

*Presentation on **Community Life and Debt**, given at Headingley Deanery Synod and to the WYEC Church Leaders' Meeting in October 2008, by Revd Dr Philip Bee of the Oastler Centre for Faith in Economic Life*

## **Community Life and Debt**

Financial Inclusion has been an important strand of the work taking place under the Social Inclusion agenda in Leeds and the church has played a prominent part in moving this forward through the involvement of key individuals on the Financial Inclusion Partnership. I will in due course outline the ways in which Financial Inclusion has developed in Leeds, before considering the effect of the credit crunch on that work. It is my hope that with greater understanding, local churches may find ways of addressing the debt issues that increasingly affect the lives of the ordinary people in the communities they serve.

I want to begin, however, by tracing the issue of usury through the Christian traditions and into the modern world, in part to provide a theological context into which to pitch other issues later, and in part to offer clarity to a subject which is often misunderstood.

### Usury in the Christian Tradition

We are often presented with the idea that the Bible is unequivocal about usury. It is not. The question of when and if money can be lent at interest for a guaranteed return is one of the oldest moral and economic problems. Should we denounce it, accept it or control it?

#### **The Bible**

The Israelite experience of slavery in Egypt, although not rooted in debt as such, makes them acutely aware of the capacity that usury has to so indebt one person to another that they become a slave to them. So there are injunctions against this. The standard texts are:

#### **Exodus 22:25-27 (New International Version - UK)**

If you lend money to one of my people among you who is needy, do not be like a money-lender; charge him no interest. If you take your neighbour's cloak as a pledge, return it to him by sunset, because his cloak is the only covering he has for his body. What else will he sleep in? When he cries out to me, I will hear, for I am compassionate.

#### **Leviticus 25:35-38 (New International Version - UK)**

'If one of your countrymen becomes poor and is unable to support himself among you, help him as you would an alien or a temporary resident, so that he can continue to live among you. Do not take interest of any kind from him, but fear your God, so that your countryman may continue to live among you. You must not lend him money at interest or sell him food at a profit. I am the LORD your God, who brought you out of Egypt to give you the land of Canaan and to be your God.

#### **Deuteronomy 23:19-20 (New International Version - UK)**

Do not charge your brother interest, whether on money or food or anything else that may earn interest. You may charge a foreigner interest, but not a brother Israelite, so that the LORD your God may bless you in everything you put your hand to in the land you are entering to possess.

Notice that the injunctions against usury arise from an understanding of God as compassionate, who rescued them as a people who had been enslaved. Notice also that these injunctions apply to fellow Israelites, but that charging interest to foreigners is regarded as legitimate. That becomes important later as attitudes to usury begin to change.

When it comes to the New Testament, there is very little reference to usury. Luke 6: 34-35 is the most direct where Jesus advises his disciples:

**Luke 6:34-35 (New International Version - UK)**

And if you lend to those from whom you expect repayment, what credit is that to you? Even 'sinners' lend to 'sinners', expecting to be repaid in full. But love your enemies, do good to them, and lend to them without expecting to get anything back.

Less directly, in Luke 4: 18-19 Jesus identifies his arrival among the people as inaugurating the year of jubilee that we read about in Deuteronomy and which was the basis of the Jubilee 2000 campaign of the late 1990s, to become Make Poverty History in the new millennium.

**Luke 4:18-19 (New International Version - UK)**

The Spirit of the Lord is on me, because he has anointed me to preach good news to the poor. He has sent me to proclaim freedom for the prisoners and recovery of sight for the blind, to release the oppressed, to proclaim the year of the Lord's favour.

There is recognition here that unbridled markets have the habit of favouring some individuals over and against others creating inequalities in society that effectively enslave one person to another. The real worry is that usury makes the rich more wealthy and the poor more impoverished. The compassionate God that Jesus presents for us is interested in turning such inequalities around. The Old Testament injunctions relating to usury are carried over into the New and are certainly picked up by the early theologians of the church.

### **Christian Theology and Practice**

The Church's approach to usury across the ages is sometimes principled, often pragmatic (or accommodating), and occasionally corrupt. Early Christian theologians, following Aristotle as well as Hebrew scriptures, regarded usury as a sin. St Jerome went as far as to declare usury as equivalent to murder since it deprived the borrower of life. By the twelfth and thirteenth centuries, the approach seems more confused. Thomas Aquinas seems to be hostile to usury in principle, whilst allowing that those who lend their money deserve some compensation for not being able to put it to other uses themselves. But he is vague as to how much compensation and why.

