



## ***PREDATORY PAYDAY LENDING: A PUBLIC JUSTICE PROBLEM***

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### Predatory Lending: A Framing Conversation

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**Abstract:** For some people, a vehicle breaking down is more of a nuisance than it is a crisis. But for others, a vehicle in disrepair sets off a chain of events that often includes missed time from work that results in lower earnings and greater financial instability often resulting in threats of homelessness and/or food insecurity. It is this need that payday lenders purport to fill, although there is clear and mounting evidence that demonstrates the industry's predatory effect.

Those who are able to easily absorb the impact of a temporary financial shock have what Harvard University professor Emeritus, Robert Putnam calls "airbags", that are immediately activated when financial crises strike. These so-called airbags are inflated by a person's social and financial capital that act as cushions when unexpected expenses arise.

But what are the right roles and responsibilities for the government and the institutions of civil society in protecting citizens who don't have access to what Putnam called airbags? Former assistant to President George W. Bush, Michael Gerson, Katie Thompson, Program Director and Editor of Shared Justice, and



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Center for Public Justice (CPJ) CEO, Stephanie Summers frame the issue of payday lending using normative Christian principles to view payday lending through a public justice lens.

*Editor's Note: This is an excerpt from a chapter about payday lending in the 2015 book "Unleashing Opportunity: Why Escaping Poverty Requires a Shared Vision of Justice", written by Michael Gerson, Katie Thompson, and Stephanie Summers and published by Falls City Press<sup>2</sup>. This article frames the issue of predatory lending using normative Christian principles to view payday lending through a public justice lens. It sets the context for examining predatory lending and identifies the right roles and responsibilities of government and the institutions of civil society – families, schools, churches, faith-based organizations, etc. – in addressing this public justice issue. Originally written for young adults, the concepts and principles outlined in Unleashing Opportunity apply to anyone entangled in the payday lending industry.*

What if you need \$500 to fix your car so you can get to your job, and you don't have it in the bank?

Depending on your situation, you can put it on a credit card and pay it off when your next paycheck arrives. Or you can call mom or dad who can let you borrow—or even give you—the money.

These options are what Harvard professor Robert Putnam calls "airbags" that are immediately activated when an unanticipated crisis arises in the life of someone who is not poor. Social and financial capital—access to financial options and a network of friends or family who can easily and quickly share resources with you—act as cushions when the vicissitudes of life strike.

But consider the scenario if you're poor. The airbags of financial and social capital do not inflate automatically to protect you. You're not sure how you're going to come up with the resources you need right now. Your need for a car to keep your job is paramount. Other bills you're supposed to pay will just have to wait until you figure it out.

And then you see a sign at the end of the repair shop's counter: Need \$500? Tucked inside a plastic display are tri-fold brochures advertising "CASH TODAY" from a store in the same strip mall.

It seems to you not just a sign, but a miracle. You have no idea that you're walking into a trap.

The reasons that someone who is poor might need fast cash and not be able to get it are often not the result of personal sin or outsized wants. Unexpected troubles of all kinds beset everyone, but the effects are more detrimental for the poor than the rich or even the middle class. The reality that need and resources are not always co-located is made manifest, especially for the poor, even with strong networks of relationships. Friends and family may be immensely willing to help, but what if they don't have the financial capital to do so? Banks don't tend to extend small loans. Options to get financial help quickly are limited when you're poor.

Of the 12 million Americans who were trapped in predatory payday loans last year, two-thirds of payday borrowers showed up at a storefront needing a small loan, averaging \$375. These borrowers were most likely not borrowing to cover the cost of an emergency car repairs. About 69 percent used their loan to cover regular expenses they could not meet on their own. A study conducted by the Pew Charitable Trusts notes that the loans cover "utilities, credit card bills, rent or mortgage payments, or food."

Predatory payday lenders advertise to the public that they are providing a short-term solution to a temporary cash flow problem. But loans are made with the full knowledge that those who borrow have little hope of ever being able to repay. The result is debt slavery. Indebted families are even less able than before to pay their bills, to save for the next emergency, or to provide for their children.



