WHAT JUSTICE REQUIRES:
PROTECTING FAMILIES FROM PAYDAY LENDING

THE CENTER FOR
PUBLIC JUSTICE

About the Center for Public Justice

The Center for Public Justice (CPJ) is an independent, non-partisan, Christian organization devoted to civic education and policy development. We equip citizens and public officials to respond to God's call to pursue justice for all.

About Shared Justice

Shared Justice, an initiative of CPJ, is an online publication and community for Christian 20- and 30-somethings interested in the intersection of faith, politics, and justice. The defining feature of Shared Justice is the voice of college students and young professionals who shape the conversation – discovering together what it means to share justice.

With Thanks

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Foreword

This report is one of three by *Shared Justice*, an online publication and community for Christian 20- and 30-somethings run by the Center for Public Justice. The reports' authors are Christian college students and young professionals inviting their peers to join them in the pursuit of justice.

The issues covered in these reports are often hidden in our own backyard: the vast racial and socioeconomic disparities in a juvenile justice system that locks up youth in adult-like prisons, the impossible decision that low-income families face when they have a child but their employers don't offer paid family leave, and the devastating impact of payday loans on families and children.

However, these reports were not written to simply make us aware of an injustice. Awareness of injustice is an invitation from God to love others more fully. But responding to God's good invitation — taking seriously our responsibilities as citizens — likely means something about our lives will change.

More than ever, we need Christian 20- and 30-somethings committed to the Biblical call to *do* justice, not just to learn about injustice. We need a generation of Christians committed to a vision of public justice in their communities.

Public justice is achieved when the institutions that contribute to human flourishing each make their fullest contribution. These are families, religious communities, businesses, and schools, among others. When government and citizens commit to pursuing public justice, each of these different institutions is better able to fulfill their right roles and responsibilities. Society flourishes when each sphere is in harmony with the others.

Each of the policy reports in the series offers tangible steps for action in your local community and state. We pray that you will take steps to pursue justice for your neighbors who may be afflicted by one of these injustices.

God calls us all to pursue justice together. The question is, will you join us?

Stephanie Summers

Stephanie Summers

CEO, The Center for Public Justice

Executive Summary

Every day across the country, vulnerable Americans walk into payday loan storefronts seeking financial help. They are greeted by welcoming staff who affirm that they have indeed come to the right place for help. A short while later, sometimes within minutes, they are given a loan that they are required to repay in two weeks.

While this may sound like borrowers have received the help they desperately need, they have not. Lenders are intentionally deceptive in the marketing practices and in how much it will *actually* cost to repay a loan, thus trapping borrowers in a cycle of debt that can last for months and even years.

A typical payday loan is a two-week loan that ranges from $100 to $500 with exorbitantly high interest rates attached. While interest rates vary state by state, the average interest rate is 390 percent APR, and in the span of two weeks, a borrower is expected to pay back the original loan plus interest. In states like Missouri, for example, payday lenders can charge up to 1950 percent interest on a two-week loan.

Payday lending storefronts are concentrated in poor neighborhoods. With no credit check or ability to repay assessment, lenders portray a "quick fix" to financial struggles.

Much has been written about the devastating financial effects of payday loans. Borrowers frequently report the loss of assets like cars and homes. However, this report seeks to highlight the ways that this predatory product can devastate families. While not all borrowers are parents, many are.

A Pew Charitable Trusts report found that, "Parents are more likely to have used payday loans than those who are not parents, especially among those earning less than $50,000. Twelve percent of parents earning less than $50,000 have used a payday loan, compared with just four percent of parents earning $50,000 or more."

The collateral consequences of payday loans can devastate families financially, emotionally, and psychologically. As Christian citizens, this should compel us to act to protect vulnerable families and to pursue policies that promote public justice. Government, businesses, families, and the Church all meet at the intersection of payday lending, and each has a role to play in protecting families.

This report examines the current policy landscape for policies that would protect families from payday loans and articulates public justice principles for considering various options. It outlines the right roles and responsibilities that institutions like government, the Church, and businesses must fulfill to uphold the dignity of families, and provides clear examples of ways that citizens can work towards policies to end predatory payday lending.

