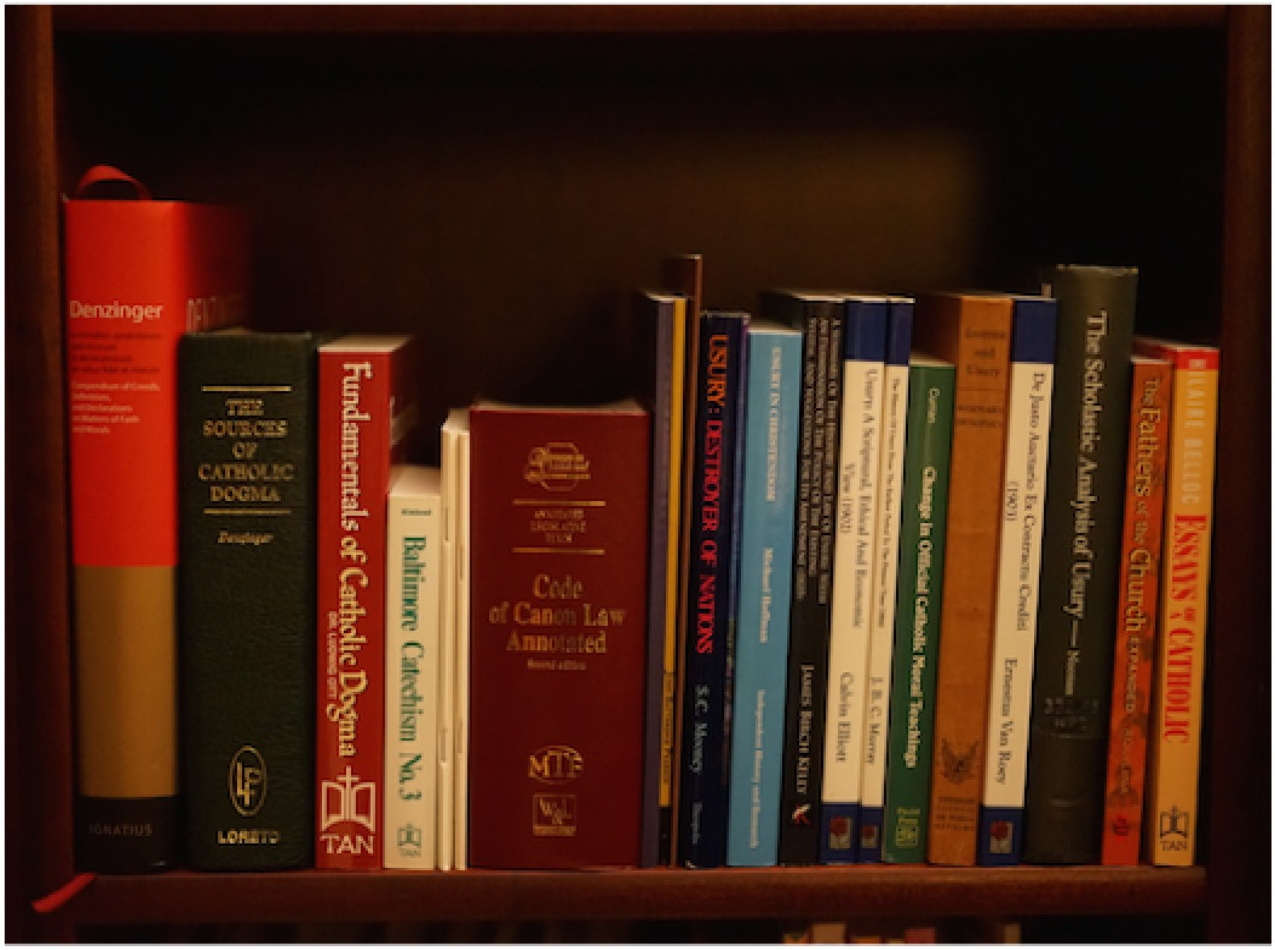
Frequently Asked Questions on the subject of Usury



Zippy Catholic

Preface

I first became interested in the subject of usury during the 2008-2009 financial crisis. I was primarily an investor at the time, having 'retired' some years earlier following an undeservedly successful stint as an entrepreneur during the 'dot com' explosion of the 1990's. I remember investment bankers telling me that business credit was seizing up because nobody could tell what was real. Somewhere around the same time I read St. Thomas Aquinas' description of usury as selling what does not exist; and I was intrigued by the connection. My response as an investor was to start buying up investments, especially corporate equity, which was on sale at a big discount. My response as a curious individual and blogger was to start collecting old books on the subject and learning about usury.

My background with startup companies certainly colored my understanding of what I was reading. I had been involved with quite a number of small companies and had founded a couple of my own. One was rather ludicrously successful (though of all of the successful dot com entrepreneurs I was clearly the most slow-witted). But most startup companies fail. This is true even during the crazy boom times. Failure is actually the norm, modest success is somewhat rare, and stratospheric success is the outcome for perhaps one of every twenty to fifty high quality startups.

So when you are putting together a small company, making sure that the i's are dotted and the t's are crossed on what happens when it fails is just good business. It is never a happy thing when a business experiment fails, but if you've done your job right there is no rash of lawsuits and recriminations: you just scuttle the ship, sell off the scrap, everyone gets what they agreed and you move on with life. Messy windups are for amateurs.

As a result of this background, when (for example) Pope Callistus III talks (in funny sounding language) about the liquidation preferences of mortgage holders terminating in the property but not in personally guaranteed notes, he is speaking a language I understand.

Prior to the financial crisis I hadn't really thought about usury, and therefore held to fairly conventional opinion to the extent I had any view at all. My perspective as a Catholic (without so much as a second thought) was a kind of naive and vague impression that times had changed and money had changed and that the doctrine probably only applied to things like loan sharking. In other words, I more or less

trusted the “conservative” narrative, and was certainly not sympathetic to the “progressive” notion that basic doctrines can be tossed out while pretending to retain them.

Imagine my surprise, then, when I found myself in perfect agreement – as best as I can tell – with St. Thomas Aquinas, notorious hard-liner on the subject of usury. Imagine the sense of irony as the straw armies sent against him by generations of the confused and the intransigent fell, as it became clear that – contrary to what we may have been led to believe – the authoritative Magisterial pronouncements on the subject support his view, properly understood, and are not confusing or contradictory themselves. Imagine my surprise – I should not have been surprised – that the simple, elegant, deeply moral wisdom of the Church was right all along.

What follows was originally posted on my blog “Zippy Catholic” in the format of an FAQ (a list of Frequently Asked Questions and their answers). It retains this basic format and the informal, conversational, opinionated style typical of the kind of blogging I do. It is somewhat ad-hoc and redundant, reflecting its genesis and development in many live discussions. It contains some links to external sites (especially my own blog) but I’ve tried to incorporate all of the essential material into the ebook. I do not represent myself as an expert or authority: the references, arguments, and explanations should all be evaluated on their own merits, and it is entirely possible that some proclamation or other of which I am unaware could toss a grenade into my understanding and require rethinking the whole thing. I do believe I have this right, but I’m only human and the Magisterium might come out with something new tomorrow which contradicts the views and understanding expressed. I offer it here as my contribution to what is probably a long overdue discussion among Catholics; a discussion which actually takes usury seriously as a grave and execrable moral wrong, and its prohibition as something which has real implications for how we live as Christians – though perhaps not the implications that you, dear reader, have been led to expect.

Virginia, January 13, 2015

Preface to the Second Edition

In the year or so since I first published the Usury FAQ in ebook form, the online discussion has continued. In the process my own understanding of the subject has been refined, and new ways of expressing the same concepts and understandings have evolved. I began including new material and revising some of the existing material in the on-line version during January and February of 2016, revisiting some of my sources to clarify matters in my own mind, having odd expressions in the English translations of documents reviewed by friends who can discuss the meaning of and translate from the original Latin, refining how some things are already expressed, and discovering new ways to editorially express some of the concepts and perspectives involved. This second edition of the FAQ in ebook form contains a number of new blog posts converted into the FAQ format, and I've modified the existing questions and answers to be a bit more 'front loaded'. If anything it is even more redundant than before, in keeping with the dual use purpose (as I see it) of the FAQ format -- first as a reasonably thorough and hopefully concise explanation covering the subject matter sufficiently (for values of 'sufficiently'), and second as an ongoing reference for quick access to answers to particular questions.

As repurposed weblog material it remains informal, conversational, and polemical in style; and would doubtless make professional editors turn over in their graves from an overload of inconsistent tone, format, etc. But I hope it is useful both editorially/pedagogically, as explanation in everyday language of core concepts surrounding the subject of usury, and as a reference to specific Magisterial and Scholastic citations on particular questions. I've addressed the Fifth Lateran Council definition of usury and its coherence with *Vix Pervenit*; added more material on why (what today we call) 'personal guarantees' or 'full recourse' and what the medievals called a 'loan for consumption' are synonymous; gone into more depth on questions of theft and fraud; talked more about 'extrinsic titles'; dealt with the tenuous connection made by some scholars between usury and Scholastic theories of just prices; addressed questions about merchant credit and penalties for late payment; included additional explanation of the difference between property and personal guarantees as security for a contract; discussed the matters of inflation, fiat currency, and fractional reserve banking in more depth; and probably more.

It seems like enough new material and revision of existing material to make a new edition of the ebook worthwhile, in short. So here it is.

Virginia, February 20, 2016

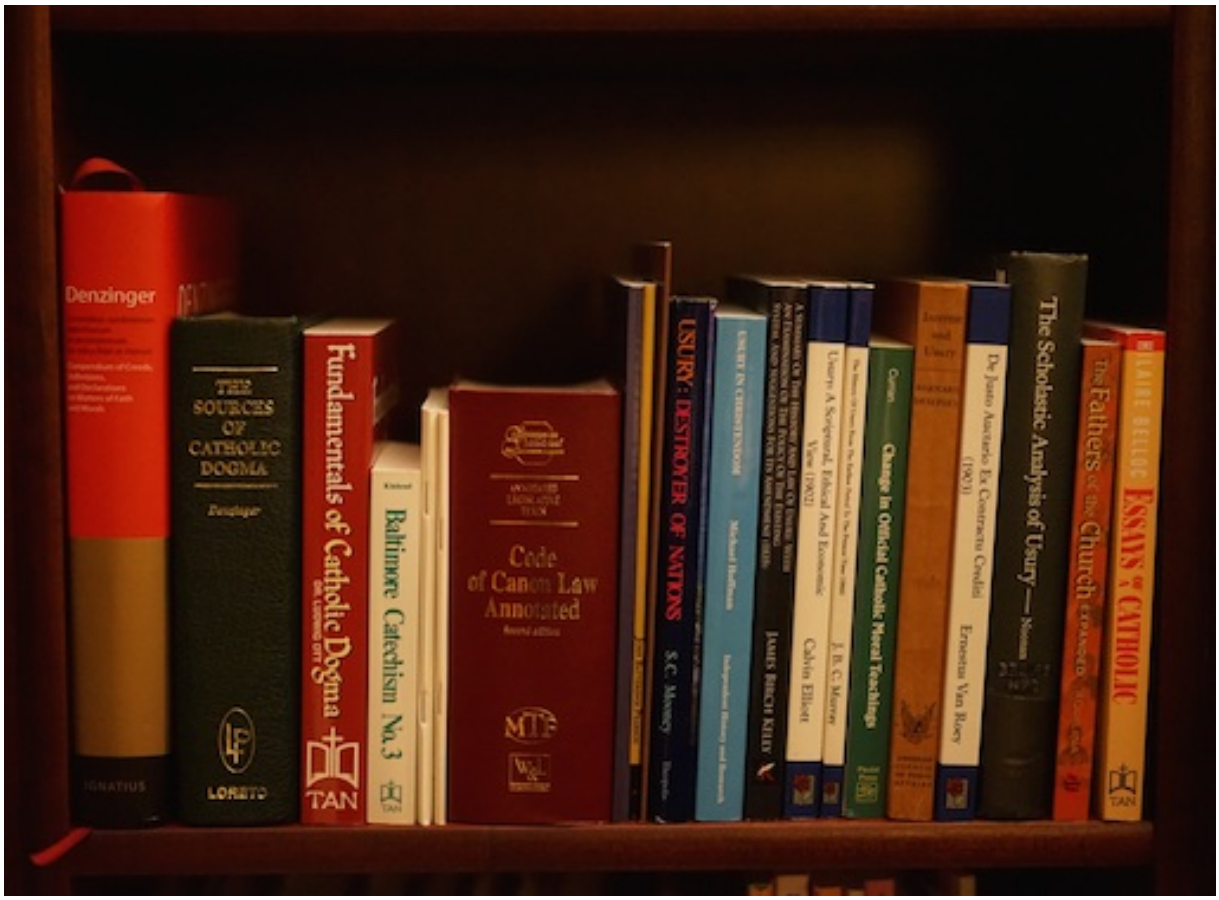
Acknowledgements

I would like to especially thank Paul Cella, editor of the blog *What's Wrong with the World*, and Kristor, contributor to the blog *The Orthosphere*, for their invaluable assistance in fine-tuning my understanding of the subject. All errors are my own.

Also, thank you Bob Greene.

Frequently Asked Questions on the subject of Usury

> *Are we not ashamed to pay usury? Not contented within the limits of our own means, we do by giving pledges and entering into contracts, fabricate the yoke of our slavery." – Plutarch*



> *We exhort you not to listen to those who say that today the issue of usury is present in name only, since gain is almost always obtained from money given to another. How false is this opinion and how far removed from the truth! We can easily understand this if we consider that the nature of one contract differs from the nature of another. – Vix Pervenit*

Understanding usury requires an understanding of how the nature of some contracts differs, fundamentally and categorically, from the nature of others.

Usury is not a matter of the same kind of contract differing only by 'excessive interest'. Usurious contracts constitute a *kind* of contract which is intrinsically immoral *by its very nature*. This FAQ is intended to help people understand what usury is – and is not – and answer many of the questions which naturally arise.

In addition to this ebook format, as of this writing this document is also publicly available online*. (Links to external web sites will be marked with an asterisk*).

the progressives right?

18. Traditionalist scholastics claimed that you can't sell risk; progressive scholastics asserted that an insurance bond is a counterexample. Weren't the progressives right?

19. Is a corporate bond usury?

20. Is a car loan usury?

21. Is a home loan usury?

22. Are credit cards usury?

23. Does this mean that I can't take out a student loan without committing mortal sin?

24. What is wrong with contracts between consenting adults?

25. Aren't all unproductive loans usury? Wasn't Belloc right when he said that the distinction between usurious and non-usurious loans was that the latter are productive?

26. Haven't commerce and currency changed in such a way that usury is no longer much of a concern?

27. Isn't the government the biggest violator of them all?

28. Who the heck are you to be lecturing us all on usury, anyway?

29. I know that usury was traditionally considered an execrable mortal sin. But didn't the Church change canon law and pastoral practice to remove the penalties and stigma associated with usury? Haven't most Catholic theologians accepted that the world has moved on from the time when the prohibition of usury made sense?

30. If the sovereign should decline to enforce usurious contracts, doesn't it follow that the sovereign should decline to enforce any contract of exchange whatsoever which empowers one party to pursue a deficiency judgment against the other party personally, independent of any real assets posted as

1) What is Usury?

Usury is lending money for profitable interest. The term “usury” often specifically refers to the interest itself – interest charged on a *mutuum* (personally guaranteed by the borrower) loan.

Back to top

2) What is “lending”?

Lending is an agreement between a lender and a borrower, wherein the lender gives property to the borrower and the borrower pledges to “return it” later. The phrase “return it” might mean returning the actual property which was lent, or it might mean returning some different property – typically the same kind and in the same amount. It is the latter sort of lending which is the context for usury: borrowing money or sugar, not borrowing a lawn mower or hedge trimmer.

In this kind of lending, the loan is a contract wherein the borrower is personally obligated, by his own agreement, to return the principal amount of the loan to the lender at some future time: not a specific object lent, but a specific amount lent. This is traditionally called a “mutuum”.

St. Thomas Aquinas defines a loan as a contract in which “the borrower holds the money at his own risk and is bound to pay it all back”: that is, the lender has recourse to the borrower himself to recover the loaned amount.

Today this kind of loan is called a “full recourse loan”, as contrasted to a “non recourse loan”[1]. So usury is charging interest on a full recourse loan.

A full recourse/personally guaranteed/mutuum loan is a loan in which the lender’s claim against the borrower remains even if the borrower ‘consumes’ the proceeds. ‘Consume’ is not meant in the sense that what is lent is literally destroyed (although it might be, if it is for example food); but merely that it can be alienated from the borrower without destroying the borrower’s obligation to the lender. The lender’s claim in the contract is against the personal IOU of the borrower and is not confined to some specified property which either the borrower or lender possesses or which is purchased with the proceeds.

The modern terms ‘loan’ and ‘debt’ can mean different things. When reading old books and documents on usury it is important to keep in mind that the word ‘loan’ in English translations is almost always a translation of ‘mutuum’ or the like. It refers specifically to loans secured by the personal guarantee of the borrower, sometimes called a ‘loan for consumption’. Not all modern ‘debt’ or ‘loans’ are secured by the personal guarantee of a borrower or borrowers.

Back to top

3) Is usury always morally wrong?

Yes. Usury, profit from mutuum loans, is always morally wrong without exception

Back to top

4) What if the interest rate is reasonable?

Usury is always immoral no matter what interest rate is charged. The idea that usury is only charging "unreasonable" interest is a modern fiction. Usury is not an "unreasonable" *rate* of interest: it is *any interest whatsoever* as a term of agreement in a *particular kind* of contract, the mutuum loan.

