International Journal of Advances in Engineering and Management (IJAEM)
Volume 3, Issue 2 Feb 2021, pp: 435-444 www.ijaem.net ISSN: 2395-5252

# Escaping the Cobwebs of Predatory Lenders: An Awareness Campaign and Guide to the Civil Servant in Nigeria

Soreh, Wisdom Clinton

*School of Commerce & Management Sciences Bayelsa State Polytechnic, Aleibiri Bayelsa State Nigeria*

Submitted: 02-02-2021 Revised: 18-02-2021 Accepted: 22-02-2021

**ABSTRACT:** Lending and borrowing are critical components of human beings' everyday life. However, most borrowers are crying out loud about lenders' activities, as the loans avail them are becoming nightmares, especially in the repayment regime. The outcry is due to certain practices the lenders indulge in, which borrowers and experts consider predatory lending practices and include bait and switch tactics, loan flipping, etcetera.While many criticize lenders for predatory lending practices, borrowers fail to realize that lenders are in business, and loan administration and debt recovery are essential for profits-making tocontinue to stay in business. Most borrowers do not help matters because they fail to do the needful before seeking loans; they severally fail to adhere to the basic principles of borrowing. Cooperative borrowers need to have background checks on members on individual ability to borrow the sum in anticipation. The paper concludes that we need collaboration to reduce or eliminate emerging, predatory lending practices.

**Key Words**: Predatory Lenders, Predatory Borrowers, Switch andBait tactics, Loan flipping, Debt recovery, Cooperative Borrowers.

## I. INTRODUCTION

Predatory loans are exploitative high-cost loans in rates and charges to naive borrowers; these loans continue to dominate group discussions in offices and homes in recent years, and many civil servants are crying aloud. There is an ongoing debate over how best to respond to the surge in predatory lending practices.However, the debate over predatory lending practices seems to focus on morality. Opponents of predatory lending emphasize the attitude of the unscrupulous lenders and their unethical tactics. On the other hand, industry supporters question the extent of predatory lending practices, blame borrowers for their profligacy, and assert that existing remedies suffice. However, condemning predatory lending practices as immoral failsto tell us what steps stakeholders should employ to addressthe emerging problem. In the same, criticizing borrowers only on the perspective of impulsive borrowing and spending does not consider the market failures that enable predatory lending practices to flourish and continually exploit unsophisticated borrowers. It also fails to address the serious negative externalities that predatory lending inflicts on society at large in the form of predatory borrowers, defaults, poverty, and deteriorating households.

Many civil servant borrowers are crying out that the ways and manner lenders - commercial banks are threatening loan repayment processes are unbearable. Loan beneficiaries – borrowers - argue that they have overpaid what was initially agreed both in amount and number in monthly installments. Therefore, they see their loans as a nightmare. The basis upon which borrowersare crying out is thatthey have no understanding of how banks compute interest and default penalties as it continues to arise during the currency of a loan vis-a-viz in the repayment process. The question to ask, therefore, who is culpable? What are the gaps existing between the loan origination, application, and the lender's granting it? Are the commercial banks deliberately making loans a nightmare to borrowers?

Lending and borrowing are critical components of human activities in our contemporary world, either for business or personal purposes. Loans benefit both lenders and borrowers. Lenders, either conventional or alternative sources, are in business for profit motive. They are likely toindulge in certain practices that put them atan advantage over their customers - the borrowers. It is not right to take such practices as predatory lending outrightly. However, where it is evident that lenders continue to indulge in schemes to take advantage of

International Journal of Advances in Engineering and Management (IJAEM)
Volume 3, Issue 2 Feb 2021, pp: 435-444 www.ijaem.net ISSN: 2395-5252

borrowers' inadequacies, then the accusation of predatory lending isa possibility. On the other part, borrowers need to have a thorough understanding ofloan processes and instruments, and where necessary, seek legal advice for proper interpretation of loan clauses before entering into any form ofan enforceable contractual relationship. Many had in haste entered into loan contracts without proper understanding that had come to spell doom later, especially in the repayment regime.

Predatory lending is the lending practice lenders employ to influence borrowers to accept high-cost loan products with clauses that portend to exploit borrowers and continue to keep them at the mercy of lenders. It is "lending that brings expected harm to borrowers" (Bond, Musto, and Yılmaz, 2005). It is a lending contract that the lender knows something extra about how the loan will play out.Nevertheless, since borrowing is voluntary, how do such loans arise first and foremost? Furthermore,what is the mechanism of curtailing such loans in the future? The answer to the above questions is how borrowers understand the nature of loan contracts they enter with a bank or lender. A borrower's failure to understand a loan contract presents predatory lending potential as lenders would do everything to take advantage of the extent of a borrower's lack of understanding and depravity (Engel and McCoy, (2002). There is no gainsaying that civil servants' borrowers do not have full information about their future income process, and these lenders are continuing tothe advantage of the lender-borrower contract that making loans to a large extent predatory.

