

Payday Lending: What Catholics Are Doing to Combat Financial Exploitation

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USCCB

Catholic Teaching

Catechism of the Catholic Church

2269. Those whose usurious and avaricious dealings lead to the hunger and death of their brethren in the human family **indirectly commit homicide**, which is imputable to them.

2409. 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.**



Pope Francis

Usury is a “*dramatic social ill*”

“When a family has nothing to eat, because it has to make payments to usurers, this is not Christian, it is not human! This dramatic scourge in our society harms the inviolable dignity of the human person.”

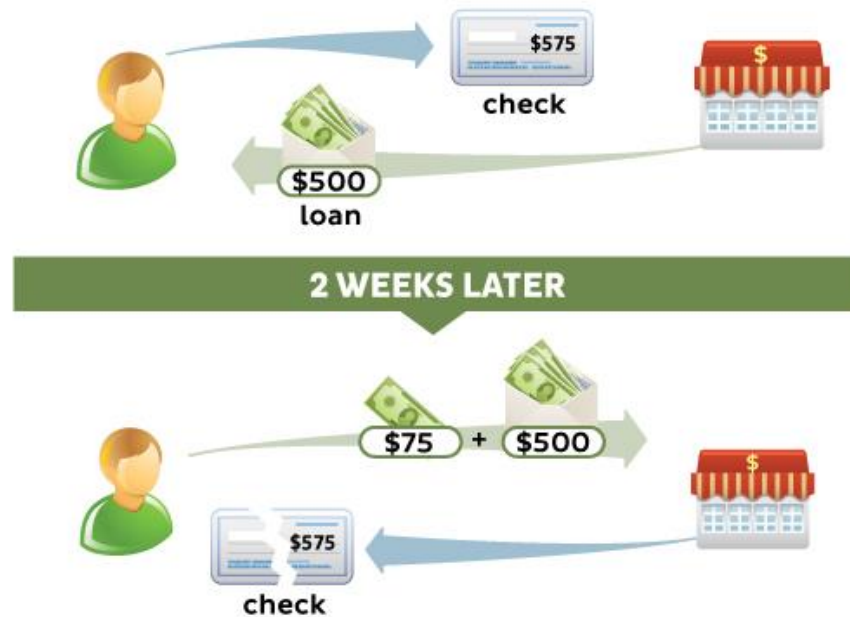
-January 29, 2014



What is Payday Lending?

How a Payday Loan Works

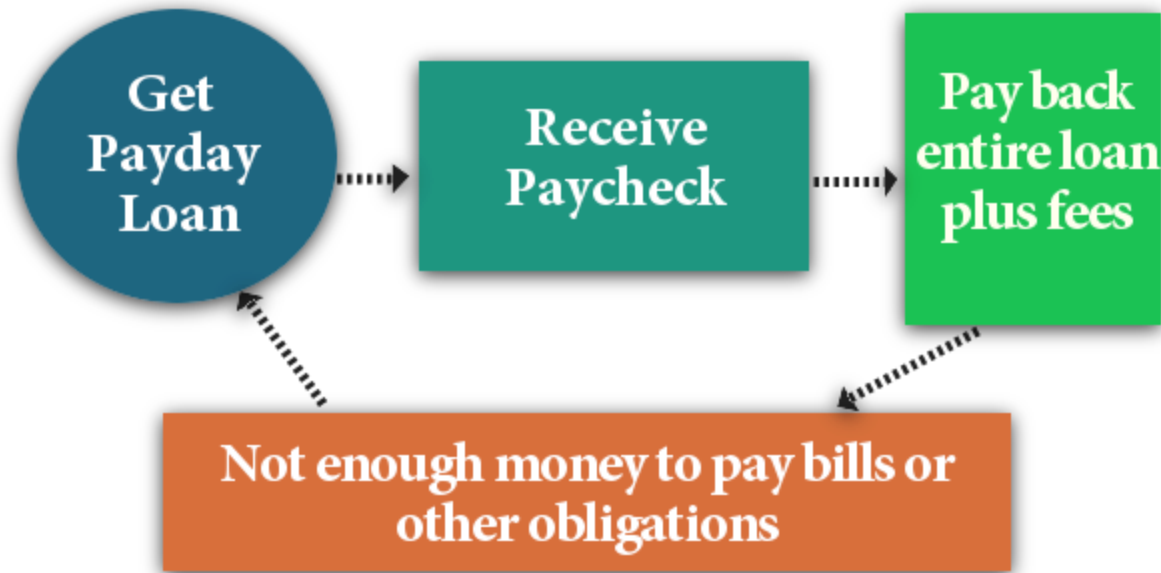
You borrow \$500
The fee is \$75



www.consumer.gov



What is Payday Lending?



