

*From the Peril of Predatory Lending  
to the Hope of Economic Justice: A  
Religious Social Ethical Perspective*

*Family Impact Seminar*

*March 8, 2012*

Alex Mikulich

Jesuit Social Research Institute

**JSRI**

Loyola University New Orleans



# *Context and the Problem*

- ✧ Plonius: "Neither a borrower or lender be." Fact of human condition:
  - ✧ Source of unhappiness.
  - ✧ Can't live with or without it.
- ✧ The Problem of Predatory Lending.
- ✧ Theological and Moral Issues at Stake.





## *Definitions*

- ✧ Original meaning of “interest”: being in relationship and concern for mutual interests of cooperative human living.
- ✧ “Usury” In Hebrew: Literally taking “bite” out of the poor.
- ✧ Theological meaning primary to understand moral context.



# *Biblical Background*

## ✧ Torah (The Law)

✧ *Genesis* 47: God reveals God's concern for the poor and the people in the midst of foreclosure.

✧ *Exodus*: "If you lend to any of my people with you who is poor, you shall not be to him a creditor, and you shall not extract interest from him. If you ever take your neighbor's garment in a pledge, you shall restore it to him before sundown; for that is his covering, it is his mantle for his body, in what else shall he sleep? And if he cries out to me, I will hear, for I am compassionate (*Ex* 22:25-27)

## ✧ Historical Books

✧ *Nehemiah* 5: "A Great Outcry of the Common People Against Usury"





# *The Gospels*

- ✧ Jesus identifies with the poor and despised.
- ✧ "Be compassionate as God is compassionate."  
*Luke 6:36*
- ✧ Lord's Prayer: Forgiveness of economic debt.
- ✧ Jesus overthrows moneychangers' tables at the Temple, rebuking them: "My house shall be a house of prayer, but you are making it a den of thieves." (*Matthew 21: 12-13*).



# *Highlights from Christian Theological History*

## ✧ Early Christian Communities:

- ✧ Usury involves oppression of the poor and destroys community. Gregory of Nazianzus:
  - ✧ “one has defiled the earth with usury and interest, both amassing where he had not sowed and reaping where he had not strawed; not farming the earth but the want of those in need.”
- ✧ Thomas Aquinas (13th Century): “Usury leads to inequality which is unjust in itself.”
- ✧ Jean Calvin (16th Century): Maintains critique of usury with approval of interest for development of modern economy.





# *Modern Catholic Social Teaching*

## ✧ Principles:

- ✧ *Human dignity for all can only be protected in community.*
- ✧ *The economy must serve people, not people serve the economy or narrow economic interests.*
- ✧ *Priority for the economically poor is a condition for economic justice and the common good.*
- ✧ *Subsidiarity: Decisions and responsibility should be as close as possible to the level of individual and community initiative.*
- ✧ *The Common Good is the sum total of all those conditions of social living --economic, political, cultural--which make it possible for women and men to readily and fully to achieve the authentic development of their humanity.*



# *Charity in Truth*

Pope Benedict XVI

- ✧ Theological orientation: God is a Gift of love that overflows in the human person and the whole of creation.
- ✧ Theological context constitutes the Truth in which persons, communities, and society seek to understand and build authentic human development.
- ✧ Hence the title of the encyclical: The capacity of human persons to love and share responsibility for one another originates in the source of creation and the whole of reality--God.





# *Authentic Human Development*

- ✧ Economy at service of whole human person and society, not the reverse.
- ✧ Holistic human development:
  - ✧ Human, vital, social, cultural, religious values.
  - ✧ Basic needs of most vulnerable first.
  - ✧ Increase political and economic participation.
- ✧ Authentic human development in context of Solidarity and Freedom.

