

RELIGION'S EFFECT ON FINANCE

by

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TABLE OF CONTENTS

INTRODUCTION	1
JUDAISM.....	2
Scriptural Background	3
Three Interpretations	5
CHRISTIANITY	7
Scriptural Background	7
Christian Perspectives	8
Someone to Blame	9
Failed Eradication	10
THE KNIGHTS TEMPLAR	12
Growing Wealth	13
The Great Financiers	16
FURTHER RESEARCH	18
DISCUSSION.....	20
REFERENCES.....	21
ABSTRACT.....	23

INTRODUCTION

Interest rates and the way the modern economies of the world function have morphed and evolved constantly throughout history. The long journey from a barter system to the complicated financial markets of today has been trying and arduous. In 2008 the world saw how financial vehicles could when not fully understood could devastate the globe. Unfortunately, 2008 was not the first time that the financial world learned a lesson the hard way; repeatedly throughout history events like the great depression have claimed jobs, life savings, independence, and even lives. In many of the greatest financial hardships, the root cause was the interest rate—something we did not always have. All three Abrahamic religions, Islam, Judaism, and Christianity do (or did at one point) not allow interest to be charged. This paper will examine Judaism and Christianity's path to the interest-bearing loan. Religion greatly affected finance through its control of interest rates during the first millennium and had a lasting effect on the modern world.

Before we directly examine Christianity and Judaism, it is necessary to understand the term usury. To the modern person, usury describes an exorbitant interest rate. Typically usury is a legal term referring to charging more interest than is allowed by law. For the purpose of this paper, usury will be interchangeable with interest. This paper uses research and citations from early Jewish and Christian academics and scholars. At the time of their writings, usury referred to any fee or gain received for the lending of funds.

When choosing a topic, I wanted to examine how external factors have changed the modern day financial world—forces that are not typically considered financial. Judaism and the early Christian church were the exact force I was looking for. These two institutions, although religious in nature, were extremely powerful and controlled not just religious issues, but rather all areas of their respective cultures. Since the height of these religious bodies' influence, the world has become increasingly secular. The separation of Church and State is growing in popularity and the involvement of religion in finance is nearly non-existent with the exception of a few Islamic nations. Although by usury, or charging interest, is not the only example of religion's influence on finance, it the most interwoven aspect of religion and finance. For thousands of years philosophers, theologians, borrowers, and lenders have argued about usury.

Usury is a topic that has been debated in nearly all religions including but not limited to Hinduism, Buddhism, Islam, Judaism, and Christianity. The scope of this paper will only cover Judaism and Christianity. Each of these religions has a shared history and a shared scripture—the Old Testament.

JUDAISM

There are seven passages from the Hebrew Bible (Christian Old Testament) that give the biblical background for the usury debate. The passages are presented below in order of their appearance in the Hebrew Bible.

Scriptural Background

Exodus 22:24-5 states “If thou lend money to any of My people, even to the poor with thee, thou shalt not be to him as a creditor; neither shall ye lay upon him interest.” (Moses) The most common interpretation of Exodus 22:24-5 is summarized by the message from God through Moses in Leviticus 19:18 where the Hebrews are instructed to love their neighbors as they love themselves. Exodus 22:24-5 is commanding the Hebrews to lend only to those in need and to do it out of kindness, not out of a desire for monetary gain. The first word of the verse, “if”, makes it clear that lending in and of itself is not sinful. It is believed that God allows lending but with certain limitations—the big *if* for the future would be what those limitations are. The most important phrase to the usury debate is the last phrase “neither shall ye lay upon him interest.” If this phrase alone was used by the Jewish faith to govern loans, the debate would be simple—no interest-bearing loans. The debate is much more complicated though and will take into account six other verses.

There are five more verses in the Hebrew Bible that mirror the message of Exodus 22:24-5. They restate that it is good to help and lend to the destitute, however, you should not try to profit from their meager position. These five verses are listed below.

Leviticus 25:36 — Take thou no interest of him or increase; but fear thy God; that thy brother may live with thee.

Leviticus 25:37 — Thou shalt not give him thy money upon interest, nor give him thy victuals for increase.

