4-26-2016

Credit Is a Double Edge Sword

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'Credit Is a Double-Edged Sword'

Marquette [the Supreme Court decision Neal Gabler discusses] marked a pivotal cultural shift. Not only did it render centuries of interest-rate caps practically meaningless, it de-stigmatized the practice of usury.

Usury laws were designed to protect vulnerable borrowers from exploitative lenders trying to profit from their distress. Once the caps were lifted, so was the shame of charging high interest on loans. Today, payday, subprime, and credit card lenders peddle predatory products under the cover of law.

Meanwhile, the stigma was placed on the borrowers. Financial gurus began to label borrowers of high cost loans as short-sighted or weak-willed even as many were forced to borrow to survive. Instead of placing the burden on lenders to offer humane terms, we shifted the burden to borrowers to avoid making any financial steps that might necessitate an emergency loan.

Typical of this borrower shaming was the public anger unleashed on underwater mortgage holders after the financial crisis. The press and media vented over their neighbors' irresponsible house flipping while the lender banks who had displayed just as much stupidity and irresponsibility were spared the moralizing.

Credit is a double-edged sword. For most Americans, low-cost credit has been the only path to prosperity. On the flip side, high-cost debt can lead to financial ruin.

For the post-war generation, credit was a way to wealth. Thanks to several government programs, GIs took out low interest loans to buy homes and educations that, coupled with abundant job possibilities, provided financial security. Credit was the ladder of social mobility.

Today, high-interest credit coupled with wage stagnation is a chute covered in sharp and dangerous objects that leads to financial insecurity. Americans used to borrow to attain a better life. Today, they have to borrow just so they can hold on to what they have. Most Americans have a few-finger grip on the borders of an ever-shrinking middle class and credit, instead of lifting them over to financial health is pushing them off the ledge.

[To make matters worse,] most Americans who experience financial insecurity live in a network of other friends, neighbors or family members, which means they are unable to draw on financial support when they falter.

Research shows that financial education is not the answer to financial health. The difference between the financially insecure and the secure is not who knows more about money. We certainly can be saving more and spending less, but the problem is much bigger than that. It’s wage stagnation, systemic poverty, and high-priced credit.

The 47 percent of financially insecure Americans are not all bad decision-makers, though some surely are. Nor are wealthy Americans spendthrifts who are money-wise. At best, financial education is minimally useful. At worst, it tells a distorted story that those who suffer can decide to join the ranks of the well-off by making better decisions.

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