



PREDATORY PAYDAY LENDING: A PUBLIC JUSTICE PROBLEM

Vol. 9 Issue 5, 2019

Faith Leaders and Community Residents Respond to Payday Lenders in Missouri

By Bob Perry and Robert Reed

Robert Reed is a member of University Heights Baptist Church in Springfield, MO. He served as Chairperson of the Board of Deacons when University Hope was conceptualized, developed, and implemented. Mr. Reed has since been active in the loan replacement program, education and advocacy.

Bob Perry is a retired minister and member of University Heights Baptist Church in Springfield, MO. In addition to other functions in the church Mr. Perry has worked with the University Hope program since its inception, working along with former pastor, Danny Chisholm and Bob Reed.

Abstract: The negative effects of predatory payday lending are becoming increasingly apparent as more and more people seek relief from the cycle of debt. Churches, social service agencies and other charitable organizations within the community often feel the impact of the predatory industry more acutely than other institutions. These are the places where people turn when caught in the grips of crushing payday loan payments and fees. Out of concern for members in the church who had been victims and out of civic, moral, and ethical convictions, an average-sized church in Springfield, Missouri, began working a program of guaranteeing replacement loans. In partnership with a local credit union and other supporters, the members designed a financial services product that would replace the payday loan with one at much lower interest rates. The church took a multi-dimensional approach to their program. Honoring the value and inherent dignity in all people, the program worked to create opportunities for success and flourishing, by providing loan replacements, a client education program and a public awareness campaign, rather than simply providing clients giveaways. The group also participated in advocacy efforts for greater regulation of high-interest lending and won some measures of relief for those crushed in the debt cycle.



PUBLIC JUSTICE *REVIEW*

A PUBLICATION OF THE CENTER FOR PUBLIC JUSTICE

The Impetus

In the Spring of 2015, a preacher delivered a sermon at University Heights Baptist Church(UHBC).¹ The sermon was based on Luke 4:18. In a portion of the passage, Jesus reads from the book of Isaiah: “*The Spirit of the Lord is upon me, because he has anointed me to bring good news to the poor.*” This sermon inspired members of the church to become more like Jesus. They wanted to bring “*good news to the poor*”, and out of their faith convictions, the group decided to come together and study some causes of poverty in Springfield, MO. The group studied issues like childcare, transportation, substandard housing and other community problems. Perhaps, not unlike others, UHBC decided that it was important to create a program that could help those in financial need get out of debt traps caused by payday loans because some of its members were victims and it affected the larger body. Whatever the impetus, they decided to develop a plan to help people escape predatory payday loans.

A payday loan, according to the Consumer Financial Protection Bureau, is “usually a short-term, high cost loan, generally for \$500 or less, that is typically due on your next payday. Depending on state law, payday loans may be available through storefront payday lenders or online.”² After determining the focus area for their collective efforts, members of the church designed a strategy. To support their efforts, the members of the UHBC congregation received support from the Board of Deacons, and with strong pastoral support, University Hope was established.³ University Hope had three areas of focus: (1) replacing high interest loans with guaranteed loans at lower interest, (2) financial education, and (3) issue advocacy.

Consumer lending is subject to state laws and regulations, with wide variations among states. Fifteen states and the District of Columbia prohibit extreme high-cost payday lending, with most capping interest rates at 36 percent. Missouri is among the states with the fewest restrictions, allowing payday and other personal loans to average annual percentage rates (APR) of about 350 percent. Borrowers often become trapped in a cycle of long-term debt because of temporary cash flow problems. Problems that fuel the need for payday loans are often related to automobile repairs, unexpectedly high utility bills or income gaps due to health issues or changes in employment.

A public justice framework calls upon government and the mediating institutions of civil society--families, schools, businesses, faith-based organizations--to all do their part to enable the flourishing and well-being of individuals in the political community. Predatory payday lending has a deleterious effect on the family, the welfare of individuals, communities, and the economy, and does not promote economic justice. The church has had, and continues to have, an enduring role in advocating for justice. To help address predatory payday lending, churches can advance awareness of the problem within their congregations and the community, can serve as a source of support and comfort during times of difficulty and finally, according to Faith for Just Lending principles,⁴ “churches should teach and model responsible stewardship, offering help to neighbors in times of crisis.”⁵ In addition, “government⁶ should prohibit usury and predatory or deceptive lending practices,” and “individuals should manage their resources responsibly and conduct their affairs ethically, saving for emergencies.”⁷



PUBLIC JUSTICE *REVIEW*

A PUBLICATION OF THE CENTER FOR PUBLIC JUSTICE

Reducing interest on an individual loan from typical levels of 350-450 percent brought a measure of relief to borrowers, but University Hope could barely make a dent in the proliferation of payday lending in Springfield. More than eighty payday and title lending stores were identified in the city. In addition to high interest rates, payday loans also require the lender to have access to a borrower's bank account, ensuring that payday loan payments take precedence over all other expenses. Lenders do not allow partial repayments of the debt, often resulting in repeated renewals and extensions of the original loan term. To make a meaningful impact, advocacy and education was necessary. Educating the public about predatory payday lending would provide support for advocacy efforts and engage other members of the political community and other institutions of civil society -churches, faith-based institutions, schools, etc.