Deuteronomy 23:20 (19) — Thou shalt not lend upon interest to thy brother: interest of money, interest of victuals, interest of anything that is lent upon interest.

Ezekiel 18:17 — that hath withdrawn his hand from the poor, that hath not received interest nor increase, hath executed Mine ordinances, hath walked in My statutes; he shall not die for the iniquity of his father, he shall surely live.

Psalms 15:5 — He that putteth not out his money on interest, nor taketh a bribe against the innocent. He that doeth these things shall never be moved.

All of these first six verses emphasize that lending money should be done with a servant's heart, that is to lend for the betterment of the borrower. The lender should not expect the loan to be returned with or without a reward (interest). If you do get your gift back, it should be seen as a blessing.

The last verse that mentions interest has caused a great deal of argument and discussion. Deuteronomy 23:20 reads "Unto a stranger thou mayest lend upon usury; but unto thy brother thou shalt not lend upon usury: that the LORD thy God may bless thee in all that thou settest thine hand to in the land whither thou goest to possess it." A more colloquial translation reads "You may charge a foreigner interest, but not a fellow Israelite, so that the LORD your God may bless you in everything you put your hand to in the land you are entering to possess."

Three Interpretations

How this verse should be interpreted was one of the most divisive topics in the early Jewish faith. One of the best sources for commentary and discussion on the topic is the Talmud. The Talmud is a compilation of many Rabbi's opinions and interpretations of aspects of the Jewish faith. The interpretations of Deuteronomy 23:20 can be divided into three generalizations. The first generalization is summarized in a quote by Rav Hunna "profit from usury, even when it is taken from an idolater, is doomed to perdition" (Babylonian). This first view is anti-usury or interest of any form, even if it is charged to a gentile or stranger.

The second interpretation defends the opposite opinion. Maimonides, a preeminent Jewish Rabbi in the medieval era argued that it was a requirement or "commandment" to charge interest to any foreigner or stranger. (Kerridge) This interpretation would see charging usury to a foreigner as vital to the ever-present battle of the chosen people against the infidels.

The third generalization is the view that was most prolific in the medieval time period. This third interpretation allowed Jews to lend to non-Jews and charge interest. This view did not recommend or openly call for the charging of interest, however, it did not chastise the practice. As with many religious doctrines, the strictness and fervor with which a law is followed can dwindle with time. At the turn of the millennium, Jews were dispersed throughout the

world and were no longer gathered as a unified nation. Surrounded by non-Jews, it was necessary for them to trade with Christians on a day-to-day basis. Charging interest to the “foreigners” (although the Jews were seen as the aliens) became a commonly accepted practice among Jewish merchants. Several generations later Rabbenu Tam recorded his opinion of the lending practice “Today people are accustomed to lend at interest to non-Jews... because we have to pay taxes to the king and nobles, and all these things are necessary to sustain us; we live among non-Jews, and we cannot earn our living without trading with them. Therefore it is henceforth no longer forbidden to lend at interest.” (Sefer) In medieval Europe, the kings began using the Jews as a way to take the wealth from their subjects. Usury as a whole was not allowed in medieval Christendom. Religious law considered anyone who committed usury a thief. The nobility overlooked these laws for the Jews as long as they gave a share to the king. This corrupt system cast the Jews into a bad position. They now owed money to the monarchs and rulers at an increasing rate. If they were unable to pay, they would be killed; if they charged exorbitant interest rates, they might be killed anyway.

Slowly, the Jewish faith moved from a staunch position of no interest-bearing loans to a more moderate view that allowed Jews to charge non-Jews interest. Finally in the twelfth century the Jewish faith began lending and charging interest to one another. Initially, a Jewish borrower would give a pledge or collateral for a loan to a non-Jew. The non-Jew in turn, would give the

collateral to a Jewish lender in exchange for the loan. The Jewish lender would then be technically lending to a non-Jew and avert any religious issues. After several years of using technicalities to avert the teachings of the Torah and Talmud the practice became commonplace. Several generations later the non-Jew middleman would disappear, and inter-Jew lending became the norm.

