
# Modern Day Usury: The Payday Loan Trap

## A discussion guide for churches

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# Modern day usury:
# A Biblical view of payday lending


*If you lend money to my people, to the poor among you, you shall not deal with them as a creditor, you shall not exact interest from them.*

Exodus 22:25

*If any of your kin fall into difficulty and become dependent on you, you shall support them… You shall not lend them your money at interest taken in advance, or provide them with food at profit.*

Leviticus 25:35-37

*Oh Lord, who may abide in your tent? Who may dwell on your holy hill?…Those who walk blamelessly, and do what is right… who do not lend money at interest, and do not take a bribe from the innocent.*

Psalm 15:5

*Thus says the Lord, "Do justice and righteousness, and deliver the one who has been robbed from the power of his oppressor. Also do not mistreat or do violence to the stranger, the orphan, or the widow; and do not shed innocent blood in this place."*

Jeremiah 22:3

### The Bible treats lending and debt very seriously. So should we.

Every day, millions of families struggle to balance their budget. They worry about which bill to pay and how to cover the rent and the groceries. Facing tough financial circumstances, the last thing families need is debt. But when payday lenders offer people a promise of "fast cash" as a financial life raft, they are, in fact, weighing down borrowers with a millstone of debt.

Scripture treats both debt and lending very seriously. The Apostle Paul's letter to the Romans counsels, "Owe nothing to anyone except to love one another; for he who loves his neighbor has fulfilled the law" (Romans 13:8) Many interpret this verse as sign of God's desire for freedom. God wants no one to be bound to debt or exploitation.

Meanwhile, Scripture recognizes that lending and borrowing can have two faces. On the one hand, lending can empower those in need. The Psalmist commends those who lend: "It is well with those who deal generously and lend, who conduct their affairs with justice" (Psalm 112:5).

But lending can also be used to exploit those in need. Scripture warns strongly against abusive lending to those in desperate circumstances. When Israelites returning to Jerusalem found themselves in costly debt to fellow countryman, the leader Nehemiah called out: "Let the exacting of usury stop! Return to [your countrymen] this very day … the interest on money, grain, wine and oil that you have been exacting from them." (Nehemiah 5:10-11)

*Scripture's warning against abusive lending rings strongly in the case of lending to those who are poor or financially vulnerable. In these situations, lending at high interest is nothing more than the oppression of the poor, which Scripture strongly condemns.*

- There are now over 20,000 payday loan shops in the United States.
- A typical payday lender charges 400% APR on small loans.
- The typical payday borrower eventually pays back $793 for an initial $325 loan.


*Usury is a scourge that is also a reality in our time and that has a stranglehold on many people's lives.*

Compendium of the Social Doctrine of the Church[1]

**Abusive lending is real today, just as it was in Biblical times.**

Advertised with signs proclaiming "Fast Cash" or "EZ-Cash," payday lenders are one of a number of costly loans whose terms remind us that abusive lending is real today, just as it was in Biblical times. There are now over 20,000 payday loan shops in the United States—more than McDonald's, Wendy's, and Burger Kings nationwide.

Payday loans are small, short-term loans that are secured by a borrower's personal check. Payday loans typically cost at least $15 for every $100 borrowed and must be repaid in full on the borrower's next payday—which translates to an annual percentage rate (APR) of about 400 percent for a two-week loan.

Payday loans are often marketed as a short-term fix for unexpected expenses. And while a payday loan seems like a solution at first; its terms tend to trap people in debt. Because the loan (and fees) are due in full within two-weeks to a month, the borrower is forced to come up with a sizeable amount of cash in a short time.

## How a payday loan spirals into long-term debt:

### *Patricia's Story*

Patricia, a retired nursing home aide, encountered medical issues and decided it was best to move closer to her family in Northern Wisconsin. To do so, Patricia had to pay double rent for one month and rent a small moving truck. This was more than she could afford on her small monthly disability income. Since her other family members were also struggling financially, she sought out cash from payday lenders to help her cover moving-related expenses.

Patricia took out three loans: two for $200, and another for $150. The total interest for these loans totaling $550 amounted to $123.50, resulting in her having to pay back $673.50 ($550 principal plus $123.50 in interest) to fully retire the debt.

