



Forgive us our debts



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The word credit is derived from the Latin *credere* or believe, trust. For people who find themselves burdened with debt, having taken on too much credit, this word is loaded with irony, as they lose trust in the system and lenders lose trust in them.

This article will look at the nature of personal debt, its effects, warning signs of difficulties and how to help people who have taken on too much debt, while also asking what would a more just and loving approach to extending and repaying credit look like.

Debt has existed since biblical times. It has long been used by individuals to bring forward spending before cash or income is available. Individuals can borrow for 'productive' purposes, for example purchasing assets such as homes or cars or equipment that enables them to earn an income. These days, two other purposes of consumer borrowing are common. The first is traditional, and the other somewhat more recent; both are a function of the greater availability of consumer credit and new payment methods.

First, the more traditional purpose, where changes in circumstance, such as unemployment, business difficulties, illness or divorce, can cause individuals to borrow for current consumption when their income is insufficient to cover monthly expenses such as rent, mortgage repayments and other costs of living. This can start a cycle of borrowing that is virtually impossible to escape.

The second, more recent, reason is the result of the greater availability of consumer credit, which aids and abets an 'I want it now' culture. The lure of

consumerism coupled with the ease of accessing cash through ATMs, store or credit cards, makes it easy for people to spend more than is prudent, leaving little or no income for essentials.

This distinction is important. While both result in insufficient savings to protect oneself from unforeseen circumstances, the first stems from a result of living on the edge and insufficient government, social and community safety nets; the other is a combination of poor financial planning, living beyond one's means and giving in to the temptations of a materialistic culture. Of course, these two types of indebtedness exist at the ends of a spectrum, with a lot of variations in between. Moreover, consumption-based debt that may look manageable at first can quickly become excessive and unsustainable if there is a sudden change in employment or family circumstances. This means we must be slow in laying blame upon those who become indebted, as circumstances are often complicated. But while the causes may differ, the outcomes often look similar, as do some of the solutions.

Traditionally, bank credit was limited to those with sufficient income, wealth or assets, such as houses or cars, to ensure repayment. More recently, looser lending standards and the ease of access to credit cards, make it far easier to spend more than intended and end up in debt. This, together with insufficient education in basic personal and household finance, makes money management very difficult for a growing segment of the population. The challenges of managing financially

can be overwhelming when you also factor in changes in benefits systems and small increases in real wages.

Whatever the reasons for borrowing, the burden of the interest due on debt and its repayments can become a formidable burden, especially for the least well off, because they will pay higher interest due to their higher risk of non-payment. Such debt burdens can lead to desperation and severe mental health difficulties. So, what can be done to help people who, for whatever reason find themselves in such a situation?

Facing up to debt

The first step toward a solution is acknowledging there is a problem. The sooner the borrower concedes that debt is not sustainable, the better. Often, those faced with increasing monthly payments try to ignore them or borrow further to pay them, effectively 'robbing Peter to pay Paul'. Taking this first step is often the most difficult. With this hurdle past, the following further steps can be fruitful:

1. If the borrower feels overwhelmed or unable to cope, a charitable debt counselling service can be very helpful. Many churches run these in partnership with Christians Against Poverty or other faith-based debt counselling charities. In my view, private debt consolidation services should be avoided as they can make the situation worse.
2. A debt counsellor can help a borrower understand the nature of their obligations (see below on contracts) and thoroughly check each contract, to help the borrower understand their obligations and rights and find out if the lender offers any means of helping borrowers in difficulty. Debt counsellors may also offer other practical solutions, for example advice on the sale of unwanted goods; on sources of debt relief that may be available (e.g. through charities or professional associations); and on charities, churches and local authorities that can supply certain items, including food, clothing and furniture, for free or at a lower cost.
3. With or without a debt counsellor, anyone with debt problems needs to do a simple income and expenditure calculation for each month. The key is to look at where the money is going. For those with smartphones, there are now many apps that allow users to categorise, budget and keep track of what they are spending money on each month. Once you know this, you can see if there are non-essential items that can be reduced or eliminated.
4. Return to a cash-based economy. Cut any credit cards in half so you are not tempted to use them. If you really mean to keep yourself on a strict budget, get a certain sum of money out of the bank and make it last you until a certain date. When the money is gone, so is your spending.

5. With or without a debt counsellor, the borrower may be able to see from these various strategies how to begin to control spending, debt accumulation and even begin to pay down debt. However, if the debt outstanding has become very high relative to income this may

respect the dignity of all people and facilitate human flourishing

not be possible. In the UK, Individual Voluntary Arrangements (IVAs) can enable people to restructure personal debt. Similar arrangements exist in many other countries, sometimes known as personal bankruptcy. Such arrangements may determine a timetable for a managed combination of repayment and debt forgiveness.

Can financial education help?

