

## THE PAYDAY LENDING CRISIS: WHAT CAN CONGREGATIONS DO?

Several years ago, the Rev. Dr. Freddy Hayes III, pastor of Friendship West Baptist Church in Dallas, noticed storefront payday lenders popping up like mushrooms, replacing banks. Getting organized, he and other clergy testified before the Texas legislature, saying: “If someone is drowning, instead of throwing them a life preserver . . . we have thrown them shackles. That is what the payday industry has done to too many people.”<sup>1</sup>

Congregations involved in community ministry confront a new challenge: the payday lending industry. Financially insecure persons live among us; attend our churches; and, especially in times of personal crisis, ask for assistance.

### What Are Payday Loans?

Millions of Americans without access to traditional financial services rely on check cashers, pawnshops, and storefront payday lenders to make ends meet. With more than 22,000 payday loan shops in the U.S., according to the Center for Responsible Lending, predatory lenders are almost as numerous as McDonald’s (14,350) and Burger King restaurants (roughly 12,000) combined. Since the 1990s, when such payday lenders numbered only two hundred, the growth has been explosive.

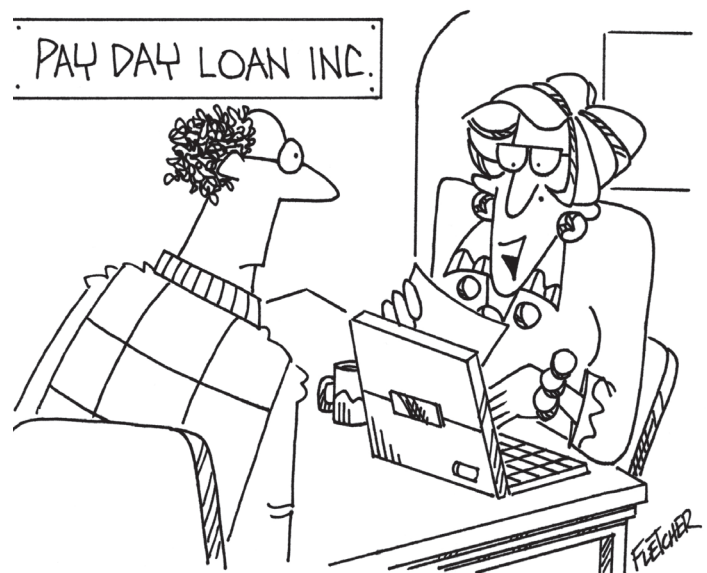
Specifically, payday loans are short-term, high interest rate loans that are designed to be repaid with the borrower’s next paycheck. The typical two-week payday loan has an annual percentage rate ranging from 391 to 521 percent. They appeal to those who are struggling because a credit check is not required. The process generally involves the borrower writing a post-dated check that the lender will cash, and the borrower incurs any bank fees from a bounced check. This can begin a cycle of multiple loans being issued to cover the growing debt.<sup>2</sup>

### How Can Congregations Help?

A broad-based coalition of Christian groups, Faith for Just Lending (<http://lendjustly.com>), called for an end to the practice of predatory lending. The signers include

the Center for Public Justice, the Ecumenical Poverty Initiative, the Southern Baptist Convention, National Association of Evangelicals, and the U.S. Conference of Catholic Bishops. The group’s principles assign equal responsibility to individuals, congregations, lenders, and lawmakers for eliminating practices that prey on the poor. The principles for just lending are:

- Individuals should manage their resources responsibly and conduct their affairs ethically, saving for emergencies and being willing to provide support to others in need.
- Churches should teach and model responsible stewardship, offering help to neighbors in times of crisis.
- Lenders should extend loans at reasonable interest rates based on ability to repay within the original loan period, taking into account the borrower’s income and expenses.
- Government should prohibit usury and predatory or deceptive lending practices.



LET’S SEE...THE CURRENT ANNUAL PERCENTAGE RATE RANGES FROM 391% TO, “YOU WORK FOR US NOW.”

These principles lend themselves to three avenues of assistance that can be provided by congregations.

*Charitable Giving.* Charitable giving is by far the most popular answer among congregations. A nationwide survey reported that each of the top three community outreach activities claimed by congregations involved direct assistance of some kind: cash (reported by 88 percent), food (85 percent), and clothing (60 percent).