DISCOVER

Michele is a single mother of two children. Despite working full time, finances were always tight. When it came to groceries, school supplies, or vehicle expenses, Michele was coming up short. So she did what nearly 12 million Americans do each year — she took out a payday loan.

In Michele's home state of Iowa, the annual percentage rate (APR) for a two-week loan is 433 percent. When she took out the loan, she had every intention to pay it off. But when she came face to face with the startling total two weeks later, she couldn't pay it off. She took out a second loan to pay off the first, entering into an ongoing cycle of debt.

"Always trying to make ends meet and knowing the loan was out there brought a lot of stress into life," she said. "It was a constant scramble."

But the burden was more than a financial one.

"It's so much deeper than just the financial burden, it's an emotional burden," Michele said. "It's so harmful to emotional well-being and family life."

She said that she often felt like she had to lie to family and friends to hide the fact that she was caught in a cycle of debt.

The payday loan industry is notorious for preying upon men and women in Michele's shoes. The industry's business model succeeds when borrowers have to take out multiple loans, often finding themselves in thousands of dollars of debt.

Michele couldn't see a way out of debt until she was connected with the Center for Financial Education (CFE), a local Christian organization dedicated to helping borrowers get out of debt and providing financial literacy tools. CFE helped Michele budget every expense, from haircuts to cars, while also offering emotional and spiritual support.

Michele was recently able to make her last payment and escape the debt trap that ensnared her.

"It has been incredibly freeing," she said. "I don't have to think about how I'm going to make ends meet every minute of every day."

Each year nearly 12 million Americans take out a payday loan. A number so large can tempt us to forget that these are 12 million people, each with their own story. People who are not faceless borrowers, but people who are parents and spouses, children and friends, all of whom are harmed by predatory lending.

A payday loan is typically a two-week loan that ranges from $100 to $500 with exorbitantly high interest rates attached. While these rates vary state by state, the average interest rate is 391 percent APR[1], and in the span of two weeks, a borrower is expected to pay back the original loan plus interest and fees. As comparison, the interest rate on a high-interest credit card is typically around 30 percent. In states like Missouri, for example, the law allows payday lenders to charge up to 1950 percent interest on a two-week loan.[2]

What makes payday loans predatory and unjust, and not just a bad financial product, is *who* lenders market their product to and *how* they do it.

Payday loans are marketed specifically to the poor. The Consumer Financial Protection Bureau (CFPB), which oversees federal financial laws and works to ensure that consumers are protected, reported that the median net income for borrowers is $22,476.[3]

dollars after it was discovered that the lenders systematically deceived borrowers. According to the FTC, the companies "falsely claimed they would charge borrowers the loan amount plus a one-time finance fee. Instead, they dipped into consumers' bank accounts over and over again, assessing a new fee each time."[4]

Comparing the cost of a one month loan using APR

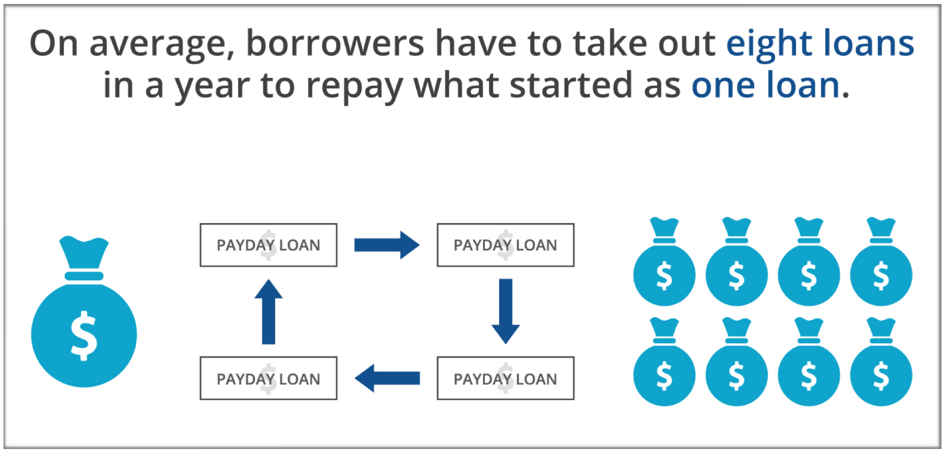
	AVERAGE APR	INTEREST PAID PER MONTH
$300 credit card cash advance with 18% interest rate annually	**18%**	**$4.50**
$300 payday loan with 15% interest rate every 2 weeks	**390%**	**$90.00**

Most loans are advertised as a quick fix to financial struggles; borrowers can walk into a storefront and have cash in hand within 15 minutes. Many borrowers report that initially taking out a payday loan seemed like the responsible way to handle their situation without burdening family members, friends, or their church.