In spite of the principles or reservations of its theologians, parts of the church and of wider society were already moving in a different direction. Since Jews were permitted, as above, to charge interest to foreigners, they occupied a useful role in Christian societies as moneylenders, a role sometimes

imposed on them. At the same time, there are accounts of medieval Christians pretending to be Jewish in order to make money from lending it out. By the same token, some of the great religious houses had become bankers by the ninth century and bishops were regarded as second only to the nobility in their reliance on borrowed money.

If there was any sense of ethical consensus in the Middle Ages, it was to say that lending which involved the sharing of risk in the venture was legal, but that lending at a guaranteed rate of return was unacceptable. This is close to the position that Islam holds today. It meant that merchants could still get loans, as long as they made the lender a partner to the risk.

The development of international banking also stimulated changes in the attitudes towards usury. Existing to facilitate the transfer of large amounts of money without having to transport cash vulnerably over long distances, banks originated in Italy. By the fourteenth century there were 173 major Italian banks each with a network of branches in different places. They accepted deposits of money from customers, for which they charged a fee - as a result they were condemned as usurers. When they began to credit and debit accounts from one another's depositors, it meant that large amounts could be transferred without involving coins. The church was by far the largest international financial enterprise of the era and needed frequently to transfer large sums - so it inevitably became closely involved with Italian banks that were located close to the centre of the world church in Rome. The banks were very large, having the capacity to finance the kingdoms of the time, though the power relationship between rulers and bankers was asymmetric, most obviously so when Kings and Lords simply decided to renounce their debts.

The poor, by contrast, were required to pledge collateral against loans. Many Christians regarded this as oppression of the poor by Jews operating outside the prohibitions of canon law and there were attempts to create not for profit banks that lent to the deserving poor at low rates of interest. A poor men's bank was opened in Perugia in 1461, and publicly run pawn shops were approved by the pope in 1467. Although the Franciscans spread these all over Europe, they were never legalized in England.

In the context of all these developments, theologians came to accept that lending at interest was not always theft. Johann Eck defended a 5% rate of interest as harmless if the loan was for the purposes of pursuing a business opportunity. The measure of what counted as usury revolved therefore around the intent of the borrower and lender. Some of the Reformers were horrified by this position. Martin Luther, for instance, allowed only that loans should be available for the support of the most vulnerable members of society.

John Calvin, on the other hand, pointed out in his famous letter on usury in 1545 that there are two words for usury in Hebrew - *neshek*, meaning to bite, and *tarbit*, meaning to take legitimate increase. To Calvin, it was biting loans that were forbidden, so that one could lend to business people who might make profit using the money. To the working poor one could lend without interest, expecting repayment. To the impoverished one should give without expecting repayment.

There was then increasing tolerance to charging interest, for Catholics and Protestants alike, if loans were made with good intentions. It was agreed that lending at interest could be a social good. A remaining source of concern was whether or not the rate of interest was punitively high. 10% was allowed by Elizabeth I's Parliament of 1571, but this was reduced to 8% in 1624 in the Act Against Usury. One could say that by this time, lending at interest and deposit banking had become normal practice that was regulated by the state for the benefit of business and protection of the poor. A *laissez faire* position on usury arrived with Jeremy Bentham's 1787 *Defence of Usury* in which he argued that adults of sound mind, acting freely with their eyes open ought to be allowed to borrow in whatever way they saw fit. Following on from this, Parliament abolished the law against usury, leaving the matter to private conscience. The Church was left redefining usury as lending at excessive interest without actually defining what either excessive or fair might be. This is the position we find ourselves in today.

We might summarise by suggesting that Christian tradition stretching right back to ancient Israelite times has seen loans as being both positive and negative. Loans have the capacity to alleviate poverty when times are hard, to be tolerated in the short term as a way of rehabilitating impoverished and deserving members of society. They also have the capacity to stimulate effort and enterprise among the creative entrepreneurs who create wealth that the whole of society may benefit from. At the same time, it is possible for loans to encourage extravagance and consumption, or to fund laziness. It is interesting, in this respect, to note that Adam Smith supported a cap on interest rates for the purpose of making borrowing cheaper for those who wanted to invest in production, but was content that those who simply wished to spend on consumption were forced out into an unregulated market where interest rates were prohibitively high.