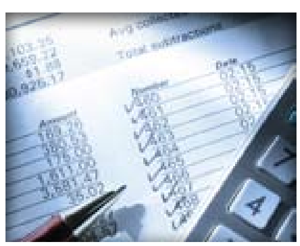
With her limited disability check, she was unable to afford to pay more than the minimum payments, which only covered the interest. Patricia paid over $2,700 in interest only and not one penny toward the principal balance of $550.

**How payday lending impacts a household budget**

Consider a budget for a person taking out a $350 loan, the national median payday loan amount. At a cost of $15 for every $100 borrowed, the loan fees equal $53.

| | **$35,000 Salary** |
|---|---|
| Before tax income for two-week period | $1,346 |
| Minus taxes* | $105 |
| After tax income | $1,241 |
| Payday loan balance and fee due | $403<br>($350 loan plus $53 fee) |
| Money left over | $838 |
| Household expenditures per two-week period (housing, transportation, food, healthcare)* | $895 |
| Deficit | $(57) |

*Source: 2007 Consumer Expenditure Survey, Bureau of Labor Statistics.



Notice that a family with a $35,000 salary and average household expenses, will fall short by $57 after repaying the payday loan and fees. This budget shortfall creates another financial emergency. More often than not, borrowers respond to this shortfall by taking out another payday loan.

- The average payday loan borrower takes out 9 loans a year.
- Payday lenders make the bulk of their income from "churned" loans—loans that are taken out one after another. The churning of existing borrowers' loans accounts for three-fourths of all payday loan volume and $3.5 billion in fees per year.

## A Biblical analogy:
*moneychangers in the Temple*[2]

The year is 32 AD in the bustling city of Jerusalem. It's Passover season, and the marketplace is crowded with Jewish families from all over the Roman Empire coming to worship at the temple. According to custom, each family is expected to give an offering to God, usually a dove, lamb, or other small livestock.

Abraham, a manual laborer from Galilee, owns no livestock. As he and his wife make the journey, they become anxious as they watch fellow travelers herd their future sacrifices along the road. "We can get a lamb in Jerusalem," his wife assures him.

She is right. When they arrive at the temple, hawkers are waiting for them on the temple grounds, advertising animals at many times the usual market price. "It costs too much," says Abraham's wife, dismayed. But they have no choice: worshipping without the customary sacrifice is unthinkable.

Abraham is fictitious, but this scenario is based on historical facts. Especially during the Passover season, temple merchants profited by selling sacrificial animals at bloated prices. In addition, merchants called "moneychangers" would exchange travelers' money into shekels, the local currency for Jerusalem. The moneychangers typically pocketed a large percentage of each exchange. The dilemma of payday victims is strikingly similar to the ancient Jewish travelers: to meet a need, the most vulnerable people pay more than the well off.

We don't have to look far to understand how Jesus felt about financial exploitation of the poor. Matthew 21 tells us that, in response to seeing the moneychangers in the temple, Jesus goes on a rampage, overthrowing the moneychangers' tables in the temple and rebuking them for turning holy ground into "a den of thieves" (Matthew 21:12-13). Those are strong words, especially from one who usually displayed remarkable patience with lepers, prostitutes and even tax collectors.

### Rumors and Reality about payday lending

Rumor: People need cash to pay bills and avoid overdraft fees.

Reality: From time to time, households may need a loan; but they do not need a loan that demands full repayment within two weeks or a month. Loans at a lower interest rate that can be repaid over a longer period actually do respond to the needs of cash-strapped families. Payday lending simply creates more need.

Rumor: It's only a 2 week loan, so there's no need to measure its annual percentage rate.

Reality: Much like a car measures speed at miles per hour (whether you are driving for 5 minutes or 5 hours), the annual percentage rate (APR) provides a standard measure of credit that enables consumers to compare the cost of different lending products.

Rumor: Regulating payday loans will leave consumers without needed credit.

Reality: A study from North Carolina, where payday lending was once legal, found that 3/4 of low and middle income families were unaffected by the ban on payday lending. Of the remaining quarter, 2-to-1 felt that the payday lenders' departure from the state was a positive development in their lives.[3]

## Doing the math: how much does a loan cost?

Financial experts advise individuals to look at the cost of a loan before borrowing. The key way to measure cost is the loan's **annual percentage rate** or APR. Using one year as a standard measure, the APR enables borrower to assess both the interest rate (how much is charged per dollar borrowed) and time (how long the borrower has to repay the loan).