However, lenders frequently employ deceptive advertising tactics and in many cases deceive borrowers about the actual terms of the loan. In a prominent 2016 case, a federal judge ordered Scott Tucker and several other defendants behind a large payday lending enterprise, AMG Services, Inc., to pay the Federal Trade Commission (FTC) 1.3 billion

The FTC also found that,

> the defendants deceived consumers about the cost of their loans by imposing undisclosed charges and inflated fees. In many cases, the defendants' inflated fees left borrowers with supposed debts of more than triple the amount they had borrowed. In one typical example, the defendants allegedly told one consumer that a $500 loan would cost him $650 to repay. But the defendants attempted to charge him $1,925 to pay off the $500 loan. The defendants used deceptive loan documents in connection with at least five million consumer loans.[5]



In fact, the industry's business model only succeeds when borrowers fail. For example, nearly one in four borrowers receives some form of public assistance, like disability or social security benefits, as an income source.[6] This means that public assistance checks can serve as the "paycheck" for the loans. It is no surprise, then, that borrowers on a fixed income are unable to repay the loan and attached fees within two weeks. That is why over 80 percent of loans are rolled over and followed by another loan within 14 days, according to the CFPB. On average, borrowers take out eight loans in a year to repay what started as one loan.[7]

It's no secret that lenders rely on loan turnover. ". . . The theory in the business is [that] you've got to get that customer in, work to turn him into a repetitive customer, long-term customer, because that's really where the profitability is," Dan Feehan, former CEO of Cash America, said.[8]

In 2015, ACE Cash Express was ordered by the CFPB to pay five million dollars in refunds and a five million dollar penalty. According to a CFPB press release,

> The Bureau found that ACE used these illegal debt collection tactics to create a false sense of urgency to lure overdue borrowers into payday debt traps. ACE would encourage overdue borrowers to temporarily pay off their loans and then quickly re-borrow from ACE. Even after consumers explained to ACE that they could not afford to repay the loan, ACE would continue to pressure them into taking on more debt.[9]

These are just a few examples of the ways the payday loan industry routinely deceives and exploits low-income borrowers.

The Collateral Consequences of Payday Loans

Much has been written about the harmful financial effects of payday loans, however this report seeks to highlight the ways in which this predatory payday lending undermines one of society's most core institutions: the family.

The predatory nature of the payday loan industry, and the financial devastation caused as a result, is unjust. What makes this issue one of grave concern and great injustice, however, is the way that payday loans harm families and children. Payday loans cause financial distress. But there is a less obvious yet completely destructive emotional, psychological, and physical toll taken on borrowers. The repercussions are not limited to the borrower; the impact of this injustice extends to and deeply affects a borrower's family and relationships.

For borrowers who are also parents, the consequences of a debt trap can be even more dire. A Pew Charitable Trusts report found that, "Parents are more likely to have used payday loans than those who are not parents, especially among those earning less than $50,000. Twelve percent of parents earning less than $50,000 have used a payday loan, compared with just four percent of parents earning $50,000 or more."[10]

Christians motivated by a pursuit of public justice for families, particularly poor families, must condemn a business model that seeks to exploit the poor simply because they are poor. The Bible and Christian tradition clearly condemn the lending of money at unreasonably high rates, historically called usury. Payday lending is a form of usury, and as Christians we must instead put forward a vision for economic justice that upholds and dignifies the family. It is within the family that children are nurtured physically, spiritually, and emotionally, and so the right functioning of the family is vital both for the children and for wider society. For already vulnerable parents who are typically taking out payday loans for recurring expenses like rent and groceries, we must heed God's call to care for the poor and vulnerable amongst us. In this case that call requires advocating for an end to this predatory business product designed to exploit poor families.

