



LUTHERAN ADVOCACY **MINISTRY IN PENNSYLVANIA**

## **Testimony before the House Consumer Affairs Committee on HB 2191**

May 3, 2012

Thank you to Representative Godshall and the House Consumer Affairs Committee for hosting this hearing and inviting public input on ~~House Bill 2191~~. Lutheran Advocacy Ministry in Pennsylvania opposes HB 2191 as it removes current caps on predatory lending in the state. My testimony will highlight the basis of our concern and its potential impact on Pennsylvanians.

Lutheran Advocacy Ministry in Pennsylvania (LAMPa) is a partnership ministry of the Evangelical Lutheran Church in America (ELCA) and its agencies and institutions in the Commonwealth of Pennsylvania. We lead the advocacy work with seven Bishops and their geographic synods (districts) with 1265 congregations around the Commonwealth. We provide public policy leadership for 17 social service organizations that provide a broad range of services, including long term and nursing care, foster care and adoption, emergency shelters, domestic violence programs, and more. We relate to four colleges, two theological seminaries and numerous outdoor ministries and camps. Our mission is to advocate on behalf of, and in partnership with, those persons who are denied justice and dignity and who lack adequate representation and voice in the arenas of public policy.

The teachings of many faith traditions contain warnings against usury and the exploitation of others through charging excessive interest. The writings of Judaism, Christianity, Islam and Buddhism, to name a few, recognize that these practices are unjust, unethical and that the poorest among us are at greatest risk of being trapped in unmanageable debt. All these sources recognize that usurious practices neither serve the common good nor assist those seeking a pathway out of poverty.

The Hebrew Scriptures goes so far as to state that people in poverty should be exempt from interest, saying *"If you lend money to my people, to the poor among you, you shall not deal with them as a creditor; you shall not exact interest from them."* (Exodus 22:25). In the Christian Gospels, Jesus drives money changers out of the Temple, branding them thieves because of their overcharging of the poor who came there to offer sacrifices.

Martin Luther, the founder of my denomination, had sharp words for those who earned excessive profits by charging high interest to the poor in his day. In his Large Catechism he commented on the fourth petition of the Lord's Prayer ("Give us this day our **daily bread**"), saying, "How much trouble there now is in the world... on account of daily exploitation and usury in public **business**, trading, and **labor** on the part of those who **wantonly** oppress the poor and deprive them of their **daily bread!**" He took merchants and bankers in his day to task, commenting that usurers "**forget** Christ's command to do unto others that you would have them to do unto you".

The Evangelical Lutheran Church in America has **built** upon this foundation in **its** own social policy on economic life, which demands respect for the dignity of others in our transactions and scrutiny of how specific policies and practices affect those who are the poorest. And when policies result in exploitation of the poor and hamper their efforts to move out of poverty [as this bill surely would] we look to government to limit or counter narrow economic interests and promoting the common good.

Our social services agencies around the country have encountered the devastating effects of payday loans on their communities.

In opposition to the recent expansion of usurious lending in Minnesota by two major banks now offering "paycheck advance" loans, Darryl Dahlheimer, program director at Lutheran Social Service Financial Counseling explained the dynamics of predatory payday lending in an interview, saying, "This product is a debt trap. That's it! It's designed for profit and we see the pain that it offers". Dahlheimer said that for low-income consumers who receive financial counseling at Lutheran Social Service of Minnesota, cash advances are often the first step into a ruinous cycle of debt and bankruptcy. Customers receive quick cash upfront, but when much of their next paycheck or Social Security check is used to pay back that debt, customers will often have trouble paying that month's bills and will then request another cash advance for the next paycheck -- and instead of a two-week loan at 400% APR interest or higher, it rolls over and over into an average of 150 days per year of indebtedness at that rate", he explained. "In the long run, when customers have reached the limit for cash advances or cannot pay back the amount owed, they face bounced checks, overdraft fees, and poor credit. Payday lending is like throwing gasoline on the fire of indebtedness," Dahlheimer said. "People who are fairly desperate, who have poor credit, don't have access to traditional loans, it's like having a product out there like an accelerant, which is what arsonists use, to make the problem much, much worse quicker."

Likewise, congregations have dealt with the downward spiral caused by these loans among their members.

Pastor Charles Swodfey of Richmond, Virginia has seen the impact of predatory lending firsthand and created a ministry program to assist people trapped in the debt cycle. He says, "Pastors of all denominations wanted to help people who had gotten into serious problems. People reach a certain point in their desperation when their credit is gone, and

they are primary targets for payday lending." One man in his congregation who *was* part of a group home for adults with *mental incapacities* got loans both online and in person *at a* nearby store. He didn't understand the implications of what he *was* signing. *Pastor Swadley* points out that *payday* lending particularly affects people who are *immigrants*. "I had 12 different ethnic groups in my congregation. They *fell* into every single trap, either because they don't understand credit, due to language barriers or both. Before you know *it* they *fall* through the cracks. They end up as victims very *quickly*. Anyone without financial savvy, people with ADHD who make decisions *without thinking* through consequences, those who *don't* have financial background, *fall* into the *trap* and it digs the hole deeper."

The Evangelical Lutheran Church in America has expressed particular concern that although Payday lenders provide cash advances and consumer credit, these companies make little effort to ensure that its product is suitable for customers and their ability to repay, unlike many other providers of financial services.

As the Commonwealth contemplates unprecedented cutbacks to human services in the proposed 2012-13 Pennsylvania budget, including a 20% cut to the Human Services Development Fund block grant and elimination of General Assistance, permitting predatory lending back into the Commonwealth will be like an accelerant that drives Pennsylvania families into financial disaster.

A federal cap on payday loans to military personnel has been in place since 2006. This action was deemed *necessary* due to the high number of *military families* caught in the payday *debt trap*. While this will *protect* service members in Pennsylvania, doesn't the rest of the population deserve the same level of consumer protection? We look to your committee to *take into account* the many affected by the recession who continue to struggle, the many who stand to lose public benefits *in* the time to come, and the most vulnerable among us who will be dug deeply into unmanageable debt *if* this bill becomes law. Please keep *in* place the prohibitions on *usurious* lending that have been in place for over a century and reflect the broad consensus of the values of the faith community and the requirement of the common good.

Respectfully submitted,

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