Churches step in with alternative to high-interest, small-dollar lending industry

By Rebecca Robbins , *The Washington Post* , January 9, 2015

Nina McCarthy, shown in the sanctuary of Wesley Memorial United Methodist Church in Richmond, was able to secure a loan from the church to repair her car as an alternative means of borrowing. The Virginia Interfaith Center for Public Policy, a vocal critic of the commercial lending industry, calls Virginia the "East Coast capital of predatory lending."

Every month for about three years, Nina McCarthy followed the same routine after payday. She'd go into a Check Into Cash near her home in the Richmond area, and pay off an open-end loan for $700 or $800 – and then she'd take out a new one for the same amount, never accumulating interest in the process.

Then McCarthy's overtime hours at work were cut. With rent, a car payment and a 3-year-old granddaughter to feed, McCarthy didn't have $700 for Check Into Cash. McCarthy made a partial payment, but interest piled up rapidly, at a rate she recalls was 24.9 percent a month, or a nearly 300 percent annualized rate.

McCarthy estimated that she paid more than $1,100 on the bill in the first three-quarters of 2014, including payments that Check Into Cash began collecting directly out of her bank account. Then in September, she had a stroke. She closed her bank account and hasn't made any payments since. When she went back to the Check Into Cash store on Friday, an employee directed her to the collection line that has taken over her account. McCarthy was told she still owes nearly $650 on the line of credit and doesn't know when she'll be able to pay it off.

"I wish I would have never took it out," McCarthy said. "I wish I would have asked questions, read the paperwork more thoroughly, and just didn't feel so desperate."

About a year and a half ago, McCarthy took out another, different kind of loan. She went to her pastor, Rodney Hunter, at Wesley Memorial United Methodist Church in Richmond. Hunter helped her borrow $700 so she could make a dent in paying off her mounting credit card debt, then about $8,000.

Here's how it worked: McCarthy's church offered funds as collateral so that she could qualify for a loan through the **Virginia United Methodist Credit Union**. McCarthy agreed to repay the loan at an annualized interest rate of about 6 percent – meaning monthly payments of $25 for about 2 1/2 years, drawn right out of her bank account.

McCarthy is one month behind on the church loan, but she's confident she'll catch up this month. "I'm real grateful for it," she said.

The program is called the Jubilee Assistance Fund. In 7 1/2 years, it has helped parishioners of the United Methodist Church secure 14 loans – from $500 to $8,800 – according to Carol Mathis, chief executive of the credit union.

Similar initiatives run by faith-based organizations across the country are shifting the way churches approach charity. These programs offer parishioners an alternative to commercial lending agencies, which often charge triple-digit annualized interest rates.

Unlike commercial lenders or even other nonprofit alternatives, these church-backed programs offer near-zero interest rates – a model, proponents say, that helps struggling borrowers get back on their feet.

Small-dollar lenders

Most Virginians like McCarthy can take out several types of commercial small-dollar loans: among them, a payday loan secured against a borrower's paycheck, a title loan typically secured against a car, or an open-end loan establishing a line of credit. The loans are usually for several hundred dollars and often require payments every two or four weeks. Borrowers typically need no more than a checking account and a steady source of income to qualify. This makes the loans particularly attractive for people with poor credit who would not qualify through a bank or credit union.

Regulation of the small-dollar lending industry varies widely by state. State laws capping interest rates have effectively driven payday lenders out of many jurisdictions, including Maryland and the District. But with looser regulations in places such as Virginia, these storefronts line the streets in low-income neighborhoods.

In this patchwork regulatory landscape, Virginia has become something of a destination for mid-Atlantic residents in search of fast cash. Virginia has 20 licensed payday lending companies and 28 licensed motor vehicle title lending companies, some with dozens of locations across the state. And then there are open-end loan lenders, which are effectively unregulated and difficult to count.

The Virginia Interfaith Center for Public Policy, a vocal industry critic, calls Virginia the "East Coast capital of predatory lending."

Other critics often point to the passage of a 2011 law that allowed car-title lenders in Virginia to offer loans to out-of-state drivers, a legislative victory for the industry. Since then, the number of motor vehicle title lender licensees there has doubled.

Even efforts to regulate the small-dollar loan industry in Virginia have helped it grow in unexpected ways. When restrictions were tightened in 2008 on payday loans issued in Virginia, some lenders left altogether. Others, such as Check Into Cash, simply stopped offering payday loans and focused instead on unregulated products, such as the open-end loan that McCarthy took out.

While the commercial lending industry frames its products as a solution for hard-working American families in a tough spot, critics say these loans prey on the poor and the vulnerable. A Consumer Financial Protection Bureau report found that more than 80 percent of payday loans are rolled over or followed by a subsequent loan within two weeks, and that 15 percent of new loans lead to a sequence of at least 10 loans.

'A place of desperation'

People who turn to small-dollar lenders tend to have one thing in common: desperation. They find themselves in situations such as the one that led McCarthy to Check Into Cash.

On a cold morning in late fall 2010, McCarthy was on the highway in Richmond driving home from an overnight shift. The exclamation point on the dashboard lit up, her engine cut off, and her steering wheel went stiff.

