

Religious and Faith-Based Community Development Leaders: Reform must protect communities from lending abuse

May 11, 2010

Dear Senator:

As people of faith committed to building and renewing healthy communities, we have long been involved in community development, financial education, and counseling services designed to enable low-income individuals build assets that can sustain themselves and their families.

Over the past several decades, we have seen countless deceptive and shoddy financial schemes strip wealth from our neighborhoods. Payday loans, refund anticipation loans, and high-cost mortgages all promise hope; but ultimately peddle debt.

Too often, the worst financial products are targeted at the lowest income communities and communities of color.

- During the height of the recent mortgage boom, African American and Latino borrowers were offered high cost loans more often than white borrowers. In 2005, the majority of loans to African Americans were higher-cost (52 percent). Among Latino borrowers, 40 percent of loans extended were high cost as compared to only 19 percent for white borrowers.¹
- Every year, tax preparers target low income neighborhoods for Refund Anticipation Loans (RALs) while absorbing significant portions of households' refunds. In 2008, 63 percent of the people who received RALs were also recipients of the Earned Income Tax Credit – the nation's largest benefit for low-income households.²
- There are now over 20,000 payday loan stores nationwide. Because of their high costs (300-400 APR) and short repayment periods (2-4 weeks), payday loans frequently trap borrowers in a cycle of debt in which new loans are taken out to repay old ones and are accompanied by exorbitant fees.
- Low-income car buyers disproportionately receive higher cost auto financing. A North Carolina study demonstrated that low-income buyers are 19 percent more likely than other buyers to be told that add-on products such as credit insurance, warranties, guarantees, which can add thousands to the cost of the car, are required.³

In the midst of a major financial and economic crisis, our communities need banks and lenders that strengthen families rather than place on them a burden of debt they cannot bear. The last

¹ Center for Responsible Lending, Response to Federal Reserve mortgage numbers 2006.
<http://www.responsiblelending.org/media-center/press-releases/archives/broker-kickbacks-are-gouging-minority-borrowers.html>

² National Consumer Law Center, 2010 Refund Anticipation Loan Report.

³ Center for Responsible Lending, "Car Trouble" Delvin Davis and Joshua Frank. 2009.

thing our communities need now is bottomless debt, or schemes that take unfair advantage of people in difficult circumstances, or lending patterns that subject African American and Latino communities to discrimination.

From the lens of our faith traditions, we recognize abusive financial practices as a breach of prohibitions against lending that exploits the poor. “If any of your kin fall into difficulty and become dependent on you, you shall support them... You shall not lend them your money at interest taken in advance, or provide them with food at profit.” (Leviticus 25:35-37)

We invite you to partner with us in efforts to educate and protect our communities from exploitation by ensuring that any financial reform legislation will:

- Include protections against abusive forms of lending that target low-income households such as refund anticipation loans, payday loans, and unscrupulous auto lending;
- Restore basic values of transparency, fairness, and quality to the financial services market;
- Address the mechanisms, such as broker kick-backs, that enable racially discriminatory pricing and steering.

If this recent crisis has taught us anything, it is that what affects one community affects everyone. Low-income communities and communities of color cannot be excluded from basic standards of fairness – for their own sake and for the sake of our whole economy.

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