> *"One cannot condone the sin of usury by arguing that the gain is not great or excessive, but rather moderate or small; neither can it be condoned by arguing that the borrower is rich; nor even by arguing that the money borrowed is not left idle, but is spent usefully, either to increase one's fortune, to purchase new estates, or to engage in business transactions."* – Vix Pervenit

[Note: in the English translation of *Vix Pervenit*, the term "loan" is a translation of (forms of) the word "mutuum"].

Back to top

5) What is the key difference between a mutuum and other contracts?

With a mutuum the borrower is personally obligated under the contract to repay the full amount of the principal, no matter what is done with the proceeds or with other specific assets tied up in the contract.

Back to top

6) What if the borrower is an institution like a government or corporation rather than an individual?

> "Lending" to an institution is not a mutuum loan, as long as the lender cannot go after individuals for recovery of the principal. An institution is not a person: it is a thing – a *societas* – an objective bundle of transferable assets or property which can change hands and in which various parties can have various kinds of stake independent of any specific person or persons. So an institution can *itself* act as security on non recourse debt.

Back to top

7) I don't get it. Why is charging interest on a loan always morally wrong?

St. Thomas Aquinas explains that usurious lending involves selling something which does not exist. This is very counterintuitive to people indoctrinated in modernity, and yet obvious once you've set aside modern anti-realism about value. Aquinas compares it to attempting to sell wine and the consumption of the wine as two separate things.

Imagine that Bob lends Harry $100, Harry lends Fred $100, and Fred lends Bob $100. They each spend the money on beer, and charge 10% interest in the form of a deferred fee. The contracts attempt to entitle each of them to an additional $10 – for a total of $30. This $30 worth of new financial entitlements on the books is not connected to anything ontologically real. The 2008 financial crisis was the result of a usurious network of real estate loans and ultimately circular insurance-like schemes which created this kind of 'fake' wealth. All usurious lending involves the creation of fake wealth.

Another way to see that what is bought-and-sold in a *mutuum* does not exist is to observe that, under the terms of the contract, it is possible for the lender to fail to recover everything he is entitled to recover under the contract. Under what are (these days) called *non recourse* contracts the "lender" is always, by definition, able to recover everything that he is entitled to under the terms of the contract: once the underlying assets have been divvied up there is nowhere else to go to recover his investment, and that is precisely what the parties agreed would be the case. If the borrower stops making payments on a non recourse home mortgage, for example, the lender forecloses on the house to recover his investment, and is not entitled to any claims extending beyond the house itself. The "lender's" economic entitlements under the contract are bound to (and bounded by) something that actually exists: the house.

The reason a *full* recourse lender is sometimes unable to recover what he is owed under the terms of the contract is because what he is owed under the terms of the contract *does not exist*.

Licit investment – or even purchase for consumption – always involves the purchase or sale of a property interest in (that is, some sort of economic claim upon) some specific property which *actually exists*. Usurious contracts pretend to be a property interest in something – in some *thing* – but the property over which they assert a claim *doesn't* actually exist at the time it is "sold". If the property actually existed then the borrower would not have to

take any action in order to produce or acquire it: if and when when the borrower stopped making payments, the lender could simply claim his economic share in the actual property, because the actual property exists. That is how non recourse “lending” works, as well as all sorts of other non-usurious investment contracts.

The Magisterium makes and clarifies this distinction forcefully (e.g. Question 31, Question 36).

The difference between full recourse (*mutuum*) contracts and non recourse (*societas*) contracts is central to the subject of usury; so if it isn’t clear at this point, keep reading.

Back to top

8) But economic value is relative, isn't it? Isn't value reducible to whatever people's preferences happen to be?

> No. For example, a bunch of arsonists getting together and agreeing that burning property is valuable, and acting on that determination by burning property, don't create economic value: they destroy economic value.

Back to top

9) What if the loan is secured by collateral?

Interest on a mutuum secured by collateral is still usury, because if the collateral is destroyed the lender can still pursue the borrower for return of the principal amount of the loan. If the lender's recourse under the terms of the contract is only to the collateral and not to the person of the borrower, it is not a mutuum loan and is not usury.

The difference between a mutuum and other contracts comes strongly into play when the loan goes into default. If the lender can (under the terms of the contract) go after the person of the borrower to recover principal, it is a mutuum loan. If the lender has recourse only to ontologically real assets to recover principal and any profits, the contract is not a mutuum and the prohibition of usury does not apply.

In non recourse (*societas*) loans a creditor can always collect precisely and entirely what he is entitled to under the contract, because what he is entitled to under the contract always actually exists — if it doesn't exist as a real asset on the inventory of real assets which secure the loan, then by definition he is not entitled to it, since his recourse is only to those things. That's what he *agreed to* when making the loan — that is the definition of a non recourse loan.

That full recourse (*mutuum*) creditors are not always able to collect precisely and entirely what they are entitled to under the contract demonstrates Aquinas' point that usury involves selling what does not exist.

Back to top

10) Does collateral have to be physical?

No. There are all sorts of ontologically real financial assets which are not physical in nature. For example, the loyalty and goodwill of regular patients of a dentist is a real asset which, along with the work of the dentist, produces regular income. Said differently, a dentist's practice is an ontologically real economic asset. Dentists commonly sell their practices when they retire, for example.

For a thing to be property it must be possible for that thing to be alienated from any particular owner or possessor, so that a different person can possesses it at time B from the person who possessed it at time A. It must be possible for that thing to be possessed, repossessed, bought, sold, or transferred from one owner to another. If it cannot be alienated from some particular person or persons it cannot be ontologically real property in the pertinent sense.

A personal promise to repay cannot be alienated from the person making the promise. When a loan is secured by a personal promise to repay instead of or in addition to alienable property, it is a mutuum loan.

Back to top

11) Aren't lots of non-mutuum contracts unjust?

No doubt many are, but a contract is not usury strictly speaking unless it is a mutuum loan for profitable interest.

> *"Nor is it denied that it is very often possible for someone, by means of contracts differing entirely from loans, to spend and invest money legitimately either to provide oneself with an annual income or to engage in legitimate trade and business. From these types of contracts honest gain may be made. … There are many different contracts of this kind. In these contracts, if equality is not maintained, whatever is received over and above what is fair is a real injustice. Even though it may not fall under the precise rubric of usury (since all reciprocity, both open and hidden, is absent), restitution is obligated."* – Vix Pervenit

[Note: in the English translation of *Vix Pervenit*, the term "loan" is a translation of (forms of) the word "mutuum". Interestingly, the word translated as "reciprocity" in the English version is also "mutuum" in the original, so the sentence with the parenthetical can be understood to say "Even though it may not fall under the precise rubric of usury (because these contracts are not, overtly or covertly, mutuum loans), restitution is obligated."]

This is similar to the situation with contraception and natural family planning*. Just as it is possible to engage in otherwise-licit *kinds* of sex with a "contraceptive mentality", it is also possible to enter into otherwise-licit *kinds* of contracts with a "usurious mentality". The *kind* (species) of contract or sexual act under consideration may not be *intrinsically* immoral; but the fact that it is not *intrinsically* immoral does not make it impossible to do moral wrong in the particulars: in intentions or circumstances. The *nature* of a particular *kind* of contract may not be usurious; but it does not follow that the choice to agree to a particular contract of that kind therefore cannot be unjust.

This is exactly as we should expect it to be with a moral doctrine covering a particular species of sin. The moral prohibition of contraception, for example, is not in itself an all-encompassing theory of sexual immorality. Adultery and fornication are sexual sins distinct from contraception, and what is true in the sexual domain is also true in the domain of property: that theft and usury are

distinct kinds of sins doesn't make either particularly ambiguous. Neither the prohibition of theft nor the prohibition of usury constitute Theories of Everything about the moral use of property.

Back to top

12) Why would I ever lend someone money if I can't charge interest?

Mutuum contracts are only morally licit as charity. Lending money to someone in need is a good deed. If and when the borrower gets back on his feet and can afford to repay the loan, he owes the lender his money back as a matter of justice. In the middle ages, the Franciscans lent money to the poor as a way of keeping the poor out of the clutches of usury.

Furthermore, you can "lend" for profit under non-mutuum contracts. Interest on non recourse debt is not usury.

Back to top

13) Didn't the Church allow the Franciscans to collect "interest" above and beyond the principal on their mutuum loans to the poor?

First, it isn't clear that these loans to the poor were in fact *mutuum* loans at all (see Question 47). To the extent the Magisterium has made any formal pronouncements on the matter, as far as I have been able to determine they apply to the non-recourse Mountains of Piety, and to titles which arise from matters entirely extrinsic to the contract such as negligence, theft, or fraud (see Question 49).

There was certainly much discussion of the subject among theologians.

Some medievals argued (with the wide ranging of opinion typical of the human experience) that certain actual costs incurred by lending (called "extrinsic titles") could be recovered from borrowers who could afford to pay those costs, in addition to the principal amount of the loan, under certain circumstances. Keep in mind that lending to the poor could range from simply handing a needy man money on the street and asking him to return it when he can, to something more institutional and even to agencies sponsored by the sovereign.

Borrowing money from the Franciscan credit agencies was often a way for the down-and-out to get back on their feet, and borrowers would sometimes default anyway — even after getting back on their feet. In addition, various real costs of administering the loans were incurred by the Franciscans, although they themselves lived under vows of poverty. "Extrinsic titles" were allowed because it is unjust to the poor for those who have already benefited from charitable lending to deplete the supply of capital available to lend to those still in need.

In general the distinction between *mutuum* loans and other kinds of lending was not always clear in these disputations, and many different kinds of extrinsic titles were proposed and debated. The Franciscan credit agencies were precursors to modern pawn shops, making small non recourse loans with property as security rather than making *mutuum* loans. Also pertinent to understanding the various disputations is that the medievals were not concerned solely with usury strictly speaking, but with fair treatment in general. Modern commenters tend to introduce ambiguity into the understanding of *usury specifically* when reading medieval disputations, because of this more general concern with things like just pricing (see Question 50).

Shifting gears to the kinds of thing argued, if Bob was on Skid Row and the Franciscans helped him get back on his feet – he now has the means to repay what he borrowed – then the kind of debt he owes is different in kind from a commercial, property based debt. He owes a debt of gratitude and a debt of justice: the former to those who helped him, and the latter to the poor who are still on Skid Row and now need his help.

If he is ungrateful and stingy and refuses to pay the loan back, even though he has the means to do so, he has committed an injustice. But it isn't an injustice rooted in *property:* it is an injustice rooted in *charity*.

Whether legal action is or is not warranted in such a case was controversial. The Dominicans thought not and accused the Franciscans of usury, even for attempting to recover the principal in the case of borrowers who could repay but refused, because they sometimes recovered more than just the principal from grateful borrowers. The Pope intervened on the side of the Franciscans with respect to the non-recourse Mountains of Piety (see Question 47), but this obviously does not resolve what kinds of extrinsic titles and licit legal actions might apply in the case of *mutuum* loans.

The Dominicans were arguing for their interpretation of Aquinas' view on the involvement of the civil law; but note that all parties nevertheless agreed about the fundamentally different nature of the inherently gratuitous *mutuum* loan and the licit-for-profit *societas* or non recourse investment. A licit mutuum loan does not involve the purchase of a property interest by an investor; it is only ever morally licit as a gratuitous act of friendship. Here is Aquinas:

> *"Repayment for a favor may be made in two ways. On one way, as a debt of justice; and to such a debt a man may be bound by a fixed contract; and its amount is measured according to the favor received. Wherefore the borrower of money or any such thing the use of which is its consumption* [that is, anything which must be returned in kind as opposed to in particular: see Question 35] *is not bound to repay more than he received in loan: and consequently it is against justice if he be obliged to pay back more. On another way a man's obligation to repayment for favor received is based on a debt of friendship, and the nature of this debt depends more on the feeling with which the favor was conferred than on the greatness of the favor itself. This debt does not carry with it a civil obligation, involving a kind of necessity that would exclude the spontaneous nature of such a repayment."* - St

Thomas Aquinas, Summa Theologica

In practice a duly grateful borrower who has become prosperous through the help of charitable loans himself would become a patron of those same efforts which helped him out of poverty. But this "debt" of gratitude is not a property debt, and by its nature cannot be captured in a fixed rate of interest or other specific monetary amount. The very act of attempting to convert a debt of gratitude or friendship – above and beyond simply what was actually borrowed – into some definite charge of a specific amount of money, puts the lie to attempts to disclaim usury.

Gratitude or friendship can be truly owed; but gratitude or friendship which can be bought and sold for a specific price is not true gratitude or friendship.

My own understanding of extrinsic titles is that if they involve an entitlement which would not arise anyway *without* being included in the contract, they cannot be *extrinsic* to the contract. Certainly titles which arise from theft, fraud, and negligence could arise independent of the contract (see Question 49). But if a particular title has to be included in the contract in order for it to be a legitimate title, it is by definition not an *extrinsic* title.

Back to top

14) Hasn't the Church approved charging interest to recover opportunity costs? What about the time value of money?

No. One of the most controversial of the proposed "extrinsic titles" was *lucrum cessans*, which some interpret as a blanket license to recover opportunity costs (even though opportunity costs are not ontologically real: see Question 15) from mutuum loans. But although the Magisterium has approved the concept of extrinsic titles generally speaking for some kinds of "loans" to the poor (basically to defend the Franciscans, in their work helping the poor, from the charge of usury), there is no Magisterial proclamation giving a detailed account of which "extrinsic titles" are and are not valid and when they apply.

Furthermore, recovery of "opportunity cost" or the "time value of money" as something in itself has been explicitly condemned by the Magisterium:

> [The following proposition is condemned as erroneous:] "*Since ready cash is more valuable than that to be paid, and since there is no one who does not consider ready cash of greater worth than future cash, a creditor can demand something beyond the principal from the borrower, and for this reason be excused from usury."* – Various Errors on Moral Subjects (II), Pope Innocent XI by decree of the Holy Office, March 4, 1679 (*Denzinger*)

It has also been established that Magisterial silence on a moral or doctrinal question does not constitute approval*. Those who insist that the Magisterium has approved the title of *lucrum cessans* at all, let alone that the proposed title can be interpreted as a license to recover opportunity costs in for-profit mutuum loans as opposed to charitable loans to the poor where there is no intention of recovering even the principal from those who cannot afford it, are simply wrong. The reason why these folks never produce a Magisterial proclamation to that effect is because it never happened.

Back to top

15) Shouldn't an investor be compensated for giving up the opportunity cost of investing his money in something else?

No. Opportunity costs are not ontologically real assets*. When a *mutuum* lender attempts to sell his "opportunity cost" to a borrower in exchange for interest payments on the loan, the *thing that he has attempted to sell* does not actually exist. If it actually existed then when the borrower defaults the lender would be able to foreclose and retrieve his property, or the property in which he has purchased a claim. The fact that he cannot do so demonstrates St. Thomas Aquinas' point that charging interest on a *mutuum* loan (usury) involves selling what does not exist.

Back to top

16) Doesn't the future labor of a worker constitute a 'real asset' against which a loan can be collateralized?

No*. The "future labor of a worker" is a *potentiality*, not an *actuality*. This potentiality inheres in a *person*, not an *asset*. It is morally licit to purchase *assets* (including assets with potentialities), but it is not morally licit to purchase *persons*. The "future labor of a worker" is not an *asset* or *piece of property*: it is not something the ownership of which can be transferred from the worker to the lender when the transaction is made, because the future labor of the worker cannot be alienated from the worker himself.

Back to top

17) Traditionalist scholastics claimed that you can't sell time; progressive scholastics asserted that the worker's wages are a counterexample. Weren't the progressives right?

No. Time is just a convenient proxy for the worker's actual productivity. If time itself were a salable asset then the worker would be entitled to compensation even if he stayed home in bed and never came to work.

The worker is paid wages for what he, through his own powers, *makes actual*.

Actualities have their own distinct existence, whereas *potentialities* inhere in actual things from which they cannot be separated. It is licit to purchase and sell actual things, whether for consumption or in order to acquire economic potentialities which *inhere in actual things.* But it is not licit to purchase *persons* to acquire economic potentialities which *inhere in persons*. Attempting to purchase the potentialities of a person is an attempt to purchase an economic share in a person, as opposed to a thing: this is what makes usury fall into the same genus as slavery.

Back to top

18) Traditionalist scholastics claimed that you can't sell risk; progressive scholastics asserted that an insurance bond is a counterexample. Weren't the progressives right?

No. If risk qua risk were a financially transferrable asset, gamblers would be entitled to a profit. An insurance bond is just a pooling of financial assets in which one party benefits when things go according to plan, and the other party's losses are mitigated by financial compensation if things don't go according to plan. As long as recourse is limited by the contract to the pool of real assets, however it is structured, the arrangement is not usury.

Back to top

19) Is a corporate bond usury?

No. Investors who lend money to corporations cannot pursue individual shareholders for return of principal. The claims in a corporate bond are claims against *property* which *actually exists in its own right*: the corporation. Corporations are themselves property: they can be bought and sold and their employees – the workers who "farm" the property – sometimes change completely from one set of people to another. Like a farm, a butcher shop, a farrier business, a hunting ground, etc. a corporation is *property* which can be alienated from particular persons.

Sale of claims against *property* – claims bound to *specific property* and *only that specific property* – is a sale of something that *actually exists*. It is still possible for the *prices* of those claims to be unfair, etc: see Question 11. But contracts like corporate debt are not usury strictly speaking, as long as they are bounded: as long as they are claims against *specific property* and do not assert any personal guarantees by specific persons.

See also Question 31.

Back to top

20) Is a car loan usury?

Almost always. It is usury unless it is a non recourse loan.

Back to top

21) Is a home loan usury?

A non recourse home loan is not usury, because the lender has recourse to the house and the house alone for recovery of principal and interest. In practice most mortgages allow for a deficiency judgment against the borrower, though, and those mortgages are usurious.

Back to top

22) Are credit cards usury?

Yes. All interest-bearing unsecured loans to individuals are usury. Even secured loans are usury if they provide for a deficiency judgment against the borrower in a case of default.