Financial Repercussions

Payday loans can financially devastate low-income borrowers. Parents already struggling to get by must sometimes choose between paying back the loan and putting food on the table for their children. They are often left with no choice but to take out another loan, and then another. In one report a borrower shared that four months after first taking out a payday loan, he owed over $2,000 on what was originally a $500 loan. The same report, which surveyed a group of pastors in 26 states, found that payday loan debt also often results in the loss of a major asset like a car or house. The same borrower lost his vehicle and explained its detrimental impact on his ability to get to work and his family's ability to get around locally.[11]

For middle and upper income parents, the ability to save for their child's future is often taken for granted. For poor families trapped in payday loan debt, saving is not an option. This contributes to the opportunity gap in America, where poor children are not afforded the same opportunities to advance economically over their lifetime. When a family is not only living paycheck to paycheck, but is drowning in debt, this gap widens. This is detrimental not only to individual families, but to society as a whole. Families are a foundational institution in life. It is within families that bonds are formed and that children are nurtured. Parents have a responsibility to care for the physical, emotional, and spiritual needs of their children. When families flourish, society flourishes. As the Center for Public Justice's Guideline on Family states, "Healthy families help nurture future citizens, prepare future employers and employees, decrease public costs resulting from fragmented families, and build up strong social and cultural capital."[12] Payday loans are detrimental to the well-being of families because they hinder the family's ability to fulfill its responsibility.

Emotional and Psychological Effects

The consequences of payday lending are not limited to financial turmoil. They can devastate a person emotionally and psychologically, and this should not be overlooked. We can begin by looking at the effects associated with economic hardship. Stress caused by economic hardship has mental and physical consequences, ranging from difficulty concentrating and lack of sleep to clinical anxiety and depression. Many borrowers report experiencing high stress, anxiety, shame, guilt, and depression. In one survey, 87 percent of respondents said that family stress was very commonly associated with payday loans, and 82 percent reported anxiety or other negative health effects.[13]

In the same survey report, a pastor from Kentucky recounted the story of one of his church members,

> [One borrower] was the Executive Director in a youth outreach center. His car broke down and he did not have the cash to make the repair. He took out a payday loan. By the time we met with him he was making interest payments equal to the payments on a high-end Mercedes. It put a huge strain on his marriage, was overwhelmingly stressful on him, and nearly cost him his job.

Another borrower, Gordon Martinez, was trapped in a cycle of payday loan debt and lost most of his possessions, and ultimately his marriage. An article in Christianity Today explained, "He found himself forced to choose between feeding his children or closing his bank account and defaulting. He chose the latter… The stress prompted the collapse of his marriage. His wife and children moved to another state."[14]

Like financial consequences, the emotional and psychological repercussions associated with ongoing financial hardship affect families and children. Though parents may be doing all they can to financially provide for their family, the emotional, mental, and physical toll debt has on people makes their parenting responsibilities much more difficult. A parent in ongoing debt may become distracted, irritable, or lack the time to spend with their child, limiting their ability to fully care for and invest in their child during this time. Parents trying to pay off payday loan debt may feel distracted, removed, stressed, and impatient with their children, all to the detriment of the parent-child relationship. Even when parents attempt to shield these negative emotions, tensions between spouses are often felt by children. The family is intended to be a source of support and refuge, but when a family is ensnared in payday loan debt, a sense of stability and security disappears.

The collateral consequences of payday loans can devastate families. As citizens this should compel us to act to protect vulnerable families being harmed in this predatory product and to pursue policies that promote public justice. Public justice is the upholding of God's good purpose for our political community and the understanding of the right roles and responsibilities of government, families, businesses, and churches. As Christians concerned about the wellbeing of families and interested in advocating for public policies that prohibit predatory loans, we must first explore a proper framework for understanding these right roles and responsibilities.

FRAME

When people are routinely exploited by a predatory financial product, it becomes clear that institutions called to uphold public justice are not functioning as they should. God set humans apart by creating them in His image. We must approach the issue of predatory lending with this in mind. Payday lending undermines the role of the family and it fails to meet the standards of a just market. Government, businesses, families, and the Church all meet at the intersection of payday lending, and as a result, each has a role to play in protecting families from these harmful products.