www.responsiblelending.org



What is Payday Lending?

Payday loans are exploitative

- ▶ 75% of borrowers are employed; 70% use them to cover everyday expenses
- ▶ Median income is \$22,400
- ▶ 33% are married; 38% have children

Payday loans are predatory

- ▶ 94% of loans are either immediately after or within a month of the previous loan
- ▶ Borrowers are in debt, on average, 212 days out of the year
- ▶ The typical borrower will pay more in fees than the cost of the original loan.



Texas Catholics For Fair Lending



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THE TEXAS CATHOLIC CONFERENCE POLICY AGENDA

[Home](#)

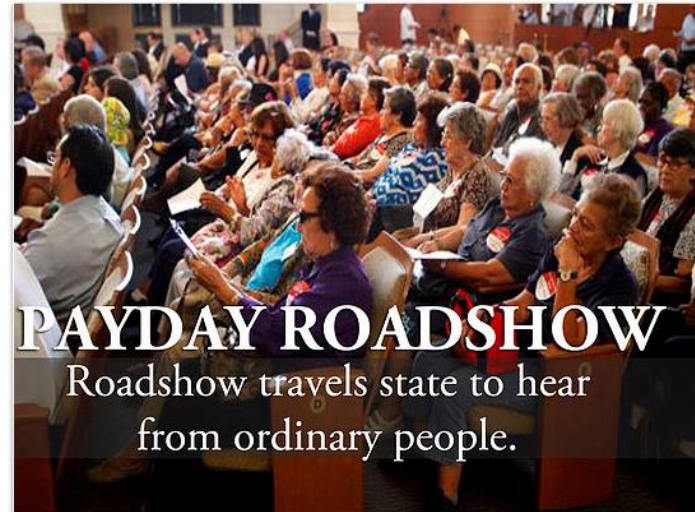
[News](#)

[Voices](#)

What Are Payday Loans (CABS)?

We have all seen the commercials and storefronts promising “speedy cash” and “easy money” loans. Of course, there is no such thing as free money. Payday and auto title lenders instead exploit a loophole in Texas Law in order to charge outrageous fees and interest rates that trap low-income borrowers in a dangerous cycle of debt.

The Texas Bishops have prioritized ending this form of usury as one of its top public policy goals, and invite you to join in the effort to end financial exploitation.



FACTS & FIGURES

[Statement Of Principles](#)

LATEST NEWS & ARTICLES

[Industry Data On Payday Lending Fails To Reflect](#)

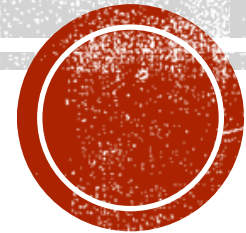
GET INVOLVED

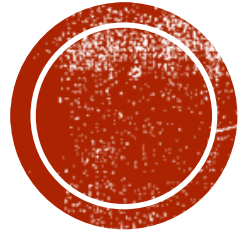
[Stay Informed](#)

<http://www.txcatholic-fairlending.org/>

THE STATE OF PAYDAY & AUTO TITLE LENDING

A call to action for Waco and Texas





AN OVERVIEW



WHAT IS A PAYDAY OR AUTO TITLE LOAN?