This evolution of lending practices did not come out of spite for Rabbis or for the Lord, but simply out of the culture. Medieval Jews were isolated from their homeland and were not living in fellowship with each other. The Jews were highly oppressed and often found it difficult to survive. As a means of survival, their customs and traditions had to adapt. Obviously this change was slow and choices were made by individuals, not as a whole. It is important to understand that during this time of changing thought and practice there were more conservative believers and more liberal. Today there are still many practicing Jews that do not endorse interest-bearing loans.

CHRISTIANITY

Contrary to the Jews, the Christians were living surrounded by fellow Christians in an era highlighted by the power of The Roman Catholic Church. This led to a much slower path to the present day interest-bearing loan.

Scriptural Background

The Christian perspective on usury derives its religious authority from the same scripture as Judaism. The same seven passages from the Christian Old Testament and Hebrew Bible are used by theologians and scholars alike for

thousands of years. On top of the Old Testament writings, the Christians cite Jesus' parable of the talents.

This story appears in similar versions in Matthew 25:14-30 and in Luke 19:12-28. In the story, a man is leaving the country and gives money to three servants. Upon returning from abroad, the first servant returns the entrusted money as well as an extra profit that he has made through trading. The second servant does the same and the master is very pleased with them both. The third servant was afraid of what would happen if he lost the master's money, so instead of trading or investing his money, he hides it. When the master returns, he returns exactly what was entrusted to him. In Matthew 25:23 the master replies "Why then didn't you put my money in the bank, so that when I returned I could have collected it with interest?"

This passage was and is heavily debated. Many believe that the intention of Jesus' parable was to invest in the values of the Lord. Others think that Jesus was directly endorsing the money changers.

Christian Perspectives

The Christians were thoroughly convinced that usury was against God's will. The first Christian church leader to address the subject of usury was Father Clement of Alexandria in the second century. In his paper *Christ the Educator* he makes the first exclusively Christian claim that usury is not to be charged. He cites the same scriptures as the Jewish leaders and goes as far as stating that usurers are condemned to hell. Following Father Clement's example, many

other church leaders opposed usury in their writings. Prior to the sixteenth century, every Church leader and ecumenical church council opposed usury. (Jones) Ecumenical Councils were very important meetings and any decision made during one of these councils would be considered canon. The entirety of the church was expected to follow the decisions established by these councils. Any church member who was found opposing these decisions could be excommunicated. The thirteenth canon of the Second Lateran Council demanded that any Christian guilty of usury "be deprived of a Christian burial."(Tanner)

Someone to Blame

Throughout history, nations and peoples have united together in a common hatred. By finding a common enemy, previously splintered organizations are able to band together and accomplish incredible tasks. We see this in World War II as a struggling Germany bands together against the Jews. The common enemy helped inspire that nation to great, albeit tragic, power.

As the Christian Church's opposition to usury grew, the Jewish faith's stance had slowly softened, at least in practice. At the turn of the thirteenth century, Pope Innocent III was rallying troops, monarchs, and momentum to make a Crusade to reclaim the Holy Land.

Pope Innocent the III sees the Jews as a common rallying force, much like other rulers have done throughout history. In the thirteenth century, the Jews living in Christendom are not only involved in usury, they are the creditors of

many Christians throughout Christendom which has frustrated the Church. Pope Innocent III called the Second Lateran Council to promote a Crusade to the Holy Land and the Jews would be a helpful catalyst.

The sixty-seventh canon of the Second Lateran Council is directed to the Jewish population. It reads “The more the Christian religion is restrained from usurious practices, so much more does the perfidy of the Jews grow in these matters, so that within a short time they are exhausting the resources of Christians. Wishing therefore to see that Christians are not savagely oppressed by Jews in this matter, we ordain by this synodal decree that if Jews in the future, on any pretext, extort oppressive and excessive interest from Christians, then they are to be removed from contact with Christians...” (Tanner) Decrees like this occurred multiple times throughout history and often resulted in the mass murder of Jews such as in London and York in 1189. (Parker)

Failed Eradication

While the Christian population as a whole seemed to be adhering the laws against charging interest (largely because they had little extra money to loan) the monarchs and nobility often were not. As mentioned above, the nobility would make a profit off of the taxes charged on Jewish loans. This hypocritical practice would continue and eventually be one of the reasons interest rates became legal.

As economic thought, international trade, and the availability of coinage grew, it became apparent that usury—or at least interest—would not go away.

