alternative lending market. A payday loan is a small, short-term unsecured loan and is also sometimes referred to as a “cash advance”. Payday advance loans rely on the borrower having previous payroll and employment records. The basic loan process involves a lender providing a short-term unsecured loan to be repaid at the borrower's next payday.

These short-term loans may seem like a viable option to get through an emergency. Unfortunately, the extraordinarily high interest rates on these loans tend to perpetuate the cycles of debt and take advantage of vulnerable populations.

## The Vultures: Installment Loans

While payday loans, or cash advances, are the tiny hawks of the shadow lending market, installment loans are the vultures. These loans offer larger sums of money, for longer terms, with characteristically high interest rates. Borrowers often find themselves trapped, paying interest rates from 30 to 59% for years, and sometimes decades, because these loans are not federally regulated. Although the initial loan may have been for \$10,000, it is not uncommon for borrowers to pay \$25,000 before the terms of the loan are reached. [Installment loans were one of the two main drivers of consumer debt growth in 2015.](#)

## Look Past the Mirage: Credit Unions to the Rescue

If you are struggling and need a loan, it is best to avoid the alternative lending market. It is a mirage. These lenders will not save you. Both payday and installment loans are high interest beasts that perpetuate debt cycles and take advantage of your vulnerable position.

What is the alternative to that predatory alternative? Credit unions -- the elephants of the lending world. Elephants have complex social structures in which they work together to raise their young, teaching them vital life skills and protecting them from predators and dangers. As part of this structure, elephants demonstrate concern for members of their families and take care of weak or injured members.

## **The Elephant Mamas: PenFinancial Advisors**

At PenFinancial, we don't just assess you based on your credit history. We don't just lend you money. We focus on coaching as well. We [teach you financial literacy skills](#) to help you today and in the future. We help relieve your mental as well as your financial burdens. We build relationships.

For instance, although you may be a "poor credit" member today, we investigate to see if you had an "A1 credit profile" six months ago. We dig in deep to look at the whole picture and think outside the boxes of the credit applications. We don't make decisions based on computerized forms alone; we look at the complete profile. We know your poor credit could have arisen for various reasons; however, there is always a way out to put you back on track financially.

To start our coaching, we go over your credit bureau report; after all, whatever decisions you make credit wise ultimately affect your credit bureau scores. 99% of members going through financial troubles have never seen their credit bureau reports. It is important to understand how your credit is calculated and how you can control it. Beyond your credit report, we also go over the realities of predatory lending. We explain how they really do business and help you understand why they are not a great option in times of emergency or otherwise. From there, we may help you create a small financial plan to allocate money towards savings to prevent epic financial crises in the future.

Just like elephants, we also look beyond our individual members to help our community too. For instance, we deliver [Financial Literacy Presentations](#) for students across Niagara. Younger adults are the easiest prey for predatory lenders and credit card traps. Our presentations teach them basic skills and tactics for dealing with credit card traps and predatory lending. PenFinancial advisors also run [similar classes](#) at the Niagara area Job Gyms where the clients are usually dealing with the types of financial troubles that cause them to seek out shadow lenders. In these presentations, we show these vulnerable consumers ways to get out of financial emergencies and get back on their feet.

## **Look to the Light: Beyond the Shadows**

If you find yourself in a financial crisis, you may also find yourself the victim of stigma; judged for your financial situation. People may stereotype you as a low income, poor credit consumer that made irresponsible decisions and caused your own financial ruin. You may even judge yourself. In reality, people [seek out alternative lenders and get trapped](#) in debt cycles for many reasons.

At PenFinancial, we understand that every member is unique and deserves the opportunity to improve their position. Everyone in our community can learn financial literacy skills and together we can help each other out of debt traps. You have the power to change your lending and spending habits – it is ultimately up to you to follow sound advice and shape your financial future. Just remember: you do not need to live in the financial shadows. Together we can find the light.

*Have you ever sought out a cash advance or loan from an alternative source? Tell us about your experience. What made you seek help outside a bank or credit union? Would you do it again? What have you learned from the experience?*