

**RESOLUTION #7**

Submitted by NWMN Synod Hunger Task Force

**A Resolution to Advocate to Stop Usury (*Inappropriately high interest rates*)**

- 1 **WHEREAS,** predatory loan practices in the subprime lending industry have increased at an alarming rate and  
2 are taking advantage of as well as harming the economic wellbeing of our neighbors who are  
3 most financially vulnerable;
- 4 **WHEREAS,** the dramatic increase in the number of predatory loans and the amount of capital flowing through  
5 pay-day lenders is not providing borrowers with a solution to their financial strains, but have  
6 created a nightmare of debt entrapment for many consumers;
- 7 **WHEREAS,** the Federal Government has limited interest rates to 36% in areas surrounding their military bases  
8 and, as of February 2010, sixteen states and the District of Columbia have banned or instituted  
9 interest rate caps at 36% or below, while Minnesota allows annual interest rates of 391% APR on  
10 pay-day loans and with loopholes, the three largest pay-day lenders can charge rates of 693% to  
11 2,145% APR.
- 12 **WHEREAS,** our Scriptures, Martin Luther’s writings, and the principles found in Lutheran ethical teaching  
13 expressed in our ELCA social statements direct us as Christians in society to advocate for  
14 policies that foster financial practices that do not unfairly take advantage of people who are in  
15 need; therefore be it
- 16 **RESOLVED,** that the NWMN Synod in assembly call on our members to learn more about predatory lending  
17 abuses and alternative practices that do not charge excessive interest; and be it further
- 18 **RESOLVED,** that this synod in assembly condemn as usurious any interest rate that exceeds 36% annualized  
19 percentage rate (APR); and be it further
- 20 **RESOLVED,** that this synod in assembly calls upon the Lutheran Coalition for Public Policy in Minnesota to  
21 invite members of our congregations to advocate for legislation that prohibits usurious practices  
22 with regulation that limits interest charges in Minnesota to not more than 36% APR.

23  
24 **BACKGROUND:**

25 The bipartisan MN Legislative Commission to End Poverty in Minnesota by 2020 identified predatory  
26 lending as a major cause of poverty entrapment, and in their final recommendations urged legislation to: “Ban  
27 predatory practices, including payday loans and refund anticipation loans that are not subject to strict usury laws.”

28 Under current predatory practices, some payday loans include fees and charges that can result in loans  
29 with effective annual interest rates as high as 800%. (Payday loans refer to lenders providing immediate cash one  
30 or two weeks in advance of the paycheck.)

31 The limit of the annual rate of 36% APR is a reform that has been established by many others. In 2006,  
32 Congress limited the interest rate on payday loans to military members and their families to 36% APR. As of  
33 February 2010, sixteen states and the District of Columbia have banned or instituted interest rate caps on payday  
34 lending. None of the interest rate caps exceed 36% APR. States that prohibit predatory payday lending include:  
35 Arkansas; Connecticut; Georgia; Maine; Maryland; Massachusetts; New Jersey; New York; North Carolina;  
36 Pennsylvania; Vermont; and West Virginia. Wisconsin is addressing similar legislation. States that have  
37 effectively banned payday lending by enacting maximum interest rate caps include Arizona, New Hampshire;  
38 District of Columbia, Ohio, and Oregon.

39 Unfortunately, the burgeoning payday lending industry has used its wealth to lobby against limits on their  
40 predatory practices. The payday lending industry is now a \$70 billion business and there are 23,000 payday  
41 lenders in the United States. There are large numbers of payday lending outlets – more than the number of  
42 McDonalds, Burger King, Sears, J.C. Penny, and Target Stores combined. In Minnesota, payday lending has  
43 increased by 4,783% between 1999 (when payday loans were first offered in Minnesota) and 2008 (the last year  
44 for which data is available), and has increased by 34% from 2007 - 2008.

45 A significant amount of attention is focused on the use of the annual percentage rate to signal the cost of a  
46 payday loan. The central criticism of the use of this mechanism to express the cost of the loan is that it is  
47 inappropriate to apply an annual rate to a two-week loan. Industry defender Aimee A. Minnich, for instance,  
48 succinctly summarizes the industry's gripe, maintaining that using the APR "distorts the issue and serves only to  
49 inflame bias against lenders." If, in fact, borrowers only used payday loans infrequently, the lenders' argument  
50 would have merit. But the vast majority of borrowers are in long-term relationships with payday lenders. As the  
51 Center for Responsible Lending data demonstrate, about one-quarter of payday loans are made to borrowers who  
52 visit payday lenders twice a month for more than 10 months of the year and six in ten are made to borrowers who  
53 visit payday lenders twice a month for more than six months. Given these facts, the application of an annual  
54 percentage rate calculation is perfectly appropriate to express the comparative cost of this financial product.

55 A common, though unsupported, justification for the high rates payday loans carry is degree of risk in  
56 offering payday loans to justify their extraordinarily high APR's. In fact, as one commentator has observed:  
57 payday loans are "[n]ot high risk, [merely] high cost." Even industry supporters agree. Two of them, Ronald J.  
58 Mann and Jim Hawkins, acknowledge that the "overwhelming majority of payday lending transactions do not  
59 result in default." In Minnesota, the default rate on payday loans not only is declining, but also is substantially  
60 lower than for other forms of credit, such as credit cards. From its high of 3.0% in 2005, the default rate (as a  
61 percentage of dollars loaned) dropped by 10%, to 2.7% in 2008. The cumulative payday loan default rate from  
62 2000 through 2008 is even lower: 2.4%. Payday America's own testimony confirms that defaults are low and  
63 there is no correlation between rates and risk. According the President of Payday America, "less than 2% of all  
64 Payday America loans go to collections."