Payday loan

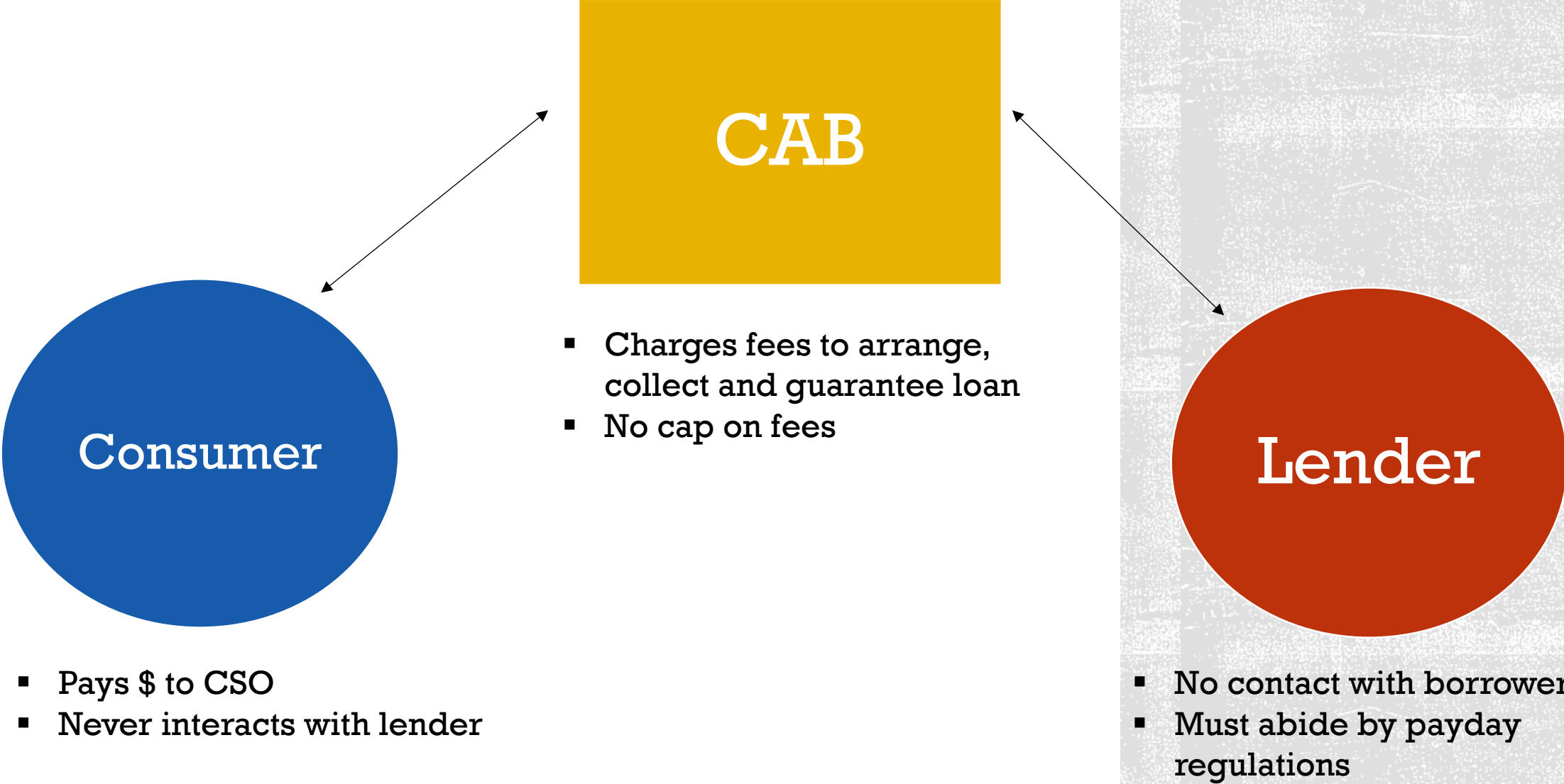
- small cash advance
- two weeks loan term
- interest and fees
- unsecured, but require postdated check or electronic access to a debit account as collateral

Auto title loan

- car title is used as collateral
- typical term of one month
- interest and fees
- if a borrower defaults, loan company can take the car



THE CSO/CAB BUSINESS MODEL



WILD, WILD WEST OF LENDING

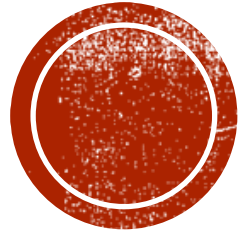
- Under current state law:
 - No limits on fees
 - No limit on the size of the loan
 - No limits on rollovers or refinances
 - No limits on ability to repay based on income
- Lack of regulation
 - Allowed tremendous growth