At a shop, the mechanic gave her the damage: It would cost more than $600 to fix the engine.

McCarthy couldn't afford the bill, but she couldn't afford not to get her car fixed either. She needed it to get to her job at a group home for girls, where she earned $14.42 an hour for 40 hours a week – with 10 to 20 hours of overtime if she was lucky. And her family was relying on her, too. Her teenage daughter needed rides to volleyball and basketball practices and games, and her 22-year-old son was looking for work and had no car of his own.

McCarthy had few options. She was already burdened with credit card debt, and had no active credit cards. She never even considered going to a bank. That left her with the only source of cash she could think of: Check Into Cash's $800 line of credit.

"I couldn't see any other way to do it," McCarthy said. "And I think that's what happens when a person gets into a place of desperation. We really don't think logically."

Jabo Covert, senior vice president for government affairs at Check Into Cash, had some advice for McCarthy. He said customers who are unhappy with their contracts can always go back into the store to restructure their loans.

"If she can't make her payments, we want to make it work for her," Covert said. McCarthy said she didn't know about this option.

Covert acknowledged that open-end loans are not right for all customers. But "we find it to be a very fairly priced product for the amount of time and the amount of money," he said.

Covert said that in 2014, there were 19 complaints logged by Check Into Cash customers in Virginia, all of which were resolved in the customer's favor.

Nina McCarthy secured a loan from Wesley Memorial United Methodist Church in Richmond to repair her car. Here, McCarthy holds the keys to her vehicle, a 2007 Mazda.

Some borrowers manage small-dollar loan products without accumulating debt. Loletha Smith, a retired compliance officer who lives in Richmond, took out nearly 10 payday loans from Advance America over several years. She generally took out the loans as a paycheck advance, and never for more than $300. She even took out several payday loans after receiving a Jubilee Assistance Fund loan of $1,000 for a significant car repair, also financed with the help of Wesley Memorial United Methodist Church.

“It could be a good thing, if people are informed and honest with themselves and their relationship to what they can afford to do,” Smith said. “For me, it was like, once I knew what I had to pay, it was like my list of bills.”

Even some in the faith community say the commercial lending industry has its benefits.

Bill Cheeks is president of ABBA Associates, a Powder Springs, Ga.-based consulting firm that offers financial literacy counseling and seminars and often works with churches. He thinks there are problems with the payday lending industry and has encouraged payday lenders “to do a better job helping consumers, so you don’t get them into the cycle of debt.”

Yet, he said, the borrowers he counsels far more frequently complain about credit reporting agencies than payday lenders. He says these commercial lenders can provide important short-term financial assistance for people not served by banks.

“There is a place for the payday lending group,” Cheeks said. “We just have to teach people – you borrow the money, pay it back.”

A ‘biblical mandate’

But for some, the support of a church can offer a better solution than the commercial lending industry.

In 2010, pipes beneath Dina Giese's property burst, backing up into the basement and leaving her and her husband with a nearly $4,000 bill. Until they found a way to pay for the repairs, they couldn't drain water. For several days, they did dishes in a tub in the sink and showered at her father's house nearby.

Giese and her husband were already struggling to make ends meet. They made about $32,000 a year and worked to keep up with their monthly mortgage payments. What's more, they had poor credit at the time and couldn't qualify for a loan through a credit union. Giese went into a motor vehicle title loan dealer but was flabbergasted by how high the rates were.

Then she turned to her church, Lakeside United Methodist Church, where she works part time as a custodian in addition to her two other jobs. Her pastor helped her take out a loan through the Jubilee Assistance Fund for a little more than $3,000 at an annual interest rate of about 6 percent. (Giese and her husband paid off the rest of the bill with the help of a gift from a friend). Giese and her husband paid off the loan in about a year, or less than half the time she'd agreed to make payments.

Giese said she is deeply grateful for the program. She doesn't know what would have happened to her finances had she been left to take out a car-title loan. "It's astronomical what they want you to pay back," Giese said.

Participants in the Jubilee Assistance Fund say it has done much to help. If only it and others like it could be scaled up to serve communities broader than that of a handful of congregations, they say, they could become a serious alternative to the commercial lending industry. Church-run lending programs exist in pockets across the country and are most seriously organized in places such as Wisconsin, Texas, Missouri and Louisiana.

Hunter, the pastor at Wesley Memorial United Methodist Church who helped McCarthy and Smith finance their loans, said churches are uniquely positioned and obligated to aid people facing financial crises.

“This is what the church should do,” Hunter said. “There’s a moral piece, I think, the church should care for the least in society. This is what I think the biblical mandate is.”

Charles Swadley, the recently retired pastor of Lakeside United Methodist Church who helped Giese, said the program challenges typical perceptions of a church’s role. While churches have long given money to financially struggling parishioners, the concept of offering them low-interest loans that they must pay back is less ingrained, he said.

“When you give money, you’re not necessarily teaching them how to use the money – you’re responding to the crisis,” Swadley said. “And what we’ve got to do is teach, which is the harder goal.”