RC2010-4

Advocate to Stop Predatory Lending

WHEREAS, predatory loan practices in the subprime lending industry have increased at an alarming rate and are taking advantage of those who are most financially vulnerable; as well as harming the economic wellbeing of these neighbors, and

WHEREAS, the dramatic increase in lending practices resulting in usurious* interest rates (such as: Pay-Day Loans, Refund-Anticipation Loans) are not providing borrowers with a solution to their financial strains, but instead have created a nightmare of debt entrapment for many consumers, and

WHEREAS, our Scriptures, Martin Luther's writings, and the principles found in Lutheran ethical teaching expressed in our ELCA social statements direct us as Christians in society to advocate policies which foster financial practices that do not unfairly take advantage of people who are in need; therefore be it

RESOLVED, that the Minneapolis Area Synod meeting in assembly call on its members to learn more about predatory lending abuses and responsible and just alternative practices; and be it further

RESOLVED, that the Minneapolis Area Synod meeting in assembly condemn as usurious any interest rate that exceeds 36% annualized percentage rate (APR); and be it further

RESOLVED, that the Minneapolis Area Synod meeting in assembly urge the Lutheran Coalition for Public Policy in Minnesota to advocate with the members of our congregations for legislation that prohibits usurious practices with regulation that limits interest charges in Minnesota not to exceed 36% APR.

*Unconscionably high interest rates

Author: Amy Blumenshine

Adopted by: The Joint Peace with Justice Committee of the Minneapolis & St. Paul Area Synods in assembly on February 9, 2010.

Contact person: Amy Blumenshine, O: 612-822-6059

A longer footnoted version of this background is posted at: **www.oursaviourmpls.org**
(Click on Advocacy News, then Usury Resolution)

This resolution is part of a nation-wide effort to reform predatory lending practices. In 2006, Congress limited the interest rate on payday loans to military members and their families to 36% Annual Percentage of Rate (APR) and fifteen states plus the District of Columbia limited lending from 17% to 36% APR (Center for Responsible Lending, 2009).

Through payday loans, lenders provide the recipient with cash one or two weeks in advance of his/her paycheck. Under current predatory practices, some payday loans include fees and charges that can result in loans with effective annual interest rates as high as 800%. The Center for Responsible Lending data indicate about one-quarter of payday loans are made to borrowers who visit payday lenders twice a month for more than ten months per year and six in ten are made to borrowers who visit payday lenders twice a month for more than six months. Industry proponents argue that payday loans are cheaper than alternatives, such as overdraft fees, bounced check fees and late payment fees. The high frequency use of payday loans and the resultant entrapment by the effective annual interest rates undermine the comparison.

The payday lending industry is now a $70 billion business and there are 23,000 payday lenders in the United States. The industry uses its wealth to lobby against legislation that would limit the interest rates they charge.

A common, though unsupported, justification for the high rates payday loans carry is that they are high risk. Consumer advocates charge they are actually not high risk, only high cost. Two industry supporters, Ronald J. Mann and Jim Hawkins, acknowledge that the "overwhelming majority of payday lending transactions do not result in default." In Minnesota, the default rate on payday loans not only is in the decline, but also is substantially lower than for other forms of credit, such as credit cards. From its high of 3.0% in 2005, the default rate (as a percentage of dollars loaned) dropped by 10%, to 2.7% in 2008. The cumulative payday loan default rate from 2000 through 2008 is even lower—2.4%. Payday America's own testimony confirms that defaults are low and there is no correlation between rates and risk. According to the president of Payday America, "less than 2% of all Payday America loans go to collections." (pp. 25-26, History Repeats Itself: A New Generation of Payday Lenders Exploit a Legal Loophole to Pick Minnesotan's Pockets. Ron Elwood & Kari Rudd, (Legal Services Advocacy Project, St. Paul, MN. February 2010)