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Good News

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"The economic sphere is neither ethically neutral, nor inherently inhuman and opposed to society. It is part and parcel of human activity and precisely because it is human, it must be structured and governed in an ethical manner. "

Pope Benedict XVI,
Caritas In Veritate,
par. 36,
2009

Where Have You Gone George Bailey?

By Mike Hoey

It used to be that you knew your banker by name. Loans required the filling out of a few forms but mainly the transaction was based on trust. And if you wanted a loan a bit too rich for your financial situation, your banker would steer you toward a safer course, a more affordable loan that you could pay back.

A banker like George Bailey (Jimmy Stewart in "It's A Wonderful Life") could even stave off a bank run. Remember George calming down the crowd that rushes into the Bailey Savings and Loan:

"You're thinking of this place all wrong. As if I had the money back in a safe. The money's not here. Your money's in Joe's house; that's right next to yours. And in the Kennedy house, and Mrs. Macklin's house, and a hundred others... We've got to stick together..."

This kind of banking was in everyone's interest. The banker had a stake in a thriving but stable community and the borrower realized that patience and hard work could eventually pay off. In the meantime, that dream home could wait.

Of course, this nostalgic view of America's past has never held true in all times and places. Along with those families who sank deep roots in sleepy little towns, there have always been those restless souls blown like tumbleweeds westward, speculating on land, and looking for the next bonanza.

The roaring twenties was followed by the Great Depression, the booming 1990s led to the financial crash of the 2008. It seems like the lessons learned by one generation have to be relearned by the next one.

Writing in May 2008, several months before the financial crash of that year, the Kentucky farmer and writer Wendell Berry observed that "the commonly accepted basis of our economy is the supposed possibility of limitless growth, limitless wants, limitless wealth, limitless natural resources, limitless energy, and limitless debt."

In this same essay – Faustian economics: Hell hath no limits – Berry opined, "Our national faith so far has been: 'There's always more.'" Yet he argues that "limitlessness" is an attribute only of God, not mere mortals. This is a message Berry has conveyed for years, just as the popes for years have warned about the evils of materialism. But during boom times this kind of old-fashioned advice can seem excessively cautious, even un-American.

After a financial crash, when people assess the damage done to families and communities, two competing remedies seem to emerge. One

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Continued: Where Have You Gone George Bailey?

argues that people should be more responsible, while the other suggests the need for more government regulation. Few seem to consider that the patient might need an application of both remedies.

No system of regulation will work without ethical people. There are ways to "game" the system, to cheat and fraud investors and get rich quick. In banking, we could use a few more George Baileys. Yet depression-era bankers like George Bailey were not enough to restore confidence in the banks. It took new federal laws, such as the establishment of the Federal Deposit Insurance Corporation (FDIC) and rules to break apart commercial from investment banks to put the financial sector back on a stable footing.

The other day I was talking to a payday lender who said he was committed to truly helping his customers; he didn't give out loans to just anybody. I have no reason not to take him at his word, having known him for quite some time, but he is not the problem. In fact, if people were angels, no rules would be necessary.

Sure, government regulation can be excessive, but that is certainly not the case with the Wild West version of payday lending now permitted in Missouri. The state has become a Mecca for payday lenders. Under Missouri law, a borrower who cannot repay a payday loan can renew it six times, so long as he or she pays interest charges. No state bordering Missouri allows even one renewal. Renewing the loan every two weeks just puts the borrower deeper into debt.

The state's law allows a borrower to owe interest charges amounting to 75 percent of the original loan amount.

On a $500 loan, a borrower can end up paying $375 in interest charges. Making matters worse, a borrower may have more than one loan outstanding at the same time by obtaining those loans from different lenders.

Other states, such as Florida, have found ways to regulate the payday loan industry so that lenders make a profit while borrowers find loans on reasonable terms. But Missouri lawmakers have so far resisted serious efforts to regulate the industry, which serves more than 2.4 million customers a year.

