

Faith for Just Lending

a coalition to end predatory payday lending

February 11, 2016

The Honorable Randy Neugebauer
Chairman
Subcommittee on Financial Institutions and
Consumer Credit
House Financial Services Committee
United States House of Representatives
2129 Rayburn House Office Building
Washington, D.C. 20515

The Honorable William 'Lacy' Clay, Jr.
Ranking Member
Subcommittee on Financial Institutions and
Consumer Credit
House Financial Services Committee
United States House of Representatives
2129 Rayburn House Office Building
Washington, D.C. 20515

Dear Chairman Neugebauer and Ranking Member Clay:

We write as a diverse and non-partisan group of religious leaders, practitioners, and social service providers who are working together to end the predatory practices of payday lending. We are uniform in our belief that usurious and deceptive debt trap lending is a moral issue that calls for a government response. Our churches and members have been working at the local, state and federal level to reform this practice. While some states have effectively reined in the worst abuses of this industry, many have not, leaving households ensnared in the vicious cycle of debt that is part of the business model for some engaged in the payday lending industry.

We appreciate the subcommittee's interest in the payday loan industry, but we are concerned that today's hearing does not reflect an urgency to help constituents trapped in predatory loans. The so-called short-term loans involved in payday lending, with initial terms of two weeks, often result in long-term debt. According to a survey of payday borrowers conducted by the Pew Charitable Trusts only 14% of borrowers can afford to pay off the average payday loan out of their monthly budget. This leads to a pattern of re-borrowing and long-term debt such that 76% of all loans are renewals or quick re-borrows. By setting their customers up in this debt trap, lenders increase fees and profits, while making their customers more likely to lose their bank accounts, fall behind on expenses, and file for bankruptcy.

We urge this subcommittee to offer ideas and work towards a positive solution. For our ministers and congregations these are not just statistics, they are the faces of their congregants and community members who have come to them for help. One reform that has proven effective in many states is limiting loans to 36% APR. Likewise, in 2006, Congress limited the rates on loans made to members of the military and their families to 36% APR. Some payday lenders claim they cannot stay in business under such regulations. However, these experiments demonstrate that small dollar lending remains viable and families fare better with reasonable terms of credit.

We agree that individuals should manage their resources responsibly, save for emergencies, and help others in need. In fact, we often ask our churches and institutions to teach responsible stewardship and assist neighbors in times of crisis. We also believe 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. This is a basic, common sense requirement of traditional lending and one that should be employed in small, short-term loans as well.

Our nation can do better than putting the entire burden on desperate people to ensure they are not being preyed upon by unethical business practices. Lenders should not be able to take advantage of those who are most vulnerable and who have little or no resources at their disposal. Indeed, short-term loans should help borrowers get out of a financial crisis, not become more deeply entrenched in one.

We are confident effective legislation is possible. We offer ourselves and our expertise to you as you seek a real solution that helps those with immediate financial needs while prohibiting usury and deceptive lending practices and request that this letter be entered into the public record.

Sincerely,

Southern Baptist Ethics & Religious Liberty Commission
United States Conference of Catholic Bishops
National Association of Evangelicals
National Latino Evangelical Coalition
National Baptist Convention, USA, Inc.
Cooperative Baptist Fellowship
Center for Public Justice
Ecumenical Poverty Initiative
PICO National Network

cc: The Honorable Jeb Hensarling, Chairman
cc: The Honorable Maxine Waters, Ranking Member