DEFECTIVE PRODUCTS

- **Usurious rates**, often 500% to 1,000% APR
- **Excessive Fees**
 - Fees on 4K auto title loan are over 1K per month
- **Cycle of debt**: high fees are often paid month after month without reducing the loan amount
 - **62% of all loans in Waco are refinances**

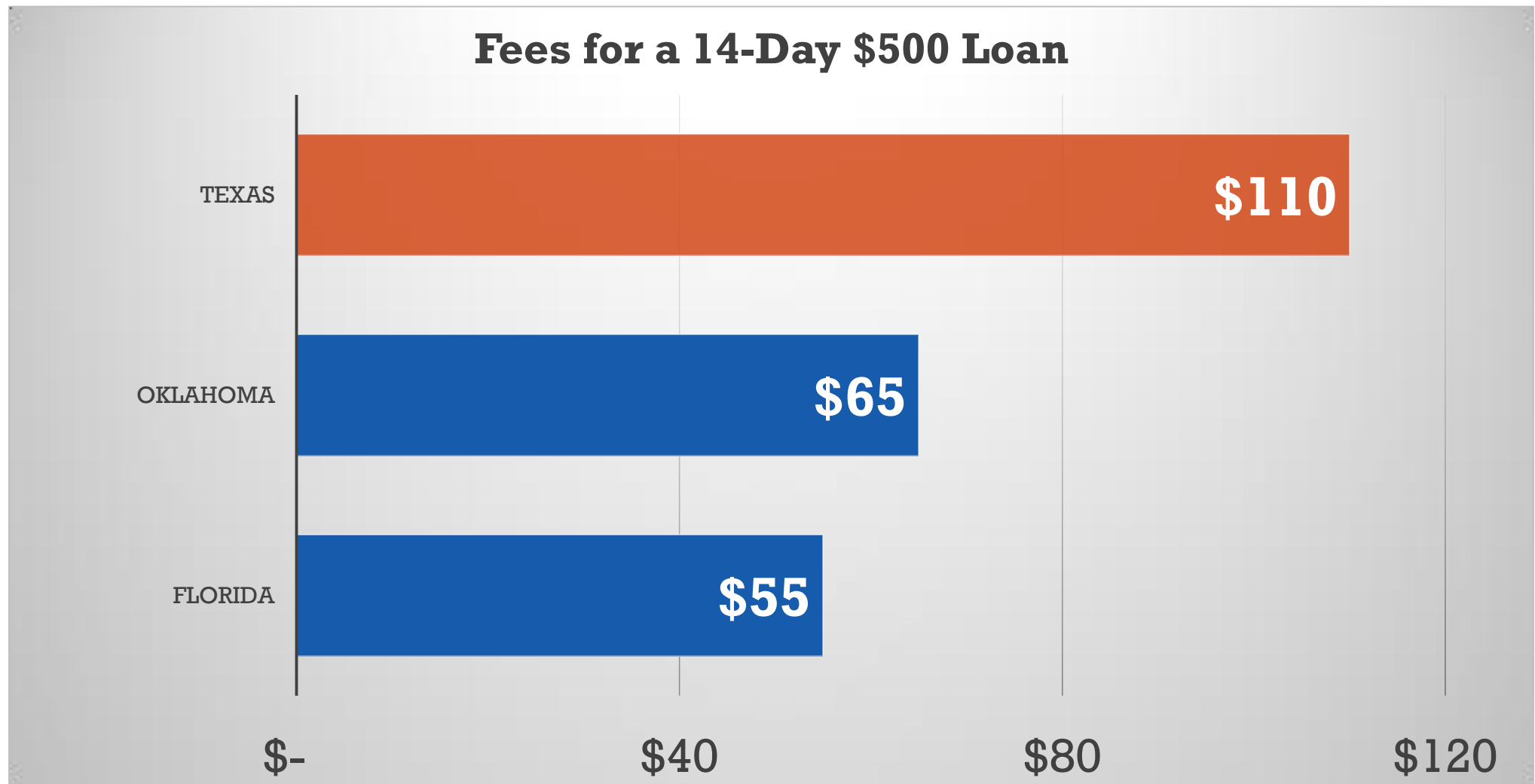




STATE-WIDE IMPACT



TEXANS PAY MORE



On average, Texans pay \$22 per \$100 borrowed



INTERIM SESSION (2011-2012)