There is a growing concern over the practice, and figuring out how best to respond to theupsurge of predatory lending is receiving attention globally. Some opponents of predatory lending argue that the practice is not only unscrupulous but dubious. We can emphasize that the concern over predatory lending is relativetomorality. However, condemning predatory lending practices as merely immoral fails to tell us how to address this hydra-headed problem.

To a small extent, predatory lending is visible, but the absence of reported data is hampering efforts in assessing the magnitude of Nigeria's problem.Proponents and industry practitioners are of the view that the public is misjudging the concept of predatory lending. Practitioners blame borrowers for carelessness in reading through the lines/clauses of loan instruments at the origination and perfecting processes and assert that remedies abound. It is interesting to emphasize that criticizing borrowers for unguided borrowings and spending fails to consider the technicalities that enable predatory lending practices to flourish in Nigeria,exploiting the unsuspecting civil servant borrowers.Olowe and Makanjuola (2019) opine that the CBN and Banks should acceptmuch responsibility to ensure that potential borrowers are abreast with the benefits of taking loans and the attendant consequencesof default in the repayment regime.

In furtherance to the above,this paper's position is that merely criticizing the civil servant borrower behavior is unlikely to address the serious negative consequences of predatory lending practices onsociety. There are developments abound which would squeeze civil servant borrowers, many of whom will struggle to repay loans. For all parties to have a fair share in the confidence-building process in the banking system, it is appropriate to advance the debate beyond the realm of moral accusations and urgentlydetermine how the incentive structures in the personal Loan market are fueling predatory lending and how these incentives can best be reduced or eliminated.

The article's position is thatdeceptive marketingmakes lendersengage in processes that have given rise to a practice where lenders can profit from exploiting new information to the detriment of unsuspected civil servant loan seekers. Furthermore, we argue that pressure group campaigns and government intervention is essential to curb these lending abuses tobalance the burden of harm on those that bear the loss. Tothis end, we propose imposing a duty of suitability on lenders narrowly tailored to address the harms they cause through predatory lending.The existing predatory lending analysis in Nigeria is taking a confused-borrowers view, and CBN guidelines appear to take it. The Central Bank of Nigeria (CBN) guidelines focus oncurbing emerging predatory borrowers in Nigeria. By this view, we propose that a combination of borrower education, clearer, and cleaner loan documents could, in principle, reduce predatory lending and borrowing.

**Aim**

This study aims to create awareness among borrowers of emerging predatory lendingpractices and activities in Nigeria.

**Objectives**

The study will help to:

- Determine the extent predatory lending activities are flourishing in Nigeria
- Determine the extent borrowers understand loan contract - clauses - before entering into a

firm and binding contractual relationship with lenders

- Determine the extent borrowers understand the practices that constitute predatory lending activities
- Determine the level of borrowers involvement in the loan process, especially for cooperative members
- Determine the level of compliance of repayment obligations by borrowers, and if otherwise, what is the concern

**The population of the study**

This study population consists of 193 respondents, out of which 143 are members of four cooperative groups that access a bank loan and 50 individual borrowers from different banks.

**The Context and Rationale of the Study**

We undertake the study to add to the body of knowledge on borrowers' concerns aboutNigeria's predatory lenders' activities. The study's rationale is to educate hasty borrowers and teach undergraduates studying accounting, banking, and finance for future career endeavors. The researcher wants Accounting and Finance graduates to develop more on loans and risk management expertise to advise loan seekers, individuals, cooperative groups, and corporate bodies.

## II. LITERATURE REVIEW

Some studies on predatory lending generally emphasize the combination of deliberate misrepresentation by the lender and the borrower's inability to understand its actual terms as the practice's bane. One common ground among scholars is that loans are predatory, where the lender has an opportunity to prey on a borrower's inexperience and lack of information to manipulate the applicant into loans that he cannot afford to repay or with terms that are significantly less advantageous than a loan for which the borrower is qualified, (Deborah Goldstein, 1999). To others, loans with extraordinarily high-interest rates constitute predatory lending. In most advanced economies, critics associate payday loans, which charge the annual equivalent of more than 100% for loans in advance of a worker's next paycheck, as predatory loans. Similarly, loans putting borrowers at high-risk of default also are often predatory loans. In this category, we classify loans availed civil servants by the commercial banks in Nigeria as [predatory. Predatory lenders approve risky loans to unqualified buyers, primarily through cooperative borrowers. Many borrowers believe these are why some lenders are taking advantage of the several defaults to calling for the restructuring of loan contracts. Loans granted the Nigeria civil servant promise that repayment deductions will be at source by the employer.

