

Addressing predatory loans from non-bank financial institutions worldwide.

Background

Predatory lending involves unethical practices in which the lender imposes unfair and abusive loan terms on the borrowers. These may include high-interest rates, high fees, and terms to strip the borrower of equity. Predatory lenders often use aggressive sale tactics and deception to lure borrowers into withdrawing loans that they are unable to afford.

The targeted individuals are typically borrowers with poor credit and lacking financial options. These lenders prioritize their benefits and profits over the needs of the borrowers. They will allow you to continue refinancing a bad loan and will charge fees every time.

The most common form of predatory lending is payday loans. These loans generally have a limit of \$500, however, they include short repayment periods as well as APRs (annual percentage rates) that can extend up to 400% or more. If these loans are not repaid, the fees are sent to collections. This leads to financial consequences that will negatively impact the borrower's credit, resulting in the pile-up of fees, and trapping consumers into cycles of debt.

Non-bank financial institutions are not legally a bank, due to the lack of a banking license or are not being supervised by a national bank or international banking regulatory agencies. The most common examples of these institutions are insurance firms, venture capitalists, currency exchange companies, and some microloan organizations.

UN Involvement

The UN recognizes the importance of the impact that predatory lending has on financially unstable individuals. UN organizations such as the UNDP (United Nations Development Programme) and the UNCTAD (United Nations Conference on Trade and Development) have made many efforts to fix this issue. The UNCTAD Principles on Promoting Responsible Sovereign Lending and Borrowing (also known as PPRSLB) which was published in 2012 put forward the responsibilities of both the lenders and borrowers of sovereign debt.

Several other attempts between 2012-2023 have been made concerning this issue. Due to the COVID-19 pandemic, some changes were made to support the countries in need. The pandemic presented many challenges for developing countries. The fight against the pandemic has led developing countries around the world to accumulate domestic and external debt at an unprecedented speed, reaching historic levels and causing them to be more vulnerable to predatory lending.

In addition, the pandemic has had a devastating impact on some of the world's poorest countries, they have experienced some of the worst economic fallout and have been left to face a massive amount of debt repayments up to 2023 undermining their achievement of the Sustainable Development Goals (SDG)

The UN has made many efforts to address and prevent the spread of predatory lending. The UN seeks to promote responsible lending practices between lenders and borrowers and protect vulnerable targets. The difficult nature of the financial world requires collaboration between nations, legal financial institutions, and regulators to protect targets against predatory loaners and ensure a safer global financial system.

Questions to consider

1. Is my country a vulnerable target in danger of predatory lenders?
2. Are there any measures being taken to avoid this? If so, are these regulatory measures effective?
3. How does my country support and provide alternatives for individuals who may be vulnerable to predatory loans specifically during periods of economic instability or crisis (such as a pandemic)?
4. Are there any enforcement measures in place to hold non-bank financial institutions accountable for engaging in predatory lending?

Sources

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