### Predatory and Illegal Lending - The Problem with Loan Sharks

This leads us quite naturally to think about the poorest of our communities who are the most obvious targets for predatory and illegal lenders. It has been of concern for some years that a large amount of the money pumped into deprived communities for the purposes of regeneration has been leaking back out again in interest payments to predatory lenders. This is in part because poorer members of our community often do not have access to the financial services that others take for granted - bank

accounts and cheap loans, for instance. This makes room for doorstep lenders who may quite legally charge rates of interest as high as 250% on small loans of only a few hundred pounds. The loans are collected weekly by someone who calls at the houses of borrowers and are structured in such a way as to make sense to people who are used to a cash culture. But they effectively deprive the poor of money they could better use for themselves and their families. In its worst form, predatory lending is illegally undertaken by loan sharks who have no licence to lend, sometimes charge interest at rates of 1000% or more, and make weekly collections on their debts with menaces. Debtors become enslaved to lenders and quite local communities of people come under the heavy influence of individuals who have only their own interests at heart.

The city council in Leeds has been working to address social exclusion and predatory lending. A Financial Inclusion Partnership of various cross sector organisations has secured funding to expand the network of branches operated by the Leeds City Credit Union such that small loans at rates of no more than 12% are available. The credit union tries to adopt an approach which recognises the cash culture that poorer communities often prefer and seeks to displace the influence that predatory and illegal lenders have. At the same time, the Financial Inclusion Partnership has sought to expand the number of debt advisors available at the Citizens' Advice Bureaux across Leeds, so helping people to reschedule their debts in ways that does not leave them vulnerable to the predatory lenders. A third strand of the work has involved the targeting of loan sharks by the Trading Standards officers who have become much more adept at identifying, prosecuting and removing illegal lenders from communities. The result of all this has been that the Council have seen a reduction in the problems people have had with arrears in bill payments, whether for rent, rates or fuel, and that money targeted towards regeneration has stayed in the areas for which it was intended.

### The Credit Crunch - tuning the churches into debt issues

The credit crunch and the financial crisis we have witnessed in the last few months are now changing the situation fast. Although interest rates are still relatively low, and are falling, credit is no longer easy to come by, leaving people struggling to rollover the debts they already have, or to take out new borrowings. This is affecting people with mortgages, secured and unsecured loans, and credit card balances and is likely to reverse the financial inclusion that has taken place under benign conditions.

A deep recession is already a highly likely outcome of the credit crunch. Unemployment will rise in Leeds, particularly in the finance sector of the economy because banking as a business has become as over-inflated as the housing and mortgage markets it has pumped up. A disproportionately large number of the jobs in finance in and around Leeds are of a processing /operational nature, which is

where the cuts tend to come most harshly. Businesses associated with banking, for instance specialist legal services, will be adversely affected too. And since the roots of the credit crunch are in property, construction will also suffer severely. All of these are major employers in the City.

Unemployment is already up to 5.7% for the quarter to the end of August, its highest for ten years, will reach 2 million in the UK by Christmas and some are forecasting the jobless total to hit 3 million by the end of 2009.

This will result in people struggling to keep up with mortgage payments and pay off their other loans as incomes stagnate. Unemployment will inevitably cause more home repossessions. With the banks tightening up on who they will lend to, there will be no easy ways for people to borrow their way out of problems. On the brighter side we can expect inflation to decline, causing homeowners' mortgage payments to reduce as interest rates are brought down, which will ameliorate things. But in the more deprived areas of Leeds, where the number of home owners is lower, it will be other borrowings and a loss of income from unemployment that will make it difficult to service outstanding loans. And for the longer term, all of us are likely to be adversely affected as the value of our pension funds declines. The government inspired bailout of the banks by the tax payer may also mean that welfare provision is likely to be trimmed.

It sounds bleak but this is the environment in which our churches we will be working over the coming months. And these will be the issues that our communities will be facing. I have a conviction that, from a mission perspective, our congregations may need to develop a little more knowledge about how our debt advice agencies already work in Leeds, and what facilities exist at the credit unions to help people deal with their short term needs. In addition there are also opportunities to latch into the financial literacy programmes that are beginning to spring up to help people to budget and spend their money more wisely and well.