The position of this paper is that the source of repayment, which is the monthly salary from the employer – the government – usually do not have fixed paydays, making it possible for borrowers to default on the scheduled repayment date, which is usually not told the borrower by the lender – the commercial bank in both the negotiation and perfection processes.

Predatory lending in whatever form and sector, practice is flourishing,and it is not helpful to society. It is a near consensus that predatory lending practices contributed to high mortgage default rates among subprime borrowers in the USA. No wonder people consider the financial crisis that submerged the world economy, which started in the USA from 2007-2008,as an offshoot of the USA's housing boom and crisis.On the contrary, David-Ben, cited by Nordqvist (2014), opines that even without predatory lending practices during the housing boom, the subprime crisis was possible.

**Motivation to Borrow**

Different individuals have different motivations to borrow money and incur debt. Borrowers do not restrict borrowing to economic considerations, that is, for investment purposes. Similarly, people have different reasons to borrow from different sources, such as conventional banks or alternative finance sources.An individual'sdecision to borrow to meet pressing needs resides within two sets of choices available. Firstly, to borrow from a conventional bank? Secondly, toborrow from alternative sources of finance available domestically, such as thrifts, private money lenders, etcetera. No doubt, each option comes withcertainbenefits and implications.

Recently, civil servants' attitude to bank borrowings is growing considerably in contemporary Nigeria. Nevertheless, recent experiences also reveal that it is significantly constraining when civil servants borrow from banks and monthly salary, which is the source of repayment that is not regular from their employer – the government.

Undoubtedly, investigations reveal that very few numbers of borrowers know the implications of the contract they do enter into with their lenders. There is an increasing burden on bank borrowers to pay up their loan liabilities; many no longer understand or become extremely difficult to agree that they sign up for such contracts. A loan

availed the borrower from a bank, be it an individual or in a cooperative arrangement; the borrower's privilege to appropriate income is constrained as the banks usually call for an undertakingfrom employers for the domiciliation of the salary account of the borrower in the branch untilfull repayment of the loan. Once the employer undertakes a firm responsibility to deduct such installment payments at the source and remit the same to the lender- the banker; ideally, such agreements are near irrevocable.

Banks, on their part, are in business with depositors' funds on which interest is agreed and paid, and until the depositors perceive the contract in the right manner, deposits will shrink as soon as the propensity to save diminishes. It would be disastrous to conventional banks in money intermediationto maximize shareholders' wealth, but the economy at large as banksremain the engine room for productive activities in any society. This further calls for the protection of depositors' funds from borrowers, especially those that may want to be funny with loans availed them, thereby the likelihood of pilling up non-performing loan portfolios in banks.

**The Interest Rate Saga in Nigeria**

The rising interest rate saga in Nigeria is another contentious issue for the borrower. Most civil servant borrowers are unaware that it automatically alters the total sum payable and the number of installments because banks grant loans technically on adjustable rates when interest rate rises.

When loan marketers market loans to Individuals and Cooperative borrowers, they are likely to quote close to a 30% interest rate on a two-to-three-year loan facility.Even large corporations faceremarkably high-interest rates in Nigeria, with some manufacturing companies having to pay an interest rate above 30% on loans. One standard view among people is that Nigeria's high-interest rates stifle business growth and economic development, so why do they remain high?Nigeria's benchmark rate is 14%, which is far higher than that of the USA with 2.25%, and South Africa with 6.75%. Interest rates are high in Nigeria because inflation is historically high. High inflation is a significant cause of high-interest rates in Nigeria.

There are serious complaints from borrowers that when interest rates are adjusted upward by the Central Bank of Nigeria, banks would accordingly review rate upward and impact monthly Instalment repayment to the borrowers' detriment, and a rate review downward the opposite is the case. To this end, borrowersare at the mercy of banks to determine penalties and when a loan repayment will end.

One bothering scenario prevalent in the industry is banks' marketing crew's attitudes,most times, persuading borrowers to restructure a loan portfolio without considerable understanding. Cases lenders claim to have restructured a loan exist while the borrowers claim no restructuring contract knowledge. The critical question bothering stakeholders is, 'is it proper for a lender to restructure a loan facility without theborrower's knowledge? While it is crucial to seek answers to the question above, it is very worrisome when lenders claim that restructuring a loan behest the borrower's knowledge is in the borrower's interest.

