

WHAT IS SUBPRIME LENDING AND HOW TO AVOID PREDATORY LENDERS?

Subprime lending: Consumers who have a credit score lower than 580 are considered “high risk” and therefore may only qualify for loans with higher interest rates, and often additional hidden or “junk” fees. These loans are known as subprime loans. These loans are meant to be short term and, in some cases, can help consumers raise their credit score if repaid on time.

According to the Consumer Financial Protection Bureau, there are five general levels of credit scores. Credit scores are extremely important, as they determine a person’s access to credit and the annual cost they will incur for a loan or credit card, often termed as the annual percentage rate (APR).

- **Deep Subprime:** Credit scores below 580 (lowest score is 300)
- **Subprime:** Credit scores of 580-619
- **Near-Prime:** Credit scores of 620-659
- **Prime:** Credit scores of 660-719
- **Super-Prime:** Credit scores of 720 or above (highest score is 850)

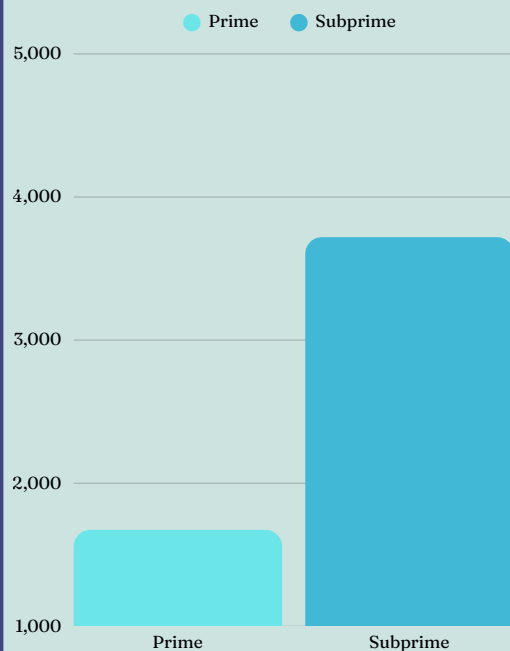


Predatory Lending

When thinking of a subprime loan, beware of **predatory lending**. Certain lenders are looking to take advantage of consumers with low credit scores and offer loans with extremely high interest rates and excessive hidden fees, with a complete disregard for a borrower’s ability to repay back the loan.

These lenders will often use fraud and deception to manipulate the borrower into signing a contract, even when consumers are unaware of all the terms and conditions of the loan, and they may leave out important details, such as other lower interest loans available to the borrower.

Loan Comparison over a 3-year term



- Prime Loan: \$15,000 with a 7% APR
- Subprime Loan: \$15,000 with a 15% APR

WHEN THINKING OF A SUBPRIME LOAN, CONSIDER THE FOLLOWING:

- **Know your options:** Know your credit score and shop around for loans to ensure you are getting the best interest rate possible.
- **Read the fine print:** Ensure that you understand the terms and conditions. Is there a prepayment penalty? What fees are associated with the loan? Are you able to refinance?
- **Licensed and accredited:** When choosing a lender, ensure that they are licensed within the state you reside.
- **Seek advice:** If you are unsure about the loan and whether it is the right choice for you, talk to trusted people or organizations that can offer guidance.



Interested in checking your credit score?

Visit AnnualCreditReport.com or the Department of Financial Protection and Innovation (DFPI) for more guidance!



About the Consumer Federation of California Education Foundation

The CFC Education Foundation is a 501(c)3 non profit organization dedicated to advancing consumer rights through education and research. The CFC Education Foundation is sponsored by the Consumer Federation of California.