

Information from the Washington State Department of Financial Institutions

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Predatory Lending

What is Predatory Lending?

Lending and mortgage origination practices become "predatory" when the borrower is led into a transaction that is not what they expected.

Predatory lending practices may involve lenders, mortgage brokers, real estate brokers, attorneys, and home improvement contractors. Their schemes often target people who have small incomes but substantial equities in their homes.

Products themselves are not predatory. For example, a loan with a variable interest rate can be a very good financial tool for many borrowers.

However, if the borrower is sold a loan with a variable interest rate disguised as a mortgage loan with a fixed interest rate, the borrower is the victim of a bait and switch or predatory lending practice. In short, this type of conduct is nothing more than mortgage fraud practiced against consumers.

Common Predatory Lending Practices

- **Equity Stripping**

The lender makes a loan based upon the equity in your home, whether or not you can make the payments. If you cannot make payments, you could lose your home through foreclosure.

- **Bait-and-switch schemes**

The lender may promise one type of loan or interest rate but without good reason, give you a different one. Sometimes a higher (and unaffordable) interest rate doesn't kick in until months after you have begun to pay on your loan.

- **Loan Flipping**

A lender refinances your loan with a new long-term, high cost loan. Each time the lender

"flips" the existing loan, you must pay points and assorted fees.

- **Packing**

You receive a loan that contains charges for services you did not request or need. "Packing" most often involves making the borrower believe that credit insurance must be purchased and financed into the loan in order to qualify.

- **Hidden Balloon Payments**

You believe that you have applied for a low rate loan requiring low monthly payments only to learn at closing that it is a short-term loan that you will have to refinance within a few years.

How Are Consumers Targeted By Predatory Lending?

Consumers can be lured into dealing with predatory lenders by aggressive mail, phone, TV, and even door-to-door sales tactics.

Their advertisements promise lower monthly payments as a way out of debt, but don't tell potential borrowers that they will be paying more and longer.

They may target minority communities by advertising in a specific language, or target neighborhoods with high numbers of elderly homeowners, or homeowners with little access to credit.

What If You Suspect Predatory Lending?

If you suspect a company is using predatory lending practices you should **file a complaint** (<https://dfi.wa.gov/file-complaint>) with the Washington State Department of Financial Institutions.