Back to top

23) Does this mean that I can't take out a student loan without committing mortal sin?

Here is Aquinas' answer (ST II-II, Q78, A4):

> *"Accordingly we must also answer to the question in point that it is by no means lawful to induce a man to lend under a condition of usury: yet it is lawful to borrow for usury from a man who is ready to do so and is a usurer by profession; provided the borrower have a good end in view, such as the relief of his own or another's need. Thus too it is lawful for a man who has fallen among thieves to point out his property to them (which they sin in taking) in order to save his life, after the example of the ten men who said to Ismahel (Jeremiah 41:8): 'Kill us not: for we have stores in the field.'"*

Since borrowing at usury is inherently scandalous, it probably depends on the extent of the need. But you've got pretty wide moral discretion to hand over your property to thieves, so you've probably got similar prudential latitude here. As a matter of *intrinsic* morality, usury - insisting on interest when making a *mutuum* loan - is a sin on the part of the lender, not the borrower.

Back to top

24) What is wrong with contracts* between consenting adults?

That is a different but related subject*. Contracts are always negotiated in the shadow of the law, which limits what kinds of contracts are enforceable and affects the negotiating positions of the parties. If the government should decline to enforce a contract wherein a person sells himself into slavery, the government should likewise decline to enforce a contract wherein a borrower enslaves himself through usury.

Back to top

25) Aren't all unproductive loans usury? Wasn't Belloc right when he said that the distinction between usurious and non-usurious loans was that the latter are productive?

This is a common misunderstanding of well-intentioned people who would like usury to be taken more seriously as a moral wrong. Usury is actually more clear and straightforward than they propose: all mutuum loans for profitable interest are usury, and other kinds of contracts are not usury. (That doesn't mean that other kinds of contracts are morally licit by definition: just that they are not usury.)

This view is based on an erroneous understanding of what is meant by 'loan for consumption', assuming that the opposite of a loan for consumption must be a loan for production. This brings in all sorts of intellectual baggage and conflicting views from economic theory which are irrelevant to usury.

The idea that an interest-bearing mutuum loan is not usury when the money is spent productively was condemned in the encyclical *Vix Pervenit*. An interest-bearing mutuum loan wherein the borrower invests the proceeds in some productive activity is just as usurious as an interest-bearing mutuum loan wherein the borrower spends the money on wine, women, and song. That the contract is usurious is established by the fact that it is a mutuum charging interest, independent of how the borrower happens to use the proceeds.

Beyond that, "unproductive" non recourse loans are not usury. If I have equity in my home and I sell some of it to a non recourse "lender" to raise cash for a vacation, that is not usury: I have simply decided to spend some of the capital that I own on a vacation. (*Regimini Universalis*: non recourse borrowers "encumber their goods, their houses, their fields, their farms, their possessions, and inheritances"). The lender cannot come after me for recovery of his principal and interest: he can only go after the house that he and I now co-own; and the "interest" I pay is just a rental fee for the share of the house that he now owns after I sold it to him. The focus on "productive" versus "nonproductive" arrangements is a distraction from the straightforward nature of usurious contracts, introducing unnecessary complexity and ambiguity.

Back to top

26) Haven't commerce and currency changed in such a way that usury is no longer much of a concern?

No. Usury and the creation of faux-wealth through usurious contracts is a pervasive problem in modern economies, and the nature of currency has not changed*. However, even if we postulate that the nature of currency *has* changed, that does not alter the prohibition of usurious lending, properly understood.

It turns out that the kind of currency used is irrelevant to the issue of usury (Question 35), so various opinions about fiat currency, so-called "hard" currency, and other trading tokens or fungible commodities are entirely distinct from the subject of usury per se. If a contract is usurious it is necessarily usurious in all of those different kinds of currencies. So even if you disagree with me about the nature of currency, our different views on currency do not have any effect on the condemnation of usurious loans *denominated in* those currencies.

> *"We exhort you not to listen to those who say that today the issue of usury is present in name only, since gain is almost always obtained from money given to another. How false is this opinion and how far removed from the truth! We can easily understand this if we consider that the nature of one contract differs from the nature of another."* – Vix Pervenit

Back to top

27) Isn't the government the biggest violator of them all?

No*. A sovereign guarantee is not the same thing as a personal guarantee. Sovereign debt was treated as something different from full recourse loans by the medievals, and the sovereign differs from individuals in several important ways. Two of the most important are that the sovereign is not a person but, qua sovereign, is an institution; and the sovereign has the power to issue currency. The sovereign may pay "interest" with tax receipts, but it is no part of the contract that he *must* do so; so even the notion that government debt intrinsically requires full recourse to taxpayers is wrong. The place to discuss this is in the linked post* not here, because it is really off topic from the subject of usury. (Note: see also more recent discussion on related subjects here*, here*, and here*).

It turns out that the kind of currency used is irrelevant to the issue of usury (Question 35), so various opinions about sovereign debt and fiat currency are entirely distinct from the subject of usury per se.

This doesn't mean that the way our government is acting is wise, prudent, or even somewhere in the vicinity of sane. It just means that sovereign debt is not usury: it is a categorically different subject.

Many government practices may be not only imprudent but *intrinsically* immoral, without being usury. For example I've advanced a couple of arguments that property taxes are intrinsically unjust*, and neither postulates that property taxes are usury strictly speaking, although the first draws on concepts related to usury.

This is exactly as we should expect it to be with a moral doctrine covering a particular species of sin. The moral prohibition of contraception is not in itself an all-encompassing theory of sexual immorality. Adultery and fornication are sexual sins distinct from contraception, and what is true in the sexual domain is also true in the domain of property: that theft and usury are distinct kinds of sins doesn't make either particularly ambiguous. Neither the prohibition of theft nor the prohibition of usury constitute Theories of Everything about the moral use of property. Folks who attempt to turn the moral doctrine on usury into an all-purpose sledgehammer for advancing their own broader economic theories do a disservice both to the doctrine and to their theories. That usury is a particular kind of sin and does not cover all sins in the domain of money and commerce was affirmed in *Vix Pervenit* (see

Question 11).

The main point for present purposes is that issues of fiat currency, taxation, and sovereign debt are distinct from the subject of usury. Usury by definition is profitable interest charged on a mutuum loan: a freely entered contract between a *person* (the borrower) and some lender (either a person or an institution), wherein the borrower *personally* commits to pay back the loan.

Back to top

28) Who the heck are you to be lecturing us all on usury, anyway?

I'm just some guy. I have an MBA, I've started and run a few small companies, and I have quite a bit of experience as an investor. I became interested in usury in 2008 during the financial crisis, and was surprised to find myself in perfect agreement (as best as I can tell) with St. Thomas Aquinas on the subject. I've read every single Magisterial statement on the subject in Denzinger, everything I could find by Aquinas, a number of old books, some academic papers, and a bunch of stuff on the web. I think I have it right, but I'm not some high-falutin authority.

Part of what made the usury doctrine clear to me when I first really began to grasp it (as opposed to - and I was as guilty of this as anyone - superficially dismissing caricatures rooted in anti-realist modernism) is that as an investor and entrepreneur, I see investment contracts involving personal guarantees of repayment as inherently dysfunctional. If either the investor or the entrepreneur feels the need to throw personal guarantees into the mix in order to get the deal done, that is a major red flag that the proposed capital structure of the investment doesn't make sense on its own terms. Usually this is because the property risks - the risks of partial or total loss of capital invested - in the investment are high enough to make a simple fixed-interest debt instrument inappropriate. Instead of personal guarantees the structure should be something like a convertible note, with equity upside, or it should be secured by a larger base of existing (though probably illiquid) capital. Basically, someone is trying to consume capital they don't have and/or shift their own risks - the risks inherent in their own portfolios of property - onto third parties, personally.

Anyway, I haven't really added anything new to the ancient understanding of usury here. I was just a guy who happened to be standing in the right spot to see what caused the train wreck, and I'm trying to explain what I saw in our common modern language as best I can. Like theft usury often does pay, at least in the short run, and it causes all sorts of damage that impacts different people differently and unfairly. Usury is inherently dysfunctional and morally evil, like theft. It may be mildly interesting sociologically that the Catholic Church was right for millennia about a simple core financial and moral truth that modern people, for all their putative economic and technical sophistication, have gotten completely wrong.

Back to top

29) I know that usury was traditionally considered an execrable mortal sin. But didn't the Church change canon law and pastoral practice to remove the penalties and stigma associated with usury? Haven't most Catholic theologians accepted that the world has moved on from the time when the prohibition of usury made sense?

Well, you asked, so I'll editorialize and give you my personal take.

My answer is yes. The progressive tactic of divorcing doctrine from pastoral and juridical practice is not a new Vatican II innovation targeted specifically at matters of sex and marriage. Earlier progressives were "successful" in leaving the doctrine on usury formally intact, as a kind of decoration that makes no important demands on anyone, despite their attendance of the traditional Latin Mass. *Humanae Vitae* could easily become the new *Vix Pervenit*. Contraception apologists have learned from earlier usury apologists and are using the same tactics. Progressives think that money is inherently fecund and that sex isn't inherently fecund.

Acceptance of usury and contraception are both products of denying that things have an objective nature independent of human preferences. Centuries of 'pastoral' acceptance and indoctrination of economic relativism paved the way for other expressions of moral relativism.

You might think of this as the "hermeneutic of continuity of Hell".

It should be said though that getting rid of the ecclesiastical penalties for usury was a pastoral judgement call, and I don't necessarily disagree with it. For example prior to a declaration by the Holy Office ending the practice on August 31, 1831, it was frequently imposed that a usurer had to make an accounting of all the money he had made through usury and make restitution before he was given sacramental absolution. This is completely disanalogous to the situation of a divorced and 'remarried' person who is objectively committing adultery on an ongoing basis. The former may be totally repentant and fully committed to sinning no more without having the practical means to do the accounting and make restitution. The latter by definition is not committed to sinning no more.

It was also the case that usury was frequently misunderstood, and many contracts which were not usury were condemned as such by overzealous but financially ignorant people. An analogous case in the context of the sexual revolution would be the 'rigorists' who condemn NFP as a form of

contraception*, and their 'laxist' counterparts who make the same claim but conclude from it that therefore contraception is morally licit. Aquinas and the Popes who addressed the issue in bulls and encyclicals may have understood the difference between non recourse (*societas*) investment and full recourse (*mutuum*) loans, but many priests at the parish level did not. The spectacle of a penitent, innocent of usury, hounded and denied absolution by an overzealous confessor who doesn't properly understand the subject, may be a risible fiction now; but that was not always the case.

This was especially confounded by progressive scholastics' use of a proposed distinction between putatively 'productive' interest bearing *mutuum* loans to businessmen (explicitly condemned in *Vix Pervenit*, see Question 25) and putatively 'unproductive' *mutuaa.* The argument over 'productive' vs 'unproductive' *mutuum* loans snookered the traditionalists by framing the debate in question begging terms, obscuring the essential distinction (the distinction, unlike 'productive'/'non-productive', actually found in Magisterial documents on usury such as *Cum Onus* and *Regimini Universalis*) between *mutuum* (full recourse) loans and legitimate non recourse (*societas*) business investment.

An especially pernicious false-flag argumentative tactic of present day usury apologists is to take the 'rigorist' approach as a way of discrediting the doctrine. These will contend for example that the traditional understanding of usury would disallow *all* census-type contracts involving regular payments of principal and interest (e.g. corporate bonds), not just those census contracts with claims that terminate in *persons* as opposed to or in addition to actual *property*. (See question 31). This 'false flag' approach is aided and abetted by useful idiots on the traditionalist or reactionary side who cheer on their 'rigorist' arguments.

None of that has any bearing on the objective status of usury as an execrable mortal sin.

Usury would of course be intrinsically immoral even if that did, counterfactually, make industry and commerce impossible or if it were unhealthy in some sense for industry and commerce — just as contraception would remain intrinsically immoral even if the lack of it led inexorably to overpopulation and misery. But the moral prohibition of charging usury does no such thing. Like moral doctrine on contraception it merely prohibits actions which are objectively harmful both to the parties involved and to the

common good – even though they do involve a short term 'payoff' of sorts, which is why they are tempting. This is why the arguments in favor of laxity on contraception and usury tend to mirror and cross-reference each other (myriad examples* can be found simply by Googling various combinations of the terms "usury", "Catholic", and "contraception").

Apologists for contraception have learned the playbook from the apologists for usury: give lip service to the doctrine as an important decorative piece of theology up in the sky; "pastorally" defang it so that in practice it can be ignored on the ground; continue to "dialogue" until the right "pastoral" result is achieved; paint any opposition into a corner as unmerciful, impractical, and disconnected from reality; and assert that this "pastoral" result was a development of doctrine, ignoring the dog that doesn't bark — the nonexistent teaching documents from the Magisterium representing an actual doctrinal "development". Do the latter enough times over a long enough period so that everyone starts to accept it as a given, including much of the clergy. Continue to point out various "defects" in the "simplistic" understanding articulated in Magisterial documents, and be sure to reiterate regularly that they are not infallible. Oh, and point out the sexual peccadillos, I mean economic practices, in clergy and the Vatican: because if the Vatican does something in its secular operations or practices that constitutes an infallible proclamation that the practices cannot be immoral, as long as they are the things we want to not be immoral, and anyway it isn't really immoral but if the Church actually means what it says doctrinally in those defective non-infallible documents then it is being hypocritical. Shout down any alternative description of the situation on that front as excuse-making. Once all that is achieved all remaining objections must be marginalized and ridiculed. Pat the old celibate economically illiterate men in the Holy See on the head for their prior silly immaturity, congratulate the laity for its wisdom about the "facts of life" and the sensus fidelium, and *move on*.

But it turns out that the prohibition of charging usury is and has ever been a perfectly reasonable limitation on morally licit commerce; a limitation which merely disallows trafficking in human beings as if they were property and thereby creating fake wealth, vested in nonexistent property, which pollutes the real economy.

Back to top

30) If the sovereign should decline to enforce usurious contracts (see Question 24), doesn't it follow that the sovereign should decline to enforce any contract of exchange whatsoever which empowers one party to pursue a deficiency judgment against the other party personally, independent of any real assets posted as security?

> Yes. See questions 35 and 36. An "exception" of sorts applies for cases of theft, fraud, and negligence. But in these kinds of cases the content of the contract itself is irrelevant: any extrinsic title that the wronged party has to damages in the case of negligence or crime is a title he has no matter what the contract says (see Question 49).
>
> Back to top

31) I really don't get it. Why again do you say that fixed-income investments in (e.g.) corporations (corporate bonds) are not usury?

A (non-usurious) corporate bond is not secured by any personal guarantees: it is only secured by the corporation itself, which is an *asset* (something which can be owned and sold) not a *person or persons*. A corporate bond is a kind of contract which used to be called a *census*. An example of a *census* is an investor paying for seed and supplies for a farmer in exchange for a fixed quota of the farm's expected output, converted into a regular cash payment. This is morally licit as long as it is secured by the farm as a bundle of assets or property, not by a personal guarantee from the farmer.

Pope Pius V declared in the bull *Cum Onus* (January 19, 1569) that the difference between a licit census and usury was that in a licit census, the income and principal were guaranteed by the assets - the farm - and not personally guaranteed by the farmer. Licit census contracts must be secured by a *'fixed, immobile good'* - alienable property - not by a personal guarantee of repayment.

Modern economic theorists have misunderstood this by assuming that 'money' is not a *'fixed, immobile good'*, and therefore conclude that usury doctrine depends upon some particular theory of money which at best no longer applies. But in doing so they fail to make the distinction clearly made by Aquinas (see Question 52) and the Magisterium between actual money (or other alienable property) in the possession of the borrower and a mere personal promise, by the borrower, to repay.

It isn't that 'money' (understood equivocally) fails to be a 'fixed, immobile good': it is that a personal IOU, a mere personal promise to repay, fails to be a 'fixed, immobile good'. Actual money in possession (financial securities or other property conventionally used for exchange), or other property securing the loan, can be alienated from the borrower and repossessed if the borrower stops making census payments. Personal IOU's cannot be alienated from the borrower and repossessed.

Personally guaranteed census contracts were declared to be illicit, as were census contracts where redemption of the principal could be forced by the buyer ("lender") before the term of the census contract expired, as were census contracts which could not be redeemed at any time by the seller ("borrower").

John de Lugo* explains that the correct concept of the *census* is that:

> *"... part of the usufruct of the field on which the census is constituted is bought. Then, ... by another contract, which is implicitly contained in the very constitution of a real census, it is agreed by the parties that, for the hope of the fruit which the buyer has from that usufruct, the seller binds himself to pay such an annual payment of money; — and in this way the prior contract is reduced to the obligation of paying only an annual sum, by which the seller redeems the partial usufruct of the field which he had sold; the field itself, however, remaining really obliged in the manner of a pledge for the payment of the promised money..."* Noonan, *The Scholastic Analysis of Usury*, Oxford University Press, 1957).

When you own a corporate bond, you own a property interest in the corporation – an objective thing. Corporations are *things*, generally aggregates of *things*, and can be owned and sold as property. (If they weren't *things* – if they were *persons* – it would be immoral to own them, trade shares in them, and the like). That's why it is always possible to foreclose on the corporation and claim your property: because the thing you own *actually exists*. (That its value may have been reduced to nothing by business misfortune is irrelevant: a house can burn down, but the fact that it can burn down doesn't mean it is not a *thing*).

A personally guaranteed note *looks*, superficially, like the same sort of contract; but it isn't. It – specifically the personal guarantee – isn't a property interest in a *thing*. It attempts to assert a property interest in no *thing*: nothing. The fact that you cannot foreclose and collect your property demonstrates Aquinas' point: the *thing* in which the contract asserts an ownership interest or other claim is no thing at all: nothing. The apples have been eaten, the wine has been drunk, and the borrower has to take action to acquire new, different apples or wine precisely because the *thing* to which the mutuum lender lays claim *does not exist*.

