

Press Release

Center for Responsible Lending
Consumer Federation of America
National Consumer Law Center

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Pentagon adopts narrow credit rules, invites evasion by predatory lenders

36% interest rate cap must apply broadly to protect military families—and civilians

Washington, DC - Predatory lenders could easily tweak their loan terms to dodge new Pentagon rules released Friday, said national consumer advocates. By narrowly defining problem loans, the Pentagon's final rules of implementation weaken a federal law enacted to protect military families from abusive financial practices.

“Perhaps unintentionally, the Pentagon has provided predatory lenders with a set of very specific instructions: ‘How to avoid the cap and keep charging 400 percent interest,’” said Lauren Saunders, managing attorney with the National Consumer Law Center.

The Military Lending Act passed by Congress last year caps annual interest rates at 36 percent for consumer loans to military families. But during the rulemaking process, the banking industry lobbied the Pentagon strongly, asking that they be exempted from the rules.

In lieu of giving banks a blanket exemption, the Pentagon so narrowly defined the categories of loans that are subject to the cap that predatory lenders can easily sidestep the restrictions, as they have done in states with weak protections. Final rules exclude credit cards, overdraft loans, and all forms of open-end credit as well as military installment loans mentioned in the Pentagon's Report to Congress.

The Pentagon should tighten and expand the rules, which take effect October 1, said the advocates, who also represent the Center for Responsible Lending and the Consumer Federation of America.

“Predatory lenders are like rapidly mutating viruses,” said Kathleen Keest, senior policy counsel for the Center for Responsible Lending. “You can't just vaccinate against a very specific strain and expect the problem to go away. You have to understand how it preys on its victims and how easily it adapts to new environments.”

“It's disappointing, and unfortunate,” said Keest, “because not only can bankers

‘live with’ the final rules, as they told the press last week, but so can payday lenders and title lenders who prey on our troops and their families.”

In fact, the nation’s largest payday lender, Advance America, is fighting the Pennsylvania Banking Department in court for the right to put its customers into a \$500 revolving loan with a fee of \$150 per month, which amounts to a 370 percent annual interest rate. Although Advance America claims not to be making loans to military, the rules implementing the Military Lending Act, as written, would not keep them or any other payday lender from designing loans as open-ended to evade the law.

The Senate Armed Services Committee report on this year’s Defense Authorization Act raises concerns about enforcement of the Military Lending Act.

“State legislators should adopt parallel predatory lending protections for all consumers and close loopholes that lenders are already exploiting to evade state rules that apply to payday and car title lenders,” said Jean Ann Fox, director of consumer protection for the Consumer Federation of America.

Service members stationed in Texas and Illinois, for example, will receive little protection from the Military Lending Act, said Fox. In Texas, most lenders call themselves brokers for payday-like “credit repair loans” so that they avoid fitting the definition of “creditor” in the Truth in Lending Act. Under the Pentagon’s rules, Texas payday lenders may be able to conduct business as usual in the state, including targeting military families. The Texas legislature has failed to close that loophole.

In Illinois, many payday lenders make high-cost installment loans for just longer than 120 days to sidestep the Illinois Payday Loan Reform Act. The Pentagon’s rules exempt loans of over 91 days from the 36-percent cap and other protections of the Military Lending Act, leaving Service members and their families in Illinois unprotected by federal law. Car title lenders in Virginia will continue to charge Service members 300 percent interest for one-month open-end title loans, exempt from the Pentagon rules.

To read the consumer groups’ comments on the proposed regulations, [click here](#). To read the final regulations, which are revised slightly from the proposed regulations, [click here](#).

For more information: Consumer Federation of America, Jean Ann Fox or Travis Plunkett, 202-387-6121; National Consumer Law Center, Lauren Saunders, 202-452-6252, Center for Responsible Lending, Kathleen Keest or Carol Hammerstein, 919-313-8518.

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