*Advocacy.* Public policy advocacy, such as Rev. Dr. Haynes undertook, is another option. The federal government created the Consumer Financial Protection Bureau in 2010 to protect citizens from abusive financial practices. The Center for Responsible Lending ([www.responsiblelending.org](http://www.responsiblelending.org)) offers a program called “Faith and Credit.” This effort encourages congregations to advocate Congress to replace a patchwork of state laws with national legislation that curbs predatory lending practices. Yet only 38 percent of congregations claimed advocacy as something they do.

*Empowerment.* Empowerment (or personal development) ministry that attempts to move beyond meeting immediate needs to undergird the whole person may be a less recognizable piece of the community ministry toolkit. Examples include programs of counseling, training, education, or support for persons struggling with significant life issues. In the national survey, fully one-third of congregations reported participating in personal development ministries.<sup>3</sup>

### A New Kind of Loan: A Case Study

The Rev. Rodney Hunter of Wesley United Methodist Church in Richmond, Virginia, leads a predominately black, middle-class congregation located in a low-income community. Feeling constantly bombarded by requests for emergency assistance, the pastor created a mission fund through the church, but found it to be inadequate for those who faced major expenses. The pervasiveness of predatory loans compounded the problem. In the face of massive debt, charitable giving seemed neither practical nor wise. What could be done?

Rev. Hunter, along with Rev. Charles Swadley of Lakeside United Methodist Church, approached the Virginia United Methodist Credit Union to create a partnership. The result: the Jubilee Assistance Fund (JAF). Here’s how it works: The congregation provides a small dollar loan (\$500 - \$1,000) to church members to use as collateral for obtaining a larger loan from the credit union. People typically use the loans for rent, mortgages, medicine, utilities, and food. JAF loans can

also be used to refinance a predatory loan. In return, the borrower must agree to participate in financial counseling, loan monitoring, and payroll deduction.

A JAF loan compares quite favorably to one type of predatory loan, a car title loan. A one-year Jubilee loan with \$500 in principal at a 6% annual percentage rate (APR) requires \$16 interest, while a one-year car title loan with \$500 principal has a 264% APR and requires payment of \$953 interest. In eight years, the JAF has helped parishioners secure fourteen loans—from \$500 to \$8,800.

Rev. Hunter writes, “We are doing something to alleviate the pain of debt as we continue to urge our legislators for fair and sensible laws for the common working society. Since we started the Jubilee Fund, our mission’s fund has doubled in income. It is just like the multiplication of the two fish and five loaves (Mark 6:30-44). We have done something.”<sup>4</sup>

### Questions for the Congregation

If your congregation offers cash, food, or clothing, do you know what particular financial challenges may have led your recipients to seek help in the first place? Do the financially stressed individuals assisted by your church rely on predatory loans? Do you know which institutions in your community provide free or low-cost financial education? Do you have church members with financial expertise who could be involved in empowerment ministry?<sup>5</sup>

**ABOUT THE WRITER:** The Rev. Dr. Dana Horrell, executive director of Faithful Citizen ([www.faithfulcitizen.net](http://www.faithfulcitizen.net)) and United Methodist pastor, works to engage congregations in social ministry.

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1. Rachel Hope Anderson, “A Religious Movement to End Predatory Payday Lending,” *Tikkun*, Winter 2015, 37-38, 66-67.

2. Stacey Tisdale, “Congress and Church Take Aim at Payday Lending,” *Black Enterprise* Posted July 24, 2015. <http://www.blackenterprise.com/money/congress-church-take-aim-payday-lending/>

3. D. Roozen and C. Dudley, *Faith Communities Today* (2001), in Heidi Unruh, Ronald Sider, *Saving Souls, Serving Society* (New York: Oxford University Press, 2005), 29-32.

4. Rodney Hunter, “How Our Church Freed Its Members from Predatory Lending,” *Tikkun Daily*, March 16, 2015 ([www.tikkun.org](http://www.tikkun.org)).

5. For more about predatory lending, see the guide for churches, *Modern Day Usury: The Payday Loan Trap*, Center for Responsible Lending (<http://www.responsiblelending.org/allies/faith-and-credit/Modern-Day-Usury-The-Payday-Loan-Trap.pdf>).