

## Loan Sharks: Today's Predators

### History of Loan Sharking

Loan sharking is the practice of lending money to desperate people at extremely high and illegal rates of interest. Loan sharks, or shylocks, make a big profit from people who can't get loans from legitimate sources, such as banks or other lending institutions. For as long as people have needed money they don't have, there have been loan sharks there to provide their services for a fee. They introduce themselves as a solution to a problem; they are businessmen who want to help a borrower get out of a bind. Prey to these sharks can be compulsive gamblers, single parents, the elderly, illegal immigrants, white-collar executives, or anybody else who desperately needs more money than they have access to.

Most people associate [loan sharks](#) with gangsters and organized crime. Loan sharking is a very lucrative business for criminals, and it's a major source of income for the crime families. They receive a very good rate of return on their investment, and in a short amount of time, often a matter of weeks. They may charge interest at rates of up to 20% per week, and possibly even higher. In one New York investigation, it was found that a loan shark syndicate was netting 3000% annual interest! Dallas mobsters were more competitively priced, they charged only 585% annual interest. These were rates in the ghetto. Shylocks would be more competitively priced for corporate white-collar businessmen; rates might be more in the 5% weekly range.

In the mafia world, shylocking is also known as six-for-five; you borrow five and pay back six at the end of the week. You can see how this can turn very expensive. If someone borrowed five hundred and did not have the full payment, the loan shark would accept the interest payment of one hundred and extend the loan for another week, with interest. If they can't pay when they're supposed to, they would be forced to take out another loan, interest is added on top of interest and the debt can quickly become impossible to get out of.

The funds for shylocking would usually come from the top, the family boss. The boss would loan money to his capos (lieutenants), knowing he could trust them to pay him back with interest. The capos then loan money with interest to the lower ranking members of the mob. These are the loan sharks that made loans to the common citizen, and enforced payment.

Loan sharks ensured payment with threats of violence. They require no collateral other than the borrower and his family's well being. "Leg-breakers" were often employed by loan sharks to be sure they receive payment. It's not true that people were always killed if they didn't pay. Dead people can't pay back their debts, so it would not be good business practice to eliminate resources. They would occasionally "make an example" of some who owed very little to be sure other borrowers took them seriously. The borrower, worrying about life and limb of himself and his family, would have no option but to pay the shylock even if it meant he had to lie, cheat, or steal.

### Modern Day Predatory Lending

There is no legal definition for predatory

lending, but it generally includes the use of unethical practices by lenders who use tactics that skirt around the law. They might give unfair loan terms, use confusing language, charge hidden fees, and use high-pressure sales methods. They make money as long as they can keep borrowers in debt to them. They commonly target the elderly, low-income, minorities, or people with poor credit, but anyone can be a victim of these unscrupulous lenders. Predatory lenders thrive on consumers who need or want more than they can afford to have, and trick borrowers into believing the loans are necessary and affordable.

Many commonly accepted loan services are available to consumers that work on the same principles as a mob shylock. There are laws regulating the amount of interest that can be charged for a loan, but lenders can charge "service fees." Check cashing places offer "payday loans"; you can write them a post-dated check for the amount of the loan, plus a hefty fee for use of that money for a week or two. The fees can amount to 400% APR, these places are happy to loan as much as possible based on the borrower's expected paycheck. Then what happens when he gets his paycheck and realizes that it's already spent? He'll go back to take out another payday loan so he can pay his bills and buy groceries. This cycle of borrowing more to pay back a loan can trap a person into being perpetually in debt and never getting ahead. These places are usually found on the same block as a liquor store in low-income neighborhoods. These lenders prey on people with limited means and encourage them to live paycheck to paycheck.

Title loans are another way people are getting ripped off. People who own their car free and clear can bring in their title and an extra set of keys, and drive away with up to half the value of their car. They agree to a loan at an extremely high rate, or with a large balloon payment without realistically being able to pay. The title loan companies don't care what kind of credit the borrower has, because they win either way. They receive an excellent profit on the interest charges or they repossess the car and sell it for twice the loan amount. Sounds like a "can't lose" situation for them, so it must be a "can't win" situation for the borrower.

I've heard predatory commercials on the radio from car dealerships. The announcer might say something ridiculous like, "We'll give you \$5000 for your trade on anything you can push, pull, or tow in here, and we don't care how ugly it is!" We'd all be rich if we could sell junk cars for \$5000, but who would buy one? These predatory lenders just add that \$5000 that they "gave" you to the price of your new car being financed. You'll drive away in a shiny new car and you'll get stuck with a loan for \$5000 more than the car is worth.

What if you owe more on your trade-in than it's value? It's known as a negative equity loan or an upside down loan. This is quite common, considering car dealers want to sell expensive cars more than cheaper ones, and consumers want to drive the best car they can get a loan for. Cars depreciate faster than the loan can be paid down, and when you spread the payments over five or six years instead of three, this can amount to thousands of dollars. Eager to sell you another new car, dealerships work with lenders and add the difference to your loan amount, ensuring that vicious debt cycle.