A mutuum for interest looks superficially like a census contract against a farmer's field, as described by John de Lugo and affirmed as morally licit by Pius V. The difference is that there is no field: instead of representing a de-facto buy-leaseback of a claim against a field or other actual property, the personally guaranteed note represents a buy-leaseback of nothing at all.

Back to top

32) In question 16 you say that the value of future labor is not a real asset which can be used as collateral on a for-profit loan. But wasn't it relatively common before the modern era for people to be sold into slavery to pay off a debt?

Yes. Both are true*. It is possible that moral waffling on chattel slavery kept the door open for usury in many peoples' minds. Other people might see prison jobs as a kind of 'slave labor' and propose that it is immoral to throw people into prison just to get work out of them, even if they are willing to agree to it. But that kind of speculation and casuistry aside, clearly a slave's future labor cannot, as a matter of objective fact, be alienated from the slave himself.

Back to top

33) Doesn't St. Paul tell slaves to obey their masters?

Yes, though that probably doesn't have the implications that modern people presume it to have. The language may not mean* what they think it means*, the relation between master and slave is (like the relation between usurer and borrower) morally asymmetrical*, moral doctrine actually does develop* as we gain a deeper understanding of eternal truths and encounter new situations, modern people generally have a distorted concept of property*, and we also tend to view any sort of subjection to authority as dehumanizing*.

It is true though that, at least in my understanding of the moral theology, rejection of chattel slavery and of usury are closely connected*.

Back to top

34) Doesn't the safe harbor of personal bankruptcy imply that modern loans are really non recourse?

No. Even with the safeguard of personal bankruptcy, a usurious contract is – by its full recourse nature – a purchase of the potentialities of a *person*. The potentialities of a person are not something which *actually* exist at the time of purchase. Recall that, in order to "own an economic share" in (or have economic access to) the *potentialities* of a thing, you must own a share in (or have some sort of property claim against) the *actual* thing; and it is not morally licit to buy and sell economic shares in *persons* as if they were *property*.

Continuing the comparison to slavery (since usury and slavery are in the same moral genus), that a slave might have certain legal remedies in the case of an abusive master, or might under certain conditions have an opportunity to escape his condition, doesn't make him any less a slave. He might be in better shape than other slaves who lack those remedies and opportunities; but he is still a slave.

Furthermore, that personal bankruptcy protection is available in cases of extreme financial duress does not change the fact that mutuum contracts require return of what is lent *in kind* as opposed to *in particular* (see Question 35): that what is loaned is, in Aquinas' terms, consumed in its use by the borrower. The mutuum loan for interest still charges rent for literally no thing, nothing. Personal bankruptcy protection therefore does not change the basic nature of a usurious contract.

Back to top

35) What if the mutuum loan is made in wheat, gold, or rental cars rather than fiat dollars?

Notice that, in a mutuum loan, what is returned to the lender by the borrower- who personally guarantees this return under the contract terms – is not the actual, original things which were borrowed. Instead what is returned is 'in kind' — a mutuum loan of a car would require the borrower to return a brand new car (or any old car) at the end of the contract, not the actual car which was borrowed. The mutuum inherently treats the currency used as fungible: as a kind of thing where any one unit of currency is interchangeable with any other. Once the borrower has *used* what was lent under a mutuum loan, he no longer *possesses* it and cannot return it in particular to the lender. So it doesn't really matter what was used as the exchange token or currency in the mutuum contract. If the contract requires the borrower to personally pledge to return *in kind* rather than *in particular* it is a mutuum loan, and charging interest is usury.

A personal commitment to return 'in kind' is a commitment to return something which *doesn't* actually exist as an actual thing: it is just abstractly a 'thing' of such and such a kind. A commitment to return 'in particular' is a commitment to return something which *does* actually exist as an actual thing. Formally, then, the distinction between *currency* and *property* in the context of an investment contract is that currency is returned *in kind*, while property is returned *in particular*. The former is the basis of a *mutuum*; the latter is a necessary (but not sufficient) condition for the formation of a licit *societas*.

A licit *societas* can and frequently does create in-kind investment returns when things go according to plan ("From these [non-mutuum] contracts honest gain may be made." – *Vix Pervenit*). But all contractual claims of all parties must terminate in actually existing property, not in claims against persons, in order to avoid usury. That's why asking the question "what if things don't go according to plan?" is particularly helpful in distinguishing usurious contracts from non-usurious contracts.

St. Thomas Aquinas refers to objects pledged in kind as objects "consumed in their use", as distinct from objects pledged in particular. This obviously doesn't mean that the original gold coins are literally eaten or melted down and destroyed by the borrower (although that could be the case in a *mutuum* loan of, say, food). It just means that the original gold coins are no longer in the possession of either the lender or the borrower once the borrower uses

them*. A *mutuum* is *that kind of agreement*: a pledge to return *in kind* as opposed to *in particular*.

It is true that the usurer might accidentally receive back some of the very same gold coins (say) that he loaned, as those coins circulate. But that is purely accidental: what the *mutuum* contract requires is that the borrower personally guarantee return of the principal *in kind*, not preserve and return actual real rented or co-owned assets *in particular*.

Back to top

36) Wait, does this mean that if I lend out my car and the borrower destroys it, he doesn't owe me anything?

It depends on the particulars of the contract. The guiding principle is that contracts with recourse to real, specified assets (and only those real, specified assets) are licit as profit-producing investments. Full recourse contracts are not licit as profit-producing investments.

First, it should be said that matters of theft, vandalism, and negligence are criminal matters and therefore fall outside of what is intrinsic to the contract itself. (See Question 49).

But accidents do happen, so suppose that one did happen and the car was destroyed. Lets also suppose that this was a commercial rental for profit: the borrower was contracted to pay for the use of the car, it wasn't just a friendly loan.

If the borrower posted security and/or the purchase of insurance coverage was part of the contract, the security and/or assets of the insurance company will cover the loss.

However, if the contract says that the borrower owes (say) $5000 if the car is destroyed, and that he is personally on the hook to pay interest on the $5000 if he can't pay it all at once, then that is usury.

Unsecured contracts for profit are problematic in general when they (explicitly or implicitly) assert recourse to particular persons to recover losses. A licit contract should always cover the various contingencies, fully terminating in real, existent assets, in order to avoid usury. If the lender wants $5000 in security to cover the car in case of an accident he should get it as a deposit, a lien on home equity or other property, or as an insurance bond instead of trying to collect it after the fact.

Usury on the borrower's side frequently involves attempting to spend money or risk other resources that you can't actually afford based on the assets you actually own. If you can't afford to post security or pay for an insurance bond, you probably can't really afford the risk of renting the car.

Here is the Magisterium on the specific question (Pope Callistus III (1455-1458), Usury and Contract for Rent), describing a licit contract (full citation here):

> *"But the [lender], on the other hand, even though the said goods, houses, lands, fields, possessions, and inheritances might by the passage of time be reduced to utter destruction and desolation, would not be empowered to recover even in respect of the price paid."*

That is, a licit income-producing rental contract (which might or might not be labeled a ‘loan’ in modern language) is *non recourse*.

Back to top

37) I see that the Magisterium and Aquinas have actually been clear that lack of explicit recourse to real assets is central to usury: that full-recourse lending for profit is what is defined as the moral problem. But why is that the case?

> Usury involves treating people (subjects) as things (objects), because it involves purchasing "Bob owes me principal and interest" as opposed to purchasing shares in that project there or that bundle of assets there, distinct from particular persons. The most extreme form of treating persons as property is chattel slavery. (Some authors beg to differ, seeing usury as worse*, and the argument has some merit). Usury is in the same moral genus as slavery.
>
> Furthermore, "Bob owes me principal and interest" is not a *thing* that *actually exists*. Charging rent for literally nothing, no *thing*, is intrinsically unjust.
>
> Back to top

38) But you've said that intangible or only partly tangible things like patents and operating businesses can be 'objects', and thus can be property. So how do I tell the difference between what can be ontologically real property and what can't?

Ontologically real property consists of *objects*. (Property in general refers to a relation between owners, subjects, and objects*; but what we ordinarily call 'property' as a noun are the *objects* in this relation).

Modern economics is very anti-realist: it is under the delusion that economic value is purely subjective, that is, a function of human preferences whatever they happen to be. But economic value is not purely subjective: it has an ineliminable objectivity. (Modernity in general is characterized by anti-realist materialism).

Objects, very generally speaking, are things which have an existence that is independent of particular persons (subjects). The contrary of *object* is *subject*, so objects are things that exist in their own right: things which are not persons and which are capable of being exchanged independent of particular persons.

Non recourse loans represent ownership claims in *objects:* the specified assets to which the lender has recourse (under the terms of the contract) to recover principal and interest. Full recourse loans attempt to assert an ownership interest in *persons,* as opposed to (or in addition to) objects.

Notice that when Bob dies, the 'value' of his full recourse debt (qua full recourse) dies with him. The value of any non recourse debt contracts does not die with any particular person, precisely because that value is tied up in the specific *objects* not in a particular *subject* (person). Everything that a non recourse lender is entitled to under the contract can always by definition be recovered (absent theft, fraud, vandalism, or other criminal acts) from *object*ive reality. Even if the value of the collateral goes to zero, it was specified in the contract that that specific collateral is all the non recourse lender is entitled to recover. That is what the lender agreed to, by the definition of a non recourse contract.

Full recourse lenders frequently fail to fully recover their contractual entitlements precisely because those entitlements are to 'things' which are not *real*.

Back to top

39) But wait, can't a full recourse creditor go after Bob's estate when he dies?

Recourse to particular persons – recourse to Bob – the part that makes the loan full recourse – dies with Bob. The *person* to whom the contract terms specified recourse (implicitly or explicitly) was Bob, and Bob is now gone from this world. It is (sometimes but not always) true that creditors can go after the deceased's estate, but that is similar to a situation with a full recourse mortgage. It isn't lack of security that makes a loan full recourse: it is full financial recourse to the person independent of named assets that makes a loan full recourse.

In effect, when a person dies his full recourse debt (sometimes) converts to non recourse debt, with his estate as the assets. But it no longer exists as *full recourse debt*: there is no longer any particular *person* that the creditor can pursue for recovery of principal and interest; only assets.

Back to top

40) Doesn't the Vatican Bank make full recourse loans?

I don't think so, but don't know the answer to that question and it isn't really relevant.

Most institutional borrowing and lending is non recourse, so the point that the Catholic Encyclopedia article on usury* makes about ecclesiastical properties is irrelevant to the question of usury. On the other hand I think there were ATM machines in Vatican City when I was there, so there is probably at least close business done with usurers. Almost everyone does close business with usurers in the modern first world.

Stipulating all that though wouldn't have any bearing on the moral issue. The Church has been quite explicit not just that silence on a question is not evidence of approval*, but that the actual secular practices of the Church have been wrong at times. See CCC 2298 for example. The fact that the Church does something institutionally (stipulated, though in this case that is not established) does not constitute moral approval of it*.

Back to top

41) What about that Catholic Encyclopedia article, anyway?

The CE article fails to distinguish between full recourse (mutuum) loans and non recourse (societas) loans; a distinction central to some of the authoritative Magisterial pronouncements on usury (e.g. see Questions 36 and 31) and central to Aquinas' understanding of a "loan". The point it makes about mortgaged ecclesial properties is irrelevant, for example, because the Church is an institution not a person and ecclesial mortgages are not financed via personal loans or loans secured by personal guarantees. The best that can be said is that failure to distinguish between mutuum loans and other kinds of contracts creates ambiguity in the article.

The fact that the CE article attempts to undermine the authority of a papal encyclical (Vix Pervenit), and considers undermining the authority of that encyclical central to its thesis, should also be considered. Defenders of the article frequently assert without evidence* that this article by a group of New York publishers reflects the mind of the Holy See at the time. The most that can be said about that is that the CE passed the review of Catholic censors under the local ordinary*; but that hardly makes the views expressed in it unambiguous, let alone magisterial.

Back to top

42) Why do you say that the 2008 financial crisis was founded in usury?

The root cause of the 2008 financial crisis was full recourse real estate loans with shaky-to-ludicrous loan-to-value ratios. Without that inventory of bad loans at the bottom of the pyramid the whole 'real estate bonds with ratings "enhanced" by a self-referential circular network of credit default swaps' scheme would never have 'worked'.

Usury was not the only kind of morally fraudulent financial activity involved, however. See this post* for my gloss on the circular securitization which was layered on top of the pyramid of usurious loans.

Without enforcement of usurious (that is, full recourse) contracts, sane lenders interested in their own financial survival would not make (non recourse, which would be the only sort enforced by the government) loans with shaky-to-ludicrous loan-to-value ratios. That wouldn't solve all of the world's problems, of course, but it would make it harder to engage in many of the Ponzi-like schemes which arise in highly abstracted financial markets.

The reason usury 'works' is because usurers can buy 'slavery shares' in individuals (as opposed to property shares in assets); and individuals of little means are tempted into it because selling a part of themselves into slavery makes them feel (and spend) as if they were wealthier than they really are.

Back to top

43) Does this mean that ideally consumers should always pay cash for things like houses and cars?

Not necessarily. There are probably plenty of times when it makes perfect sense for a "lender" and "borrower" to, say, collaboratively purchase a house or a car together for the borrower to occupy or use.

What it means is that people who cannot come up with enough security (in the form of down payments, insurance bonds, liens on other real assets and the like) would not get a loan for something that they really cannot afford. It means that in general, market forces would keep loan-to-value ratios sane. Without the capacity to pursue borrowers qua persons independent of real assets, lenders and borrowers would have to operate within their own means and would not pollute the common good with fraudulent economic value which does not actually exist.

See this post at the Orthosphere* for a more in depth discussion.

Back to top

44) Suppose I am thinking about agreeing to a financial contract which will produce some interest or other profit for me – say by opening a bank account. How can I be sure that what I am about to do is not usury?

If you can identify specific individuals who are personally liable under the agreement to return your principal and pay you profitable interest, the contract is usury. If you cannot identify any such individuals, the contract is not usury.

Banks themselves do tend to make full recourse (that is, usurious) loans to individuals. Opening an interest-bearing account is therefore remote material cooperation with evil when that is the case – and it is almost always the case in modern economies. However the interest bearing savings or checking account agreement you make with the bank is not full recourse to any particular person or persons, so it is not itself usurious. You haven't done anything *intrinsically* wrong by opening the account.

I talk more about what bank accounts are and are not in this post*.

In fact even vacation loans or loans to buy groceries are not necessarily usurious (see Question 25). It all depends on whether the 'loan' in question is a *mutuum* (full recourse) or a *societas* (non recourse).

Back to top

45) Is it morally licit to charge interest on a full recourse loan just to cover inflation?

No. The answer is implicit in Question 35 — once you've grasped the difference between *mutuum* and *societas* it becomes clear that the price of the 'currency' most likely will fluctuate all over the place relative to other things, *whatever* is used as currency. The *mutuum* might be in wheat or oranges or even computers or cars as opposed to dollars; but that doesn't change the nature of the contract.

So if it is an interest bearing *mutuum* it is usury, and the inflation rate (or price fluctuation between commodities or currencies generally) is irrelevant.

In effect what the "just-to-cover-inflation" usurer is attempting to do is enslave the borrower (as opposed to purchasing claims against some actually existing property) as an inflation hedge. All property is subject to entropy, decay, devaluation, theft, political unrest, changes in market conditions or personal circumstances, and other risks. It is fine generally speaking to make *investments* as a hedge against this, in an effort to preserve wealth; but it is not morally licit to make *usurious loans* as a hedge against this.

[Some folks have found this approach to the answer confusing, so I answered it again from a slightly different perspective in Question 53]

Back to top

46) What about futures contracts? Are they usurious?

I could go on and talk about all sorts of different contracts and the practical implications. But the bottom line is that those contracts are generally fine as long as they are ultimately secured by recourse to some inventory of real assets and *only* that inventory of real assets – if they are non recourse. Just about any creative structure of contract is possible in theory — as long as real assets are posted as security and the parties agree that all recourse terminates in those real assets. (This doesn't mean that any and all creative non recourse contracts are morally licit by necessity: it just means that they are not specifically *usurious*. See Question 11).

I'll give a simple example of a non-usurious futures contract. (A real example might involve insurance bonds or the like as part of the arbitrage over the real assets tied up in the contract; but I'll try to make this as simple as it can be to describe it conceptually).

Suppose it is springtime, and Farmer Bob and Investor Bill disagree about whether wheat prices are going to go up or down. Bill thinks there will be a drought, and Bob thinks the harvest will be big. Given supply and demand, then, Bill expects high wheat prices in the fall and Bob expects low wheat prices.

So Bob and Bill enter into a non recourse contract under which Bill pays Bob 1000 groats now, and Bob agrees to deliver a ton of wheat to Bill on November 1st.

The contract is non recourse because Bob pledges the actual field on which he plans to grow the wheat as collateral, and Bill agrees that his recourse is limited to foreclosing on that field. In effect Bill now co-owns the field with Bob, and their mutual business interests – their *societas* – is limited to that field: a real asset distinct from persons.

Now maybe Bob was right, or at least he successfully grew the wheat, and on November 1st he delivers a ton of wheat to Bill. But maybe Bill was so right that Bob wasn't able to grow the wheat. The drought destroyed Bob's crop. In that case Bill and Bob have agreed to foreclose, and Bob will have to sell the field in order to buy a ton of wheat to hand over to Bill.

However, because the contract is non recourse, that is the limit of Bill's recourse – as agreed by the parties from the beginning, *intrinsic* to their

contract. If selling the field does not raise enough money to buy the now very expensive wheat, Bill only gets as much as the proceeds will actually buy. Furthermore, if selling the field itself raises only 800 groats, then Bill only recovers 800 groats — less than the principal amount of his initial investment. Bill's recourse – as they agreed from the outset – is bounded by the actual property pledged in the contract.