Civil Society Institutions at Work

As an institution of civil society, the members of University Hope Baptist Church realized that the church had a vital role to play in the flourishing of God's people and honoring the image-bearing of all individuals. They also realized that they would need to connect with other people and organizations to be impactful. To make this work, University Hope leaders made arrangements with a local credit union to issue, service and collect replacement loans. These loans are guaranteed by deposits made by UHBC. To foster individual accountability and personal responsibility, information on credit repair and strategies to access to future credit was built into the program. As part of the process, borrowers were assisted in completing a financial worksheet that helps the borrower take ownership and control over their financial situation. Through the program, borrowers could increase their credit scores, so that the credit union might extend future credit without the UHBC guarantee. In 2015, the first loans with the UHBC guarantee were made, backed by funds raised from the community, members of UHBC, and the Deacon Benevolent Fund.

Social service agencies helped promote the program and other applicants came from referrals and responses to media coverage. In the process, workers and volunteers at University Hope learned that some applicants were confused, and others were ashamed about the trap they found themselves in. The shame and stigma sometimes led to people unnecessarily struggling to ensure that all financial obligations were met. Unfortunately, this is the exact position many payday loan borrowers encounter with regularity.

UHBC recognizes and affirms the God-bearing image of every person. Living out their Christian convictions of love, grace, and service, staff and volunteers worked with those who sought their assistance. Clients were gratified to be treated with respect in a non-judgmental manner. Since the University Hope program started, more than \$82,000 has been contributed to the fund. Funding has never been a constraining variable for the program, and as many as thirty volunteers have been involved with University Hope over the years.

A critical component of the program is the assignment of a church member to serve as an "intentional friend". These are volunteers who are concerned about the individuals in the program. Volunteer training includes workshops on active listening skills, finding/researching available resources, and effective money management. As echoed in the sermon from Luke 4:18, the staff and volunteers of University Hope looked



PUBLIC JUSTICE *REVIEW*

A PUBLICATION OF THE CENTER FOR PUBLIC JUSTICE

to “bring good news to the poor.” Affiliation with a faith community, as evidenced in Hebrews 10:25, is an important asset to people; especially people experiencing poverty. The intentional friend, as part of the larger faith community, can provide personal friendships, support, and serve as role models in constancy, moderation and perseverance. Special care is taken to ensure this friend is compatible with the borrower and can support the borrower through this other important life events. A faith community can provide a foundation for all aspects of a better life.

Faith-based Collective Effort

The University Hope program has encouraged other faith-based organizations to consider similar programs.⁸ Informed by the church’s biblical and theological foundations of loving thy neighbor (Mark 12:31) and seeking to do justice (Isaiah 1:17-19), the members began University Hope. As time progressed, another biblical truth became evident: “there are many members, yet one body (1 Corinthians 12:20).” If members in one community were suffering, then members of another community were suffering. University Hope realized that partnership was necessary.

The program has worked with sixteen other faith-based organizations in Missouri and other states who are addressing predatory payday lending problems. Out of this work came a directory of faith-based organizations that are providing or are contemplating programs to combat predatory payday lending. The organizations share best practices and provide support to one another. To date, there are twenty-two organizations from ten states listed in the directory.

The advocacy work has been reported on in several local and national publications. In addition, coverage and reports about payday lending and advocate-organizations’ progress has appeared on local television news reports. This coverage led to a greater local awareness of the problem with payday lending and helped persuade others to join in the reform efforts that were underway in the area. It also allowed citizens trapped in debt to relief to places of relief.

Advocacy Efforts

Federal Advocacy—University Hope representatives testified before a federal Consumer Financial Protection Bureau(CFPB)⁹ hearing advocating regulations which were largely adopted in 2017.¹⁰ University Hope leaders later submitted comment to the CFPB urging a reversal of the proposal to repeal these favorable regulations.

State Advocacy--Statewide, University Heights Baptist Church representatives joined with Missouri Faith Voices, a grassroots faith-based organization formed to improve the quality of life in Springfield and throughout Missouri.¹¹ The group came together to advocate for changes in state law governing consumer lending. This diverse coalition of people came together to exercise their rights and responsibilities as citizens --both as citizens of Missouri and citizens of God’s creation. The advocates traveled to the Missouri capitol in Jefferson City to meet with legislators in 2016. In 2018, advocates had a meeting with the



PUBLIC JUSTICE *REVIEW*

A PUBLICATION OF THE CENTER FOR PUBLIC JUSTICE

Speaker of the Missouri House of Representatives, Todd Richardson, in Springfield. At the time, Richardson allowed reform legislation to be introduced, but the legislation was subsequently not acted upon. Also that year, University Hope leaders participated in a petition drive to limit political contributions from industry insiders in hopes of reducing the influence of the payday and auto title lending industries. The petition effort was successful and the subsequent election resulted in 62 percent of voters in favor of the measure.¹² Again, individuals acting out of personal conviction mounted a collective effort and effectuated legislative change.