One can look at all this and just say "let the borrower beware," but at some point this free market nostrum must be set aside for the common good. Pope Benedict XVI has reminded us that the market is a human invention and "precisely because it is human, it must be structured and governed in an ethical manner" (*Caritas In Veritate*, par. 36). Governing the free market requires both ethical people and rules of ethics.

Once again, as in so many past years, the Missouri General Assembly appears poised to do nothing to address the predatory lending practices too common in our state. There is a bill that might have some chance of yet moving forward – SB 467, sponsored by Sen. John Lamping (R-Clayton) – but even its modest provisions might be too much for the payday loan industry to accept. And if the industry is not on board, no bill will move forward, if the past is any indicator of the future.

While lawmakers might be shy about tackling reform of the payday loan industry, private citizens are not. As this *Good News* goes to press, an effort is underway to collect sufficient voter signatures to place a reform proposal on the ballot for the Nov. 6, 2012, general election. Meanwhile, Catholic agencies and other not-for-profits are developing emergency loans as alternatives to the predatory lending now offered in Missouri. Don't count George Bailey out just yet.

Mike Hoey is the executive director of the Missouri Catholic Conference.

Credit Unions Offer Alternatives to Payday Loans

Many people take out payday loans because they see no other option. Holy Rosary Credit Union is one of several Catholic credit unions in Missouri trying to educate people about safer, more affordable loan options.

Carole Wight, president of Holy Rosary Credit Union in Kansas City, said the credit union provides a seminar to alert people to the dangers of getting caught in a payday loan cycle.

Holy Rosary Credit Union also offers its members a couple of alternatives to payday loans. One of the alternatives has a low interest rate that is based on a sliding scale. For instance, if a borrower has direct deposit or an active checking account in good standing, the credit union can reduce the rate.

Wight said the ability to charge a low interest rate enables the credit union to have extremely low default rates.

Another loan the credit union offers is for people already caught in the payday loan cycle. Borrowers can get a payday consolidation loan for up to $2,500 to pay off current payday loans. While the credit union does perform credit checks, Wight says the credit check doesn't keep borrowers from getting the loan.

Phil Minden, chairman of Choices Federal Credit Union in St. Louis, said Choices also offers loans meant to be alternatives to payday loans. The StretchPay loan is a loan of up to $250, which members can borrow without a credit check. They are expected to pay it off in two payments during a 60-day period. Minden said that while people must be members of the credit union for at least 60 days before they make the loan, it's a "no questions asked" kind of loan and as soon as they pay it back they can take out another StretchPay loan. However, members can't have two of these loans out at once.

Minden said Choices Federal Credit Union has made about a dozen of these loans since December, and every loan was paid off.

He said the people who take out these loans are typically those with fixed or low incomes that had an unexpected expense, such as a medical bill or car repair, come up.

Payday loans are a way "to smooth out the income stream," Minden said.

Choices Federal Credit Union also offers an option for people already caught in the payday loan cycle. The signature loan allows borrowers (after a credit check) to consolidate other loans and take a loan out for up to $1,500. The signature loan is repaid over 12 months.

The alternatives offered by credit unions can help people get out of the payday loan cycle and allow them to get through an emergency without getting trapped in debt.

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Choices Federal Credit Union
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Catholic Family Credit Union
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Lessons From Our Ancestors

As Americans enter a period of retrenchment and frugality after the financial crisis of the last several years, it may be salutary to reflect on the experience of some of our ancestors. When the German Catholics came to Missouri in the mid-19th century, they were known for their work ethic and conservative values. According to historian Perry McCandless, “As a whole, the German immigrants were a stable, hardworking people. For those with an agrarian background, Missouri’s cheap and productive land offered a real opportunity, and they took advantage of it. The Germans tended to stay put; they involved themselves in limited land speculation, and as land passed from father to son a family stability arose within the German communities.” (A History of Missouri, Vol. 2, 1820-1860).