The bottom line, even if you don't follow the example, is that the prohibition of usury does not prohibit reasonable investment, including those that involve risking assets you actually own based on how you think things will develop in the market.

What the prohibition of usury forbids is *enslaving your fellow man* to your expectations, even when he is willing to be so enslaved: it forbids full recourse contracts for profit.

Back to top

47) What is the evidence against Aquinas and in favor of the modern view that a reasonable amount of profit on a simple mutuum loan is morally licit?

There are three main pillars of evidence which are cited: **(a)** changes in Canon Law and pastoral practice; **(b)** the scholastic concept of "extrinsic titles" on loans approved as a general notion (with no specific ones explicitly approved) by the Magisterium; and **(c)** Magisterial declaration that the specific practices of the "Mountains of Piety" – medieval credit agencies sponsored by the Church to help the poor by making low interest "loans" – were not usurious and in fact were praiseworthy.

a) The first pillar is changes in Canon Law and pastoral practice. As previously mentioned (Question 29), prior to a declaration by the Holy Office ending the practice on August 31, 1831 it was frequently imposed that a usurer had to make an accounting of all the money he had made through usury and make restitution before he was given sacramental absolution. It was also frequently true that (as is the case now) confessors and laymen did not accurately grasp the usury doctrine; so businessmen who engaged in perfectly licit contracts and transactions were sometimes harassed, denied the sacraments, told to liquidate their estates, and denied Christian burial.

The intervention of the Holy See on the question, through the Holy Office and revision of Canon Law, basically asserted that as long as a penitent was prepared to follow instruction by the Holy See on the question of usury he should be granted absolution and generally left alone. This in effect removed the problem of understanding the nuts and bolts of usury from the purview of confessors (who were frequently financially naive themselves).

That this set of pastoral and legal changes could not even in principle modify doctrine is manifest.

b) The second pillar, extrinsic titles (mentioned briefly in Question 13 and Question 14), are a subject which could – but really need not – take up a whole book in itself. The reason it could take up a lot of discussion is more historical than conceptual: the scholastics spent a good deal of time discussing and debating the subject. The concept of "extrinsic titles" is touched on briefly in *Vix Pervenit,* which explicitly does not explicitly deny the validity of the concept of extrinsic titles:

> *"By these remarks, however, We do not deny that at times together with the loan contract certain other titles-which are not at all intrinsic*

> *to the contract-may run parallel with it. From these other titles, entirely just and legitimate reasons arise to demand something over and above the amount due on the contract."*

As with just about anything there are a number of ways to interpret this conceptually, because the terms can be understood to mean various different and sometimes incompatible things. For example one way to think about a non recourse "loan" (and you will see some folks discuss it under this kind of framing) is to think of it as a mutuum together with an additional contract. This "add on" contract removes the personal pledge for repayment and replaces it with a pledge to transfer ownership of specific property if the borrower stops making payments: thus we get a non recourse loan. It is from this second, add-on contract, which grants the lender an ownership interest in the collateral and cancels the borrower's personal obligation to repay, that a just title to profit arises.

However when the terminology is used that way – when the most essential property of a mutuum (Aquinas: "the borrower holds the money at his own risk and is bound to pay it all back") is removed and replaced by a pledge of actually existing property which fully bounds and terminates the borrower's obligation – it is editorially more clear to just recognize that what we have is an essentially different kind of contract. These kinds of contracts in fact have their own names: a *census* (See Question 31) or non recourse mortgage (see the full citation of "Usury and Contract for Rent" from *Regimini Universalis*), along with explicit approval by the Magisterium as non-usurious when non recourse.

The Magisterium (and Aquinas) make the distinction between full recourse and non recourse contracts central to usury in a number of authoritative proclamations (see Question 31 and Question 36). It is not surprising then that using language which reflects that essential distinction is editorially clarifying, whereas language which ignores the distinction tends to muddy the waters; even in those cases where it can be interpreted in a manner which is technically correct.

That isn't to suggest that just titles to something above the principal cannot arise in the case of a simple mutuum loan. The specific title of "damnum emergens", or compensation for actual out-of-pocket lender's costs or actual damages directly arising from making the loan, was accepted even by the usury hard-liner Aquinas.

The conceptual approval (or explicit non-disapproval) of extrinsic titles generally speaking, combined with explicit Magisterial approval of the specific practices of the "Mountains of Piety" (next up in part **(c)**), constitute the main progressive Catholic argument in favor of charging profitable interest on a simple mutuum loan.

It is worth pointing out again though that the Magisterium directly condemned charging interest on a mutuum to recover "opportunity cost" or "time value of money" (See Questions 14 and 15). As we will see, when it comes to the third pillar of the progressive case the actual evidence in fact cuts against the idea that making a profit on a simple mutuum loan is ever morally licit for any reason whatsoever.

c) Question 13 touched on the third pillar generally and briefly. The so-called "Mountains of Piety" were an institutional development of efforts to provide credit to the poor to help them escape from dire situations, including usury and other exploitation by greedy lenders. These institutions sometimes loaned money for no fees or interest at all, but of course even a non profit institution has real expenses and someone has to come up with the cash to pay them. So interest was more often than not charged on these "micro credit" or "micro finance" loans to the poor. There was a tremendous clash over whether these particular institutions were or were not themselves guilty of usury. This conflict was settled by the Magisterium:

> *"With the approval of the holy Council (Lateran Council V), we declare and define that the aforesaid "Mountains of piety" established by the civil authorities and thus far approved and confirmed by the authority of the Apostolic See, in which a moderate rate of interest is received exclusively for the expenses of the officials and for other things pertaining to their keeping, as is set forth, for an indemnity of these as far as this matter is concerned, beyond the capital* ***without a profit for these same Mountains****, neither offer an species of evil, nor furnish an incentive to sin, nor in any way are condemned, nay rather that such a loan is worthwhile and is to be praised and approved, and least of all to be considered usury."* – Leo X, Inter Multiplices, April 28, 1515 (quoted in Denzinger). (Emphasis mine)

Probably the second thing to note, following the direct repudiation of making a profit in this declaration, is that it isn't clear that the "loans" made by the Mountains were mutuum loans at all. I've been critical of the accuracy of the Catholic Encyclopedia on usury (Question 41) because it omits entirely –

perhaps its authors were simply ignorant of the requisite documents – the Magisterial distinction (also found in Aquinas) between full recourse and non recourse contracts (Question 31 and Question 36); the article also claims that *Vix Pervenit* "formally condemns" institutional credit in the Church tied to Church property – which in fact it does not – suggesting that the Church approves of interest on "loans" (as an ambiguous term) "in practice".

If the Catholic Encyclopedia has the facts right* about the Mountains of Piety though then it is not clear that they made mutuum loans at all. The Mountains operated like modern day pawn shops, taking in existing property as security and making non recourse loans against the property:

> *"The amount of a given loan was equal to two-thirds the value of the object pawned, which, if not redeemed within the stipulated time, was sold at public auction, and if the price obtained for it was greater than the loan with the interest, the surplus was made over to the owner."*

Of course as explained in Question 11 of this document, just because a contract does not, in Benedict XIV's words, "fall under the precise rubric of usury" does not mean it is not exploitative and wrong. The Jewish and Lombard money lenders often required collateral also and charged outrageous amounts of interest. I don't know what loan-to-value ratios they maintained or if they would assert deficiency judgments against borrowers, but keep in mind that just because a contract is not technically usury does not mean it is not exploitative and wrong. It is important to understand usury correctly; but too much focus on usury specifically could easily become a distraction from other real injustices.

And that is always something important to acknowledge: that even when a given contract does not "fall under the precise rubric of usury" (*Vix Pervenit*), "whatever is received over and above what is fair is a real injustice." (*Ibid*)

Back to top

48) What about the Fifth Lateran Council's definition?

The Fifth Lateran Council at one point defines usury in this way*:

> *"[O]ur Lord, according to Luke the evangelist, has bound us by a clear command that we ought not to expect any addition to the capital sum when we grant a [mutuum] loan. For, that is the real meaning of usury: when, from its use, a thing which produces nothing is applied to the acquiring of gain and profit without any work, any expense or any risk."*

This is perfectly consistent with usury as understood throughout this FAQ, in the other Magisterial statements cited (in fact the same council has already been cited in discussing the Mountains of Piety in Question 47), and in Aquinas' writing on the subject. In particular a *mutuum* loan, as Aquinas observes also, is a kind of contract in which the normal *risk associated with ownership* is born by the *borrower*. Profit *for the lender* from a *mutuum* loan is never morally licit: the borrower has in a literal sense become the owner of what has been lent, because he may do with it as he wills and any risk of loss is his.

Other kinds of contracts - contracts which are not mutuum loans, that is, which are non recourse contracts - may produce licit profits, even at a fixed rate of return, bounded by the pool of property in which the contract is a claim (see Question 31); as affirmed in a number of Magisterial statements cited throughout this FAQ. But those profits always come in association with the risks inherent in claims against property, without personal guarantees. If the property is lost to natural disaster, etc, and there is no pooling of designated property as insurance, etc, then the investment is lost: no other person is carrying the risk, so profit can be licit under the Fifth Lateran Council definition. The Fifth Lateran Council definition is not in conflict with Vix Pervenit and the other Magisterial documents cited here affirming the licitness of profit on legitimate non recourse investments.

Confusion often arises because modern people are in the habit of referring to fundamentally different kinds of contracts with the single word "loan."

Back to top

49) Is it acceptable for a merchant to charge penalties for late payment?

It is certainly morally acceptable for genuine victims of fraud or theft to be compensated for their actual losses. A buyer of products or services who is able to pay but refuses to pay when those products or services have been received has committed an act of theft or fraud. A buyer who is not able to pay but pretends to be able is likewise committing theft or fraud.

A trickier case is when a merchant extends credit and allows a buyer to pay later. If the 'buyer' is an institution and the security on commercial credit is the balance sheet of an institution, this is not a mutuum loan so the usury prohibition does not apply. If the buyer is an individual who is personally guaranteeing payment to the merchant, this *is* a mutuum loan and the prohibition of usury *does* apply. This gives rise to two possible cases. In one case the buyer is able to pay on time but refuses. In the other case the buyer has suffered some catastrophe and is unable to pay. The former is theft or fraud; the latter is business misfortune, a risk associated with doing business. If the merchant does not have proper security in place then he should absorb the loss until the buyer is able to pay, and should not insist on any penalty above the amount owed. If the merchant does not want to be exposed to those kinds of losses he can arrange for some kind of security (claims against specified property) or he can require payment on delivery instead of extending credit.

My own tentative view is that theft and fraud should generally involve criminal conviction and penalties of some sort, not merely compensation of the victim at the level of tort, because theft and fraud harm the common good not just the victim. One way they harm the common good is by opening the door to various kinds of ‘hidden usury’ — thief and ‘victim’ in collusion attempt to get around the prohibition of usury, by creating a situation in which the borrower ‘defrauds’ the lender, wink wink, so the borrower owes a penalty in addition to the principal. Collusion in faux-theft in order to produce penalties under the legal system – hidden usury – would simply make both parties guilty.

If this seems severe, consider that stealing a pack of gum is criminal theft, because stealing harms not just the victim but the common good. Categorizing it as criminal does not really say anything about the severity of the offense in a specific case; it merely acknowledges the harm to the common good in addition to the victim, or the defrauding of the sovereign by the parties in collusion. A discussion of crime versus tort is beyond the scope

of the present FAQ, but it is sufficient to point out that 'hidden usury' in this kind of case involves (assuming a just legal system which declines to enforce usurious contracts) a conspiracy between borrower and lender to falsify an act of fraud so that the legal system will enforce a penalty.

Back to top

50) John Noonan and other scholars have stated that we can't grasp the usury doctrine without getting into medieval just price theory. Yet you say that usury doctrine doesn't depend upon any economic theory or theory of just pricing. Why do some scholars say that there is a dependence between usury doctrine and medieval theory of just price?

The way to figure out whether a contract* for gain is usurious or not is to look for contract terms which treat a *personal guarantee* as if it were *property*. It is morally licit for an owner to profit from the use of his property, or of property against which he has claims. But a borrower's promise to repay principal which has been consumed (see Question 52, Question 35) is not property. A mere promise of apples is not itself actually apples (Question 10). And the historical fact that there used to exist some apples which were consumed or money which was spent is not -- the historical fact is not -- actual apples or money.

If a mere promise to repay in kind actually were property it could be alienated from the borrower and repossessed by the lender, in case the borrower stopped making payments. Charging rent or levying profits from a mere promise to repay - charging "rent" for "property" which does not exist independent of any particular person - is usury. The fact that what is owed under a mutuum cannot be recovered from reality, but must by definition be recovered from a person, demonstrates that it does not exist in the pertinent sense required to justify rents or profits.

I've said in a number of places (because it is true) that moral doctrine condemning usury does not depend upon any broader economic theory or theory of just pricing, and is in fact compatible with many such theories. On the other hand it is true that usurers would often take advantage of price ambiguities in order to charge what the medievals called "hidden usury". It is from this that the myth of interdependence between usury doctrine and medieval just price theory arises. As seems to occur in many areas of moral theology, if people weren't trying to get a pass on doing moral wrong on a technicality the issue would never arise in the first place.

Suppose I lend you 100 apples and agree to be repaid in two months time. But instead of asking for repayment in apples, I ask for you to personally guarantee (see Question 2 and the footnote) repayment of 100 oranges. Because oranges are worth more than apples when we ink our contract - and this is where just pricing may come into play - this contract involves "hidden

usury".

That this is "hidden usury" is clear once we observe that the terms call for contractual profit to the lender in conjunction with a personal guarantee by the borrower. Personally guaranteed loans (mutuum loans) are only ever morally licit as acts of charity or friendship. They are not morally licit as profit-producing investments, even when the lender might have hypothetically made a profit in some other way* had he, counterfactually, chosen to do something different (see Questions 14 and 15).

This does not in any way impair legitimate investment for gain. (It also doesn't give a free moral pass to every contract which is not, strictly speaking, usurious: see Question 11). The way to avoid entering into usurious contracts (including those involving 'hidden usury') is to avoid commercial contract terms calling for personal guarantees of repayment. The only reason 'just pricing' comes into play at all is because the parties are attempting to craft a de-facto usurious contract while avoiding usury on a technicality -- on the ambiguity of the relative prices of apples and oranges. This would not be an issue at all if the contracts were nonrecourse, that is, if the contract were not a form of mutuum. But mutuum agreements are never morally licit for gain in the first place. The notion that they are or should be is rooted, as with many errors of the modern age, in metaphysical anti-realism.

For further reading I discuss the structure of (for example) morally licit business debt (like corporate bonds), futures contracts, rental agreements, and insurance bonds elsewhere in this FAQ.

I'll leave you with this quote from St. Francis Xavier, giving counsel to confessors (emphasis mine):

> *"When in the sacred tribunal of penance you have heard all that your penitents have prepared themselves to confess of their sins, do not at once think that all is done, and that you have no further duty to discharge. You must go on further to inquire, and by means of questions to rake out the faults which ought to be known and to be remedied, but which escape the penitents themselves on account of their ignorance.*
>
> *Ask them what profits they make, how, and whence? what is the system that they follow in barter, in loans, and in* ***the whole matter of security for contracts?***

You will generally find that everything is defiled with usurious contracts, ..."

Back to top

51) Isn't it usury or something related to usury when banks 'create money' in a system of fractional reserve lending?

The way the question is posed gets the relationship backwards. When banks make non recourse loans they are securitizing property. It is only when they make *usurious* loans that they create 'money' out of literally nothing (that is, nothing but the personal promises of borrowers to repay). I explain this in more detail in this blog post*.

Back to top

52) I'm still struggling with the whole 'loan for consumption' thing. Why is it that a personal guarantee of repayment is equivalent to a loan for consumption?

In a *mutuum*, or a more complex contract which includes a *mutuum* such as a home mortgage which allows for a deficiency judgment against the borrower, the borrower's obligation to repay remains even if the proceeds and all of the things purchased with the proceeds are *consumed*. We tend to think of 'loan for consumption' as referring to what kind of thing is lent or what is done with the proceeds, as opposed to what the contract authorizes and requires. But the distinction between a *mutuum* and other contracts is not in the kind of property which is exchanged or in what the borrower does with the property; it is in the *nature of the agreement itself*. A *mutuum* contemplates and provides for consumption or alienation of the property which is lent in return for a personal IOU. Here is Aquinas again:

> *"As the Philosopher says in the Politics, things can have two uses: one specific and primary; the other general and secondary. For example, the specific and primary use of shoes is to wear them, and their secondary use is to exchange them for something else. And conversely, the specific and primary use of money is as a means of exchange, since money was instituted for this purpose, and the secondary use of money can be for anything else, for example, as security or for display. And* ***exchange is a use consuming, as it were, the substance of the thing exchanged insofar as the exchange alienates the thing from the one who exchanges it****. And so if persons should lend their money to others* ***for use as a means of exchange****, which is the specific use of money, and seek a return for this use over and above the principal, this will be contrary to justice. But if persons lend their money to others* ***for another use in which the money is not consumed****, there will be the same consideration as regarding the things that are not consumed in their very use, things that are licitly rented and hired out. And so if one gives money sealed in a purse to post it as security and then receives recompense,* ***this is not interest-taking, since it involves renting or hiring out, not a contract for a loan****. And the reasoning is the same if a person gives money to another to use it for display, just as, conversely,* ***if one gives shoes to another as a means of exchange and on that account were to seek a recompense over and above the value of the shoes, there would be interest-taking****."* — St. Thomas Aquinas, *De Malo*, Oxford University Press, translated by Brian Davies and Richard Regan. (Emphasis mine)

Back to top

53) Why doesn't the mutuum borrower owe at least enough interest to compensate for inflation?

It is often said that money now is worth more than money later, and a common argument is that this justifies charging interest on mutuum loans: at least enough interest to compensate for the effects of inflation or currency devaluation.