**Understanding Predatory Lending**

A review of extant literature points to one fact, which isno universally accepted definition of the concept - predatory lending - even in the advanced countries. In the same manner, there are no unified laws and guidelines to forestall predatory lending. Predatory lending refers to "unethical practices conducted by lending institutions during a loan origination process that are unfair, deceptive or fraudulent"(Wikipedia). Predatory lending bothersbanks/lenders' actionsconsidered unfair, deceptive, or fraudulent practices inthe loan origination process and during the loan's currency. According to Bond, Musto &Yılmaz (2006), predatory lending is when a lender extracts more from a borrower than what the loan delivers. For this paper, with a focus on civil servants, we shall align with the position of Bond, Musto, & Yilmaz (2006).

However, in an audit report on predatory lending, the office of the Inspector General of the FDIC in the USA sees predatory lending as "imposing unfair and abusive loan terms on the borrower." Generally, predatory lending is the "practice of a lender deceptively convincing borrowers to agree to unfair and abusive loan terms, and on violation makes it difficult for the borrower to defend against the terms of the contract."Bond, Musto, & Yilmaz (2001) opine that "if borrowers misunderstand their loan contracts, then the potential for predatory lending is immediate,but limited by the depth of borrowers' misunderstanding and the depravity of their lenders." Predatory lendingis a welfare reducing provision of credit. Households can be made worse off by borrowing if lenders can deceive households into borrowing more than is optimal. Excess borrowing reduces household welfare and may increase default risk (Morgan, 2007)

International Journal of Advances in Engineering and Management (IJAEM)
Volume 3, Issue 2 Feb 2021, pp: 435-444 www.ijaem.net ISSN: 2395-5252

From the above, we emphasizethat predatory lenders are desirous of taking advantage of borrowerseager to borrow to meet pressing demands. Predatory lenders tend to target secured loans to a large extent such that in the case of default, they could initiate processes to enforce or foreclose the collateral. The civil servants in Bayelsa State, whose collaterals for loans from commercial banks, remain salaries paid by their employer, the government through the relevant agencies, so that on default, the lender, in this case, the banks can force repayment through the employers.

There is a divisive debate on what constitutes predatory lending practices. However,many actions'banks are indulging that stakeholdersconsider as predatory lending practices include a failure to disclose vital information or disclosing false information, risk-based pricing, and inflated charges. Others are loan packing, loan flipping, asset-based lending, and reverse redlining.These practices, either individually or collectively, can create a cycle of debt that causes severe financial hardship on borrowers and their families.Consumer groups criticize predatory lenders for selling overpriced loans to people who are already experiencing financial difficulties (Flannery and Samolyk, (2005). Critics of predatory lenders contend that civil servant borrowers are not well informed about their borrowing's actual cost and that lenders engage in deceptive and unfair practices, particularly practices designed to encourage the restructuring of loans.

In all circumstances, we argue that predatory lending benefits the lender to the borrower's detriment, which eventually hinders the borrower's ability to repay or meet agreed to periodic repayments. Predatory lending may arise from the desperateness of borrowers to access a loan product. It may arise resulting from the prevalent lack of understanding about the lenders' line clauses of loan terms.

**Some Common Predatory Lending Practices**

In the United States of America, the US General Accounting Office (GAO) sees predatory lending as an umbrella term comprising all circumstances making a borrower experience a loss due to (i) high interest rare, (ii) excessive fees, (iii) lending without regard to borrowers' ability to repay, (iv) loan flipping, (v) fraud and deception, (vi) prepayment penalties, (vii) balloon payments, (viii) single-premium credit insurance. The paper takes a cursory look at some of the prevailing predatory lending practices trending in Nigeria from observations.

Inadequate or False disclosure of facts during the loan origination processes is flourishing among loan marketers. Accessing a loan product is a long process of marketing, bargaining, and perfecting the necessary instruments to outline responsibilities and rights in the contract. It is the observation of different people watching from the side-lines that in the course of these processes, lenders tend tohide/misrepresent the actual cost, risk, and appropriateness of loan terms, or the lender changes the loan terms after the initial offer. At some point, it will be wrong to say these actions are deliberate.Instead, the said inadequate disclosures are due to borrowers' inability to read through the instruments for adequate understanding meticulously, or even if they read through, they lack the understanding coupled with the reluctance to consult experts or legal minds for proper guidance remains the bane of the problem.