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One might argue that the free market exists to offer ready alternatives for moments like this. But that's less than half of what should be said. Christian philosophers and economists have long argued that free markets are to be just markets. Within just markets, businesses rightly uphold their responsibilities as they seek to satisfy legitimate human needs and contribute to human flourishing as they profit.

When rightly ordered, businesses operating in free markets impose limits on their own practices and operations, such that their relationship to the rest of society's institutions and to human beings reflects the end of satisfaction, rather than the more familiar word maximization regarding the making of profit. Rightly ordered businesses choose practices that reject profiting from the exploitation of human beings.

Despite their altruistic talking points, predatory payday lenders fail to meet these criteria. As Christians, we begin answering that question by looking at three interrelated biblical concepts which God shows us from the very beginning of the world. These are image, structure, and wisdom. We look back to God's creation of the world, examining these concepts in relationship to one another. Then we can begin to understand how we can respond to the challenges of the world around us.

## Image

At the creation of the world, God shows us that humans are made in God's image—and we are to bear God's image in every area of life. We see in the creation that God made humans for community. We see the God who loves us call us to love our neighbors. The God who is justice exhorts us to do justice. The God who is the ultimate steward calls us to a life of good stewardship. From the beginning of the world, humans are made in God's image.

## Structure

In creating the world, God laid out its foundational structure. We are made for community, and from that comes diverse structures such as family, marriage, church, school, business, and government. Connecting the Biblical concepts of structure and image shows us our important God-given task—to discover and unfold the structure of the world so that every part of creation reflects God's intent.

## Wisdom

God has given us the gift of wisdom for how we fulfill our God-given task in the world we live in today. The human task of image-bearing and of developing the structures of the world began at creation. This task continues right at this very moment. When we bring the Biblical concepts of image, structure, and wisdom together, we recognize what it means to bear God's image and the structures God created. We then can wisely seek to address the challenges of the world around us.

This means that when we think of how we can stop lenders from preying on low income families and trapping them in debt slavery, we have three key considerations to make. What do we know about God's character that gives us wisdom for how we might address this challenge? What are the structures of society, like families, churches, schools, businesses, and government that may have a role in addressing this challenge? And finally, for the structures of society that have a role, what are their respective responsibilities to address the challenge, based on what we know about God?

## The Role of Government



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Part of the government's calling is to promote public justice. For elected officials, this looks like developing and enacting a just legal framework for recognizing, protecting, and encouraging the full range of human responsibilities. This includes just treatment of economic activity and markets, so businesses thrive and make their fullest contribution to human flourishing.

Yet when businesses operating in free markets fail to follow the prescribed norm of satisfaction by limiting their own practices, their relationship to the rest of society's institutions and, to human beings can become exploitative — businesses that contribute to the destruction of families, for example. In the case of predatory payday lending, government bears responsibility to enact just laws to protect citizens from this domestic injustice.

In fact, much of today's legislation violates this norm. For many legislators in states like Missouri, what has been signed into law is only a cap—set at 75 percent of the loan value—on the fees for predatory payday loans and a cap on interest allowed by law set at an astounding 1,950 percent APR (compared to say an APR of 19 percent for a credit card). Legislation like this is not likely to protect citizens from predatory lending; it is not public justice.

What's more, reform advocates have documented the financial contributions of predatory payday lenders and their Political Action Committees (PACs) towards the campaigns of state legislators for years. And these contributions aren't supporting only one party. In states where reforms are making their way towards legislative consideration, predatory payday lenders are among the top campaign contributors to both of the parties competing in the same election cycle.

While efforts towards regulatory and rate reform are underway at the federal level, the documentation of campaign contributions by predatory payday lenders and their PACs towards the campaigns to both houses and parties of the U.S. Congress, including those who hold committee chairmanships important to the passage of reforms, is an open secret. The relationships between elected officials at every level and the campaign contributions of predatory payday lenders and their PACs, should be a cause for concern to every citizen and should be explored directly as part of a respectful conversation with legislators.

