



Payday Lending

A CHRISTIAN RESPONSE

WHAT IS A PAYDAY LOAN?

Payday loans are high cost, small dollar loans offered to individuals — no credit check required. Lenders give little consideration to the ability of an individual to repay the loan and require access to a bank account via a post-dated check or through electronic ACH authorization.

The annual percentage rate (APR) for these loans (inclusive of both interest and fees) is often 391% to 700% and can climb even higher. The name “payday loan” comes from the term for repayment — typically two weeks or until the individual’s next payday. At the end of the loan term, the borrower is forced to either pay the entire lump sum or have the total amount deducted from his/her bank account.

As an alternative, the borrower can pay only the fee and interest and “roll over” the loan for another two-week term. At this point, despite having paid the fee, the borrower will still owe the entire principal plus another installment of fees and interest. Lenders rarely accept partial payment beyond interest and fees, which ensures that the principal owed is never reduced.

WHY IS PAYDAY LENDING A PROBLEM?

While marketed as a short-term solution for financial emergencies, these loans often result in long-term debt and outrageous fee totals. It is quite common for a loan of \$350 to cost a borrower \$800 or more to repay.

Even when borrowers are able to repay under the initial loan terms, the resulting hole in their budget creates the need for another loan. In fact, 76% of all payday loans are taken out within two weeks of a previous payday loan. Studies show that 75% of all fees generated from payday loans come from the 48% of borrowers who have taken out 11 or more loans a year.

The payday lending business model is most profitable when these short-term loans are too costly, trapping borrowers in a cycle of perpetual indebtedness. Training manuals obtained during investigations have revealed that industry members explicitly instruct staff on how to create this “cycle of debt.”

WHY DO CHRISTIANS CARE?

Christians care because of **Scripture**. The Bible contains warnings in the Old Testament about the danger of usury and insists in the New Testament that we care for those who are marginalized:

- Old Testament:
Exodus 22:25
Ezekiel 18:13
Nehemiah 5:1-3
- New Testament:
Luke 6:34-36 and 16:19-31
Matthew 6:24

Christians care because payday lending is an **unjust, predatory practice**:

- Payday lending is a practice with perverse incentives for borrower failure.
- The payday industry utilizes aggressive, deceptive advertising methods and locates its stores in area of desperate need, driving up demand among those struggling to make ends meet and with few choices.
- Payday lending undermines the dignity of the borrower when the borrower’s failure leads to success and profit for the lender. Christians are called to create and support financial systems that respect all persons as we are all created in the image of God.

Christians care about payday lending because of its harmful **impact on our communities**:

- Church members and neighbors struggle with these loan products.
- Congregational benevolence funds go to help individuals trapped in the payday loan cycle of debt — diverting charitable donations, which end up subsidizing lender profits.



HOW IS PAYDAY LENDING REGULATED?

Usury has historically been regarded as immoral and illegal. For many years, states had in place strict usury limits. These limits were often enshrined in their founding constitutions. State laws have typically governed similar small-dollar lending with caps on interest rates and fees.

In the last two decades, the newly-formed payday lending industry has worked to systematically and deliberately dismantle or avoid state usury statutes. These efforts have included changes or exemptions to existing laws or the creation and exploitation of legal loopholes.

Faith leaders were among the first to raise the alarm about the harms these loans were causing in their local communities and many pressed state legislatures for action. Advocates in some states have turned to city councils and found success reforming lending practices at the local level (particularly in Texas, where 35 cities have passed a local ordinance).

A HISTORIC REFORM OPPORTUNITY

In May of 2015 several large national religious organizations formed the Faith for Just Lending coalition to advocate for reform at the national level.

The newly created Consumer Financial Protection Bureau or CFPB has explicit responsibility and authority to enact new rules for payday lending across the country in order to “identify and prevent unfair, deceptive, and abusive acts and practices.” On June 2, 2016 the CFPB released a proposed rule with the goal of requiring lenders to assess a borrower’s ability to repay a loan and be able to meet their other financial obligations and living expenses without needing to reborrow.

The CFPB rule represents an unprecedented opportunity to address the problem of predatory lending for the entire country. Until September 14, 2016 the CFPB will be accepting public comments on the rule. A well-organized and vocal religious community making the moral case for reform and strong regulations will have a critical impact on this process.

WHAT CAN WE DO?

Go to www.lendjustly.com for tools for action.

Make an official comment on the CFPB Proposal Rule by September 14, 2016

Contact members of Congress and request their support for strong regulations to reform the payday lending industry.

Gather stories on the dangers of payday lending and submit them to the CFPB.

Educate pastors and fellow church members on the problem of payday lending.

Speak out in the local media and make sure the public knows that people of faith care deeply about this issue.

MORE RESOURCES:

- Faith for Just Lending Coalition
www.lendjustly.com
- Consumer Financial Protection Bureau
www.consumerfinance.gov
- The Center for Responsible Lending
www.responsiblelending.org/issues/payday-other-small-dollar-loans
- **Movie** — The Ordinance
www.ordinancefilm.com
- **Article** — The problem of predatory lending
By Aaron Weaver, Oct/Nov 2013 issue
fellowship! Magazine
www.tinyurl.com/oeppzks
- **Blog** — The Lie of Payday Loans
By Steve Wells, February 24, 2014
CBF Blog
www.tinyurl.com/mmxzkph
- **Blog** — A systematic and deliberate dismantling of usury laws – How can this be legal?
By Stephen Reeves, April 17, 2014
CBF Blog
www.tinyurl.com/moq8pgy

