



PREDATORY PAYDAY LENDING: A PUBLIC JUSTICE PROBLEM

Vol. 9, Issue 5, 2019

Predatory Payday Lending: A Concern for Contemporary Christians

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Abstract: Payday loans are marketed and presented to the public as easy solutions to short-term financial challenges. What many borrowers do not realize until too late, is that the payday loans are easy to get into but are extremely difficult to get out of. This article invites readers to explore the challenges of people who have found themselves in the throes of predatory payday loans and the responsibility of Christian citizens to help address this topic. The good news is that it is possible to end the cycle of debt caused by predatory payday loans and there are individuals, organizations, and agencies doing the difficult work of advocacy and activism. Christian citizens have a moral and Biblical mandate to ensure that the image of God is honored in each person. *Public Justice Review* (PJR) editor, Kerwin Webb—who has experienced the debt cycle caused by payday loans—explains payday loans, discusses the predatory nature and effects of the loans and invite readers to converge at the intersection of public justice, Christian citizenship and Holy Scripture. *Public Justice Review* (PJR) editor **Kerwin Webb**, who has experienced the debt cycle caused by payday loans, defines payday loans, discusses the predatory nature and effects of the loans, and invites readers to converge at the intersection of public justice, Christian citizenship and Holy Scripture.



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As Christians, the Bible frequently makes mention of how we are to treat others, whether they be our neighbors (Matthew 22:39), strangers (Leviticus 19:34), the widow, poor, or the oppressed (Isaiah 1:17). We were all created in God's image (Gen 1:26) and deserve to be treated honestly and fairly. God, through Scripture, clearly articulates that greed and selfishness are not character traits that reflect the will of God. Scripture also addresses the way financial transactions are handled. Deuteronomy 23:19 reminds us that, that Christians should not charge interest to those who are part of the Christian family. Predatory payday lending is displeasing to God because it does not value the *imago Dei* in people and takes advantage of them by charging exorbitant interest. For these reasons, predatory payday lending must become a concern for contemporary Christian citizens.

This article does not assume that payday lending companies abide by Christian teachings that are contained in the Bible. What I am attempting to convey, however, is that as Christian citizens, we are taught that all people were created in the image of God and that we are all part of God's family (Genesis 1:27). As such, we have a responsibility to care for our brothers and sisters, and in this case, it means helping them avoid the perils of payday loans.

A Borrower's Nightmare

Short-term payday loans are marketed solutions to emergency financial needs. Qualification for loans is relatively easy, as a borrower has only to provide a post-dated check or some other access to a bank account. In marketing these small-dollar loans, payday companies rarely reveal the true cost of borrowing, and in many cases the lenders are bound by truth-in-lending disclosures¹ required for other types of loans, but obscure the true cost of the payday loan.

While researching and preparing to write this article, I read some reviews on a company who provides short-term cash advances/payday loans. On this company's website, most of the reviews were positive: friendly staff, clean facilities, good customer service. But there was one review that was markedly different.

The reviewer wrote that the organization used "trickery to get customers in." The review continued, "they're [the customer] introduced to exorbitant loan repayments" and the company "is charging enormous fees." The reviewer ended the review by stating that the company was operating like a loan shark. The review made several claims of fraud and illegality against the company. In reply to the reviewer, the company's owner posted that the company "takes compliance with laws and regulations very seriously." Unfortunately, payday lending, even with its predatory effects, is legal.

The surprise, anger, and confusion that was evident in the borrower's review is similar to other short-term loan borrowers when the reality of their predicament comes into full view. I, too, experienced a similar set of emotions when faced with having to repay my first payday loan. Neither I, nor the reviewer, nor millions of other payday loan borrowers found easy relief from the practices of predatory payday lending.



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What is a Payday Loan?

To adequately discuss predatory payday lending, it is helpful to define a payday loan. Unfortunately, this is not as easy as one might hope because there is not a standard definition for it. According to the Consumer Financial Protection Bureau (CFPB), a payday loan² “is usually a short-term, high cost loan, generally for \$500 or less, that is typically due on your next payday.” These types of short-term financial instruments often carry with them fees, charges, and interest that often makes the borrower’s financial situation worse. According to the CFPB, “many state laws set a maximum amount for payday loan fees ranging from \$10 to \$30 for every \$100 borrowed, and a typical two-week payday loan with a \$15 per \$100 fee equates to an annual percentage rate³ (APR) of almost 400 percent.” Out of desperation, people fail to adequately consider the true cost of their loan, resulting in a costly lesson about borrowing and finances.