Despite the repeated efforts of church leaders and ecumenical councils, interest was being charged by Jew, Christian, and pagan alike. In 1311, the Church made another strong effort to eradicate usurious loans through the Council of Vienna. In 1517, the Church came to the conclusion that interest was a necessary evil. The 1517 Papal Bull of Pope Leo X states “We declare and define, with approval of the sacred council, that...credit organizations, established by states and hitherto approved and confirmed by the authority of the apostolic see, do not introduce and kind of evil or provide an incentive to sin if they receive, in addition to the capital, a moderate sum for their expenses....It is our will that all religious as well as ecclesiastical and secular person who henceforth dare to preach or argue otherwise by word or in writing, contrary to the sense of the present declaration and sanction, incur the punishment of immediate excommunication...” (Tanner) This papal bull from Pope Leo X has three main statements: interest is not evil, it is ok to charge interest, and finally that anyone who says otherwise will be excommunicated. This papal bull outlines the incredible power of the Roman Catholic Church. In one statement, they were able to reverse sixteen hundred years of canon and laws to the contrary. This bull not only allowed the interest on loans, but also made any person who argued for the former way of thinking in violation of the Church’s law and subject to excommunication.

David M Jones sights three reasons for the change in the Church stance on usury: economic revolution, growing secularization of the Church, and a

failure to eradicate usury. (Jones) The rapid expansion of the economies of Europe after the turn of millennium exacerbated the need for capital to develop. The common thought of Europe was not that of the Christian—to give charitably of their money and not expect anything in return. Rather, people understood that capital was needed for the progression of society and to give it away for free was charitable, but unintelligent. In the first four centuries of the second millennium, it was not the poor who were looking for loans but the rich looking to increase their wealth. The growing acceptance of interest-bearing loans made the Church's efforts to eradicate usury futile.

When Jones refers to the growing secularization of the church, he is pointing to one of the darker points in Christian History. The first four centuries of the second millennium were defined by materialism within the church. Many of the grand Cathedrals were built during this time. Perhaps the greatest example of church materialism is seen in the Crusades and the Church's insatiable desire to acquire the Holy Land and its accompanying wealth. One of the most famous Christian orders during this period was the Knights Templar who for decades were able to increase their wealth and power and find ways to circumvent the laws of the church.

THE KNIGHTS TEMPLAR

When examining the effects of religion on the evolution of finance, it is necessary to carefully examine the Knights Templar. The Templar's history began when Jerusalem came under Christian control in 1099 following the first

crusade. This was a great moment for Christians around the world who had longed for the opportunity to make pilgrimages to Jerusalem, a key city to the Christian religion (as well as the Jewish and Muslim faiths). After many years of exile, the news of a Christian ruled Jerusalem swept across the world. Christians began making pilgrimages to the Holy Land only to have their hopes dashed by marauding armies and bandits. Pilgrims on their way to Jerusalem were slain by the hundreds. After twenty years of massacres, Hugh of Payens and Geoffrey of St. Omer vowed to protect the Christians pilgrims. (Parker) These two men went to Jerusalem and took vows of poverty, devoting their life to the service of the church and its members. The Knights Templar had a humble start. The organization grew slowly in its early years since there was little incentive to join—the members gave away their possessions to risk their lives for the spiritual needs of others.

Growing Wealth

The humble lifestyle of the Templar began to change when King Baldwin II, reigning king of Jerusalem, donated the Temple of Solomon to the Knights. It is from this first headquarters that knights derived their full name, “the poor fellow soldiers of Christ and the Temple of Solomon. “ Thankfully today we know them by a shortened name, the Knights Templar.

Around the same time two other important events occurred that would thrust the Knights Templar from poor fellow soldiers to wealthy bankers and financiers – financiers that would forever leave a mark on the world. First, the

Knights Templar devolved from protectors of Christian pilgrims, to destroyers of all things non-Christian—any person that was not Christian or would not convert to Christianity would be slain and their possessions taken for the Templar's needs. Second, by the recommendation of King Baldwin II and Bernard Abbot of Clairvaux the sitting Pope Honorius confirmed the Knights Templar as a monastic order and bestowed upon them many privileges. The confirmation of the order had a great effect on the Knights Templar. Immediately they began growing in number and in wealth, largely because of the privileges given by the papacy.