- **Cities Pass Model Ordinance**
 - Dallas—June 2011
 - Austin—August 2011
 - San Antonio—September 2012
 - El Paso—January 2013
 - Houston – December 2014

- **Now, a total of 18 municipalities have enacted the model payday and auto title ordinance**



MODEL ORDINANCES IN TEXAS CITIES

- Limit loan size according to borrowers' ability to pay
 - Payday loans: limited to 20% of the borrower's gross monthly income.
 - Auto title loans: limited to the lesser of 3% of the borrower's gross annual income or 70% of the vehicle value
- Limit # of installments to 4 and rollovers/renewals to 3
- Proceeds from each installment or renewal must reduce loan principal by 25%
- Defines rollover or renewal as any extension of consumer credit made w/n 7 days of the previous extension of credit.
- Register with the city



WEAK REGULATIONS MEAN FEW CONSUMER RIGHTS

- **OCCC licenses CABs**
 - No shared ownership or employees with 3rd party lender.
- **Consumer has 3 day right to rescind**
- **Abusive collections practices prohibited**
 - State and federal debt collection laws.
 - No threat of criminal charges
- **Clients should complain to the OCCC, AG, and CFPB**
 - Local elected officials (state senators, state representative, and city council members) may be able to help.



NEXT STEPS: STATEWIDE

- **Document problems**
- **Collect borrower stories**
- **Highlight issue with legislators**
- **Support legislative champions**
- **More municipalities**



Texas Fair Lending Alliance

Ann Baddour
abaddour@texasappleseed.net
512-473-2800, ext 104



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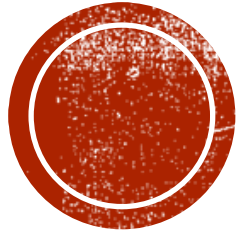
TEXAS MUNICIPAL LEAGUE'S MODEL ORDINANCE



FILING COMPLAINTS

- Consumer Financial Protection Bureau
 - www.consumerfinance.gov/complaint
 - 855-411-CFPB (2372)
 - TTY/TDD 855-729-CFPB (2372)
- Texas Attorney General
 - www.oag.state.tx.us/consumer/complain.shtml
 - Office of the Attorney General, Consumer Protection Division, PO Box 12548, Austin, TX 78711-2548
- Texas Office of Consumer Credit Commissioner
 - 512-736-7600
 - info@occc.state.tx.us





**FOR MORE INFORMATION OR TO GET INVOLVED,
CONTACT JENNIFER ALLMON**

jennifer@txcatholic.org

512-339-9882



www.sscfcude.org/

Rashmi Rangan, Director

Rrangan@dcrcac.org

(302) 298-3250; (877) 825-0750 x100

PAYDAY ALTERNATIVE LOAN (PAL) PROGRAM

Sent request to NCUA for approval 10.3.2014

POLICY

Stepping Stones Community Federal Credit Union will provide members with an alternative to borrowing from potentially predatory lenders by making PALs to extend credit to our members. The ability to make PALs will help Stepping Stones fulfill the credit union mission of promoting thrift and meeting the credit needs of our members, particularly those of modest means.



LOAN TERMS

<i>Principal Amount:</i>	\$200 - \$1,000
<i>Term:</i>	1 – 6 months
<i>Application Fee:</i>	\$0
<i>Eligibility:</i>	Member for at least 1 Month
<i>Amortization:</i>	Fully Amortized (No Balloon Payments)
<i>Rollovers:</i>	Prohibited
<i>Interest Rate:</i>	28%
<i>Loan Requirements:</i>	Member may only have one loan within each six month period. Member is limited to two loans per year. Loan must be paid in full before member is eligible for another loan. Member may be eligible for a 30 day extension with reasonable documentation.
<i>Credit Union Limit:</i>	Short-term dollar loans are limited to a maximum of 20% of the credit union's net worth, or approximately \$32,000. The Board has limited these loans to \$10,000.



