

# Designing solutions for problems of 'predatory lending' first requires understanding when it exists

September 4 2008

---

There is not a universally accepted definition of predatory lending by policy makers, regulators or people involved in the mortgage business. Predatory lending has been equated to mortgage abuse, mortgage fraud, loans with hidden prepayment penalties or even the legally acceptable loans that simply offer higher interest rates, or any other unethical practices in a mortgage transaction.

The often-repeated term "predatory lending" apparently carries a wide variety of meaning in the mortgage market, depending on the context in which it is used. However, without a clear and legal definition of what predatory lending is, no one can quantify its true prevalence, and public policy can't assess what would be effective measures against it.

Researchers led by Lucy M. Delgadillo of Utah State University found both the absence of a legal definition of predatory lending which impedes efforts to design regulations to remedy it, and that differences exist among what constitutes mortgage abuse, mortgage fraud and predatory lending. Their study interviewed mortgage lending professionals, policy makers and regulators, and it is published in the new issue of *Journal of Consumer Affairs*.

Based on the study's participants, targeting borrower vulnerabilities, lending more than what borrowers can afford were both seen as specific predatory lending practices, whereas abusive lending could include the

same business practices but not necessarily with a specific target or an intention to steal borrower's equity. "Without unduly restricting access to affordable credit for borrowers, legal action and industry self-regulation should be called on to strengthen the professional standards of the mortgage industry," the authors conclude.

Source: Wiley

Citation: Designing solutions for problems of 'predatory lending' first requires understanding when it exists (2008, September 4) retrieved 27 April 2024 from <https://phys.org/news/2008-09-solutions-problems-predatory-requires.html>

This document is subject to copyright. Apart from any fair dealing for the purpose of private study or research, no part may be reproduced without the written permission. The content is provided for information purposes only.