While the knights themselves took a vow of poverty, their many expeditions and excursions required a great amount of funding. Similar to a university endowment, the Templars began to increase their coffers to support their endeavors. Papal bulls were issued by several Popes including Celestine II and Clement V. Although each papal bull was unique, they all had the same end goal—increase the Templar wealth. These papal bulls encouraged the clergy to encourage their parishioners to donate to the efforts of the Knights Templar and they commissioned specific days for offerings to be donated to the Templars. On top of these donations, the Knights Templar was exempt from all tithes and levies. As the fame of the order grew, many nobles began sending their sons to join. The Knights Templar gladly accepted these members with payment from the nobility. Payment included tracks of land, coinage, precious gems, or any other item that could be used in some way to further the cause of the Templars and the Catholic Church. The order quickly became one of the wealthiest

entities in the world. William of Tyre observed the growth of the order and commented “There was not a prince in Western Europe who did not contribute to their maintenance, and in wealth they were equals of kings.” (Lib.) As their power and influence grew, the Templar knights had to develop more advanced methods of managing their wealth.

The Templars were founded to protect pilgrims traveling to and from the Holy Land; however, as Templar wealth grew there was a shift in their focus. It was expensive for Western European monarchies and theocracies to wage this “war against the infidels.” Often, the fighting in Jerusalem was carried out by mercenaries. These large standing armies of paid fighters were vital to the taking and retention of the Holy Land. If these armies went unpaid, Jerusalem would be lost. The western European nations had plenty of money in their European coffers but no way to safely transport their war chests to Jerusalem. When these nations attempted transporting their war chests to the Holy Land, they were pilfered, marauded, and thieved. The answer to the problem was the poor fellow soldiers of Christ and the Temple of Solomon –the Knights Templar. The Templar knights were already travelling back and forth protecting pilgrims, now they would add monies and food stuffs to their list of precious cargo. This was great for the Templar knights for two reasons. First, they could collect fees for their transportation and protection service which added tremendous wealth to the Templar’s growing coffers in Jerusalem, London, and Paris. Second, they became the central storage agents of money and valuables in the Holy Land and

in London and Paris. The Templar knights at their height would oversee funds for kings, popes, and lords across Europe and the Middle East.

The Great Financiers

On top of the fees they received for transportation, they were able to make loans. In Christendom, charging interest on loans was against the law. Therefore no one in the Christian sphere of influence was able to make money off of a loan (or that was the intention). The Knights Templar was clever though and conceived a loop hole. The Templar would hold money in the strongholds at a fee, their first source of income. On top of this, the Knights Templar used the principle of inflation to their advantage. (Nocholson) Like a margin call on a stock option, the Knights would charge depositors if their coinage devalued. If a depositor had given the Templar an equivalent of \$100 and inflation devalued their account to \$80, the Templar would ask for more money. If the depositor had no more money, the Templar would reduce the account to a new, post-inflation adjusted balance. Since inflation information was largely skeptical at the time, the Templar was able to make the numbers work for their best “interest.” While this seems like a backhanded way of conducting business it was not wholly loathed by depositors, mainly because the fees were so small. One of the Templars greatest clients, Henry III borrowed huge sums from the Templars. In 1221 alone he borrowed all of the money needed to make peace with France. (Parker) By comparing the RPI from the thirteenth century with today, Henry III loan can be valued at £156,500. (Measuring Worth) That alone

doesn't seem like a large sum—especially when the current US debt is over sixteen trillion dollars (Treasury). However, if you calculate the economic value of Henry III's loan, it is over £47million—quite a sum for one religious organization. There were relatively few other organizations in the world at the time that could lend such a sum to a monarchy and the English monarch was happy to not have to borrow from a non-Christian who would have charged him much higher interest.

The Templar knights were greatly respected as early auditors, accountants, and collectors. After years of managing their own funds in Europe and the Holy Land, they had gained the trust of many rulers. For the Catholic Church, the Templar was commissioned to collect the Saladin tithe of 1188.

(Parker) The Templar knights were commissioned to audit the Justiciar of Ireland's accounts, as well as the Henry III's treasury in the Tower of London.