It is appalling that greedy predatory lenders

would go so far as to trick people out of their homes, but it happens. Abundant offers for second mortgages to pay off credit card debt come daily in the mail. It's shocking that lenders would encourage you to take equity from your home to buy a two-week vacation, a hot tub, a motorcycle, or other big "toys". Would a sensible person really want to pay 15-30 years with interest for some unnecessary material items that make life just a little more fun? These predatory lenders like to remind you of all the improvements you could make in your life if you just had access to the equity in your home. They encourage you to dream of everything you're missing out on because your assets are tied up in your house. They sell you on the idea that you'll "save" money by consolidating your high interest debt. You might have smaller monthly payments... but the debt is stretched out over many years, increasing your total interest costs. Many borrowers just rack up new debt after getting that second mortgage to pay off bills because their formerly maxed out credit cards are now freed up again. When the borrower can't afford his mortgage, second mortgage, and new credit card debt, the home goes into foreclosure and the borrower loses everything he's worked for.

Home-improvement scams have also hit America hard, particularly the elderly. Someone who has been making regular mortgage payments for many years has most likely built up lots of equity in their home, which makes them a prime target for these ruthless predators. Contractors offer to make repairs or improvements to the home, and can even be so "helpful" as to set up financing for the unsuspecting homeowner. An elderly widow, who can't do the work herself, is grateful for the nice young man who can help her get her home back in shape. When it comes to the confusing legal jargon in the contract, she trusts him and his simple explanation of what it is she's signing. She unknowingly agrees to take out a high-interest second mortgage that requires a balloon payment at the end. She later finds out that all her payments have gone to pay mostly interest, barely making a dent in the principle owed. She can't pay the huge balloon payment when due, and loses her house in foreclosure. It is unfortunate that these predators are willing to put someone's grandmother out of her home to make their fortune.

My neighborhood is several years old and a part of it is still in construction. This addition draws many first-time homebuyers. When I shopped for mortgages, I thought it was odd that my builder's mortgage lender approved my loan for an amount about 30% more than a regular mortgage broker could get for me. Don't we all want the best house we can afford? It's tempting to take a mortgage that's barely affordable, to get that bigger house with more options. It's interesting to note that there are quite a few foreclosures in this neighborhood, usually the houses that are about two years old. On brand new homes, you would only pay taxes on the value of the empty lot, that is, until it is reassessed with the value of the house on it. This happens where I live about a year and a half after the home is built and closed on. The mortgage lender does warn you that your payments will go up in a couple of years after the taxes are reassessed, but still approves your mortgage based on your current income and the tax on the empty lot. You might not think much of it then because you believe you'll figure something out by the time your payments go up. About 18 months later, your PITI payment increases by a couple of hundred dollars a month, but your income hasn't. Many families have lost their homes to foreclosure because they weren't prepared for this dramatic increase in payment.

Predatory lending has many more faces; I gave just a few examples. You've heard of scams people have reported in the newspapers. You can read about victims in internet blogs. The nightly news is always showing a new story about a new way predators are trying to take our money. You've seen the ads that the lenders themselves have run. These unscrupulous businesses may be fraudulent, or just plain tricky. They thrive on the "Gotta have it now" attitude that many consumers live by. The only way to protect yourself is to educate yourself. I've referred to the borrowers several times as "victims", but truly they are victims of their own lack of awareness.

### **Protect Yourself From Predatory Lenders**

Use your financial common sense; if you can't afford it, you shouldn't buy it.

Plan a realistic budget and stick to it.

Have a savings plan so that you'll be prepared in case of a true emergency.

Keep your credit rating high so that you won't be forced to go with "sub-prime" lenders, where predatory lending is common.

Be skeptical about quick fixes and easy money.

If it sounds too good to be true, it probably is.

Bad credit, no credit, no problem! This is one of predatory lenders favorite lines.

Buy here, pay here! Rent to own. No money down! You must act now! Some of their other favorite lines.

Any loan, including your first mortgage, which uses the equity in your house as collateral should be looked at very carefully.

Know what it is you're signing, and never sign documents that don't have all the terms filled in.

If you don't understand the contract in question, consult an attorney. Lawyer fees can be a bargain compared to the potential loss.

Shop around for loans of any kind; never say yes to the first offer.

Don't let salesmen pressure you into something you aren't sure about.

Refuse to take out more loans to pay off  
already unmanageable debts.

Beware of the temptingly low interest  
rates that skyrocket after you've had enough time to shop more than you  
should.

Take responsibility for your financial  
well-being.

Predatory lenders are out there taking  
money, but don't let them take yours.

## About the Author

[Loan Sharks](#)

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