Lenders are into risk-based pricing. There is no gainsaying that all lenders depend on some form of risk-based pricing. Risk-based pricing is when lenders offer different interest rates and loan terms to borrowers based on individual creditworthiness. The practice requires lenders to notify borrowers if they are getting worse terms because of information at their disposal. Predatory lenders are most likely to abuse the practice by charging very high-interest rates onborrowers they consider are of high risk,whichin their opinion,are most likely to default. The interesting point is that these borrowers are likely eager to meet repayment obligations most of the time. On completing such obligations, rewards are hardly handy from lenders in recognition of good work done.

Inflated Fees or Charges are flourishing in civil servant loans. Fees and costs (e.g., appraisals, document preparation fees, closing costs) are much higherthanother lenders are hidden in the fine prints.

Predatory lending practice can flourish in loan packing, a lender's practiceof attaching unnecessaryproducts like credit insuranceto the loan cost, which pays off the loan if a borrower dies.

Another practical form of the practice is loan flipping. In loan flipping, the lender encourages a borrower to refinance or restructure an existing loan but fails to tell the action's implications (Goldstein, (1999); Hanson & Morgan (2005). The restructuring could result ina higher interest rate and additional fees to make the total sum payable larger and an attendant extended time. Even though the extended time is apparent, lenders

fail to be precise on the total sum payable implications. When borrowers become aware of the implications, they will claim not to agree to loan restructuring.

Negative amortization of loan availability is creeping into the negotiation process, primarily when borrowers are frost with challenges to repay due to circumstances beyond their control. Negative amortization, the practice of bargaining, and fixing a monthly loan repayment amount is not enough to cover even the interest element. It can occur when changes in the economic condition are apparent that borrowers could no longer meet repayment obligations; instead of outright default, an understanding with the lender to pay an amount monthly to strike out the facility from the category of non-performing borrowers. The practice is to add the unpaid balance to the loan capital. A borrower negotiating such a deal will be at a significant disadvantage because it will elongate the repayment period. It will also result in owing the lender substantially more than the initially agreed total amount repayable.

Abnormal Full Prepayment Penalties: Lenders in grating a facility to borrowers negotiate and insert in between the loan document lines that the loan will run to till maturity. Therefore, a borrower that tries to pay off the facility before maturity, perhaps because there are better offers to refinance the facility runs contrary to the agreement; this is tantamount to an abusive prepayment penalty for desiring to pay off the loan before maturity.

Mandatory Arbitration: The lender adds clauses to a loan contract that compels a borrower only to seek arbitration, rather than seeking redress in a court of laweither for misrepresentation or fraud. Lenders' attitude in constraining borrowers to arbitration options alone puts a borrower at a significant disadvantage, which is an element of predatory lending practices.

Loan Churning: One common predatory lending practice among predatory lenders is loan churning. It is the practice of forcing borrowers into a relentless loan cycle in which they are continually paying charges and interest without a noticeable reduction in the principal amount borrowed. Under loan churning, the lender makes a loan the borrower would not repay per the terms of repayment. Provided the borrower fails to repay the loan as agreed, the lender offers a new loan with another set of fees and interest. The borrowerwho cannot repay the first loan will agreeto the second loan, thus starting the loan-cycle churn.

Predatory lending practices begin with the loan push-marketing and solicitation phases of the loan process, continue in the application process in various forms, appear in the loan terms, evident during and after the closing, and throughout the repayment regime (Renuart, 2004). Interestingly, Marisco (2003) opines that "Banks are to meet their customers' credit needs in a way that is consistent with safe,sound and best banking practices."

**Basic Borrowing Principles Borrowers Must Understand**

All loan seekers must bear in mind that the money they are willing to borrow is subject to repayment with interest at pre-agreed time intervals. Therefore, it behooves every prospective borrower to understand some basic principles before entering into any borrowing agreement. A good understanding of these principles will be of immense value to prospective borrowers as it would provide an opportunity to save costly mistakes many borrowers had made without adequate information guiding them into decision making. Understanding these principles is very useful irrespective of the type of loan the borrower is seeking. The Bank of Scotland and other experts put together the following to guide borrowers:

Set and Prioritize goals and evaluate how borrowing can help achieve each:It is proper to evaluate the loan facility's immediate need and focus on the succeeding two to three years what to do. Whether the amount to borrow today would impact future goals in mind, take an objective assessment of how much to borrow, which would not hurt plans.