Lenders use a variety of interest rate measurements. It can be confusing to compare one loan to another without a common measure. APR enables two loans to be compared to each other.

Consider two ways of borrowing $300: a credit card advance and a payday loan. Imagine that both loans will be repaid in one month. The advertisements for the credit card advance announce a charge of 18% annual interest. Ads for the payday loan say their product costs 15% every two weeks. 18% and 15%. Sound similar? Let's do the math.

| Comparing the cost of a one month loan using APR | |
|---|---|
| Credit Card Cash Advance with 18% interest rate annually<br>$300 x 0.18 /12<br>**$4.50 interest paid = 18% APR** | Payday Loan with 15% interest rate every 2 weeks<br>15% of $300 = $45,<br>paid once every two weeks<br>**$90 interest paid = 390% APR** |

*I have four [payday lenders]. On a monthly basis I pay $350 worth of interest… In a way they are doing a favor for people, but in the long run it's not a favor. You have to pay them to get your money back so you can pay somebody else. It's not designed so you can get yourself together—it's designed for you to come back to them [payday lenders].*[4]

L. Smith

*The more we looked at it, the more we saw the negative effects of payday lenders on families, and really on churches as well, because a lot of these families that were caught in the debt trap were having to go to churches for help.*[5]

Chris Freund,
Virginia Family Foundation

*From what I see in my community and in my church … payday loans cause a vicious cycle of debt that steals hundreds of dollars from families already struggling financially.*[6]

Rev. Ken McCoy, Progressive AME
Zion Church, St. Louis, Missouri

Can you imagine how Jesus would respond to today's payday lenders and others who prey on the desperation of the poor?

## Payday and Poverty: an ongoing cycle

In 2008, LOVE Inc, a Christian ministry based in Charlottesville, Virginia surveyed individuals who reached out to the ministry for financial help. 60 percent of these requests were needed to pay off payday loans. Many other churches and ministries see similar patterns. They quickly discover that payday loans target poor households. By targeting low-income borrowers, payday lenders tap a market of borrowers who feel so stressed and strapped that they do not realize they are bound for a debt trap.

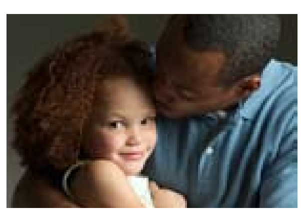
As a counselor from LOVE, Inc noted "the argument [for payday lending] is that it is incumbent on individuals to read the fine print and consider the implications. But, in desperation, do individuals make such considerations and can they really grasp the implications for the future of what they are doing for the moment? The answer is usually "no."

Many churches become aware of payday loans when people reach out for financial assistance. They also realize that lending abuse can be one of the causes of poverty in their community. Recent research demonstrates that payday borrowers are more likely to become delinquent on their credit cards and file for bankruptcy than similarly-situated people who do not use payday loans.[7] Households with access to payday loans are more likely to pay other bills late, delay medical care and prescription drug purchases, and lose their bank accounts due to excessive overdrafts.[8]

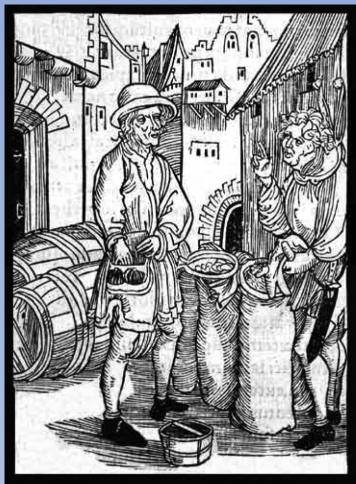
> Do not rob the poor because he is poor.
> Proverbs 22:22

### Who is most likely to receive a payday loan?

- Families who used payday loan within the past year tend to have less income, lower wealth, and fewer assets than families who did not use payday loans. In 2007, the median income for payday borrowers was $30,892.[9]
- Payday lenders are increasingly offering loans on the basis of unemployment checks at rates of 300 and 400 percent annual percentage rate (APR). One California payday lender has stated that one-quarter of new customers are on unemployment.[10]



- Even after controlling for income and a variety of other factors, payday lenders are 2.4 times more concentrated in African American and Latinos neighborhoods across the state of California.[11]
- Thirty-eight percent of families who borrowed a payday loan within the last year were nonwhite. African Americans make up a larger share of payday customers than of the general population.[12]



Usury and Profiteering Woodcut
attributed to Albrecht Dürer
Courtesy of Special Collections,
University of Houston Libraries.