As is typical of modern anti-realist views of property (see Question 10 for a metaphysically realist view), this gets things almost exactly backwards. In fact if the argument from counterfactuals or opportunity cost were valid in the first place, what would follow is that the lender should pay interest to the borrower.

Property in itself is always subject to decay. Suppose you lend me fresh peaches, and I personally guarantee to give you the same number of fresh peaches six months from now.

In order to provide you with fresh peaches six months from now I have to take risks and invest more capital and labor. If I just hang on to your peaches and return them to you they will be rotten, because the peaches you lent to me are subject to decay. You should pay me interest, since when I give you fresh peaches in six months you are getting a greater value back than what you gave. I personally guaranteed you fresh peaches in six months, and took all of the risk and labor of providing them upon myself. (Note: Question 46 provides a description of a non-usurious futures contract, that is, a futures contract for profit which is not based on a mutuum loan).

Guaranteed fresh peaches later requires investment, labor, and risk. (Question 48 is pertinent). Peaches in a bucket right now require none of those things. If any interest based on counterfactuals is justifiable at all it should go to the party who takes on the task and the risk of providing fresh peaches in six months: the borrower.

And the same is true of money, or any property. (Matthew 6:19 - "Lay not up to yourselves treasures on earth: where the rust, and moth consume, and where thieves break through and steal.") If entropy or decay (for example inflation) justifies charging interest on a mutuum loan at all, the interest it justifies is due to the borrower not the lender; because the borrower is the person who has taken on all of the risk and expense of preserving the lender's capital.

The borrower should be compensated for the expenses the lender would have incurred if the lender had kept his capital locked (for a fee) in a safe deposit box rather than giving it to the borrower for preservation and safekeeping. If the borrower is providing a service roughly equivalent to a safe deposit box, interest should flow the opposite direction from what the usurer proposes. Safe deposit boxes have to be rented for a reason.

The fallacy in all of this is in the notion that opportunity costs are compensable in mutuum lending in the first place (see Question 14), and the idea that mutuum lending is ever morally licit as a means to economic gain - where wealth preservation is a kind of gain - as opposed to an act of charity or friendship.

But once we grant the premise that opportunity costs are compensable for the sake of argument, the lender should be paying interest to the borrower. The borrower's story about counterfactual might-have-beens is more in touch with reality than the lender's story about counterfactual might-have-beens, because preserving and maintaining property against the forces of entropy always requires risk, work, and investment.

Back to top

54) Are you suggesting that simply preserving the economic buying power of some property is a kind of gain?

Yes.

Modern man is so acclimated to usury that when it comes to wealth, he has convinced himself that the second law of thermodynamics runs backwards. Back here in the real world though property and its buying power deteriorate unless the owner does work himself, invests more property to protect what he has, and/or takes risks with his property in putting it to work as productive capital.

Even the most durable property - a cache of precious metals, say - requires some investment of work, risk, and additional property in order to merely preserve it. To bury a pot of gold takes work. To acquire or rent the land on which it is buried absorbs additional resources, as does protecting that land from prospecting trespassers and thieves. To bury it on someone else's land which is not owned, rented, or otherwise protected through ongoing expenditure of work or capital is to take a more significant risk. You have to keep track of where it is, make sure that thieves don't find out where it is, and be ready to retrieve it or just lose it if someone else finds it.

Even when a non recourse insurance bond (Question 18) covering the loss of the property is purchased, this does not eliminate risk: it simply spreads the risk over a larger pool of property, compensating the insurer for renting his property to the insured as security, thereby putting it at risk. If the insurer's overall losses on all claims are too great then the property he has staked to insure your property will not pay your claim: the well is only so deep. And of course you have to pay for the insurance bond.

It is a commonplace among investment advisors that a wealth preservation strategy involves investing a portfolio in such a way as to maximize the chances that it will preserve its buying power: to take the smallest risk possible with respect to losing buying power. You cannot even preserve the buying power of your property without investing: without doing work, employing your capital in some inherently risky enterprise, and/or taking on other risks. (Other investment strategies include aggressive growth with high risk, and various intermediate strategies in between). Portfolios of property - that is to say, the collection of all of the property that a person owns - do not preserve themselves. Just staying even takes work, investment, and risk. If you don't swim, you are going to drown. That is the nature of life in the

universe in which we live.

One way to understand usury is as the unjust compensation of the lender for work, risk, and investment undertaken by the borrower; because in a mutuum loan the borrower *personally* pledges to make the lender whole, restoring property equivalent to what was originally given to the borrower, no matter what actually happens to the *actual* property borrowed. This is why interest on mutuum loans is intrinsically unjust, and mutuum loans may only be licitly undertaken as a favor to a friend or a person in need, expecting no compensation in return.

Back to top

55) If you make a mutuum loan to a friend in need, shouldn't that friend try to keep you from losing any economic buying power in the process?

Suppose your best friend needs wheat and can't afford to buy any. He doesn't need paper: he needs wheat. You've got some excess wheat you could lend him, but you like the way paper futures (Question 46) look better, and you want a guarantee that you won't lose any buying power (Question 54) when you are doing your best friend a favor.

So you lend him paper (even though he needs wheat, and is just going to exchange the paper for wheat) just so that, as a formality, the kind of thing he owes you back (Question 35) is paper. Or you tell him that you know he needs wheat and you have plenty to lend, but you like paper futures better so even though you'll give him wheat you want him to repay the wheat you gave him by doing imaginary wheat-to-paper exchanges (they will be imaginary to avoid transaction fees and taxes) at the point of borrowing and repayment. Because of the excursion into the land of imaginary paper he ends up owing you back more wheat than you lent him on this mutuum loan – usury.

It seems to me that your friendship is as imaginary as the wheat-to-paper exchanges. That is no way to treat a friend in need. The former contract might not be technically usury, while the latter definitely *is* usury. But this fails to undermine the moral doctrine prohibiting usury, much as the fact that flirting heavily with your secretary is not technically adultery fails to undermine the moral doctrine prohibiting adultery.

Mutuum lending is only morally licit as an act of friendship or charity. It is not morally licit in pursuit of gain. Preservation of market buying power as something guaranteed by someone else is a kind of gain (Question 54).

If your best friend decides to pay you back more wheat than you loaned him out of gratitude, that is a gift from him to you. There isn't anything wrong with that. It is even true that he owes you gratitude in a sense. But gratitude between friends is not convertible into a specific dollar amount which he can be said to owe you as a financial matter. No true friend is going to quibble, in dollar terms, as to whether his best friend has been grateful enough in the natural exchange of favors which occurs among friends.

It is possible for friends to do each other injustice in mutuum lending (Question 49); even to have a falling out and to no longer be friends. Suppose you lent your best friend the wheat, he now has enough to repay you the

amount that he borrowed, but he refuses to do so. In that case he is not being a good friend; and he really does owe you back the amount of wheat that he borrowed, as a matter of justice. His refusal to pay it back now that he can is a kind of theft or fraud. You truly are entitled to return of the principal amount, and the falling out of your friendship does not remove that entitlement in justice.

> *"A lender of money by reason of making a loan can in two ways expect a recompense from a borrower, whether in money or praise or service. A lender of money can expect a recompense from a borrower in one way as if the recompense is a debt by reason of a tacit or express obligation. And then the lender illicitly expects any such recompense. A lender of money can expect a recompense from a borrower in a second way as if the recompense is gratuitous and offered without obligation, not as if a debt. And then the lender can licitly expect a recompense from the borrower, as one who does a service for another trusts that the other will in the spirit of friendship return the favor.*
>
> *[...]*
>
> *A lender can in two ways incur the loss of something already possessed. The lender incurs loss in one way because the borrower does not return the [amount of] money lent at the specified date, and then the borrower is obliged to pay compensation. The lender incurs loss in a second way when the borrower returns the [amount of] money lent within the specified time, and then the borrower is not obliged to pay compensation, since the lender ought to have taken precautions against loss to self, and the borrower ought not incur loss regarding the lender's stupidity."* — St. Thomas Aquinas, *De Malo*, Oxford University Press, translated by Brian Davies and Richard Regan.

None of this makes mutuum lending morally licit as a wealth preservation investment strategy. There are plenty of ways to look after your own property financially: many different kinds of contracts for preserving and growing wealth are morally permissible.

But the security on those contracts must be *property*, not *personal IOU's*. Otherwise you are unjustly profiting financially from arbitrage over friendship.

Back to top

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1. As with just about any term, “non recourse” can be interpreted a number of ways, generally as a cluster of related but sometimes incompatible meanings. I am not attempting here to make my usage conform to some particular legal jurisdiction or what have you – that is entirely irrelevant to understanding what usury *is and is not*. The way it is used throughout this FAQ is that in a non recourse contract it is *not* a violation of the contract terms for the ‘borrower’ to stop making payments on the loan, leaving the ‘lender’ to recover whatever he is entitled to recover from the collateral and the collateral alone. The ‘borrower’ has not violated the terms of the contract in this case, by definition: the agreement was that if the borrower stops paying, he is quit of all obligation under the contract. The lender gets to foreclose on the collateral to recover his entitlements and costs, and the lender’s recourse is to the collateral alone. If the collateral is worth more than the loan balance and any actual costs then the excess is due back to the borrower.

If the contract terms say that it is a *violation* of the contract for the lender to stop paying and turn the collateral over to the lender, then the loan is a *mutuum* and any interest charged is usury. The lender may be limited to recovering his principal and interest from the collateral *legally*, but the borrower is understood to have *violated the terms*. This is not a ‘non recourse’ loan the way the term is used throughout this FAQ, though other people in other places may refer to this understanding as ‘non recourse’.

In short, there are (at least) two ways of understanding recourse. In the first way recourse refers to what the various parties to the contract are entitled to in the scenarios covered by the contract. It answers questions like “who gets what if the borrower stops making payments”, as a matter of what the *agreement between the parties itself* requires. In the second way, recourse refers to legal remedies under the positive law when someone *breaks* the agreement. “Recourse” in this second sense is not a part of what is agreed by the parties in the contract itself. This FAQ uses the term ‘recourse’ in the first sense, to refer to the terms of the contract itself.

This understanding comes from the Magisterium of the Church, not from any modern financial theory or practice. “Non recourse loan” just happens to be the closest term in common use these days capable of carrying the concept, and we are looking at the *intrinsic nature of different kinds of contracts* in order to understand usury.

As a practical matter, the fact that the borrower is entitled under the contract terms to ‘walk away’ means that it is in the lender’s best interests to make sure that the value of the collateral significantly exceeds the amount loaned. The lender – on this understanding of a non recourse loan – is taking a property interest in the collateral, and if the value of that property drops below the loan balance the borrower is perfectly within his rights, under the terms of the contract, to walk away and leave the lender holding the property.

Usury and Contract for Rent (full citation)

Pope Callistus III (1455-1458), Usury and Contract for Rent, from the Constitution "Regimini universalis" May 6, 1455 (quoted in Denzinger):

> A petition recently addressed to us proposed the following matter: For a very long time, and with nothing in memory running to the contrary, in various parts of Germany, for the common advantage of society, there has been implanted among the inhabitants of those parts and maintained up to this time through constant observance, a certain custom. By this custom, these inhabitants — or, at least, those among them, who in the light of their condition and indemnities, seemed likely to profit from the arrangement — encumber their goods, their houses, their fields, their farms, their possessions, and inheritances, selling the revenues or annual rents in marks, or florins, or groats (according as this or that coin is current in those particular regions), and for each mark, florin, or groat in question, from those who have bought these coins, whether as revenues or as rents, have been in the habit of receiving a certain price appropriately fixed as to size according to the character of the particular circumstances, in conformity with the agreements made in respect of the relevant properties between themselves and the buyers. As guarantee for the payment of the aforeseaid revenues and rents they mortgage those of the aforesaid houses, lands, fields, farms, possessions, and inheritances that have been expressly named in the relevant contracts. In the favor of the sellers it is added to the contract that in proportion as they have, in whole or in part, returned to the said buyers the money just received, they are entirely quit and free of the obligation to pay the revenues and rents corresponding to the sum returned. But the buyers, on the other hand, even though the said goods, houses, lands, fields, possessions, and inheritances might by the passage of time be reduced to utter destruction and desolation, would not be empowered to recover even in respect of the price paid.
>
> Now, by some a certain doubt and hesitation is entertained as to whether contracts of this kind are to be considered licit. Consequently, certain debtors, pretending these contracts would be usurious, seek to find thereby an occasion for the nonpayment of revenues and rents owed by them in this way… We therefore, … in order to remove every doubt springing from these hesitations, by our Apostolic authority, do declare by these present letters that the aforesaid contracts are licit and in agreement with law, and

that said sellers, yielding all opposition, are effectively bound to the payment of the rents and revenues in conformity with the terms of the said contracts. [Ellipses in original.]

Vix Pervenit

ON USURY AND OTHER DISHONEST PROFIT

Encyclical of Pope Benedict XIV promulgated on November 1, 1745.

To the Venerable Brothers, Patriarchs, Archbishops, Bishops and Ordinary Clergy of Italy.

Venerable Brothers, Greetings and Apostolic Benediction.

Hardly had the new controversy (namely, whether certain contracts should be held valid) come to our attention, when several opinions began spreading in Italy that hardly seemed to agree with sound doctrine; We decided that We must remedy this. If We did not do so immediately, such an evil might acquire new force by delay and silence. If we neglected our duty, it might even spread further, shaking those cities of Italy so far not affected.

Therefore We decided to consult with a number of the Cardinals of the Holy Roman Church, who are renowned for their knowledge and competence in theology and canon law. We also called upon many from the regular clergy who were outstanding in both the faculty of theology and that of canon law. We chose some monks, some mendicants, and finally some from the regular clergy. As presiding officer, We appointed one with degrees in both canon and civil law, who had lengthy court experience. We chose the past July 4 for the meeting at which We explained the nature of the whole business. We learned that all had known and considered it already.

2. We then ordered them to consider carefully all aspects of the matter, meanwhile searching for a solution; after this consideration, they were to write out their conclusions. We did not ask them to pass judgment on the contract which gave rise to the controversy since the many documents they would need were not available.

Rather We asked that they establish a fixed teaching on usury, since the opinions recently spread abroad seemed to contradict the Church's doctrine. All complied with these orders. They gave their opinions publicly in two convocations, the first of which was held in our presence last July 18, the other last August 1; then they submitted their opinions in writing to the secretary of the convocation.

3. Indeed they proved to be of one mind in their opinions.

I. The nature of the sin called usury has its proper place and origin in a loan contract. This financial contract between consenting parties demands, by its very nature, that one return to another only as much as he has received. The sin rests on the fact that sometimes the creditor desires more than he has given. Therefore he contends some gain is owed him beyond that which he loaned, but any gain which exceeds the amount he gave is illicit and usurious.

II. One cannot condone the sin of usury by arguing that the gain is not great or excessive, but rather moderate or small; neither can it be condoned by arguing that the borrower is rich; nor even by arguing that the money borrowed is not left idle, but is spent usefully, either to increase one's fortune, to purchase new estates, or to engage in business transactions. The law governing loans consists necessarily in the equality of what is given and returned; once the equality has been established, whoever demands more than that violates the terms of the loan. Therefore if one receives interest, he must make restitution according to the commutative bond of justice; its function in human contracts is to assure equality for each one. This law is to be observed in a holy manner. If not observed exactly, reparation must be made.

III. By these remarks, however, We do not deny that at times together with the loan contract certain other titles-which are not at all intrinsic to the contract-may run parallel with it. From these other titles, entirely just and legitimate reasons arise to demand something over and above the amount due on the contract. Nor is it denied that it is very often possible for someone, by means of contracts differing entirely from loans, to spend and invest money legitimately either to provide oneself with

an annual income or to engage in legitimate trade and business. From these types of contracts honest gain may be made.

IV. There are many different contracts of this kind. In these contracts, if equality is not maintained, whatever is received over and above what is fair is a real injustice. Even though it may not fall under the precise rubric of usury (since all reciprocity, both open and hidden, is absent), restitution is obligated. Thus if everything is done correctly and weighed in the scales of justice, these same legitimate contracts suffice to provide a standard and a principle for engaging in commerce and fruitful business for the common good. Christian minds should not think that gainful commerce can flourish by usuries or other similar injustices. On the contrary We learn from divine Revelation that justice raises up nations; sin, however, makes nations miserable.

V. But you must diligently consider this, that some will falsely and rashly persuade themselves-and such people can be found anywhere-that together with loan contracts there are other legitimate titles or, excepting loan contracts, they might convince themselves that other just contracts exist, for which it is permissible to receive a moderate amount of interest. Should any one think like this, he will oppose not only the judgment of the Catholic Church on usury, but also common human sense and natural reason. Everyone knows that man is obliged in many instances to help his fellows with a simple, plain loan. Christ Himself teaches this: "Do not refuse to lend to him who asks you." In many circumstances, no other true and just contract may be possible except for a loan. Whoever therefore wishes to follow his conscience must first diligently inquire if, along with the loan, another category exists by means of which the gain he seeks may be lawfully attained.

4. This is how the Cardinals and theologians and the men most conversant with the canons, whose advice We had asked for in this most serious business, explained their opinions. Also We devoted our private study to this matter before the congregations were convened, while they were in session, and again after they had been held; for We read the opinions of these outstanding men most diligently. Because of this, We approve and confirm whatever is contained in the opinions above, since the professors of Canon Law and Theology, scriptural evidence, the decrees of previous popes, and the authority of Church councils and the Fathers all

seem to enjoin it. Besides, We certainly know the authors who hold the opposite opinions and also those who either support and defend those authors or at least who seem to give them consideration. We are also aware that the theologians of regions neighboring those in which the controversy had its origin undertook the defense of the truth with wisdom and seriousness.