# *The Structure of Predatory Lending*

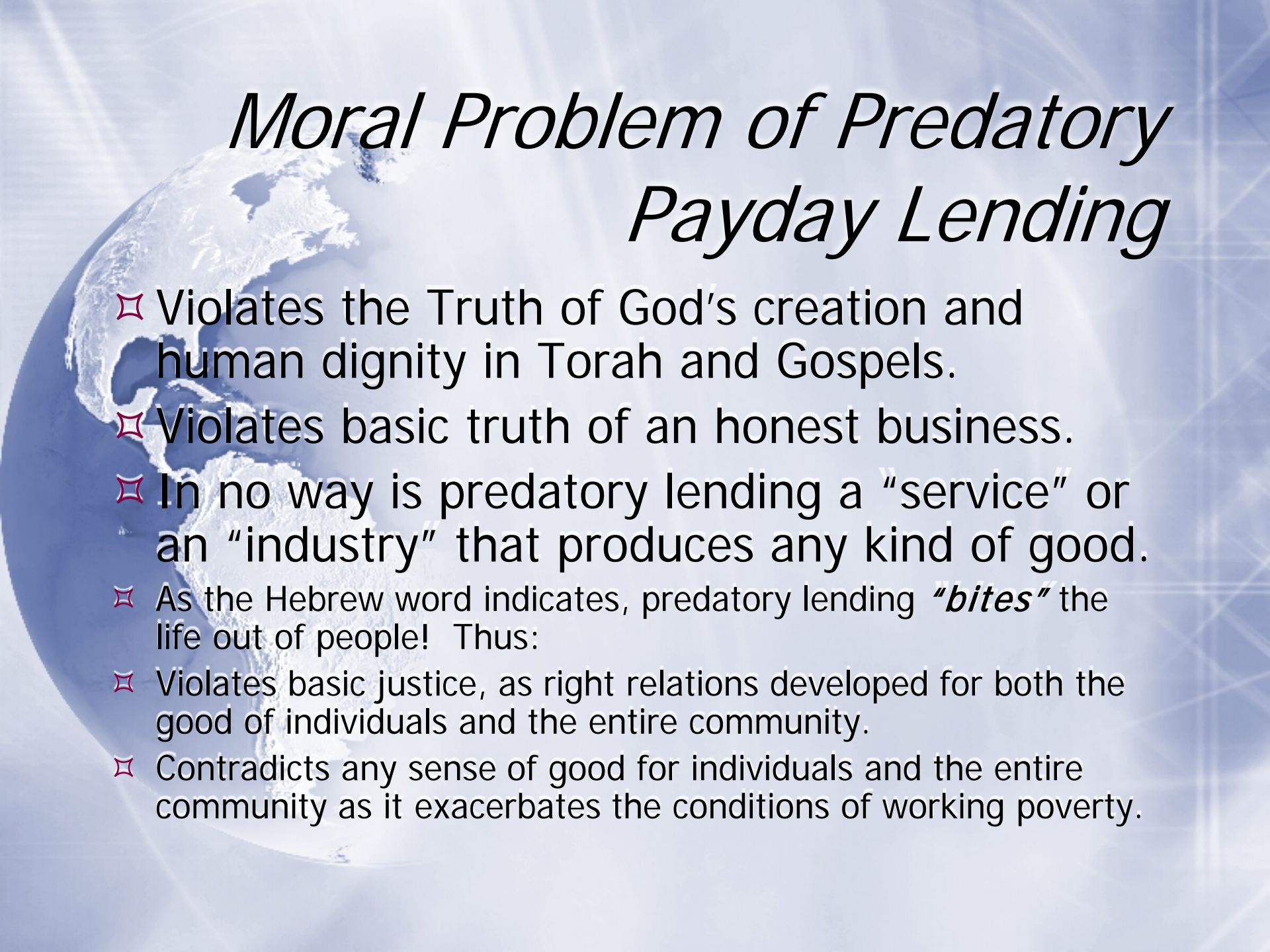
- ✧ 1) Payday loan terms typically short--two weeks.
- ✧ 2) Triple-digit interest rates--national average Annual Percentage Rate is 470%. In Louisiana, APR can run as high as 652% according to lenders' own materials (Tim Mathis, LBP).
- ✧ 3) Loan renewal or "flipping" traps the borrower in a cycle of indebtedness that demands additional fees as borrowers are unable to repay the principal when their loans are due.
- ✧ 4) A key indicator of predatory lending is the fact that lenders have no concern for the borrower's repayment capacity. The amount of the loan is not based on the borrower's credit history or ability to repay the loan.
- ✧ 5) Finally, numerous studies detail how payday lenders locate offices within the most economically vulnerable communities and take advantage of the working poor in both urban and rural settings.