Predatory in Nature and Effect

Faith for Just Lending⁴ is a coalition of faith-based institutions working to end predatory payday lending. Center for Public Justice⁵, the publisher of *Public Justice Review*, is a member of the Faith for Just Lending coalition, as is the Cooperative Baptist Fellowship⁶, whose Associate Coordinator of Partnerships & Advocacy serves as the Contributing Editor for this series. These faith organizations all realize the tremendous need for intervention, as they all serve individuals and families who have been negatively impacted. In 2013, the Consumer Financial Protection Bureau (CFPB) published a comprehensive study⁷ on payday loans and deposit advances. Former agency director Richard Cordray said⁸ at the time, “This comprehensive study shows that payday and deposit advance loans put many consumers at risk of turning what is supposed to be a short-term, emergency loan into a long-term, expensive debt burden.”

The predatory nature of the payday loan business is evident in the places it operates. With almost half⁹ of Americans living paycheck to paycheck, easy access to funding in emergency situations is extremely attractive. Unfortunately, so too are payday loan companies attracted to the potential profits and a seemingly limitless supply of customers that are found in economically depressed areas. One good example is my home state of Alabama.

Alabama is the sixth poorest state¹⁰ in the United States and has one of the top five highest concentrations¹¹ of payday lenders in the nation. According to a report by the Alabama Appleseed¹² Center for Law and Justice titled *Broke: How Payday Lenders Crush Alabama Communities*¹³, “Alabamians paid \$101.6 million¹⁴ in payday loan fees that did not decrease the principal amount owed and about 18.5 percent¹⁵ of people in Alabama live at or below the poverty line.” In economically distressed Alabama, the combination of low-income families, easy access to payday loans and limited access to good paying jobs, lead to cycles of debt and deepening poverty. More than half¹⁶ of “payday loan recipients defaulted on their loans, and borrowers also could have their debts sold to a collection agency or face court action.” Unfortunately, this is a winning formula for payday loan companies.



PUBLIC JUSTICE *REVIEW*

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It is bad enough that payday loan companies prey on the economically disadvantaged, but the way in which these practices disproportionately harm ethnic minorities is even more sinister. According to the Bureau of Labor Statistics (BLS), unemployment for African Americans was nearly double¹⁷ other ethnic groups listed. This statement is not to suggest that payday lending companies are targeting ethnic minorities exclusively, rather that the intersections of poverty, race, and class all make ethnic minorities easy prey for these types of companies. Although it may not be the intent, it is almost undeniable that payday lending has a disparate impact on racial minorities. In response to reports like these that document how the poor and marginalized are targets for exploitation, Christian citizens and the institutions of civil society must now begin to interject examples of God's love and justice back into the world.

Public Justice and Scripture

The Center for Public Justice (CPJ) believes that both the government and the mediating institutions of civil society— including families, schools, businesses, and faith-based organizations (FBOs) – have important and necessary roles to play in addressing major issues in society, including predatory payday lending. A public justice framework calls upon government and the mediating institutions of society to all do their part to enable the flourishing and well-being of all individuals in the political community.

Micah 6:8 (NLT) reads, “No, O people, the Lord has told you what is good, and this is what he requires of you: to do what is right [justice], to love mercy, and to walk humbly with your God.” God's commandment to the prophet Micah was to the people of Israel who had been led out of bondage, through the Red Sea, and into the Promised Land. The Israelites had angered God, and in his indictment of them said the following:

“What shall I say about the homes of the wicked, filled with treasures gained by cheating? What about the disgusting practice of measuring out grain with dishonest measurers? How can I tolerate your merchants who use dishonest scales and weights? The rich among you have become wealthy through extortion and violence. Your citizens are so used to lying that their tongues can no longer tell the truth.” (Micah 6:10-12 NLT)

My reading and interpretation of Scripture leads me to believe that Christians are responsible for, and accountable to, our neighbors. God reminds us, through Holy Scripture, that our responsibilities as believers include loving our neighbors (Matthew 22:39), protecting the vulnerable, and seeking justice for the oppressed (Psalm 82:3). CPJ's guidelines for citizenship¹⁸ tell us that citizens have a responsibility to uphold a just political community¹⁹ and this includes helping conform the community to the demands of justice. Justice demands that citizens are not exploited and forced into debt traps because of predatory lending practices. “All Scripture is inspired by God, and is useful to teach us what is true and to make us realize what is wrong in our lives. It corrects us when we are wrong and teaches us to do what is right. God uses it to prepare and equip his people to do every good work” (2 Timothy 3:16-17 NLT). It is critical that



PUBLIC JUSTICE *REVIEW*

A PUBLICATION OF THE CENTER FOR PUBLIC JUSTICE

concerned Christian citizens allow Scripture to inspire us so that we might do the good works God commanded us to do.

Applying public justice principles to the challenge of predatory payday lending will reveal possibilities for addressing the problem in ways that are fair and just, and demonstrate our love of neighbor as commended in Scripture.