5. Therefore We address these encyclical letters to all Italian Archbishops, Bishops, and priests to make all of you aware of these matters. Whenever Synods are held or sermons preached or instructions on sacred doctrine given, the above opinions must be adhered to strictly. Take great care that no one in your dioceses dares to write or preach the contrary; however if any one should refuse to obey, he should be subjected to the penalties imposed by the sacred canons on those who violate Apostolic mandates.

6. Concerning the specific contract which caused these new controversies, We decide nothing for the present; We also shall not decide now about the other contracts in which the theologians and canonists lack agreement. Rekindle your zeal for piety and your conscientiousness so that you may execute what We have given.

7. First of all, show your people with persuasive words that the sin and vice of usury is most emphatically condemned in the Sacred Scriptures; that it assumes various forms and appearances in order that the faithful, restored to liberty and grace by the blood of Christ, may again be driven headlong into ruin. Therefore, if they desire to invest their money, let them exercise diligent care lest they be snatched by cupidity, the source of all evil; to this end, let them be guided by those who excel in doctrine and the glory of virtue.

8. In the second place, some trust in their own strength and knowledge to such an extent that they do not hesitate to give answers to those questions which demand considerable knowledge of sacred theology and of the canons. But it is essential for these people, also, to avoid extremes, which are always evil. For instance, there are some who judge these matters with such severity that they hold any profit derived

from money to be illegal and usurious; in contrast to them, there are some so indulgent and so remiss that they hold any gain whatsoever to be free of usury. Let them not adhere too much to their private opinions. Before they give their answer, let them consult a number of eminent writers; then let them accept those views which they understand to be confirmed by knowledge and authority. And if a dispute should arise, when some contract is discussed, let no insults be hurled at those who hold the contrary opinion; nor let it be asserted that it must be severely censured, particularly if it does not lack the support of reason and of men of reputation. Indeed clamorous outcries and accusations break the chain of Christian love and give offense and scandal to the people.

9. In the third place, those who desire to keep themselves free and untouched by the contamination of usury and to give their money to another in such a manner that they may receive only legitimate gain should be admonished to make a contract beforehand. In the contract they should explain the conditions and what gain they expect from their money. This will not only greatly help to avoid concern and anxiety, but will also confirm the contract in the realm of public business. This approach also closes the door on controversies-which have arisen more than once-since it clarifies whether the money, which has been loaned without apparent interest, may actually contain concealed usury.

10. In the fourth place We exhort you not to listen to those who say that today the issue of usury is present in name only, since gain is almost always obtained from money given to another. How false is this opinion and how far removed from the truth! We can easily understand this if we consider that the nature of one contract differs from the nature of another. By the same token, the things which result from these contracts will differ in accordance with the varying nature of the contracts. Truly an obvious difference exists between gain which arises from money legally, and therefore can be upheld in the courts of both civil and canon law, and gain which is illicitly obtained, and must therefore be returned according to the judgments of both courts. Thus, it is clearly invalid to suggest, on the grounds that some gain is usually received from money lent out, that the issue of usury is irrelevant in our times.

11. These are the chief things We wanted to say to you. We hope that you may

command your faithful to observe what these letters prescribe; and that you may undertake effective remedies if disturbances should be stirred up among your people because of this new controversy over usury or if the simplicity and purity of doctrine should become corrupted in Italy. Finally, to you and to the flock committed to your care, We impart the Apostolic Benediction.

Given in Rome at St. Mary Major, November 1, 1745, the sixth year of Our Pontificate.

Vix Pervenit (Latin)

Benedictus Papa XIV.:

Epistola encyclica »Vix pervenit«

De usuris aliisque injustis quæstibus

Venerabilibus fratribus patriarchis, archiepiscopis, episcopis, et ordinariis Italiæ.

Venerabilis frater, salutem et apostolicam benedictionem.

Vix pervenit ad aures Nostras, ob novam controversiam (nempe, an quidam contractus validus judicari debeat) nonnullas per Italiam disseminari sententias, quæ sanæ doctrinæ haud consentaneæ viderentur; cum statim Nostri apostolici muneris partem esse duximus, opportunum afferre remedium, ne malum ejusmodi, temporis diuturnitate, ac silentio, vires magis acquireret; aditumque ipsi intercludere, ne latius serperet, et incolumes adhuc Italiæ civitates labefactaret.

§ 1. Quapropter eam rationem, consiliumque suscepimus, quo Sedes Apostolica semper uti consuevit: Quippe rem totam explicavimus nonnullis ex venerabilibus fratribus Nostris Sanctæ Romanæ Ecclesiæ cardinalibus, qui sacræ theologiæ scientia, et canonicæ disciplinæ studio ac peritia plurimum commendantur: accivimus etiam plures regulares in utraque facultate præstantes; quorum aliquos ex monachis, alios ex ordine mendicantium, alios demum ex clericis regularibus selegimus; præsulem quoque juris utriusque laurea præditum, et in foro diu versatum adhibuimus. Diem quartam indiximus Julii, qui nuper præteriit, ut coram

Nobis illi omnes convenirent, quibus naturam totius negotii declaravimus; quod illis antea cognitum perspectumque deprehendimus.

§ 2. Post hæc præcepimus, ut omni partium studio, omnique cupiditate soluti, rem totam accurate perpenderent, suasque opiniones scripto exararent; non tamen expetivimus ab ipsis, ut judicium ferrent de contractu, qui controversiæ causam initio præbuerat, cum plura documenta non suppeterent, quæ necessario ad id requirebantur; sed ut certam de usuris doctrinam constituerent, cui non mediocre detrimentum inferre videbantur ea, quæ nuper in vulgus spargi cœperunt: jussa fecerunt universi; nam suas sententias palam declararunt in duabus congregationibus, quarum prima coram Nobis habita est die 18. Julii, altera vero die prima Augusti, qui menses nuper elapsi sunt; ac demum easdem sententias congregationis secretario scriptas tradiderunt.

§ 3. Porro hæc unanimi consensu probaverunt:

I. Peccati genus illud, quod usura vocatur, quodque in contractu mutui propriam suam sedem et locum habet, in eo est repositum, quod quis ex ipsomet mutuo, quod suapte natura tantundem dumtaxat reddi postulat, quantum receptum est, plus sibi reddi velit, quam est receptum; ideoque ultra sortem, lucrum aliquod, ipsius ratione mutui, sibi deberi contendat. Omne propterea hujusmodi lucrum, quod sortem superet, illicitum, et usurarium est.

II. Neque vero ad istam labem purgandam, ullum arcessiri subsidium potent, vel ex eo, quod id lucrum non excedens, et nimium, sed moderatum; non magnum, sed exiguum sit; vel ex eo, quod is, a quo id lucrum solius causa mutui deposcitur, non pauper, sed dives existat; nec datam sibi mutuo summam relicturus otiosam, sed ad fortunas suas amplificandas, vel novis cœmendis prædiis, vel quæstuosis agitandis negotiis, utilissime sit impensurus. Contra mutui siquidem legem, quæ necessario in dati atque redditi æqualitate versatur, agere ille convincitur, quisquis, eadem æqualitate semel posita, plus aliquid a quolibet, vi mutui ipsius, cui per æquale jam satis est factum, exigere adhuc non veretur: proindeque si acceperit, restituendo erit obnoxius, ex ejus obligatione justitiæ, quam commutativam appellant, et cujus est,

in humanis contractibus æqualitatem cujusque propriam et sancte servare, et non servatam exacte reparare.

III. Per hæc autem nequaquam negatur, posse quandoque una cum mutui contractu quosdam alios, ut ajunt, titulos, eosdemque ipsimet universim naturæ mutui minime innatos et intrinsecos, forte concurrere, ex quibus justa omnino legitimaque causa consurgat quiddam amplius supra sortem ex mutuo debitam rite exigendi. Neque item negatur, posse multoties pecuniam ab unoquoque suam, per alios diversæ prorsus naturæ a mutui natura contractus, recte collocari et impendi, sive ad proventus sibi annuos conquirendos, sive etiam ad licitam mercaturam, et negociationem exercendam, honestaque indidem lucra percipienda.

IV Quemadmodum vero in tot ejusmodi diversis contractuum generibus, si sua cujusque non servatur æqualitas, quidquid plus justo recipitur, si minus ad usuram (eo quod omne mutuum tam apertum, quam palliatum absit), at certe ad aliam veram injustitiam, restituendi onus pariter asserentem, spectare compertum est; ita si rite omnia peragantur, et ad justitiæ libram exigantur, dubitandum non est, quin multiplex in iisdem contractibus licitis modus et ratio suppetat humana commercia et fructuosam ipsam negociationem ad publicum commodum conservandi ac frequentandi. Absit enim a Christianorum animis, ut per usuras, aut similes alienas injurias, florere posse lucrosa commercia existiment; cum contra ex ipso oraculo divino discamus, quod «Justitia elevat gentem, miseros autem facit populos peccatum».

V Sed illud diligenter animadvertendum est, falso sibi quemquam, et nonnisi temere persuasurum, reperiri semper, ac præsto ubique esse, vel una cum mutuo titulos alios legitimos, vel secluso etiam mutuo, contractus alios justos, quorum vel titulorum, vel contractuum præsidio, quotiescumque pecunia, frumentum, aliudve id generis alteri cuicumque, creditur, toties semper liceat auctarium moderatum, ultra sortem integram salvamque recipere. Ita si quis senserit, non modo divinis documentis, et catholicæ Ecclesiæ de usura judicio, sed ipsi etiam humano communi sensui, ac naturali rationi procul dubio adversabitur. Neminem enim id saltem latere potest, quod multis in casibus tenetur homo, simplici ac nudo mutuo alteri succurrere, ipso præsertim Christo Domino edocente: «Volenti mutuari a te, ne avertaris»; et quod similiter multis in circumstantiis, præter unum mutuum,

alteri nulli vero justoque contractui locus esse possit. Quisquis igitur suæ conscientiæ consultum velit, inquirat prius diligenter, oportet, vere ne cum mutuo justus alius titulus, verene justus alter a mutuo contractus occurrat, quorum beneficio, quod quærit lucrum, omnis labis expers et immune reddatur.

§ 4. His verbis complectuntur, et explicant sententias suas cardinales ac theologi et viri canonum peritissimi, quorum consilium in hoc gravissimo negotio postulavimus; Nos quoque privatum studium Nostrum conferre in eamdem causam non prætermisimus, antequam congregationes haberentur, et quo tempore habebantur, et ipsis etiam peractis. Nam præstantium virorum suffragia, quæ modo commemoravimus, diligentissime percurrimus. Cum hæc ita sint, adprobamus, et confirmamus quæcumque in sententiis superius expositis continentur; cum scriptores plane omnes, theologiæ, et canonum professores, plura sacrarum literarum testimonia, pontificum decessorum Nostrorum decreta, conciliorum, et patrum auctoritas, ad easdem sententias comprobandas pene conspirare videantur. Insuper apertissime cognovimus auctores, quibus contrariæ sententiæ referri debent; et eos pariter, qui illas fovent, ac tuentur, aut illis ansam, seu occasionem præbere videntur; neque ignoramus quanta sapientia, et gravitate defensionem veritatis susceperint theologi finitimi illis regionibus, ubi controversiæ ejusmodi principium habuerunt.

§ 5. Quare has litteras Encyclicas dedimus universis Italiæ archiepiscopis, episcopis, et ordinariis, ut hæc tibi, venerabilis frater, et cæteris omnibus innotescerent; et quoties synodos celebrare, ad populum verba facere, eumque sacris doctrinis instruere contigerit, nihil omnino alienum proferatur ab iis sententiis, quas superius recensuimus. Admonemus etiam vehementer, omnem solicitudinem impendere, ne quis in vestris diœcesibus audeat litteris, aut sermonibus contrarium docere: si quis autem parere detrectaverit, illum obnoxium et subjectum declaramus pœnis per sacros canones in eos propositis, qui mandata apostolica contempserint ac violaverint.

§ 6. De contractu autem, qui novas has controversias excitavit, nihil in præsentia statuimus; nihil etiam decernimus modo de aliis contractibus, pro quibus theologi, et canonum interpretes in diversas abeunt sententias; attamen pietatis vestræ studium ac religionem inflammandam existimamus, ut hæc, quæ subjicimus,

executioni demandetis.

§ 7. Primum gravissimis verbis populis vestris ostendite, usuræ labem ac vitium a divinis litteris vehementer improbari; illud quidem varias formas atque species induere, ut fideles Christi Sanguine restitutos in libertatem et gratiam, rursus in extremam ruinam præcipites impellat; quocirca si pecuniam suam collocare velint, diligenter caveant, ne cupiditate omnium malorum fonte rapiantur: sed potius ab illis, qui doctrinæ ac virtutis gloria supra cæteros efferuntur, consilium exposcant.

§ 8. Secundo loco; qui viribus suis, ac sapientiæ ita confidunt, ut responsum ferre de iis quæstionibus non dubitent (quæ tamen haud exiguam sacræ theologiæ, et canonum scientiam requirunt), ab extremis, quæ semper vitiosa sunt, longe se abstineant: etenim aliqui tanta severitate de iis rebus judicant, ut quamlibet utilitatem ex pecunia desumptam accusent, tamquam illicitam, et cum usura conjunctam; contra vero nonnulli indulgentes adeo, remissique sunt, ut quodcumque emolumentum ab usuræ turpitudine liberum existiment. Suis privatis opinionibus ne nimis adhæreant; sed priusquam responsum reddant, plures scriptores examinent, qui magis inter cæteros prædicantur; deinde eas partes suscipiant, quas tum ratione, tum auctoritate plane confirmatas intelligent. Quod si disputatio insurgat, dum contractus aliquis in examen adducitur, nullæ omnino contumeliæ in eos confingantur, qui contrariam sententiam sequuntur, neque illam gravibus censuris notandam asserant, si præsertim ratione, et præstantium virorum testimoniis minime careat; siquidem convicia, atque injuriæ vinculum christianæ charitatis infringunt, et gravissimam populo offensionem, et scandalum præseferunt.

§ 9. Tertio loco, qui ab omni usuræ labe se immunes et integros præstare volunt, suamque pecuniam ita alteri dare, ut fructum legitimum solummodo percipiant, admonendi sunt, ut contractum instituendum antea declarent, et conditiones inserendas explicent, et quem fructum ex eadem pecunia postulent. Hæc magnopere conferunt non modo ad animi solicitudinem et scrupolos evitandos, sed ad ipsum contractum in foro externo comprobandum: hæc etiam aditum intercludunt disputationibus, quæ non semel concitandæ sunt, ut clare pateat, utrum pecunia, quæ rite data alteri esse videtur, revera tamen palliatam usuram contineat.

§ 10. Quarto loco vos hortamur, ne aditum relinquatis ineptis illorum sermonibus, qui dictitant, de usuris hoc tempore quæstionem institui, quæ solo nomine contineatur; cum ex pecunia, quæ qualibet ratione alteri conceditur, fructus ut plurimum comparetur. Etenim quam falsum id sit, et a veritate alienum plane deprehendimus, si perpendamus, naturam unius contractus ab alterius natura prorsus diversam et sejunctam esse; et ea pariter discrepare magnopere inter se, quæ a diversis inter se contractibus consequuntur. Revera discrimen apertissimum intercedit fructum inter, qui jure licito ex pecunia desumitur, ideoque potest in utroque foro retineri; ac fructum, qui ex pecunia illicite conciliatur; ideoque fori utriusque judicio restituendus decemitur. Constat igitur haud inanem de usuris quæstionem hoc tempore proponi ob eam causam, quod ut plurimum ex pecunia, quæ alteri tribuitur, fructus aliquis excipiatur.

§ 11. Hæc potissimum vobis indicanda censuimus, sperantes fore, ut mandetis executioni quæcumque per has litteras a Nobis præscribuntur: opportunis quoque remediis consuletis, uti confidimus, si forte ob hanc novam de usuris controversiam in diœcesi vestra turbæ concitentur, vel corruptelæ ad labefactandum sanæ doctrinæ candorem et puritatem inducantur: postremo vobis, et gregi curæ vestræ concredito, apostolicam benedictionem impertimur.

Datum Romæ apud S. Mariam Majorem die prima Novembris MDCCXLV, pontificatus Nostri anno sexto.

Benedictus PP. XIV

Summa Theologica, Second Part of the Second Part, Question 78. The sin of usury

Is it a sin to take money as a price for money lent, which is to receive usury?

Is it lawful to lend money for any other kind of consideration, by way of payment for the loan?

Is a man bound to restore just gains derived from money taken in usury?

Is it lawful to borrow money under a condition of usury?

Article 1. Whether it is a sin to take usury for money lent?

Objection 1. It would seem that it is not a sin to take usury for money lent. For no man sins through following the example of Christ. But Our Lord said of Himself (Luke 19:23): "At My coming I might have exacted it," i.e. the money lent, "with usury." Therefore it is not a sin to take usury for lending money.

Objection 2. Further, according to Psalm 18:8, "The law of the Lord is unspotted," because, to wit, it forbids sin. Now usury of a kind is allowed in the Divine law, according to Deuteronomy 23:19-20: "Thou shalt not fenerate to thy brother money, nor corn, nor any other thing, but to the stranger": nay more, it is even promised as a reward for the observance of the Law, according to Deuteronomy 28:12: "Thou shalt fenerate* to many nations, and shalt not borrow of any one." ['Faeneraberis'--'Thou shalt lend upon usury.' The Douay version has simply 'lend.' The objection lays stress on the word 'faeneraberis': hence the necessity of rendering it by 'fenerate.'] Therefore it is not a sin to take usury.

Objection 3. Further, in human affairs justice is determined by civil laws. Now

civil law allows usury to be taken. Therefore it seems to be lawful.

Objection 4. Further, the counsels are not binding under sin. But, among other counsels we find (Luke 6:35): "Lend, hoping for nothing thereby." Therefore it is not a sin to take usury.

