



PAYDAY LENDING

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WHAT IS PAYDAY LENDING?

Payday lending is the term used to describe the practice of lending small amounts of money to people, usually \$350 or less, for two week periods, i.e., until their next payday. In return the borrower pays interest on the loan when it is due at the end of the loan period.

WHAT'S WRONG WITH MAKING SMALL LOANS AVAILABLE TO PEOPLE?

Making short-term loans to people can provide an important service. Unfortunately, the loans are often made at exorbitant interest rates. Because they are short-term loans, the borrowers aren't always aware of the actual rates they are paying. When the lender offers a \$350 loan for 15%, it sounds reasonable, except that this is the two-week rate, not an annual rate. On an annual basis, that 15% two-week loan is actually provided at a 390% annual interest rate.

What often happens is that the borrower comes to the end of the two-week period and is unable to pay off the loan. The lender offers to renew the loan if the borrower will just pay the interest due. So the borrower pays the \$52.50 interest on the \$350 loan and extends the loan for 2 more weeks at another 15% interest. In some cases, this goes on indefinitely. Such a practice is clearly predatory. The lender in such a situation is taking advantage of the plight of the borrower.

WHY SHOULD CHRISTIANS BE INVOLVED?

There are times when people are so desperate that they will turn to any apparent source of help. Christians should recognize that those who take advantage of people in desperate situations are violating Jesus' concern for the vulnerable among us (Matthew 25:40).

While the Bible supports the making of loans at reasonable interest charges, it denounces usurious practices -- and we should as well (Deuteronomy 23:19-20; Exodus 22:25-27; Nehemiah 5:1-13; Matthew 25:14-30; Luke 6:35).

Additionally, payday lending violates many biblical values:

- a. Respect for human dignity (Genesis 1:26-27). All people are created in God's image and deserve to be treated as people of worth.
- b. God's design for human relations (Genesis 1:26-31; 2:15). The task given humanity by God requires that we seek the best for each other, not predatory gain at others' expense.

- c. Treatment of others as more important than ourselves (Genesis 3:7-19; Philippians 2:3-4). Self-sacrifice for others is the biblical ideal, while greed is the primary motivating factor in payday lending.
- d. Neighbor love (Genesis 4:9; Luke 10:25-37). We are all our brothers' keepers and should seek ways to help them in times of trouble, not destroy them.

HOW CAN A CONCERNED PERSON STOP PREDATORY PAYDAY LENDING?

There are a number of ways Christians can help stop predatory payday lending practices:

- » Talk to your church leadership about creating a micro-lending ministry to people in the community, with reasonable repayment schedules and low or no interest rates.
- » Provide financial stewardship classes for your church members and the community.
- » Find out what regulations govern payday lending in your state.
- » Lead your state to adopt legislation or regulation that caps the interest rates on payday loans. Some states have an annual interest rate cap of 36%.
- » Ask God to raise up the leaders that are needed to rid your state of predatory payday lenders.
- » Write letters to the editors of your local newspapers expressing your reasons for opposing payday lending.
- » If you have been victimized, report your experience to the Center for Responsible Lending (919-313-8500).
- » If you or someone you know is being exploited by predatory payday lenders, contact the Consumer Financial Protection Bureau (855-411-2372).

WHAT SHOULD PEOPLE DO IF THEY ARE IN NEED OF SOME EXTRA MONEY AND CANNOT OBTAIN A REGULAR LOAN?

- » They should approach family and friends.
- » They should look for churches that offer small loans with reasonable repayment schedules and low or no interest rates.
- » They should only choose to take out loans they know they can repay.

WHAT RESOURCES ARE AVAILABLE TO BETTER HELP ME UNDERSTAND THIS ISSUE?

- » ERLC Resource: *The Bait with an Unshakable Hook: A Biblical Answer to Predatory Payday Lending*

- » The Center for Responsible Lending
- » The Consumer Financial Protection Bureau

Note: Referrals to other organizations should not be construed as endorsements of all of the activities or resources of those organizations.