Principles of Public Justice at Work

Government

Government regulatory agencies have an important role in society, balancing the tensions between the need to protect the rights of citizens and regulating industry without inhibiting businesses' flourishing. There is not a "one-size-fits-all" approach, and this helps explain the myriad of state laws concerning payday loans. Currently, there are twelve states²⁰ that have completely banned payday loans. On the other hand, six states²¹ have no restrictions on payday loan fees or interest at all. In the other thirty-two states, there is a diversity of restrictions that limit fees, interest rates, rollovers, and terms of payday loans.

The South Dakota Payday Lending Initiative²², also known as Initiated Measure 21, passed in 2016. The measure "was designed to cap the interest rate that could be charged by money lenders licensed under South Dakota Codified Laws chapter 54-4." Passage of the bill capped the interest rate at thirty-six percent, and loans made in violation of the rate cap would be voided. This is one of many solutions that seeks to limit the exploitation of payday loan borrowers without banning the practice altogether.

But government also has another obligation too: to promote family. CPJ believes that "the family is the most basic of human institutions. Government should recognize and protect the family as an essential expression of its responsibility to uphold a just society." Allowing predatory lending practices to trap people in cycles of debt and push them further into poverty does not promote flourishing for the family – in fact, it passes debt on to the next generation. Recognizing that government plays a limited role in society, however, the task of addressing this issue is not solely on the government.

Citizens

As much as the work of public justice is the responsibility of the government, individuals also have a key role here as well. Governments are made up of individuals who come from a particular political community²³. CPJ's guideline²⁴ on political community states that we have "the responsibility to create the organized institutional means of upholding and enforcing justice for all." It is the work of the community to remain informed, engaged, and present when legislative issues are being debated. State sovereignty makes it difficult to legislate ordinances at the federal level because states have different contextual realities and must be free to adopt policies and ordinances that are most beneficial for the inhabitants of the state. As a result, consumers must be vigilant and mindful of the laws of their state. The National



PUBLIC JUSTICE *REVIEW*

A PUBLICATION OF THE CENTER FOR PUBLIC JUSTICE

Conference of State Legislatures summarizes the state statutes²⁵ regulating payday loans on its website²⁶ to assist citizens. Christian citizens have responsibility to help end predatory payday lending practices because it inhibits the flourishing of God's creation.

Churches, faith-based nonprofits, and other organizations

The final components of the institutions of civil society are churches, faith-based nonprofits and other organizations. As we see with the Faith for Just Lending²⁷ coalition, Exodus Lending²⁸, and other community groups there are those working to bring positive change in this area. These groups have helped pay off the loans of individuals, designed programs to help people get out of payday loans, advocated for legislative changes to prevent the exploitation of people and even host financial education seminars to bring greater awareness to the dangers of predatory payday lending.

A Brighter Future

After my entrapment in the debt cycle caused by a payday loan, with help I was able to end the cycle. Although there had been no legislative movement at the time on payday lending, I engaged with individuals from my family and faith community. Overcoming the guilt and shame of being in that predicament was a challenge. Once this was accomplished, then the real work began.

Given the unjust and structural nature of policies and practices that promote exploitation of vulnerable populations as well as create systems that produce cycles of debt and poverty, there needs to be collective action to end these predatory practices. Individuals, however, must examine how he or she ended up in that position in the first place. I was forced to analyze my personal behavior, financial habits, and understanding of policies and practices. A mindset change first had to start within me, and then could spread outward. Additionally, I am thankful that I had a supportive family unit and a faith community that demonstrated the love of Jesus in my time of need. Much like my family was there for me to help me navigate the challenges of my debt slavery, organizations like Exodus Lending²⁹ and Cooperative Baptist Fellowship³⁰ are working on a larger scale to address predatory payday lending for larger numbers of people. Along with local faith-based nonprofits, national organizations like Habitat for Humanity³¹ and AmeriCorps³² also helped me to improve my life by providing opportunities for learning, growth, and advancement.

The call of the Christian is to be a reflection of Jesus Christ in the world. The call of public justice echoes the social teachings of the Old Testament and the words of Jesus in the New Testament. Individuals and organizations that heed the call of the Christian and live out the values of public justice are critically important in bringing about a brighter future. Public justice does not preclude corporate entities from providing profitable services but does recognize that the value of human life in the political community is greater than the opportunity to earn profits.



PUBLIC JUSTICE *REVIEW*

A PUBLICATION OF THE CENTER FOR PUBLIC JUSTICE

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PUBLIC JUSTICE *REVIEW*

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PUBLIC JUSTICE *REVIEW*

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Christians, within those bounds, to work out public policy faithful to God and in service of our neighbors. We do not necessarily share the views expressed, but we do accept responsibility for giving them a chance to appear.