Predatory payday loans cast borrowers into a cycle of debt that degrades their dignity as human beings made in the image of God. Even further, payday lenders prey upon poor and vulnerable borrowers. As Christians, we are called to care for the poor in our communities and not stand by as they are exploited simply because they are poor. We must also recognize that the systems and structures that keep the poor poor contribute to the inequality of opportunity that exists in our country. In *Unleashing Opportunity: Why Escaping Poverty Requires a Shared Vision of Justice,* the authors write,

> … the ideal of human dignity is not just implicated in great social causes, involving protests and marches. It is also at stake in broad social practices—in the way we organize our economy, structure public services, or educate the next generation. A child's future can be limited by racial discrimination, but also by failing schools, or an overwhelmed or dysfunctional family, or an atomized, dangerous community without jobs and hope.
>
> People created in God's image are made to be free from oppression and degradation and to share in a measure of opportunity. People created in God's image are also called to work to ensure this is true not only for themselves, but for all of their neighbors.[15]

The current business model employed by payday lenders degrades human dignity because it only succeeds when a borrower fails. This is unjust. Markets should instead be animated by a notion of economic justice, which puts forth a vision where government, businesses, and individuals function in right relationship with each other. This vision of economic justice suggests that individuals must have the opportunity to exercise responsibility, and that a denial of that opportunity is a degradation of human dignity. When payday lenders position themselves as the only responsible option for low-income borrowers, this is not justice. In *Unleashing Opportunity*, the authors write,

> 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.[16]

The argument that payday lending falls within the bounds of the free market, and therefore is an admissible product, is not a sufficient argument for anyone, especially Christians, to make.

In a business model where the borrower fails, so does the family. God did not create humans to exist as independent beings; He created us to exist in families. However, God's good purpose for families is diminished when they are trapped in a cycle of debt. For families with scarce financial resources, the burden of additional debt can be crippling. In these situations, the nurturing of children is inhibited in a stressful environment, as familial relationships are strained and fractured. If parents suffer from anxiety, depression, and shame related to payday loan debt, the impact on children cannot be ignored. The debt incurred as a result of payday loans is destructive to not just families, but to society.

When families fail, society fails. It is from within families that future citizens are raised, and the family provides the foundation and building blocks for children to flourish into adulthood. However, the debt trap that many low-income families find themselves in only contributes to the inequality of opportunity in our nation and sets fully capable children made in the image of God behind. We must promote policies and practices that uphold and value children and families, not ones that degrade them.

Current Policy Landscape

One of the most effective ways to limit the destruction caused by payday loans is enacting interest rate caps. In 2006 Congress passed the Military Lending Act, capping interest rates and fees at 36 percent for all active duty members of the military. The Act was passed to protect military families from being preyed upon by lenders. Similar to the way lenders concentrate in low-income communities, they also cluster around military bases. According to a Center for Responsible Lending report, military families were easy targets for lenders. With many young, financially inexperienced military families living on bases, lenders were able to take advantage of their regular, government-issued paycheck which could serve as the source to pay fees for the loans.[17]

In 2005, the Department of Defense listed payday lending among its top 10 issues of concern for military families. According to the CFPB, "In 2006, the Department of Defense issued a report concluding that predatory lending practices by payday lenders and other creditors near military bases were a threat to military personnel and their families."[18] In 2015 the Military Lending Act was amended to close loopholes that lenders used to continue to exploit borrowers.

While lawmakers rightly agreed that payday loans were a harmful product for members of the military, Congress has largely looked past millions of non-military borrowers, many of them poor, who take out these loans.

For the majority of borrowers who are not members of the military, it is incumbent upon states to enact policies that protect their citizens from predatory products. To date, 15 states and the District of Columbia have enacted rate caps at or below 36 percent APR.[19] However, the majority of states remain unregulated or have exorbitantly high interest rate caps.