*Within the early Christian church, usury, which initially affected those who were landless or poor, was associated with greed, avarice and callousness. Following this model, medieval church councils expressed opposition to usury, some calling for excommunication of usurers. Later, Protestant reformers allowed interest charged in the conduct of business, but strongly condemned high interest loans extended to those in need. The Reformed Book of Confessions attests that exorbitant and unjust interest violates the Eighth Commandment: "Thou shall not steal."*

*The issue of usury is clear in the Bible and should be clear to all citizens…We are called upon to speak out against such injustices.*

Rev. Jan Flaaten, President Arizona Ecumenical Council (supporting a 36% APR cap on payday loans in Arizona)

*"In the teachings of our faith, we have many warnings about usury and exploitation. Lending practices that intentionally or unintentionally take unfair advantage of one's desperate circumstances are unjust."*

Catholic Conference of Ohio (supporting legislation capping interest on payday loans at 28% APR)

## Biblical and legal tradition calls for restraints against bad lending

Historically, usury and small loan laws helped rein in abusive lending. Within the past several decades, many states granted payday lenders exemptions from usury and small loan laws. Since then, payday lenders have used these exemptions to gouge borrowers with triple digit interest rates.

People are now calling for a restoration of legal limits on an industry that has refused to police itself.

Across the country, citizens have found a way to curb usurious lending. Sixteen states plus the District of Columbia have outlawed triple-digit interest, with two of these states rejecting them in 2008 ballot measures—Ohio and Arizona. In 2006, Congress established a 36 percent cap on annual interest rates for payday loans extended to members of the U.S. military.

### Dismantling the Debt Trap

The most straightforward way to put an end to the debt trap is to limit triple digit interest rates. Many states have put in place an interest rate cap of anywhere from 17 to 45 annual percentage rate.

### An interest rate cap:

- Lowers the cost of a loan.
- Limits short-term balloon payments. Lenders who wish to continue to extend credit at 36% APR can simply lengthen the time borrowers have to repay their loan. For example, A $350 loan plus a fee of $15 per $100 borrowed that is repaid in six monthly installments is consistent with a 36%APR.
- Encourages affordable alternatives.

In many states, support for capping interest rates at 36 percent has been bi-partisan and representative of a wide spectrum of the business, civic, and religious community.

Historically, usury and small loan laws helped rein in abusive lending. Today, many states have granted exemptions to payday lenders from these laws, only to find that these lenders are using their privilege to gouge borrowers with triple digit interest rates.

People are now calling for a restoration of legal limits on an industry that has refused to police itself.

… [O]ur economy rests on a three-legged stool comprised of political freedom, economic freedom, and moral restraint. Without any of these three 'legs,' the economy—as we know it—collapses. In this instance, payday lenders [have] no moral restraint. They commonly [take] advantage of lower-class people by charging excessive interest rates… So the government has to step in and pass laws to keep these predators from operating.[13]

Dave Ramsey, author, ***Financial Peace***

### Questions for discussion

- Have you ever been in debt? Have you known a friend, family member or parishioner who got trapped in debt?
- Why do you think Scripture speaks as strongly as it does about lending? How would you summarize the Bible's teachings about lending and debt?
- How would you compare the Biblical model for lending with the payday model of lending?
- Were you to provide a loan to a neighbor in need of $350, how much interest would you charge? How quickly would you ask him or her to repay? How much interest do you think a bank or other lender should charge for a $350 loan?
- What resources and strengths can your congregation offer to end abusive lending?

## Taking Action: Freeing our community from the payday debt trap

In states where payday lenders are still charging triple-digit interest rates, church and community efforts are critical to freeing our neighbors from the payday debt trap. Here are a few steps you can take:

**1 Talk money**
Isolation, worry and shame can all lead individuals to end up owing a lot of money on a bad loan. Help prevent these pitfalls by making honest talk about money a part of congregational life and talking about abusive lending in sermons or educational forums. Continuing in a cycle of shame will only perpetuate the debt trap.