MEMBERSHIP

- Must be employed for at least 6 months.
- Must be a member for at least 1 month
- Must provide proof of income with two most recent pay stubs
- If on fixed income, award letter needed for verification
- Payment must be made – at least monthly

PROCESSING:

- No credit report will be obtained
- No debt ratio will be calculated
- Verify employment with current pay information
- Verify all credit union accounts are in good standing and member has not caused the credit union a loss.
- Attach a copy of account information with application and income information.

USCCB Involvement



Committee on Domestic Justice and Human Development

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November 13, 2013

The Honorable Richard Cordray
Director
Consumer Financial Protection Bureau
1700 G Street, NW
Washington, D.C. 20552

Dear Director Cordray:

On behalf of the United States Conference of Catholic Bishops, I encourage you to act with your authority to protect consumers and families living in or near poverty from predatory financial products, especially payday loans.

The economy continues to fail in producing sufficient decent work, as the modest recovery of recent years has been dominated by the creation of low-wage and part-time jobs, leading to painful and enduring financial insecurity for millions of American families. This calls for compassion, solidarity, and a strengthened commitment to the common good. Yet across the country, some unscrupulous lenders use payday lending in order to take advantage of working people struggling to meet basic human needs.

Payday loans are marketed as short-term financial relief for unexpected, discrete expenses. Recent research, however, suggests the overwhelming majority of payday loan consumers rely on them to meet recurring, basic needs. Additionally, as the Bureau found last year, many of the loans are structured in such a way as to make repayment very difficult, initiating a cycle of deeper indebtedness that adds to borrowers' financial stress, rather than relieving it.

The *Catechism of the Catholic Church* equates exploiting economic hardship with 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). Payday lending seems to meet these criteria, to the extent that it preys on the financial hardship of poor and vulnerable consumers, exploits their lack of understanding, and increases economic insecurity.

Lenders and financial institutions that extend responsible, ethical credit provide a valuable service to households and the economy as a whole. Poor and vulnerable working people deserve loan options that they can repay in a timely manner and that advance their long-term financial security, rather than consign them to a cycle of debt.

Thank you for all you do to protect consumers and for your attention to my concerns.

Sincerely,

+ 

Most Reverend Stephen E. Blaire
Chairman
Committee on Domestic Justice and Human
Development

- ▶ ... “preys on the financial hardship of poor and vulnerable consumers, exploits their lack of understanding, and increases economic insecurity”
- ▶ Called for compassion, solidarity, and a strengthened commitment to the common good
- ▶ Encouraged the CFPB to act within its authority to protect consumers



Consumer Financial Protection Bureau

- ▶ Created in 2010 to empower and protect consumers in their financial lives. Activities include:
 - Write rules, supervise companies, and enforce federal consumer financial protection laws
 - Restrict unfair, deceptive, or abusive acts or practices
 - Take consumer complaints
 - Promote financial education
 - Enforce laws that outlaw discrimination and unfair treatment
- ▶ File a Complaint: www.consumerfinance.gov/complaint



Additional Resources

- ▶ USCCB Backgrounder

<http://bit.ly/1y70SWb>

- ▶ Pew Charitable Trust Small Dollar Loan Project

pewtrusts.org/en/projects/small-dollar-loans-research-project

- ▶ Center for Responsible Lending

responsiblelending.org/payday-lending/

- ▶ CFPB Report

files.consumerfinance.gov/f/201403_cfpb_report_payday-lending.pdf



Stay Active and Stay Tuned!

“Finance . . . now needs to go back to being an instrument directed towards improved wealth creation and . . . must be used in an ethical way so as to create suitable conditions for human development and for the development of peoples. ”

-Pope Emeritus Benedict XVI, [*Caritas in Veritate*](#)

Sign up for [Notes for Neighbors](#) for action alerts, more resources, and to stay informed.

Thanks!

Tom Mulloy tmulloy@usccb.org