In 2016, the CFPB proposed new federal rules designed to curb the proliferation of debt traps in the payday loan industry.[20] While states still regulate interest rate caps, the CFPB introduced this federal rule in order to set a national baseline that all lenders must ascribe to. When announcing the new proposed rule, the CFPB's director spoke of the role of the faith community,

> Perhaps most telling of all, we have held numerous sessions with a broad set of faith leaders. They have shared searing experiences of how payday loans affect the people they care for every day in their churches and synagogues and mosques. And they have described how these loans undermine financial life in their communities. In devising this proposed rule, we have been listening carefully, and we will continue to listen and learn from those who would be most affected by it.[21]

The proposed rule would require lenders to assess a borrower's ability to repay the loan while still being able to pay other expenses. While this may seem like common sense, lenders are not currently required to make sure a borrower can repay. A business model that relies on trapping consumers in debt is unjust. With this in mind, the CFPB's proposed rule is a step in the right direction.

The Role of the Christian Citizens

Ending predatory lending is not a task for the government alone to solve. People of faith must be vocal and active in their condemnation of such exploitation. Churches are often the first to encounter the harmful effects of payday lending when members request financial support, and should model biblical principles of stewardship while at the same time serving those in need. Churches can encourage members to serve their neighbors as citizens by advocating for just public policies and telling lawmakers how their faith shapes their perspective on this issue.

In 2015 a diverse coalition of Christians from various faith groups came together to speak out against payday lending and to fulfill their roles as citizens in the political community. Motivated by their faith traditions, Faith for Just Lending advocates for national reform.[22] The coalition formed four key principles for understanding just lending:

- Individuals should manage their resources responsibly and conduct their affairs ethically, saving for emergencies, and be willing to provide support to others in need.

- Churches should teach and model responsible stewardship, offering help to neighbors in times of crisis.

- 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.

- Government should prohibit usury and predatory or deceptive lending practices.

The principles make clear that this is an issue that requires action across a breadth of institutions, not just one or two. While each of these principles is equally important, governmental action is required for systemic change. Government has the responsibility to uphold justice, and when it is not doing so, Christian citizens have a responsibility to advocate for policies that uphold the inherent dignity of their neighbors.

ENGAGE

The ways in which payday loans degrade families, particularly low-income families, must be addressed. Addressing this injustice requires the work of not only government, but of citizens, businesses, and churches. The harming of children and families is an injustice that permeates all aspects of society; therefore, the responsibility to repair and prevent these issues should as well.

The Role of Government and Citizens

Payday loans add stress to families, hinder the development of children, prevent parents from fulfilling their God-given responsibilities, and break apart relationships. We have a responsibility to voice these injustices to lawmakers and ask them to restrict predatory practices of payday lenders.

As citizens, we have a responsibility to call upon government to uphold public justice. For a complex systemic issue like payday lending, it is not sufficient for Christian citizens to only address surface needs. Though well intentioned, directing affected borrowers to church benevolence funds or offering to pay off a loan does not address the root of the injustice. In addition to these things citizens should love their neighbor through political engagement. Payday lending is an issue that requires government involvement and legislation. To begin to engage politically, it's important to first understand your local and state context. Has your state legislature enacted a rate cap on payday loans in your state? Some states like Missouri have a rate "cap" of 1950 percent, so it's important to make sure that your state has a reasonable interest rate cap in place.

A 36 percent cap is widely considered to be an acceptable, though not ideal, cap. If payday lending is unregulated in your state, it is important to understand why and whether there have been attempts to regulate the industry in the past. Consider taking the opportunity to build proactive relationships with state lawmakers, asking them if they are aware of the negative impact payday lending has on their community, and engaging them in meaningful conversations about the connection between payday lending and vulnerable families. You can view this as an opportunity to educate state policymakers on the connection between payday lenders and cyclical poverty for some of their state's most vulnerable and share testimonies of borrowers whose families and relationships have suffered.

Whether payday lending is regulated in your state or not, you have the opportunity to contribute to a national conversation as well. Write to or visit with lawmakers to tell them how families and communities are harmed by payday lending. Ask them to consider legislation that upholds the inherent dignity of each of their constituents and that does not allow for predatory payday lending to exist in our country.

The Role of Nonprofits and the Business Community

Within just markets, businesses have a responsibility to uphold principles of economic justice. Satisfaction of profit, not maximization, should be the aim. In *Unleashing Opportunity*, the authors write,

> 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.[23]

It is important to call upon businesses and nonprofits to offer responsible credit options to borrowers. As one of Faith for Just Lending's core principles states, "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."

