BE AWARE OF PERSONAL LOAN PRACTICES

Loans are a feature of modern life. When we think of loans, we often first think of big purchases: a loan to buy a car, a house, or to pay for college degree. However, sometimes unexpected expenses pop up that you haven't budgeted for. For instance, you might need to pay a few hundred or a few thousand dollars for a wedding, funeral, home repairs, vacations, or medical treatment. Furthermore, you might find yourself in a situation where you are unable to put such a significant, unexpected expense on a credit card.

If you have ever been in this situation, you are not alone. Millions of Americans apply for and receive small personal loans to cover these types of unexpected expenses each year. It's a big industry, and in the past few years, you may have seen that dozens of companies are offering these loans online. In just a few minutes, you can fill out an online loan application, qualify, and have the money you need deposited in your bank account. There are many different types of small loans that you can apply for online, through the mail, or in person at a retail store. Some types of small loans include:

- Unsecured Personal Installment Loans: These loans are for a lump sum, typically between $1,000-$10,000. Once you agree to receive an unsecured personal installment loan, the loan amount is given to you all at once and you repay the loan in installments on a set schedule that you agree to as a condition of receiving the loan —often monthly payments over 9-18 months. Installment loans have a fixed end date. Once you have made all the payments, your loan obligations are fulfilled.
- Secured Personal Installment Loans: Same as above, but the loan is additionally secured by something of value you put up as collateral. The collateral could be a car, boat, or cash in a savings account. If you default on the loan, the creditor takes the collateral.
- Lines of Credit: Unlike installment loans, lines of credit do not offer a lump sum amount; instead, it works like a credit card. You have a credit line that you can spend money against and, as you do so, your available credit is reduced. You can then free up available credit by making a payment toward your credit line.

Some of these lenders are honest and play by the national and state rules that were put in place to protect consumers. They offer fair interest rates, disclose every obligation you will have before offering you the loan, and, once the loan is paid off, will accurately report your payment in full on your credit report.

However, there are also loan companies that are less honest in their business practices. These companies profit by advertising loans to people that are likely to be in a stressful situation already —people who have these unexpected expenses crop up. These lenders often will use a slick website or app to advertise themselves as more consumer friendly or accessible than big banks or established lenders. Moreover, these companies hope that their customers will feel pressured to agree to the loan without fully understanding the true cost of the loan. Other companies won't supply all the information you need to make an informed decision about the loan up front in the first case. These companies might:

1. **Offer you loans with interest rates higher than the maximum rate your state allows**: Most states have laws that limit the maximum interest rate (also known as the annual percentage rate or APR) a lender can charge for a personal loan. These laws are commonly referred to as "usury laws," "usury caps," or "usury limits" and the maximum allowable interest rate will vary by state and by loan type. You can learn more about your state's usury limits and credit loan laws here. However, there is an exception to usury limits —if you agree to a loan that is provided by a bank with a national banking charter, the bank may charge you the maximum allowable interest amount under the laws of the bank's home state, even if that interest rate exceeds the usury limit of the state in which you reside. Some of these loan companies use this exception to their advantage by having a different company, their "lending partner," originate the loan to you. You never interact with the lending partner, as the loan company immediately buys your loan back from the lending partner.

2. **Offer you loans without disclosing all the terms**: You might receive an advertisement for a loan in the mail that looks like a check ready to be cashed and all you need to do to receive it is sign the included loan agreement. Often, these loan offers don't disclose all the terms you need to make an informed decision as to what you are agreeing to.

3. **Pressure you to sign up for "add-on" products or services you don't need**: Some companies will make it seem like you need to sign up for additional products, like loan insurance, as a condition of receiving the loan. Still other companies will sign you up for add-on products without your consent. Not only do you have to pay off the additional principle of the loan that is increased with the add-ons, you also have to pay the compounded interest that results from the increased principle.

The good news is that there are steps you can take to avoid these dishonest companies or recover if you already have agreed to a loan from them. These steps include:

1. **Reading reviews online from other borrowers**: Just like restaurants or movies, there are numerous websites where other borrowers in your situation have written about their experience with the company that gave them their personal loan. These websites include the CFPB, Reddit, BBB, Trustpilot, and ComplaintsBoard. Before you agree to an online loan, do a quick search online to see what other people have had to say about their loan experiences with the company whose loan offer you are considering.

2. **Know the maximum allowable interest rate in your state for the type of loan you are looking at**: Consumer finance websites, like the National Consumer Law Center ("NCLC"), provide free resources that allow you to quickly find the applicable rules and terms that the loan company has to follow in your state of residence.

3. **Pay attention to the details**: Federal law requires that loan companies tell you all of the terms you need to know before you agree to the loan. At the least, you should be able to clearly understand the interest rate, fees, repayment terms, borrowing limits (minimum and maximum), and any collateral requirements at the time the loan is offered to you. If you are unsure about a specific term,

you can look up examples and explanations on websites like the NCLC.

4. **See if You Have a Claim**: Loan agreements and terms can be complicated, and some companies seek to profit by counting on the fact that their customers are likely under too much pressure to cover the unexpected expense to do the research needed on every term. However, there are federal and state laws that every loan company must follow that were put in place precisely to protect consumers in your situation. If you think that you were given a fast loan with interest rates higher than what your state allows, weren't given all the information you needed to make an informed decision before agreeing to the loan, or have been additionally charged for add-on products like loan insurance you don't recall signing up for, be sure to hold on to your account number with the loan company, copies of the original loan agreement, bank statements, and proof of payment and see if you have a claim.

Labaton Sucharow's lawyers are available to address any questions you may have regarding these developments. Please contact the Labaton Sucharow lawyer with whom you usually work or the contacts below.

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