Local Advocacy--Locally, officials met with citizens and organizations regarding a proposal to require a licensing fee for payday lenders. Recognizing that part of government's role is to promote opportunity for businesses, individuals and institutions, the local ordinance would not inhibit payday lenders from existing. If passed, a fee of \$5000 per year would be assessed to payday lenders under the ordinance. The funds collected from the fee would be used to strengthen enforcement and disclosure within the industry. The promising proposal seemed to have majority support in the city council but was tabled prior to a final vote. Licensing fees are a promising start in addressing predatory lending, especially in geographic locations unlikely to pass interest rate caps. Licensing fees, by themselves and without interest rate caps, are an example of proximate justice. Interest rate caps, like the one imposed in the Military Lending Act,¹³ more closely promote a holistic vision of public justice because they uphold structural changes that prevent cycles of debt that inhibit the capacity of community members from fulfilling their God-given roles as workers, caregivers, church members and neighbors.

Mixed Results

The lending program has had mixed success. Funds remains available for new loan guarantees, and the program estimates that borrowers have saved nearly \$500,000 in interest and fees throughout the life of the program. For borrowers, replacing loans charging 350 percent interest with ones charging between 3.1 to 14.9 percent made a noticeable difference in their personal finances. This type of change provides borrowers with a small margin of security, and an opportunity to begin to flourish.

The loan program has not been without defaults. Over the four years of operation, common reasons for defaults have resulted from borrowers encountering additional financial difficulties after their initial loan. Some difficulties include gaps in employment, unforeseen healthcare expenses, and/or emergency automobile repairs. For some, relief from the high payday loan payments represents a step on the way to greater personal financial security. For others, it is merely a brief respite until the next car repair or high utility bill put them back into the same hard spot where they were when the first payday loan was taken out.

The core problem University Hope aims to address is poverty. Payday lenders are predatory in nature and take advantage of those whose experience with poverty creates disadvantages for them. To adequately address the issue that allows payday lenders to flourish, a public justice solution is required. Individual community efforts are important, inspirational, and educational. When Christian citizens and the



PUBLIC JUSTICE *REVIEW*

A PUBLICATION OF THE CENTER FOR PUBLIC JUSTICE

institutions of civil society work together it foreshadows the reign of God on earth. Public justice requires that government act in a way that promotes the full human potential of all image-bearers in a political community. Payday lending, by creating usurious cycles of debt, limits and distorts the ability of community members -workers, parents, church members, neighbors, students -from fully living into their God-given roles and responsibilities. For example, a working father caught in a predatory lending cycle of debt may be in the position to choose between feeding his family, paying his rent, or paying back a payday loan that has ballooned to ten times his initial loan amount. Public justice calls on citizens, and the groups of which they are a part, to not only love their neighbors through direct acts of service, public justice also calls on citizens to love all the neighbors in their political community, including the ones they will never meet. Citizens working together to change the systems and structures in order to promote just policies that maximize the capacity of everyone in the political community to thrive is an example of public justice at work. As preached that day at University Hope Baptist Church, Christian citizens are called to bring relief to the poor. Proverbs 31:8-9: “Speak up for those who cannot speak for themselves, for the rights of all who are destitute. Speak up and judge fairly; defend the rights of the poor and needy.”

Relief from predatory lending is of little benefit if it does not prepare for inevitable future financial challenges. As part of its program, the University Hope volunteer friend has a tremendous opportunity for Christian witness. As the borrower and volunteer through the program grow together in relationship and faith, they will be able to regain their full humanity. Matthew 6:33 provides a formula for a happier, more fulfilling life; “But strive first for the kingdom of God and his righteousness, and all these things will be given to you as well.”

1. <http://www.uhbc.org>
2. <https://www.consumerfinance.gov/ask-cfpb/what-is-a-payday-loan-en-1567/>
3. <http://www.uhbc.org/university-hope/>



PUBLIC JUSTICE *REVIEW*

A PUBLICATION OF THE CENTER FOR PUBLIC JUSTICE

4. <http://lendjustly.com/who-we-are>
5. <http://lendjustly.com/just-lending-principles>
6. <https://cpjustice.org/index.php/public/page/content/government>
7. <http://lendjustly.com/just-lending-principles>
8. <http://www.uhbc.org/university-hope/>
9. <https://www.consumerfinance.gov>
10. <https://www.consumerfinance.gov/about-us/newsroom/cfpb-finalize-s-rule-stop-payday-debt-traps/>
11. <http://www.missourifaithvoices.org/southwest-mo/>
12. [https://ballotpedia.org/Missouri_Amendment_1,_Lobbying,_Campaign_Finance,_and_Redistricting_Initiative_\(2018\)](https://ballotpedia.org/Missouri_Amendment_1,_Lobbying,_Campaign_Finance,_and_Redistricting_Initiative_(2018))
13. <https://www.consumerfinance.gov/ask-cfpb/what-are-my-rights-under-the-military-lending-act-en-1783/>

To respond to the author of this article, please email PJR@cpjustice.org. The articles in the 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.