Several small banks, credit unions, and other nonprofits have developed responsible lending models that we can learn from. We can call upon banks, including major ones, to integrate small dollar loans into their business model. In Virginia, the Freedom First Credit Union offers a model for how credit unions can serve low-income borrowers. Freedom First offers loans between $250 and $5,000 to be repaid in a 12-36-month window. The interest rate for these loans is capped at 18 percent APR. To incentivize savings, 50 percent of the loan fees are deposited into a locked savings account that is released when the loan has been paid off. Freedom First's Borrow and Save model encourages borrowers to both save and to build credit history.[24]

Coupled with the need for more responsible credit options is the need for financial education and literacy support. The Center for Financial Education in Sioux Center, Iowa, seeks to "transform lives through Christ-centered financial education." The Center offers free financial counseling to individuals, families, and even businesses in order to alleviate stress, helps customers manage their money, and offers low-interest loans in special cases.[25] The Kansas Loan Pool Project, a Catholic Charities program, is an innovative partnership with a local bank. Loans of up to $2000 are offered at six percent interest for a 12 to 18-month period. Once approved for a loan, a borrower must also attend a financial education course and meet monthly with a financial advocate.[26]

Programs like these are vital and should serve as replicable models throughout the country. The need for responsible credit options and financial education is one that both businesses and nonprofits should respond to.

The Role of the Church

Predatory lending is an injustice that the Church has a responsibility to address. Thousands of families have experienced the harmful effects of payday lending with repercussions that fall outside the scope of what government or businesses can address. The Church can provide wisdom and counseling and can walk alongside affected families in their times of trial.

Among others, the Chalmers Center's Faith and Finances curriculum offers churches a tool to equip low-income participants with principles of financial stewardship and financial literacy.[27]

The faith community in particular has had a vital role in shaping Christians' understanding of what it means for citizens to care for the vulnerable through political engagement. In Garland, Texas, nearly one third of Spring Creek Church's congregation had taken out a payday loan. When the senior leadership learned how these loans were devastating their congregants, the church stood with members, offering spiritual and practical support. But the church didn't stop there. Fifty members of the church spoke out against the payday loan industry in a Garland City Council meeting. This eventually led to a local ordinance in Garland that ensured that charges cannot exceed 20 percent of a borrower's income. Lenders were also limited to four installments and can roll over a loan a maximum of three times. Finally, each renewal or installment must reduce the initial loan amount by 25 percent.[28]

When faced with issues of injustice, Spring Creek Church offered spiritual guidance, emotional support, material aid, and encouraged its members to fulfill their citizenship responsibilities by advocating on behalf of the marginalized—a model that other churches can follow as they seek to minister tangibly and to serve their neighbors as citizens.

CONCLUSION

Predatory payday loans are an affront to families. The debt traps designed to keep borrowers in a continuous cycle of debt violate norms of economic justice, just business practices, and human dignity. The ramifications are not just financial, though those are the most obvious. As debt piles up, many borrowers experience physical, psychological, and emotional harm. Parents are more likely to take out payday loans, which means that these harmful effects are not isolated. Their children bear the collateral consequences—research has shown that financial stress puts a strain on marital relationships, on parent-child relationships, and negatively impacts child well-being with ongoing effects later in life for both the child and society as a whole.

As citizens who are committed to the Christian faith, we should pursue a vision of public life where all families flourish. An industry that intentionally preys upon low-income, vulnerable families and traps them in debt is not compatible with a vision for flourishing families. Instead it is a violation of human dignity and God's good purpose for the family. Public justice requires that lenders be held to economically just standards and practices. Government has a responsibility to protect the vulnerable from this deceptive financial product, and as citizens we must call government to this task. But this is not a task for government alone; there are roles for the Church, businesses, and nonprofits to play. There is a need for increased financial literacy and for responsible credit options.

The predatory practices of payday lenders have ripple effects that harm the whole family and ultimately society. As Christians we must come alongside families struggling with financial hardship and advocate for public policies that uphold the dignity of vulnerable children and families.

For more information and additional resources, visit www.sharedjustice.org/paydaylending

Endnotes

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An online version of this report, including additional resources, is available at: www.sharedjustice.org/paydaylending