



## Department of Justice, Peace, and Human Development

### Office of Domestic Social Development

## Predatory Banking & Payday Lending

*"Usury is a serious sin: it kills life, tramples on the dignity of people, is a vehicle for corruption and hampers the common good. It also weakens the social and economic foundations of a country."*

-Pope Francis, *Address to Members of the National Council of Anti-Usury Foundation*, February 3, 2018

### BACKGROUND

Taking advantage of the financial distress of vulnerable people and communities has a long history. Unscrupulous and exploitative banking has existed from the usury condemned in the Bible to the redlining of minority and poor neighborhoods in the '60s and '70s. Today, payday lending is only the most recent example of this long and unethical tradition.

Stagnating wages, underemployment, and rising costs of living have combined to create heavy financial stress for many Americans, especially those living in and near poverty. Families desperate for additional funds to make ends meet are ripe for exploitation by unscrupulous lenders who use a worker's paycheck as collateral for short-term, high-interest loans.

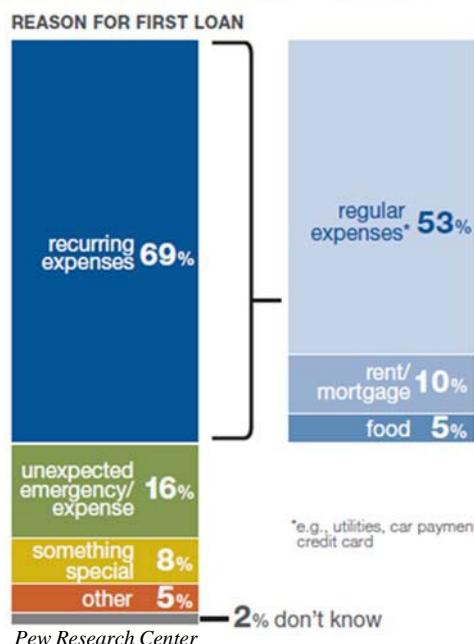
Payday loans appear (and are marketed as) simple and straightforward: a consumer has a need for an immediate source of money before the next paycheck. Using that paycheck as a form of collateral, she receives a short-term loan. When she receives her paycheck, she pays back the loan, plus fees and interest.

In most instances, however, payday loans are made in a way that make it almost impossible for borrowers to repay in the required timeframe, requiring them to take on more debt. The typical borrower is in payday loan debt for 199 days out of the year. She conducts 10 transactions per year, most of these are "rolling over" another loan.<sup>1</sup>

Most borrowers take out payday loans to pay for basic needs, not for unexpected emergencies or to splurge.<sup>2</sup> The vast majority of payday loans are taken out by people in or near poverty. The typical borrower makes about \$22,500 per year, and the use of these loans is almost exclusive to the bottom half of the income spectrum.<sup>3</sup>

The [Consumer Financial Protection Bureau \(CFPB\)](#) creates educational materials and maintains a complaint system to report abuses. In 2017, the Bureau issued a rule to protect individuals who seek short-term, small dollar loans. The rule was scheduled to go into effect this summer but may now be reconsidered to remove important protections that require lenders to determine whether a borrower has the ability to repay the loan before it is approved.

### MOST BORROWERS USE PAYDAY LOANS FOR RECURRING EXPENSES



1. Consumer Financial Protection Bureau: [https://files.consumerfinance.gov/f/201304\\_cfpb\\_payday-dap-whitepaper.pdf](https://files.consumerfinance.gov/f/201304_cfpb_payday-dap-whitepaper.pdf)

2. Pew Research Center: <https://www.pewtrusts.org/en/research-and-analysis/reports/2012/07/19/who-borrows-where-they-borrow-and-why>

3. Center for Responsible Lending: <https://www.responsiblelending.org/sites/default/files/uploads/10-payday-loans.pdf> and Federal Reserve: <https://www.federalreserve.gov/pubs/bulletin/2012/pdf/scf12.pdf>

## CATHOLIC TEACHING

The [\*Catechism of the Catholic Church\*](#) condemns usury, and points out that exploiting people living in poverty is theft:

*Even if it does not contradict the provisions of civil law, any form of unjustly taking and keeping the property of others is against the seventh commandment: thus, deliberate retention of goods lent or of objects lost; business fraud; paying unjust wages; forcing up prices by taking advantage of the ignorance or hardship of another.* (no. 2409)

Pope Emeritus Benedict XVI wrote in [\*Caritas in Veritate\*](#):

*... the regulation of the financial sector, so as to safeguard weaker parties and discourage scandalous speculation ... should be further explored and encouraged, highlighting the responsibility of the investor.... This is all the more necessary in these days when financial difficulties can become severe for many of the more vulnerable sectors of the population, who should be protected from the risk of usury and from despair. The weakest members of society should be helped to defend themselves against usury....* (no. 65)

In [\*Evangelii Gaudium\*](#), Pope Francis writes about the broader economic challenges and the change we need:

*The dignity of each human person and the pursuit of the common good are concerns which ought to shape all economic policies. At times, however, they seem to be a mere addendum imported from without in order to fill out a political discourse lacking in perspectives or plans for true and integral development. How many words prove irksome to this system! It is irksome when the question of ethics is raised, when global solidarity is invoked, when the distribution of goods is mentioned, when reference is made to protecting labour and defending the dignity of the powerless, when allusion is made to a God who demands a commitment to justice.* (no. 203)

## USCCB POSITION

In 2013, Bishop Stephen Blaire of Stockton, CA (then chairman of the USCCB Committee on Domestic Justice and Human Development) [decried the way payday lenders](#) “take advantage of working people struggling to meet basic human needs” by exploiting the fact that their jobs do not pay enough. He urged Richard Cordray, director of the CFPB, to protect poor and vulnerable people from predatory payday lending and other harmful financial products.

A strong Consumer Financial Protection Bureau rule is needed to prevent payday loan abuses and protect vulnerable workers and families. Measures to restrain predatory lending should also be pursued through the legislative process. USCCB is a member of [Faith for Just Lending](#), an ecumenical effort to raise awareness of the harm caused by payday lending on families and communities.

To combat predatory banking practices, the Catholic Campaign for Human Development, as the domestic anti-poverty program of the Catholic Bishops of the United States, funds organizations throughout the country that develop alternative sources of credit for low-income working people and families. More information about these programs can be found at [povertyusa.org](#) and [pobrezausa.org](#) (Spanish).

Many state Catholic Conferences and diocesan offices are involved in local efforts to address unfair and unjust lending laws and regulations.

## ADDITIONAL RESOURCES

*Payday Lending: What Catholics Are Doing to Combat Financial Exploitation* [webinar](#) and [slides](#)

To Go Forth: [“Payday Lending Hurts Families”](#)

[Consumer Financial Protection Bureau Complaint System](#)

## FOR MORE INFORMATION:

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