RESOLUTION
National Baptist Convention, USA
Predatory Lending

Whereas the difference in median wealth between African American and white households is sizeable and has increased sharply in the past twenty-five years.[1]

Whereas many African Americans, as well as other communities of color and low-wealth citizens struggle each day to meet basic needs due, in part, to disparities in net worth, wages that have not kept pace with the cost of living, and the employment impacts of a major financial crisis.

Whereas some financial institutions exploit financially struggling households by charging excessive rates of interest on cash advances, payday loans, car title loans, direct deposit advances, and high-cost installment loans.

Whereas indebted households are also at risk of exploitation by debt collectors, debt settlors, and debt buyers

Whereas payday, car title, direct deposit and high-cost installment loans are characterized by exorbitant rates or other fees with unaffordable repayment terms and high rates of repeat borrowing

Whereas a typical payday borrower is stuck in 8 or more payday transactions a year, pays $410 in fees alone for $300 of credit,[2] and is charged over 300% APR.[3]

Whereas the average car title loan costs approximately 300% APR and results in renewal of loans eight times and causes 1 in 6 borrowers to face repossession of their car

Whereas a higher concentration of payday lenders have been found in neighborhoods with the largest shares of African American and minority households, even after controlling for income and a variety of factors.

Whereas payday loans drain economic and community resources resulting in a net loss of nearly $1 billion of economic activity and 14,000 lost jobs annually in the communities where they locate[4] and are associated with negative financial outcomes for communities and households.[5]

Whereas these products are predatory in nature, designed to entrap households in debt through a combination of high fees and short repayment periods resulting in interest rates as high as 300 to 1000% annualized percentage rate (APR).

Whereas the Bible has spoken clearly about loaning money at interest and the ethical responsibilities of one who extends credit (Exodus 22:25-28; Leviticus 25:35-37; Deuteronomy 23:19; Psalm 15:5) and Jesus, himself, decried moneychangers who financially took advantage of Temple-goers.(Mark 11: 15-19; Matthew 21:12-17; Luke 19:45-48)

Whereas the Christian faith has historically opposed and deemed usurious loans at exorbitant rates of interest and prohibits exploitation of those who are financially vulnerable

Whereas seventeen states and the District of Columbia protect their borders from predatory lending by enforcing two-digit interest rate caps and federal law establishes a maximum rate of 36% APR for small loans to military personnel[6]

Whereas Congress has enacted and the President signed, legislation to establish a Consumer Financial Protection Bureau to guard American households and the financial marketplace against unfair, abusive, and deceptive financial practices and this Bureau

Whereas the CFPB, the nation's financial regulators and state officials must work together to ensure a sound and fair financial marketplace for all

Be it resolved that the National Baptist Convention USA, Inc. shall stand against practices of predatory, debt-trap lending and exploitation of financially vulnerable households and commit to continued financial education and financial empowerment within our congregations and the communities we serve.

Be it further resolved that the National Baptist Convention USA, Inc. supports the principles of just lending including:

- Promotion of honesty, clarity, transparency and evenhandedness in all financial dealings.
- Prohibition of unconscionable rates of interest and unreasonable fees.
- Inclusion of fair underwriting standards that ensure loans are extended upon borrowers' ability to pay as well as fair access to credit across all communities.

Be it further resolved that the National Baptist Convention USA, Inc. stands against predatory financial practices and stands in favor of a limit on fees, interest, and other charges on small dollar loans to 36% APR, fair and effective underwriting that takes into account borrowers' ability to repay without re-borrowing, and any other protections necessary to protect individuals from long-term indebtedness.

Be it further resolved that the National Baptist Convention USA, Inc. call upon banks and credit unions to provide fair credit on affordable terms. The Convention will desist from and avoid investment in any company associated with payday lending.

Jerry Young

SIGNED this 24 day, June month, 2015 year
Dr. Jerry Young.
President,
National Baptist Convention USA, Inc.