Obviously, from the outset it is far better to avoid the position of becoming unsustainably indebted. While not a panacea, improved education on personal and household finance from a very young age, as part of the school curriculum, could go a considerable way to preventing problems with money and debt. This will necessarily include budgeting and understanding interest – what it is, how it is calculated, how it works and particularly the cost of compound interest, i.e. paying or earning interest on interest.

In addition, anyone who borrows needs to understand what a contract is and how to read its basic terms and conditions. Given the significant power imbalance between borrowers and lenders, while most borrowers will not be able to influence these terms, they must at a minimum understand their obligations and the consequences of not complying with the terms. Remedial education for those who did not get these skills when they were young can help avoid future difficulties.

How can a more just and equitable system be put in place?

We live in a capitalist society where not everyone holds the same beliefs. Capitalism's emphasis on consumption encourages a dependence on 'stuff' for happiness and purpose. Consumerism diverts us from the things that really matter in life, notably creating a loving community that helps us consider the needs of our neighbours. We need to work towards a system where money and the pursuit of profit do not crowd out moral and relational considerations in creating a common life. We also need to remind ourselves that economic relations are subordinate to social relations.

For this reason, we should think about when debt is just or equitable and when it is not. Debt is fair

NOTES

1. See <https://www.justfinancefoundation.org.uk> and www.cuf.uk

when it is mutually beneficial for lenders and borrowers, when the risks are fairly distributed and when it fosters, rather than corrodes, relationships. Debt should enable participation in, rather than isolation from, the common life.

In the Old Testament debt slavery was a tolerated social practice, but it was mitigated by the Jubilee requirement of debt cancellation and the return of the land to its original owners. This reset economic relations and created pathways from economic

Christians can work towards a more just and inclusive economic system

slavery to economic dignity. Today, this can be seen partially in personal bankruptcy or individual voluntary arrangements, though these carry a stigma and often shame, which means that it is very difficult for those who have been through these processes to ever get 'credit' again.

In the commercial sphere, regulation needs to be put in place with a view to preventing abuses and exploitation that come from the imbalance of power between the borrower and the lender. It is the responsibility of the lender also to avoid overextension of credit to the extent that the borrower is unable to repay. The overall goal is to create a system that ensures all can participate in the common life without debt being an oppressive or enslaving force.

A commercial lending system, whether official (such as the banking system) or unofficial (such as payday lenders and loan sharks) should never be used for the chronically poor and those whose circumstances have rendered them unable to meet their basic needs. It is important to make a clear distinction between commercial loans (between equal parties on agreed terms used for investment and profit) and loans made to the poor in times of hardship and contracted under duress. Using commercial practices to overlook societal problems only further impoverishes the least well off.

Rather, we need to try and create a system that helps the poor outside of the commercial debt system (through both charity and government aid) that meets their basic needs and enables them to flourish. Better access to fair loans for the poor is no replacement for charity in the form of charitable debt forgiveness, grants or other forms of gifts.

Options that should be encouraged include:

- *lending at low or no interest within a community.* Usurious rates of interest are never legitimate when we live in community with others.
- *investment in and emphasis on social enterprises.* These can be created in a variety of ways that help people out of poverty by providing small

loans and grants for training, investment, reskilling or financial education. There is usually some kind of return or repayment on investment, which is then recycled to others in need. Such enterprises can foster both community and hope, as well as provide a way out of poverty.

- the *creation of credit unions within church communities* can present important advantages. They improve the relational aspect of credit between the saver and the borrower, at the same time reducing the power imbalances between lenders and borrowers. In addition, they help build community. The Just Finance Foundation of the Church of England's Church Urban Fund has a programme that can be helpful to churches interested in the credit union movement, as well as financial education.¹

Where is forgiveness in all this?

Extending credit to encourage consumption but ignoring the problems of poverty is not making us better off as a society. It has entrenched poverty rather than providing a solution for it. The church community is well placed to provide relational support to those in need. Moreover, by finding local solutions through credit unions, social enterprises and charity to those in need, the church community can highlight what really matters in life by demonstrating to the wider world the importance of respecting the dignity of all people and facilitating human flourishing.

These same church communities can demonstrate their concern for the welfare of the poor and disenfranchised by working for a more just social and economic system at a national level. Two of the valuable steps that churches can take are: speaking out against reductions in benefits, extortionate loan terms for the poor; and calling for a more compassionate system of provision for those in need.

Redemption?

In financial jargon, redemption is the action of regaining possession of something in exchange for payment or clearing a debt. It is a concept that the New Testament writers used to describe salvation, God's action of buying back or liberating humanity from the power of sin and evil through the death and resurrection of his son, Jesus. Given the pervasiveness of the experience of debt in the biblical era it was an idea that would certainly have resonated with the early Christians and their contemporaries as the gospel was proclaimed. In today's world, we too are called to proclaim and live out the reality of God's redemption by working towards a more just and inclusive economic system, one in which the poor are at the very least treated fairly and with compassion, and in which the holistic wellbeing of all people is a priority and not just a faint afterthought.