

TYPICAL SIGNS OF A PREDATORY PAYDAY LOAN

1. Triple digit interest rates

2. Short loan terms

Unable to repay the original loan in two weeks, many victims of payday lending are forced to get a loan “rollover” at additional cost.

3. Single balloon payment

Payday loans typically do not allow for installment payments. A borrower must pay the entire loan at once.

4. Successive loans

Ninety percent of the payday industry’s revenue growth comes from making more and larger loans to the same customers.

5. Deferred check mechanism

Borrowers provide a deferred (post-dated) check which incurs NSF check charges and/or criminal prosecution if the loan is not paid or successive loans are not obtained.

Source: Center for Responsible Lending



More on the Internet

- Mennonite Mutual Aid: mma-online.org
- Mennonite Economic Development Associates: meda.org
- Mennonite Financial Credit Union: mennonitefinancial.com
- The Center for Responsible Lending: responsiblelending.org
- U.S. Department of Housing and Urban Development: hud.gov
- Coastal Enterprises Inc., a non-profit Community Development Financial Institution: ceimaine.org



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MCC U.S. Washington Office Guide to **Predatory Lending**



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The Mennonite Central Committee U.S. Washington Office is a Mennonite and Brethren in Christ presence on Capitol Hill, providing and encouraging prophetic witness to the way of Christ on matters of U.S. public policy.

What is Predatory Lending?

In the early 1900s, people of color faced system-wide mortgage discrimination, which contributed to the decay of urban neighborhoods. Today, these same communities are often the targets of unfair lending practices such as subprime mortgages, payday lending and credit card abuse. A common thread is the financial destruction produced by exploitative lending practices.

The **subprime mortgage market** is a market for those who can't qualify for standard mortgages—and it is ripe for exploitation by lenders. Exploitation comes in the form of unfair fee structures, variable rates that rise quickly and failure to take into account a person's ability to pay.

Payday lending involves short-term small amount loans that carry very high interest rates and steep fees for late payments or bounced checks. Statistics show that short-term payday lending debt can easily become a long-term event. An estimated \$793 is repaid for a \$325 loan by the average borrower. The last few decades have seen a proliferation of payday lenders, with over 24,000 operating in the United States today.

The increasingly complex **credit card industry** is also implicated. Hard to understand disclosure agreements disguise interest rate and fee structures, increasing the likelihood that penalty rates over 30 percent or expensive fees will be triggered. These rates can be triggered by missing one payment to any creditor or simply by signing up for a new card.



Faith reflection

Both Old and New Testaments teach responsible stewardship of resources—resources that ultimately belong to God. Good financial stewardship takes into account the impact financial and investment decisions have on people and their communities.

The Bible pronounces stern judgment on those who exploit the poor for profit (Exodus 22:25–27). It also tells believers to speak out in the face of injustice (Proverbs 29:7; Isaiah 1:7).

How can Christians respond?

Advocacy: Lenders that profit from predatory lending often prey on disadvantaged populations. Advocacy efforts are needed to enact laws that encourage just and transparent lending practices. Grassroots advocacy is crucial given the political strength of lending institutions in Washington. To learn more about effective advocacy, visit the Washington Office website at mcc.org/us/washington.

Alternatives: Christians can also respond by using their resources to support responsible alternatives. Mennonite Mutual Aid (MMA), an Anabaptist financial and insurance services company, serves as an advocate on behalf of victims of predatory lending and supports sustainable subprime loans administered by Community Development Financial Institutions. In 2008, MMA had more than \$5.6 million invested in institutions helping sub-prime borrowers “do the right thing” and build a better tomorrow for their families and communities.

Education: Anyone can fall victim to predatory lending. Make sure that you and your church community know about responsible economic planning tools and sustainable stewardship. Organizations like MMA and your local credit unions can help. The Center for Responsible Lending also provides consumer resources.

How should public policy respond?

1. *States and/or the federal government must cap interest rates for payday loans.* The business model of payday lending relies on triple digit interest rates and continual loan flipping, creating long term cycles of debt for borrowers. The most effective way to eliminate this debt trap is to eliminate exorbitant interest rates by capping them at a reasonable level.
2. *Increase regulatory oversight of credit card companies.* Credit card companies should be held to just and fair practices. This includes eliminating arbitrary interest rate increases, excessive fee structures and increasing transparency on behalf of consumers.
3. *Act on behalf of homeowners in danger of foreclosure.* Allowing bankruptcy judges to alter the terms on loans for homeowners in imminent danger of foreclosure would keep hundreds of thousands of people in their homes while strengthening communities and protecting future borrowers from predatory mortgage loans.