**2 Educate your congregation**
Host a forum about payday lending. Share the facts about payday lending. Invite people to tell their stories. Start documenting the stories you hear from members of your congregation.

**3 Identify leadership**
Designate several people to lead efforts against abusive lending and participate in community groups and coalitions that share your concern.

**4 Sign up!**
No one can accomplish great things on his or her own, but a coalition can provide the strength to restore prohibitions on predatory lending and dissolve the debt trap. Many successful coalitions are made up of faith, labor, civil rights, and citizens groups.

**5 Speak out!**
Send an op-ed article or letter to the editor raising concerns about payday lending in your community. Share specific stories and your religious perspective.

**6 Build support**
Invite people to take a pledge to end usurious lending. Save the names and contact information of all those who sign and keep them informed of future actions by the coalition.

**7 Go public**
Meet with or host a forum with your state legislator asking for his or her commitment to supporting payday lending reform. Hold a lobby day to share your perspective with legislators and ask for their commitment to ending the debt trap.

**8 Reflect, evaluate and celebrate**
Every action your congregation takes is an opportunity to learn and grow. Take time to evaluate what went well and ways you can keep growing. Celebrate your successes as well as the gifts and dedication of all collaborators.

Michelle Brooks, UMNS

A congressional briefing on payday lending included (left-right): United Methodist Bishop Minerva Carcano; Hilary Shelton, NAACP Senior Vice-President for Advocacy; and Mike Calhoun, CRL President.

PICO National Network

Reverend Rayfield Burns of Metropolitan Missionary Baptist Church helps lead effort to create alternatives to payday loans and cap interest rates in Missouri.

VirginiaInterfaith Center


Members of Virginia congregations ask legislators to reign in predatory lenders at the Virginia Interfaith Center's Day for All People.

## *About the Center for Responsible Lending*

The Center for Responsible Lending is a nonprofit, nonpartisan research and policy organization dedicated to protecting homeownership and family wealth by working to eliminate abusive financial practices. CRL is affiliated with Self-Help, one of the nation's largest community development financial institutions.

Visit our website at **www.responsiblelending.org.**

## Endnotes:

1 The Vatican's Pontifical Council for Justice and Peace (2004).

2 Delvin Davis, Center for Responsible Lending.

3 *North Carolina Consumers After Payday Lending: Attitudes and Experiences with Credit Options*, University of North Carolina Center for Community Capital, (November 2007).

4 *Too Much Month at the End of the Paycheck: Payday Lending in North Carolina*, The Community Reinvestment Coalition of North Carolina, (January 2001) http://www.ccc.unc.edu/documents/CC_2MuchMonth.PaydayNC.pdf.

5 Kate Sheppard, *An End to Payday Loans?*, The American Prospect, (May 6, 2008).

6 ADD OP ED CITATION [???]

7 Sumit Agarwal, Paige Skiba, and Jeremy Tobacman, Payday Loans and Credit Cards: New Liquidity and Credit Scoring Puzzles? (January 13, 2009); Paige Skiba and Jeremy Tobacaman, Do Payday Loans Cause Bankruptcy? (October 10, 2008).

8 Dennis Campbell, Asis Martinez Jerez, & Peter Tufano, Bouncing out of the Banking System: An Empirical Analysis of Involuntary Bank Account Closures, Harvard Business School, (December 3, 2008); Brian T. Melzer, The Real Costs of Credit Access: Evidence from the Payday Lending Market, Kellogg School of Management, Northwestern University, (January 3, 2009).

9 Amanda Logan and Christian E. Weller (Center for American Progress). Who Borrows from Payday Lenders? March 26, 2009. Available at: http://www.americanprogress.org/issues/2009/03/payday_lending.html.

10 L.A. Times, Payday lenders giving advances on unemployment checks http://articles.latimes.com/2010/mar/01/business/la-fi-payday1-2010mar01.

11 Center for Responsible Lending, Predatory Profiling. March 26, 2009.

12 Logan and Weller, 2009. Paige Marta Skiba (Vanderbilt) and Jeremy Tobacman (U. Pennsylvania). Do Payday Loans Cause Bankruptcy? October 10, 2008.

13 *Arkansas Says "No Way" to Payday Loans: Will other states follow their lead?* www.daveramsey.com (August 26, 2009).