



Department of Justice, Peace, and Human Development

Office of Domestic Social Development

Predatory Banking and Payday Lending

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The weakest members of society should be helped to defend themselves against usury, just as poor peoples should be helped to derive real benefit from micro-credit, in order to discourage the exploitation that is possible in these two areas. Since rich countries are also experiencing new forms of poverty, micro-finance can give practical assistance by launching new initiatives and opening up new sectors for the benefit of the weaker elements in society...

-Pope Benedict XVI, Caritas in Veritate, no. 65.

ISSUE

The financial crisis of 2007 and the severe economic recession that followed--the effects of which are still being felt by millions of American families today--revealed some of the fundamental inequities in the United States' financial system.

A housing bubble, inflated in part by predatory subprime mortgages, burst and left millions of families with mortgages worth more than the home, or even facing foreclosure. Additionally, the financial crisis displayed the indebtedness of families and demonstrated how much the American economy is dependent on credit. Many families who had incomes that did not keep up with rising costs used credit to finance their daily lives.

The crisis also shed light on the extent to which this financial distress has been preyed upon and by unscrupulous bankers and other financial businesses. According to the Center for Responsible Lending, payday lending expanded aggressively over the course of the last two decades due to permissive state laws. Moreover, in many instances payday loans were made in a way that made it impossible for borrowers to repay in the required timeframe, requiring them to take on more debt.

As millions of families live with anxiety and uncertainty, coping with stagnant or falling wages, laws and policies must protect them from additional burdens, and “[e]conomic choices and institutions must be judged by how they protect or undermine the human life and dignity of the human person, support the family, and serve the common good” ([A Catholic Framework for Economic Life](#)).

Predatory Banking

The Catholic Bishops have addressed the issue of unscrupulous and exploitive banking in the context of housing. In *The Right to a Decent Home*, they write, “Where it exists, it must be condemned; discrimination based on geography is as destructive as other forms of discrimination. We must insure fair and equal access to available credit. We urge banks and savings and loan associations to meet their responsibilities in central city areas” (nos. 31-32)

The [Catechism of the Catholic Church](#) 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)

Unfortunately, research is starting to bear out that the same practice of geography– and community-based dis-

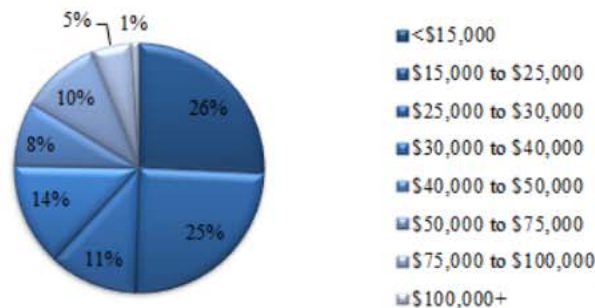
crimination is prevalent among predatory banking institutions. Whereas in the past communities of color or communities of economic distress were excluded from the financial economy, many have been targeted and aggressively sold substandard, subprime, and predatory bank products and loans.

Payday Lending

In respect specifically to banking, and the relationship between lender and borrower, the *Catechism* is abundantly clear: “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” (no. 2269). Pope Benedict said, “The world of finance, while necessary, no longer represents an instrument that favours our wellbeing or the life of mankind, instead it has become an oppressive power, that almost demands our adoration, mammon, the false divinity that truly dominates the world” (Sermon to Seminarians, February 16, 2012).

With this lens, the practice of predatory lending in the United States comes under considerable scrutiny. The [Federal Reserve](#) and [Pew Research](#) have reported that the vast majority of payday loans are taken out by people struggling to survive--their use is almost exclusive to the bottom half of families.

Payday Loan Borrowers by Income Level



USCCB Staff, using data from the Pew Research Center

Additionally, payday loans are largely used out of necessity, to pay for basic and everyday needs, and for lack of other options. Possibly most distressingly, over 17 percent of all payday loans in 2010 were used to merely pay down other debt.

USCCB POSITION

The Catholic Campaign for Human Development, as the domestic antipoverty program of the Catholic Bishops of the United States, funds organizations throughout the country that fight for consumer financial protections as well as develop alternative sources of credit. Currently, CCHD funds numerous credit unions and other Community Development Financial Institutions (CDFIs) that give out hundreds of thousands of dollars in small business loans and personal credit for car purchases, first time homebuyers, or other uses.

Advocates are urged to work with state Catholic Conferences and state officials to address unfair and unjust lending laws and regulations.

ADDITIONAL RESOURCES

[Pontifical Council for Justice and Peace: *Towards Reforming the International Financial and Monetary Systems in the Context of Global Public Authority*](#).

People Improving Communities through Organizing (PICO) National Network: piconetwork.org/

Catholic Campaign for Human Development: povertyusa.org and pobrezausa.org (Spanish)

FOR MORE INFORMATION

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