[1] The Urban Institute notes that while income inequality has remained the same since the 1980s, the gap in wealth between white Americans and black and Hispanic Americans has increased and that the Great Recession has exacerbated this divide. See Signe-Mary McKernan, Caroline Ratcliffe, Eugene Steuerle, and Sisi Zhang. *Less Than Equal Racial Disparities in Wealth Accumulation.* April 2013. See also Thomas Shapiro, Tarjana Meschede, Sam Osoro *The Roots of the Widening Racial Wealth Gap: Explaining the Black-White Economic Divide.* February 2013 (tracing the same households over 25 years demonstrates that the total wealth gap between white and African-American families nearly tripled in this time period).

[2] Industry data show that the average number of loans per year is 8 payday loans. See, for example, reports from states with 400% interest rates and track their use with real-time databases, such as Florida, Oklahoma. These databases reveal the devastation of the payday debt trap, with the typical borrower stuck in 8 loans a year. These findings are summarized in the Center for Responsible Lending's *Springing the Debt Trap,* http://www.responsiblelending.org/payday-lending/research-analysis/springing-the-debt-trap.html

These loans are typically taken out in a back-to-back fashion - 76% of loans are due to borrowers taking out a new loan within two weeks of closing out the old payday loan. See Center for Responsible Lending, *Phantom Demand* (July 2009), http://www.responsiblelending.org/payday-lending/research-analysis/phantom-demand-short-term-due-date-generates-need-for-repeat-payday-loans-accounting-for-76-of-total-volume.html

Regardless of whether the loan is called a renewal or a new transaction, the impact to the consumer is the same – simply paying the fees and interest to extend that small amount of credit. Assuming a typical payday loan of $300 with a 445% APR, this means the fees for that single transaction is $51. A typical payday borrower will pay that $51 eight times before either escaping the cycle of debt or ultimately defaulting. The total sum of these fees and interest paid for these 8 transactions is just over $408, or roughly $410 in interest alone for a $300 loan.

[3] The Consumer Financial Protection Bureau's recent analysis of hundreds of thousands of payday transactions confirms previous data finding that the typical borrower takes out 10 loans per year and pays over 320% APR for payday loans. *White Paper: Payday Loans and Deposit Advance Products,* Consumer Financial Protection Bureau, April 24, 2013.

[4] Insight Center for Community Economic Development, 2013

[5] A number of academic studies of payday lending have identified its negative effects on households. 2007 and 2008 studies found that households with greater access to payday loans had increased difficulty paying bills and were more likely to overdraw their bank account, in some cases bringing about closure of their bank account. Brian T. Melzer (PhD Candidate, Economics, U. of Chicago Business School), *The Real Costs of Credit Access: Evidence from the Payday Lending Market* (Nov. 15, 2007); Dennis Campbell, Asis Martinez Jerez, and Peter Tufano (Harvard Business School), *Bouncing Out of the Banking System: An Empirical Analysis of Involuntary Bank Account Closures* (June 6, 2008).

A study comparing Texas borrowers with loan applicants who were denied payday loans helps determine whether payday borrowing increases or decreases the likelihood of bankruptcy. Researchers found that those approved for a payday loan were 88 percent more likely to file for Chapter 13 bankruptcy within two years than the rest of the Texas population. They were also 14 percent more likely to file for Chapter 13 bankruptcy than their peers who had applied—and then been denied—a payday loan. While these households' total debt when filing for bankruptcy is made up of more than just their payday loan obligations, about 11 percent of their total annual interest burden is for payday loan fees and therefore could have been a decisive factor in the decision to file for bankruptcy.
Do Payday Loans Cause Bankruptcy?; Paige Marta Skiba (Vanderbilt) and Jeremy Tobacman (U. Pennsylvania) (October 10, 2008.)

[6] Arizona, Arkansas, Connecticut, Georgia, Maine, Maryland, Massachusetts, Montana, New Hampshire, New Jersey, New York, North Carolina, Ohio, Oregon, Pennsylvania, Vermont, and West Virginia, as well as the District of Columbia prohibit the issuance of triple-digit interest rate payday loans, accounting for one-third of the U.S. population. In 2006, President George W. Bush signed into law protections against the abuses causes by payday, car title, and refund anticipation loans to active soldiers and their families. Among these provisions, known as the Talent-Nelson Amendment to the Military Lending Act, were a 36% rate cap and prohibiting the use of a check or car as collateral for the loan.