Determine the sum in periodic repayment the borrower can afford:All loan products come with a repayment plan/contract from conventional or alternative sources. It would be proper to evaluate the loan processesat the point of origination to determine how much a borrower can set aside as periodic repayment for the amount borrowed plus interest. Determining how much the borrower can afford as periodic repayment calls for making an objective personal budget. In it, one expects to bring into focus monthly earnings and possible expenditures. A budget surplus or deficit would reveal how much would be available from monthly income to repay the loan if accessed. In making the budget, it is proper to include all anticipated expenses and attendant provision for unanticipated ones.

Determine the right borrowing solution:Successful completion of 1 and 2 above further requires a borrower to evaluate his/her spending behavior, which has to do with compliance with personal budgetary provisions and

the borrower's income pattern from month to month. A borrower should evaluate the possibility of makingan additional amount in every periodic repayment so that he can quickly repay the amount borrowed plus interest as early as possible to improve on personal creditworthiness. The income pattern of a prospective borrower would highlight whether a structured repayment plan is feasible. A borrower should take the time to consider what makes him/her most comfortable while evaluating borrowing solutions. When evaluating the available options, it is advisable to closely examine the details as a missed scheduled repayment will attract hefty penalties and high-interest rates. It is advisable to make sure there are funds to meet due repayment as scheduled.

Evaluate how long the borrower wants the loan facility with an attendant repayment plan: it is appropriate for a borrower to determine how long it will take him to repay the borrowed sum plus interest. It would be appropriate to ensure the timing is in line with future goals. A borrower should notstruggle with a running loan repayment when an intervening goal is due for implementation. One area of importance for borrowers to note is that spreading out repayments of a loan facility over a more extended period seems to make borrowing more affordable monthly. However,borrowers must acknowledge that spreading a loan over a more extended period, irrespective of its affordability,becomes more expensive. It is a fact many borrowers blatantly ignore during loan negotiation and perfection processes.

Understand the actual borrowing cost: An actual borrowing cost for a given loan will depend on the loan period,the amount borrowed, and the interest rate. An actual cost of borrowing is a combination of factors; a low-interest rate over the long term can end up costing more than a higher interest rate over the short term. Borrowers should try as much as possible to make additional repayments to pay off the loan more quickly. It would be more advisable to make payments on or before the due date. It would help to avoid unwarranted penalties and charges.

Consult a professional or legal mind for interpretation of loan clauses:Borrowers, individually or collectively, should not hesitate to consult a professional or legal mind for a convincinginterpretation of loan instruments before perfecting an agreement.Many borrowers are suffering untold hardship for going into agreements with their lenders without a considerable understanding of the in-between the line clauses. Whether individually or in the cooperative arrangement, borrowers should seek a convincing interpretation of loan clauses before appending their signature(s) for a binding contract.

Avoid borrowing unless necessary: People should not consider borrowing as a way of life but an exception, especially if borrowing is not for investment purposes. Civil servants should only consider borrowing money if there is no other way to meet our wants. It is best to plan with income for all consumer purchases, routine expenses, cars, and even pay for a home with private savings if possible.

Failure to adhere to these principles had thrown many borrowers into great confusion and are victims in predatory lenders' hands.

**The study's modality**

The study is ethnographic because the researcher isa beneficiary of a bank loan facility as a cooperative member. In this study,the modality isan in-depth interview approach to gather data and information. The choice was to explore individual borrowers' opinions, perceptions, and views to makegeneralizations and conclusions. The approach is fact-findings, what happened during the origination, access to the loan facility granted by the banks, and the follow-up in the repayment processes generating the public outcry. The study's position is that since the researcher is a beneficiary, other beneficiaries freely volunteer their concerns to seek a standard solution. During the interview sessions, the observation reveals no reservations from participants on issues during discussions or questioning.

The studylasted over 30 months, began inthe second half of 2017, and ended in the first half of 2020. The population of the study comprises four cooperative groups with a membership of over 250 persons. However, the loan facilities' actual beneficiaries under the cooperatives are 143 persons and 50 individual borrowers from different banks.Thus, the sample size of this study 193 respondents. Interview sessions took the form of discussions, and there were no structured questions. At specific points, the study had interview sessions with other individual loan beneficiaries from banks to track their experience relating to loans granted to them. In both circumstances, the researcher relied on the laddering of questions. Trust, social interaction, friendly language, and interviewee convenience guided the information gathering process. Furthermore, for the opinionsummary, the study employed grounded analysis.