# *Consequences of Predatory Payday Lending*

- ✧ Typical borrower eventually pays back \$793 for an initial \$325 loan.
- ✧ Result in loss of checking account, one link to traditional, lower-cost system.
- ✧ Turns people into chronic borrowers, weakening their ability to climb the economic ladder.
- ✧ Bankruptcy.



# *Moral Problem of Predatory Payday Lending*

- ✧ Violates the Truth of God's creation and human dignity in Torah and Gospels.
- ✧ Violates basic truth of an honest business.
- ✧ In no way is predatory lending a "service" or an "industry" that produces any kind of good.
- ✧ As the Hebrew word indicates, predatory lending "*bites*" the life out of people! Thus:
- ✧ Violates basic justice, as right relations developed for both the good of individuals and the entire community.
- ✧ Contradicts any sense of good for individuals and the entire community as it exacerbates the conditions of working poverty.





# *For Interest Rightly Understood and Against Usury*

- ✧ **“Although the quest for equitable profit is acceptable in economic and financial activity, the recourse to usury is to be morally condemned. ‘Those whose usurious and avaricious dealings lead to the hunger and death of their brethern in the human family indirectly commit homicide, which is imputable to them...The Magisterium uses strong and clear words against this practice, which is still tragically widespread, describing usury as ‘a scourge that is also a reality in our time and that has a stranglehold on many peoples’ lives.’”**
- ✧ *The Compendium of the Social Doctrine of the Church, (2005) paragraph #341.*



# *Questions Toward Economic Justice*

- ❖ How might basic human values of truth and justice shape the financial system for the common good, especially the most economically vulnerable?
- ❖ How might we as a society re-invest in our most economically vulnerable communities?
- ❖ How will Louisiana provide fair and equal access to credit, capital, and banking services to its most underserved communities?
- ❖ How might Louisiana enact policies that protect our people against predatory lending and promote socially responsible economic development?





# *Practicing Hope*

- ✧ Build Local Institutions, including Credit Unions, Community Development Corporations, and Community-based Financial Institutions (CDFI's) already present in LA.
- ✧ Examples: Kentucky Highlands Investment Corporation provides both venture capital and small business loans to assist rural firms. KH has helped generate more than 175 million in investments in 140 companies, creating some 7,900 jobs in southeast Kentucky.
- ✧ Bank of North Dakota, founded in 1919, currently has \$2 billion in assets. BND now provides 5th largest source of income for the state. The bank makes student loans (27% of total), commercial loans (33%), agricultural loans (17%), and residential loans (23%). Return on equity was over 21% for 2000, and 18.7% in 2001, a year of national economic difficulty.
- ✧ Build Individual Development Accounts and Stakeholder capacity of people in economically vulnerable communities.



# *Authentic Human Development*

✧ "In order that the right to development may be fulfilled by action: people should not be hindered from attaining development within their own culture, [and] ***through mutual cooperation all peoples should be able to become principal architects of their own social and economic development,*** every people as active and responsible members of human society, should be able to cooperate for the common good on equal footing with all other peoples."

✧ *Justice in the World* (1971 Statement of Synod of all Catholic Bishops in the World). Emphasis added.



*Thank you!*

