In most cities around the state, we have grown accustomed to seeing an abundance of businesses offering payday and auto title loans. To those who find themselves in sudden financial trouble without good credit, taking out one of these loans often seems like the only solution. Some of these borrowers are able to pay off the loan and move on successfully.

However, experience has shown that far too many people are getting trapped in an impossible cycle of growing debt because of the way these loans are structured. In Texas, the average interest and fees for auto title loans is 567% APR.

Payday lenders earn most of their profit margin from borrowers who get caught up in a cycle of debt, taking out loan after loan, just to make the minimum interest payment, before they ever pay off any of the principal. Due to high interest rates and fees, it is common for a short-term loan of $500 to cost the borrower $3,200 to repay.

As this business model leaves people destitute under the pretext of providing a service, people become more and more dependent on the help of churches and other social assistance agencies. While our charitable agencies are unable to keep up with this pattern of increased financial devastation, politicians allow this predatory practice to continue.

Of course, people need access to loans. However, when lending practices induce the poor to borrow beyond their means and trap them in impossible debt, something must be done.

The question of charging interest on a loan has been an important social issue throughout history. In the ancient world, the word “usury” corresponded to what in the modern world is called “interest.” In today’s usage, “usury” refers to interest rates that are exorbitantly high and exceed the limits established by law. Dating back to the Code of Hammurabi in ancient Mesopotamia, laws were created to regulate the rates of interest. In ancient Babylonia, Assyria, Egypt, Greece, and Rome, governments restrained moneylenders and creditors in order to protect vulnerable people from abusive practices.

In the Old Testament, Jews were permitted to lend money at interest to foreigners, but not to fellow Jews (Deuteronomy 23:19-20). Psalm 15:5 teaches that the path of moral integrity includes not putting out money at interest.

There is very little on the subject of charging interest in the New Testament. In the Parable of the Talents, Jesus takes for granted the current business practice of investing money with bankers and gaining interest (Matthew 25:27). However, in his Sermon on the Plain, Jesus tells his followers to “lend, expecting nothing in return” (Luke 6:35). Over the centuries, this particular text has been cited frequently as justifying a total prohibition of taking interest on loans.
In the early centuries of Christianity, the Patristic writers identify two ways that the taking of interest can be sinful. One is when the lender acts out of a sinful attitude of greed. The other is when the poor are harmed and exploited.

For many centuries, the councils of the Church prohibited the practice of taking interest on a loan. For example, the Council of Carthage in 345 forbade it in order to combat “the insatiable rapacity of usurers.” The Council of Vienne in 1311 decreed that anyone who taught that usury is not sinful should be punished in the same way as a heretic. However, through all of these declarations, it was never stated that interest in itself and under all conditions is a violation of justice.

With the development of large economic systems and a monetary economy, it became more possible to lend money at interest in a way that is not exploitative. By the end of the 16th century, theologians were teaching that a lender is entitled to charge a moderate rate of interest to compensate for the risk of the investment. Because of changing historical conditions, the Vatican in the 19th century issued several statements that people can lend money at interest, as long as the rates are equitable.

In summary, the practice of charging interest for a loan is not, in itself, sinful. However, whenever it is rooted in greed or charges exploitative rates of interest, it is the sin of usury. This social sin is spiritually harmful to the lender, and it wounds the human dignity of the borrower. It reduces the capacity of the poor to regain self-sufficiency.

What can be done to change our current situation of an unbridled payday lending industry that has trapped fifteen million Americans in a quagmire of debt? I believe that the solution includes three elements.

The first element is consumer education. All of us should find ways to teach basic principles of responsible personal money management through schools, churches, and families. Pastors and other spiritual guides should seek to instill the virtues of self-control, budget planning, saving, and simplicity of lifestyle.

The second element of the solution is alternative lending sources. Even those who practice good management of their personal finances can sometimes find themselves in moments of unexpected hardship. Our society will be more healthy and stable if we can set up a variety of lending options such as credit unions, savings and loans, mutual lending, and emergency community assistance programs. This will provide accessible alternatives to payday or auto title loans.

The third element of the solution is laws that limit exploitative lending practices. On the state level, some of our Texas legislators, such as Tom Craddick of Midland, have introduced bills that would protect our citizens by placing fair and reasonable limits on the fees and interest rates for consumer loans. Unfortunately, these bills have been left pending in committee. On the federal level, the Consumer Financial Protection Bureau is considering policies that would curb the worst abuses.
Finally, on a local level, many cities in Texas are stepping in and creating municipal ordinances to regulate the practices of payday and auto title loan companies. Payments are made more manageable, principal is gradually reduced, and the fees and interest are kept at a reasonable level. So far, these ordinances have been passed in 35 Texas cities, including, Dallas, Houston, San Antonio, El Paso, Temple, and Midland. It is my hope that more city governments in our area will take similar measures.

Through consumer education, alternative lending sources, and good laws, we can put an end to the scourge of usury that is afflicting our society.