## III. FINDINGS AND DISCUSSIONS

In this study, respondents, especially cooperative members, are near consensus that most of them never participated in the loan negotiations process. They contend that the cooperatives' leadership had their mandate to negotiate with banks to avail the loans. Respondents agreed that they had no time to read through the loan agreement's line prints before authorizing the leadership to append signatures for binding contractual relationships. Most of the respondents emphasize that they had no understanding of clauses in loan agreements; in their opinion, the leaderships could understand each clause's implications in the loan instruments. Most of the respondents feel disappointed in the protracted disagreement with banks on repayment conditionalities. Most respondents agree that as staffers of the same institution, they feel it was necessary to join their colleagues in accessing the loans, even though they all have individual goals.

Most respondents agree that the repayment condition they were aware of is that the employers will make all installments repayment deductions at source, which they agree to, but they were not aware thatdelays in salary payments would amount to default and attract penalties from the lenders. Loan marketers understand that repayments will be from monthly salary; hence they agree to involve their respective management to have an undertaking to deduct installment repayments at source and remit accordingly. Respondents are a consensus of betrayal from banks on default penalties. Respondents agree that as cooperative members individually or collectively, they fail to seek independent advice on the loan documents before entering into the borrowing contract relationship. One significant revelation from the study is that most respondents agree that they have no understanding of the joint and several liabilities clause in a cooperative loan.

Respondents feel disappointed by the revelation that some cooperative leadership was not honoring their repayment obligations, and accordingly, the compromise from management in perpetuating such erroneous default at the expense of other cooperative members. The study also reveals that some cooperative members were honoring other obligations in preference to the cooperative loan. Even though such defaults were isolated, it amounts to default by the cooperative in repaying the loan.

The study also reveals that lenders were reluctant to let go of a cooperative member willing to pay off his loan obligations. Respondents attest that they agreed on several monthly installments and a fixed amount for each installment as repayments. Therefore, it was a great surprise to hear from lenders that they are yet to complete payment obligations due to interest rate fluctuation. Respondents attest that even though there were claims of loan restructuring from lenders, some cooperatives and some individual loan beneficiaries disagree. Respondents contend that if such restructurings took place, they know nothing about it, they were not part of the process, and therefore, they were not binding. However, respondents attest that they negotiated with lenders when things were pretty challenging during a specific period in the loans' life to pay 30% of the monthly installment, pending the economy's uptick.

Furthermore, respondents attest that they went further to pay the agreed installments full in sum and number on the return of full salaries to their paycheques. At no point, lenders informed them that suchcritical understanding and care in the loan contract relationship amounts to restructuring the loan. Therefore, it was surprising for the lenders to claim default in such a repayment plan.

Most cooperative members attest that they only met with lenders representatives once, which was at the point of marketing the loan to their respective cooperatives. In those meetings, they had the assurance from loan marketers that repayment will be at source from monthly installment and that it is when employers pay salaries that installment payments deductions will take place, a position that gave them the confidence to enter into the loan agreement. Lenders directly or indirectly at no other time gather them to inform them of issues relating to restructuring the loan contract.

The study reveals that most individual borrowers, whether cooperative or independent, fail to prioritize goals before going into the borrowings. Meeting with loan marketers was an opportunity to borrow; thus, they made no background checks of other cooperative members before agreeing to borrow collectively. The study also reveals that some of the cooperative members borrowed beyond their capacity; therefore, such borrowers found it challenging to meet monthly installment payment obligations, which resulted in individual isolated defaults in monthly repayment obligations. The study also reveals that cooperative members were not comfortable contributing to such isolated defaults even if there are provisions to recoup such sums from defaulting members.

This paper's single hope is that the findings inform the current debate on Nigeria's emerging predatory lending practices. It further sees predatory lending practices in Nigeria with the following characteristics:

(1) Making unaffordable loans based on borrowers'income source rather than an ability to repay.
(2) Inducing a borrower to restructure a loan repeatedly with the intent to charge high fees each time and elongate the tenure of the loan.
(3) Engaging in fraud or deception to conceal the true nature of the loan obligation from an unsuspecting or unsophisticated borrower.

**What We Can Do to Escape the Cobwebs of Predatory Lenders (Golden Kit)**

1. Check out with more loan marketers before making a borrowing choice
2. Seek an explanation for all "Upfront fees."
3. Ask for a "Good Faith Estimate."
4. Estimate what the borrower can borrow with fairness
5. Ask to know whether monthly payments will change during the loan term
6. Question for answers if balloon payment due.
7. Do not fall into the temptation of signing any waiver of rights.
8. Always question for answers if the loan comes with other attachment such as an insurance policy
9. Do not rush or allow someone to push us into any loan contract.
10. Try to ask the lender as many questions as possible to gain insight into the loan contract one is about entering.
11. Seek to know whether the loan comes with penalties, prepayment, late payment, etcetera
12. Read all documents carefully before signing.
13. Never fall into the temptation to sign a blank document or even documents with blank spaces or give out official letterhead paper without the prints of agreements. Always retain a file copy with acknowledgment by the lender
14. It is advisable to seek professional or legal advice before entering into any loan contract.
15. In the repayment regime, always make available the next installment payment to avoid default and attendant penalty on loan due date.

