

[Draft of a KCC policy statement: version of February 18, 2015]

### Lending to help and not to hurt

Jesus said, “Is there anyone among you who, if your child asks for bread, will give a stone? ... In everything do to others as you would have them do to you; for this is the law and the prophets.” (Matthew 7:9,12)

People of faith have wrestled for centuries with the ethics of lending. When is it appropriate to place a price tag on the help that one offers to another? How large a price tag can be charged before a loan becomes “a stone”? Psalm 112:5 states “It is well with those who deal generously and lend, who conduct their affairs with justice.” But lending can also be ruinous. As Nehemiah successfully abjured his kinsmen, “Let us stop this taking of interest. Restore to them ... the interest on money, grain, wine and oil that you have been exacting from them.” (Nehemiah 5:10-11) Indeed, exploiting economic hardship is considered by many churches to be a form of theft.<sup>1</sup> Taken to an extreme, such exploitation can undermine the biblical mandate to seek for all people to enjoy a sufficient and sustainable livelihood.<sup>2</sup> All of the business practices surrounding lending should balance the economic benefit of both the lender and the borrower.<sup>3</sup> In that balance, the borrower also bears some responsibility as well.<sup>4</sup>

The Kentucky Council of Churches’ positions about lending are couched in a deep concern with poverty and justice. In 1961 the Council insisted that a borrower must always be provided with a clear statement of the total charges for the cost of money being borrowed, and an expression of these charges as the simple annual interest rate on the unpaid balance.<sup>5</sup> In 2005 the Council’s document “Living and Minimum Wage” laid out strategies for improving wages and reducing household expenses, including “limits or prohibition on predatory lending.” Likewise in “Caring for God’s Earth” in 2006, the Council sought to “encourage the fair treatment of laborers with a livable wage, access to healthcare, and protection from predatory lending and other exploitations.”

#### Payday lending in Kentucky:

A broad consensus has developed in the churches that the practices of payday lending businesses in Kentucky are predatory. Most forms of lending, including loans to any military personnel, are not

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<sup>1</sup> Most Reverend Stephen E. Blaire, Chairman, Committee on Domestic Justice and Human Development of the US Conference of Catholic Bishops in a November 13, 2013 letter to the Consumer Financial Protection Bureau, citing *The Catechism of the Catholic Church* no. 2409.

<sup>2</sup> “*Economic Life: Sufficient, Sustainable Livelihood For All*,” Evangelical Lutheran Church in America 1999

<sup>3</sup> “*A Reformed Understanding of Usury for the Twenty-First Century*,” Approved by the 217<sup>th</sup> General Assembly of the Presbyterian Church (U.S.A.) in 2006, p. 16.

<sup>4</sup> In the General Rules, John Wesley warned Methodists against doing harm by greedy or self-indulgent behaviors, including “the giving or taking things on usury,” and “borrowing without a probability of paying; or taking up goods without a probability of paying for them.” *Book of Discipline of the United Methodist Church*, paragraph 104.

<sup>5</sup> “Interest-Rate Clarity Urged: Church Council Asks Statement of Amount on Loans and Credit,” *The Courier Journal*, November 15, 1961

allowed to charge interest and fees amounting to more than an annualized rate of 36 percent. But payday loan “check cashing” businesses have been permitted since the early 1990’s to charge 15 dollars per 100 dollars borrowed, or an annualized 390 percent. Most borrowers do not resolve their underlying financial issue quickly enough to avoid borrowing repeatedly, each time digging their trap a little deeper as they typically take out ten or more such loans in quick succession.

A database was created by the state legislature in 2010 to ensure that no more than two loans could be taken out simultaneously, but that still allows a person to borrow as many as 52 two-week loans a year. The Kentucky Coalition for Responsible Lending, of which the Kentucky Council of Churches is a member, analyzes the information provided by this database. We have found an increase in the amount of time borrowers are trapped, and the volume of fees extracted – well over 120 million dollars a year are now taken from Kentuckians in this way. So few borrowers are able to stop borrowing in short order, that one can only conclude that “churning” people in this trap is the payday industry’s business model.

The impact of these practices is that households already experiencing a downward spiral of credit ratings and financial instability are pushed closer to the brink. There, they must be rescued by churches, charities and social service programs, or not rescued at all. A survey by Catholic Charities in late 2011 asked clients about payday loan use, and 85 percent said they would not recommend taking out a payday loan to another person in their situation.

And what is that situation? According to a Pew Charitable Trusts study, “Most borrowers use payday loans to cover ordinary living expenses over the course of months, not unexpected emergencies over the course of weeks.”<sup>6</sup> In other words, it is a situation in which something more than a short-term loan is needed, a situation in which any loan may only postpone actions and decisions of a more fundamental nature, and in which a predatory loan makes the underlying situation worse.

The industry that preys upon such situations is as morally bankrupt as it is financially profitable. Hooked on its profitability, it claims it must stop providing its payday loan product if limited to a 36 percent interest rate. In some states with more regulations than Kentucky, the industry has indeed moved on to offering other predatory financial products instead. Ultimately, the cure for the existence of such predatory behavior is the end of poverty itself. And yet in the meantime a voice must be raised and actions taken for the protection of Kentucky’s families, so that stones to be turned to bread.

#### Resolutions:

Therefore, the Kentucky Council of Churches resolves:

1. To work to end the usury exemption that state laws have given to the payday loan industry, and support measures necessary to protect individuals from lending abuse;
2. To encourage local churches to sponsor financial and consumer education and counseling, offer alternatives to payday loans, and help former payday lending employees find alternative employment if the payday loan industry disinvests.

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<sup>6</sup> Pew Charitable Trusts, *Payday Lending in America: Who Borrows, Where They Borrow, and Why* (2012), page 4.