## The Role of Individuals and Institutions of Civil Society

It is right to criticize politicians who fail to uphold public justice and to press for just laws and policies that seek to put an end to predatory lending. But ending predatory lending won't come only from enacting just laws. It must also come through the reform of the church and the reshaping of hearts and minds.

Faith-based nonprofit leaders share stories of people with jobs who nonetheless repeatedly visit a food pantry before admitting to someone they were trapped, working for wages only going to service the interest payments on what had become thousands of dollars of payday loans.

It is recorded in the book of Acts that the early followers of Jesus sold their belongings, gave the proceeds to the Apostles, and that these assets were then "distributed to each as they had need." But rather than turning to the church in times of need, borrowers often fear having to rely on others. Borrowers trapped in payday debt say that they sought the loans because they were taking care of their own business. They reported that they did not want to be a burden or become dependent upon other people or the government. This is a long way from the church of Acts.

Pastors and leaders of faith-based nonprofits report that the men and women of their congregations who work the counters of payday lenders believe they are engaged in acts of generous distribution aimed at helping people remain independent. But the distortion that drove many pastors and faith-based nonprofit



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leaders to become active to end predatory payday lending was the discovery that members of their own congregations are the owners of some of the largest predatory payday lenders in America.

Isaiah 3:14-15 reminds us: “The LORD enters into judgment with the elders and princes of His people, ‘It is you who have devoured the vineyard; the plunder of the poor is in your houses. What do you mean by crushing my people and grinding the faces of the poor?’ declares the Lord, the LORD Almighty.”

In May 2015, a diverse and surprising coalition of Christian groups came together to form Faith for Just Lending<sup>3</sup> (including the Center for Public Justice). The alliance was formed to introduce a set of principles for just lending and to offer citizens an opportunity to participate in a movement aimed at ending predatory payday lending. There is clear recognition at the outset that the work to be done is not only a matter of better business practices by lenders, but also the work of churches, families, and government to each uphold their responsibilities.

The principles for just lending support the responsibilities of individuals to manage their resources responsibly, churches to teach and model responsible stewardship, lenders to extend loans at reasonable interest rates based on ability to repay within the loan period, taking into account the borrower’s income and expenses, and the responsibility of government to prohibit the practice of lending money at unreasonably high rates of interest and predatory or deceptive lending practices.

What is clear is that churches must change the contours of the conversations with their members about such practices in a way that those participating in perpetuating debt slavery among their neighbors cease their current predatory practices. Citizens must also press for legislative and regulatory solutions that uphold public justice. To do less is to let the degradation of human dignity continue.

*To read the rest of the chapter, you can purchase the book “Unleashing Opportunity<sup>4</sup>: Why Escaping Poverty Requires a Shared Vision of Justice” from Falls City Press<sup>5</sup>. For more information and updated legislative news about the payday lending industry, we have included resource links for your convenience.*

- Center for Responsible Lending Report: Payday and Car Title Lenders Drain Nearly \$8 Billion in Fees Every Year<sup>6</sup>
- National Conference of State Legislatures: 2019 Payday Lending Legislation<sup>7</sup>
- CPJ Report: What Justice Requires: Protecting Families from Payday Lending<sup>8</sup>
- Cooperative Baptist Fellowship’s Predatory Lending Advocacy Resources<sup>9</sup>
- Faith for Just Lending website<sup>10</sup>



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9. <https://cbf.net/predatory-lending-advocacy>
10. <http://lendjustly.com/>

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*To respond to the author of this article, please email [PJR@cpjustice.org](mailto:PJR@cpjustice.org). The articles in Public Justice Review do not represent a consensus of positions on questions of public policy. We do not expect our readers will agree with all the arguments they find here, but we believe that within the broad tradition of what we call public justice we can do more by providing a forum for the debate and exchange of 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.*