(Parker)

The final and most invaluable contribution of the Knights Templar was their development of a checking and depository system in Europe and the Holy Land. While the Templar were skilled fighters and capable of transporting and protecting valuable items over great distances, it was uneconomic to frequently traverse these great distances. Rather than spend money to protect money, they developed their own checking system. In this system, they would take a deposit in one nation and issue a letter of credit that was redeemable at another

Templar depository. This piece of paper was much easier to protect and conceal than a caravan of war chests.

Since usury could not be directly charged at the time, the Templars needed a way to make this operation profitable. One method that could have been used involved the manipulation of exchange rates between coins. When issuing transcontinental checks, a lender would manipulate exchange rates. A depositor would agree at the time of deposit on the location, time, and amount of withdrawal in the foreign land. By using an inflated exchange rate at the time of deposit, they were able to make a profit when the depositor collected less than his share in the next country. It is more likely that the Templar made profits on debtors that failed to pay on time. The Christian Church condoned fees for overdue loan payments.

FURTHER RESEARCH

In order to understand the present day Islamic financial market, a brief background is required. There are two vital texts Islamic faith. The Quran is considered the verbatim word of God as recorded by Muhammad. The second text is the Sunnah which records the teachings and actions of the Prophet Muhammad. Through these texts, God revealed his stance on many aspects of life including usury and interest rates.

Islamic scholars cite five passages from the Quran that pertain to usury. Each of these five passages makes it clear that usury is not the will of God and those who charge interest to increase their wealth will be punished by God. One

example comes from Al-Baqarah 2:276-280. The passage reads “God condemns usury, and blesses charities. God dislikes every disbeliever, guilty. Those who believe and do good works and establish worship and pay the poor-due, their reward is with their Lord and there shall no fear come upon them neither shall they grieve. O you who believe, you shall observe God and refrain from all kinds of usury, if you are believers. If you do not, then expect a war from God and His messenger. But if you repent, you may keep your capitals, without inflicting injustice, or incurring injustice. If the debtor is unable to pay, wait for a better time. If you give up the loan as a charity, it would be better for you, if you only knew.” This passage seems to make it clear that the charging of interest rates is unacceptable to God, however, Islam, and religion in general, is not that simple. Hanz Visser states “The variety of views among Muslims is probably as great as in Christianity or Jewry. There is not one common view on the authority of the various sources of Islam nor on their applicability to the modern world.” (Lewis) With so many varied beliefs, I felt it would be difficult to accurately include Islamic finance in this brief paper.

Islam is by far the strictest of the three Abrahamic religions, Christianity, Judaism, and Islam. Their commitment to interest free loans and financial instruments has led to an entirely new way of looking at finance. Most banks use a profit-loss sharing system to avoid interest while still facilitating the Islamic credit markets. There is a small amount of research available on Islamic Finance and whether or not it can be successful long term in a world that is dominated

by credit. Further research on Islamic Finance's fit in the global economy would be a great follow up to this paper as it pairs the strict religious views that the Jews and Christians held in the first millennium with the modern day.

DISCUSSION

This topic was very interesting to look into and learn about. There is such an abundance of records around the topic that it makes it very easy to travel back in time and understand the past. Unfortunately, the brevity of this paper made it difficult to delve into the details that made this topic so controversial for so long.

As a business student, we learn solely about how finance is today and never how we got to this point. It was this realization that inspired the topic. While the paper is largely a history, the theme is applicable to modern day. That theme is the stubbornness with which we evaluate the governing rules of our culture. To the medieval financier, that governing body was the Catholic Church and the rule of the culture was the ban on interest rates. Today, there are a number of governing bodies and a number of rules that are constantly being evaluated. It is important that the argument "it was, it is, therefore it should continue to be" is not used. We must evaluate every issue with an eye for the past, an understanding of the present and a goal for the future, that it is how we sustain and grow as individuals, a nation, and a global community.

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ABSTRACT

This paper focuses on the relation between religion and finance. The paper examines how the Knights Templar affected the evolution of finance. It also looks into how interest rates and usury were perceived by the Christian and Jewish communities. Finally the paper examines how the topic of usury evolved to the present day.