

Ending the Debt Trap

Testimony by Dr. Frederick Douglass Haynes, III

My name is Frederick Douglass Haynes, III. I serve as Senior Pastor of Friendship West Baptist Church in Dallas, Texas. I also serve as chair of the Samuel DeWitt Proctor Conference, a national coalition of faith based social justice activists and advocates.

It would be iniquitous and immoral for someone who's been knocked down to receive handcuffs when they have, out of desperation, asked for a hand up. The payday loan industry is guilty of such unjust and unethical practices that prey upon the desperation of the poor who are already disadvantaged. Payday predators hijack the hopes of the vulnerable and re-victimize them by baiting them into a debt trap. These hunters of the helpless are guilty of dealing "bad hands with bad plans" to use the language of Kendrick Lamar.

As pastor of Friendship West Baptist Church in Dallas, Texas, I have heard too many share their experience of being exploited and ensnared in the payday debt trap. One of my members, a 74 year old senior citizen, who is feisty and fiercely independent, discovered she didn't have the money to pay a bill. She saw a commercial for a payday loan and felt it was an answer to prayer. Now she feels like the devil answered her prayer. She is on a fixed income and when the repayment was due, she didn't have enough and had to take out another loan to pay the first one. She ended up with a dozen loans. When she approached me for help one Sunday after church, this once proud senior saint with good credit, was ashamed and tearful. She showed me the paperwork. I was appalled. The interest rate was 620%! She was "dealt a bad hand with a bad plan." She was hurting for help. She took the bait of the payday loan and became trapped in debt that made her bad situation so much worse.

Another member of Friendship West, a recent college graduate, was in an unexpected financial predicament because his widowed mother became sick. He was working two jobs in order to make ends meet. He wasn't, however, financially prepared for her illness. He didn't want to choose between paying his car note and paying for her medication and light bill. He took out a payday loan and spiraled into debt propelled by an interest rate of 450%. He eventually lost his car because he couldn't pay the interest. He was "dealt a bad hand with a bad plan."

Payday predators are a part of a hostile takeover of the economy of the unbanked and underserved. This exploitative industry targets and saturates communities that are already suffering from economic apartheid. I'm not exaggerating when I say that when the vulnerable are drowning in desperation the payday industry throws a life preserver weighted with iron. The average annual interest rate for payday loans in the U.S. (391% APR) is absurd and outrageous. Payday and car title loans use a predatory business model in order to create a long-term cycle of debt at triple-digit interest rates. These "short term" loans were never designed to be paid back in a short period of time. A fact check of the average number of payday loans per borrower in each state tells this sinful story. It's oxymoronic that in the "land of the free" debt traps are set for the vulnerable.

Of course the payday predators will put the spotlight on the rare exceptions who have been able to dodge the debt trap, but that should not blind us to the many who are in the shadows of a financial nightmare that never seems to end as their bank accounts are overwhelmed with overdraft fees or closed down. Some fall into bankruptcy. Many lose their cars to repossession.

It's time for a new plan for those who have been dealt a bad hand. The 2017 CFPB "Rule" is a plan that simply requires that before payday and car title lenders make certain loans, they assess whether potential customers can afford to pay them back with the finance charges, given the customers' income and other expenses. This is a commonsense foundation of responsible lending. The rule is a good plan that protects many of our nation's families from the worst impacts of triple-digit interest debt traps set by payday and car title lenders.

A coalition of citizens committed to protecting consumers has mobilized to push for strong reforms of predatory practices. Included in this coalition of conscience are those personally impacted by debt trap practices, advocates for low-income families, veterans, the elderly, responsible businesses and faith based groups. We are appalled that the CFPB would propose ripping out the heart of the rule in favor of allowing payday lenders to continue to exploit those who are struggling and vulnerable.

It has come to our attention that an agency whose name speaks of protecting consumers is encouraging other financial service entities to explore new products in the marketplace that sets desperate consumers up for more debt. It is reprehensible that there may be a plan to open the way for old bank payday loans to re-enter the marketplace, as well as predatory high-cost bank installment loans. I joined other faith leaders in 2018 by delivering letters to the banks

asking them not to reinstitute bank payday loans though the Office of the Comptroller of the Currency had rescinded its guidance on such. Ultimately, I as well as others in the faith community, believe that we need a 36% federal rate cap. We are called to protect families from financial predators and a 36% rate cap would leave no one behind and ensure that they cannot be preyed upon when "life happens" and they experience a setback.

We are calling for strong protections so those who experience an emergency don't end up drowning in debt they cannot repay. We must ask how can we strengthen the law to protect the needy as opposed to enriching the greedy? Friendship West now has a credit union. We offer small dollar loans for those who are vulnerable at an interest rate of 28%. Less than 8% of those who have taken out a "liberty loan" have defaulted. This business model just works for all.

Finally, it is morally right to protect the poor and vulnerable. The prophet warned a nation in Jeremiah 22:22 "Do not exploit the poor because they are poor." The Bible teaches that nations will be judged by how they treat "the least of these." It must not be said of this nation, "I was hungry, and you gave me a payday loan... I was given a bad hand and you gave me a bad plan."