**Our Collective Responsibility**

Stakeholders should collaborateon a continuous awareness campaign on loan administration and management. It will provide an opportunity for prospective loan seekers to have a fair understanding of their obligations and duties before making the crucial decision to borrow.

There is a collective need to call for legislation with compensations to borrowers if lenders are guilty of predatory lending practices.

Consumer Protection Council needs to commission more studies on predatory lending practices to balance lenders' and borrowers' protection to forestall the emerging practice in Nigeria.

## IV. CONCLUSION

In conclusion, it is crucial to know that failure to adhere to the principles of borrowing and the Golden Kit remains the foundation for predatory lending practices to flourish, thus endless loan default and attendant penalties. We must note that penalties are legitimate in loan administration, and therefore, should not always be regarded as predatory lending practices. Borrowers must do the needful; failure to do it is the beginning of another round of resource wasting, litigation. Individually, or as a cooperative, a civil servant borrower (s) may not stand any lender, especially conventional lenders such as a bank. If a bank should compromise borrowers' pressure, and abandon loan recovery processes, be thankful to God.

The Limitation Act provides timescales within which action is actionable in court for breach of contract, including debt recovery. Some breaches are actionable within six years after the occurrence of the event. Some are twelve years, while others are timeless. In most cases, it is only on the expiration of the periods specified in the Act that remedies available are extinguished; only then, no action against such breach is actionable in a court of competent jurisdiction regarding such a breach. Borrowers should be mindful of the provisions of the Limitation Act and ensure to liquidate loan contracts effectively.

For cooperative borrowers, background checks on each other are crucial, especially what individual member is borrowing, and their ability to repay out of the generally known source is sacrosanct. Leaderships of cooperatives should avoid the temptation of allowing an individual to borrow beyond the limit, irrespective of the person's position in the cooperative. Do not forget the fact of joint and several liabilities in cooperative loans.

In every discussion, there are two sides. It may not be meaningful to one listener while very informative to another. Whatever position one may wish to take, the truth is that one may be right. However, our concern is for all to ponder on the emerging practices of predatory lending and collectively work for regulations and guidelines for reducing such practices in the same way regulators are rolling out guidelines to reduce predatory borrowers.

## REFERENCES

[1]. Adedeji Olowe & Babatunde Makanjuola (May 15, 1919) Absence of legal infrastructure is the bane of consumer lending - Business day, Nig.

[2]. Christian Nordqvist (2014)"Predatory lenders played a minor role in the subprime mortgage crisis," Available at Predatory lenders had a minor role in subprime mortgage crisis (marketbusinessnews.com)

[3]. Deborah Goldstein (1999): "Understanding Predatory Lending: Moving Towards a Common Definition and Workable Solutions"

[4]. Elizabeth Renuart (2004) "An overview of the predatory mortgage lending process, the Housing Policy Debate," 15:3, 467-502, DOI: 10.1080/10511482.2004.9521511

[5]. Flannery, Mark, and Katherine Samolyk, (2005)"Payday Lending": Do the Costs Justify the Price?" Working Paper.

[6]. Hanson Samuel and Donald Morgan, (2005): "Predatory Lending": 7 Federal Reserve Bank of New York memo, May 2005.

[7]. Kathleen C. Engel and Patricia A. McCoy. (2002)"A Tale of Three Markets: The Law and Economics of Predatory Lending." Texas Law Review 80, no.6: 1255-1381.

[8]. Marisco, Richard D., "Subprime Lending, Predatory Lending, and the Community Reinvestment Act," New York Law School Law Review, Vol. 46, No. 3-4 (March 2003), pp. 735-748.

[9]. Morgan, Donald P. (2007): "Defining and detecting predatory lending," Staff Report, No. 273, Federal Reserve Bank of New York, New York, NY

[10]. Philip Bond, David K. Musto & Bilge Yilmaz, (2006). "Predatory lending in a rational World," Working Paper 06-2, Federal Reserve Bank of Philadelphia.

[11]. Philip Bond, David K. Musto & Bilge Yilmaz, (2008)."Predatory mortgage lending," Working Paper 08-24, Federal Reserve Bank of Philadelphia