Objection 5. Further, it does not seem to be in itself sinful to accept a price for doing what one is not bound to do. But one who has money is not bound in every case to lend it to his neighbor. Therefore it is lawful for him sometimes to accept a price for lending it.

Objection 6. Further, silver made into coins does not differ specifically from silver made into a vessel. But it is lawful to accept a price for the loan of a silver vessel. Therefore it is also lawful to accept a price for the loan of a silver coin. Therefore usury is not in itself a sin.

Objection 7. Further, anyone may lawfully accept a thing which its owner freely gives him. Now he who accepts the loan, freely gives the usury. Therefore he who lends may lawfully take the usury.

On the contrary, It is written (Exodus 22:25): "If thou lend money to any of thy people that is poor, that dwelleth with thee, thou shalt not be hard upon them as an extortioner, nor oppress them with usuries."

I answer that, To take usury for money lent is unjust in itself, because this is to sell what does not exist, and this evidently leads to inequality which is contrary to justice. On order to make this evident, we must observe that there are certain things the use of which consists in their consumption: thus we consume wine when we use it for drink and we consume wheat when we use it for food. Wherefore in such like things the use of the thing must not be reckoned apart from the thing itself, and

whoever is granted the use of the thing, is granted the thing itself and for this reason, to lend things of this kin is to transfer the ownership. Accordingly if a man wanted to sell wine separately from the use of the wine, he would be selling the same thing twice, or he would be selling what does not exist, wherefore he would evidently commit a sin of injustice. On like manner he commits an injustice who lends wine or wheat, and asks for double payment, viz. one, the return of the thing in equal measure, the other, the price of the use, which is called usury.

On the other hand, there are things the use of which does not consist in their consumption: thus to use a house is to dwell in it, not to destroy it. Wherefore in such things both may be granted: for instance, one man may hand over to another the ownership of his house while reserving to himself the use of it for a time, or vice versa, he may grant the use of the house, while retaining the ownership. For this reason a man may lawfully make a charge for the use of his house, and, besides this, revendicate the house from the person to whom he has granted its use, as happens in renting and letting a house.

Now money, according to the Philosopher (Ethic. v, 5; Polit. i, 3) was invented chiefly for the purpose of exchange: and consequently the proper and principal use of money is its consumption or alienation whereby it is sunk in exchange. Hence it is by its very nature unlawful to take payment for the use of money lent, which payment is known as usury: and just as a man is bound to restore other ill-gotten goods, so is he bound to restore the money which he has taken in usury.

Reply to Objection 1. In this passage usury must be taken figuratively for the increase of spiritual goods which God exacts from us, for He wishes us ever to advance in the goods which we receive from Him: and this is for our own profit not for His.

Reply to Objection 2. The Jews were forbidden to take usury from their brethren, i.e. from other Jews. By this we are given to understand that to take usury from any man is evil simply, because we ought to treat every man as our neighbor and brother, especially in the state of the Gospel, whereto all are called. Hence it is said

without any distinction in Psalm 14:5: "He that hath not put out his money to usury," and (Ezekiel 18:8): "Who hath not taken usury [Vulgate: 'If a man . . . hath not lent upon money, nor taken any increase . . . he is just.']." They were permitted, however, to take usury from foreigners, not as though it were lawful, but in order to avoid a greater evil, lest, to wit, through avarice to which they were prone according to Isaiah 56:11, they should take usury from the Jews who were worshippers of God.

Where we find it promised to them as a reward, "Thou shalt fenerate to many nations," etc., fenerating is to be taken in a broad sense for lending, as in Sirach 29:10, where we read: "Many have refused to fenerate, not out of wickedness," i.e. they would not lend. Accordingly the Jews are promised in reward an abundance of wealth, so that they would be able to lend to others.

Reply to Objection 3. Human laws leave certain things unpunished, on account of the condition of those who are imperfect, and who would be deprived of many advantages, if all sins were strictly forbidden and punishments appointed for them. Wherefore human law has permitted usury, not that it looks upon usury as harmonizing with justice, but lest the advantage of many should be hindered. Hence it is that in civil law [Inst. II, iv, de Usufructu] it is stated that "those things according to natural reason and civil law which are consumed by being used, do not admit of usufruct," and that "the senate did not (nor could it) appoint a usufruct to such things, but established a quasi-usufruct," namely by permitting usury. Moreover the Philosopher, led by natural reason, says (Polit. i, 3) that "to make money by usury is exceedingly unnatural."

Reply to Objection 4. A man is not always bound to lend, and for this reason it is placed among the counsels. Yet it is a matter of precept not to seek profit by lending: although it may be called a matter of counsel in comparison with the maxims of the Pharisees, who deemed some kinds of usury to be lawful, just as love of one's enemies is a matter of counsel. Or again, He speaks here not of the hope of usurious gain, but of the hope which is put in man. For we ought not to lend or do any good deed through hope in man, but only through hope in God.

Reply to Objection 5. He that is not bound to lend, may accept repayment for what he has done, but he must not exact more. Now he is repaid according to equality of justice if he is repaid as much as he lent. Wherefore if he exacts more for the usufruct of a thing which has no other use but the consumption of its substance, he exacts a price of something non-existent: and so his exaction is unjust.

Reply to Objection 6. The principal use of a silver vessel is not its consumption, and so one may lawfully sell its use while retaining one's ownership of it. On the other hand the principal use of silver money is sinking it in exchange, so that it is not lawful to sell its use and at the same time expect the restitution of the amount lent. It must be observed, however, that the secondary use of silver vessels may be an exchange, and such use may not be lawfully sold. On like manner there may be some secondary use of silver money; for instance, a man might lend coins for show, or to be used as security.

Reply to Objection 7. He who gives usury does not give it voluntarily simply, but under a certain necessity, in so far as he needs to borrow money which the owner is unwilling to lend without usury.

Article 2. Whether it is lawful to ask for any other kind of consideration for money lent?

Objection 1. It would seem that one may ask for some other kind of consideration for money lent. For everyone may lawfully seek to indemnify himself. Now sometimes a man suffers loss through lending money. Therefore he may lawfully ask for or even exact something else besides the money lent.

Objection 2. Further, as stated in Ethic. v, 5, one is in duty bound by a point of honor, to repay anyone who has done us a favor. Now to lend money to one who is in straits is to do him a favor for which he should be grateful. Therefore the recipient of a loan, is bound by a natural debt to repay something. Now it does not

seem unlawful to bind oneself to an obligation of the natural law. Therefore it is not unlawful, in lending money to anyone, to demand some sort of compensation as condition of the loan.

Objection 3. Further, just as there is real remuneration, so is there verbal remuneration, and remuneration by service, as a gloss says on Isaiah 33:15, "Blessed is he that shaketh his hands from all bribes [Vulgate: 'Which of you shall dwell with everlasting burnings? . . . He that shaketh his hands from all bribes.']." Now it is lawful to accept service or praise from one to whom one has lent money. Therefore in like manner it is lawful to accept any other kind of remuneration.

Objection 4. Further, seemingly the relation of gift to gift is the same as of loan to loan. But it is lawful to accept money for money given. Therefore it is lawful to accept repayment by loan in return for a loan granted.

Objection 5. Further, the lender, by transferring his ownership of a sum of money removes the money further from himself than he who entrusts it to a merchant or craftsman. Now it is lawful to receive interest for money entrusted to a merchant or craftsman. Therefore it is also lawful to receive interest for money lent.

Objection 6. Further, a man may accept a pledge for money lent, the use of which pledge he might sell for a price: as when a man mortgages his land or the house wherein he dwells. Therefore it is lawful to receive interest for money lent.

Objection 7. Further, it sometimes happens that a man raises the price of his goods under guise of loan, or buys another's goods at a low figure; or raises his price through delay in being paid, and lowers his price that he may be paid the sooner. Now in all these cases there seems to be payment for a loan of money: nor does it appear to be manifestly illicit. Therefore it seems to be lawful to expect or exact some consideration for money lent.

On the contrary, Among other conditions requisite in a just man it is stated (Ezekiel 18:17) that he "hath not taken usury and increase."

I answer that, According to the Philosopher (Ethic. iv, 1), a thing is reckoned as money "if its value can be measured by money." Consequently, just as it is a sin against justice, to take money, by tacit or express agreement, in return for lending money or anything else that is consumed by being used, so also is it a like sin, by tacit or express agreement to receive anything whose price can be measured by money. Yet there would be no sin in receiving something of the kind, not as exacting it, nor yet as though it were due on account of some agreement tacit or expressed, but as a gratuity: since, even before lending the money, one could accept a gratuity, nor is one in a worse condition through lending.

On the other hand it is lawful to exact compensation for a loan, in respect of such things as are not appreciated by a measure of money, for instance, benevolence, and love for the lender, and so forth.

Reply to Objection 1. A lender may without sin enter an agreement with the borrower for compensation for the loss he incurs of something he ought to have, for this is not to sell the use of money but to avoid a loss. It may also happen that the borrower avoids a greater loss than the lender incurs, wherefore the borrower may repay the lender with what he has gained. But the lender cannot enter an agreement for compensation, through the fact that he makes no profit out of his money: because he must not sell that which he has not yet and may be prevented in many ways from having.

Reply to Objection 2. Repayment for a favor may be made in two ways. On one way, as a debt of justice; and to such a debt a man may be bound by a fixed contract; and its amount is measured according to the favor received. Wherefore the borrower of money or any such thing the use of which is its consumption is not bound to repay more than he received in loan: and consequently it is against justice

if he be obliged to pay back more. On another way a man's obligation to repayment for favor received is based on a debt of friendship, and the nature of this debt depends more on the feeling with which the favor was conferred than on the greatness of the favor itself. This debt does not carry with it a civil obligation, involving a kind of necessity that would exclude the spontaneous nature of such a repayment.

Reply to Objection 3. If a man were, in return for money lent, as though there had been an agreement tacit or expressed, to expect or exact repayment in the shape of some remuneration of service or words, it would be the same as if he expected or exacted some real remuneration, because both can be priced at a money value, as may be seen in the case of those who offer for hire the labor which they exercise by work or by tongue. If on the other hand the remuneration by service or words be given not as an obligation, but as a favor, which is not to be appreciated at a money value, it is lawful to take, exact, and expect it.

Reply to Objection 4. Money cannot be sold for a greater sum than the amount lent, which has to be paid back: nor should the loan be made with a demand or expectation of aught else but of a feeling of benevolence which cannot be priced at a pecuniary value, and which can be the basis of a spontaneous loan. Now the obligation to lend in return at some future time is repugnant to such a feeling, because again an obligation of this kind has its pecuniary value. Consequently it is lawful for the lender to borrow something else at the same time, but it is unlawful for him to bind the borrower to grant him a loan at some future time.

Reply to Objection 5. He who lends money transfers the ownership of the money to the borrower. Hence the borrower holds the money at his own risk and is bound to pay it all back: wherefore the lender must not exact more. On the other hand he that entrusts his money to a merchant or craftsman so as to form a kind of society, does not transfer the ownership of his money to them, for it remains his, so that at his risk the merchant speculates with it, or the craftsman uses it for his craft, and consequently he may lawfully demand as something belonging to him, part of the profits derived from his money.

Reply to Objection 6. If a man in return for money lent to him pledges something that can be valued at a price, the lender must allow for the use of that thing towards the repayment of the loan. Else if he wishes the gratuitous use of that thing in addition to repayment, it is the same as if he took money for lending, and that is usury, unless perhaps it were such a thing as friends are wont to lend to one another gratis, as in the case of the loan of a book.

Reply to Objection 7. If a man wish to sell his goods at a higher price than that which is just, so that he may wait for the buyer to pay, it is manifestly a case of usury: because this waiting for the payment of the price has the character of a loan, so that whatever he demands beyond the just price in consideration of this delay, is like a price for a loan, which pertains to usury. On like manner if a buyer wishes to buy goods at a lower price than what is just, for the reason that he pays for the goods before they can be delivered, it is a sin of usury; because again this anticipated payment of money has the character of a loan, the price of which is the rebate on the just price of the goods sold. On the other hand if a man wishes to allow a rebate on the just price in order that he may have his money sooner, he is not guilty of the sin of usury.

Article 3. Whether a man is bound to restore whatever profits he has made out of money gotten by usury?

Objection 1. It would seem that a man is bound to restore whatever profits he has made out of money gotten by usury. For the Apostle says (Romans 11:16): "If the root be holy, so are the branches." Therefore likewise if the root be rotten so are the branches. But the root was infected with usury. Therefore whatever profit is made therefrom is infected with usury. Therefore he is bound to restore it.

Objection 2. Further, it is laid down (Extra, De Usuris, in the Decretal: 'Cum tu sicut asseris'): "Property accruing from usury must be sold, and the price repaid to the persons from whom the usury was extorted." Therefore, likewise, whatever else is acquired from usurious money must be restored.

Objection 3. Further, that which a man buys with the proceeds of usury is due to him by reason of the money he paid for it. Therefore he has no more right to the thing purchased than to the money he paid. But he was bound to restore the money gained through usury. Therefore he is also bound to restore what he acquired with it.

On the contrary, A man may lawfully hold what he has lawfully acquired. Now that which is acquired by the proceeds of usury is sometimes lawfully acquired. Therefore it may be lawfully retained.

I answer that, As stated above (Article 1), there are certain things whose use is their consumption, and which do not admit of usufruct, according to law (ibid., ad 3). Wherefore if such like things be extorted by means of usury, for instance money, wheat, wine and so forth, the lender is not bound to restore more than he received (since what is acquired by such things is the fruit not of the thing but of human industry), unless indeed the other party by losing some of his own goods be injured through the lender retaining them: for then he is bound to make good the loss.

On the other hand, there are certain things whose use is not their consumption: such things admit of usufruct, for instance house or land property and so forth. Wherefore if a man has by usury extorted from another his house or land, he is bound to restore not only the house or land but also the fruits accruing to him therefrom, since they are the fruits of things owned by another man and consequently are due to him.

Reply to Objection 1. The root has not only the character of matter, as money made by usury has; but has also somewhat the character of an active cause, in so far as it administers nourishment. Hence the comparison fails.

Reply to Objection 2. Further, Property acquired from usury does not belong to the person who paid usury, but to the person who bought it. Yet he that paid usury has a certain claim on that property just as he has on the other goods of the usurer. Hence it is not prescribed that such property should be assigned to the persons who paid usury, since the property is perhaps worth more than what they paid in usury, but it is commanded that the property be sold, and the price be restored, of course according to the amount taken in usury.

Reply to Objection 3. The proceeds of money taken in usury are due to the person who acquired them not by reason of the usurious money as instrumental cause, but on account of his own industry as principal cause. Wherefore he has more right to the goods acquired with usurious money than to the usurious money itself.

Article 4. Whether it is lawful to borrow money under a condition of usury?

Objection 1. It would seem that it is not lawful to borrow money under a condition of usury. For the Apostle says (Romans 1:32) that they "are worthy of death . . . not only they that do" these sins, "but they also that consent to them that do them." Now he that borrows money under a condition of usury consents in the sin of the usurer, and gives him an occasion of sin. Therefore he sins also.

Objection 2. Further, for no temporal advantage ought one to give another an occasion of committing a sin: for this pertains to active scandal, which is always sinful, as stated above (Question 43, Article 2). Now he that seeks to borrow from a usurer gives him an occasion of sin. Therefore he is not to be excused on account of any temporal advantage.

Objection 3. Further, it seems no less necessary sometimes to deposit one's money with a usurer than to borrow from him. Now it seems altogether unlawful to deposit one's money with a usurer, even as it would be unlawful to deposit one's sword with a madman, a maiden with a libertine, or food with a glutton. Neither

therefore is it lawful to borrow from a usurer.

On the contrary, He that suffers injury does not sin, according to the Philosopher (Ethic. v, 11), wherefore justice is not a mean between two vices, as stated in the same book (ch. 5). Now a usurer sins by doing an injury to the person who borrows from him under a condition of usury. Therefore he that accepts a loan under a condition of usury does not sin.

I answer that, It is by no means lawful to induce a man to sin, yet it is lawful to make use of another's sin for a good end, since even God uses all sin for some good, since He draws some good from every evil as stated in the Enchiridion (xi). Hence when Publicola asked whether it were lawful to make use of an oath taken by a man swearing by false gods (which is a manifest sin, for he gives Divine honor to them) Augustine (Ep. xlvii) answered that he who uses, not for a bad but for a good purpose, the oath of a man that swears by false gods, is a party, not to his sin of swearing by demons, but to his good compact whereby he kept his word. If however he were to induce him to swear by false gods, he would sin.

Accordingly we must also answer to the question in point that it is by no means lawful to induce a man to lend under a condition of usury: yet it is lawful to borrow for usury from a man who is ready to do so and is a usurer by profession; provided the borrower have a good end in view, such as the relief of his own or another's need. Thus too it is lawful for a man who has fallen among thieves to point out his property to them (which they sin in taking) in order to save his life, after the example of the ten men who said to Ismahel (Jeremiah 41:8): "Kill us not: for we have stores in the field."

Reply to Objection 1. He who borrows for usury does not consent to the usurer's sin but makes use of it. Nor is it the usurer's acceptance of usury that pleases him, but his lending, which is good.

Reply to Objection 2. He who borrows for usury gives the usurer an occasion, not for taking usury, but for lending; it is the usurer who finds an occasion of sin in the malice of his heart. Hence there is passive scandal on his part, while there is no active scandal on the part of the person who seeks to borrow. Nor is this passive scandal a reason why the other person should desist from borrowing if he is in need, since this passive scandal arises not from weakness or ignorance but from malice.

Reply to Objection 3. If one were to entrust one's money to a usurer lacking other means of practising usury; or with the intention of making a greater profit from his money by reason of the usury, one would be giving a sinner matter for sin, so that one would be a participator in his guilt. If, on the other hand, the usurer to whom one entrusts one's money has other means of practising usury, there is no sin in entrusting it to him that it may be in safer keeping, since this is to use a sinner for a good purpose.

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