

Press Release

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

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Military Lending Act to take effect October 1

Federal law will protect troops and their families from some predatory loans

Washington, DC - As U.S. soldiers face continuing demands in the call to protect their country, starting October 1 they gain an extra measure of protection from a lingering financial threat to their own families. The federal Military Lending Act will take effect Monday, and will bar predatory lenders from gouging military families with payday loans that trap borrowers in debt and typically carry 400 percent annual interest rates.

The new law caps interest at 36 percent for certain payday, auto title, and refund anticipation loans made to military families.

“The 36 percent cap will slow the predatory lenders down,” said Jean Ann Fox, director of consumer protection for the Consumer Federation of America (CFA). “And the law says they can’t hold onto the service member’s personal check or have electronic access to their bank account as collateral for this type of loan. The threat of the lender depositing the borrower’s check, which would often not clear the bank, has been a key way to trap borrowers in loans that they end up paying back many times over in interest.”

The law will not cover all high-cost products—predatory lenders have designed some loans to get around restrictions in states. For example, payday lenders in Illinois restructured 350 percent interest loans as 121-day installment loans to get around the 120-day minimum loan term established in that state. Military would not be protected from this product under the new rules, which apply only to loans of 91 days or less.

“Still, as long as the payday lenders don’t contort their products to try to end-run the protections for military, this law will protect our soldiers and their families from the worst abuses,” said Fox.

Lawmakers passed the Military Lending Act after the Pentagon reported that predatory practices weaken the military, and that debt issues threaten the security clearances of military personnel.

In a report to Congress in August 2006, the Pentagon said: “Predatory lending undermines military readiness, harms the morale of troops and their families, and adds to the cost of fielding an all-volunteer fighting force.” A conservative Pentagon estimate based on payday industry data put the use of payday loans at 17 percent among military personnel.

At a Senate Banking Committee hearing last year, Admiral Charles Abbot, president of the Navy-Marine Corps Relief Society, called payday lending, “the most serious single financial problem that we have encountered in [a] hundred years.”

U.S. Senators from both sides of the aisle responded swiftly and strongly at that hearing, recognizing that payday lenders were targeting military personnel and trapping them in long-term, high-cost debt.

“Predatory lenders are blatantly targeting our military personnel, undermining their financial stability and tarnishing their service records,” said Sen. Elizabeth Dole (R-NC) at the hearing. “This practice not only creates financial problems for individual soldiers and their families, but it also weakens our military’s operational readiness.”

Congress passed the Act at the end of September last year and charged the Pentagon with writing the regulations. Under heavy pressure from the finance industry, the Pentagon narrowly defined the terms of credit that will fall under the 36 percent cap.

“The Military Lending Act takes us a step forward in getting predatory lending back under control,” said Lauren Saunders, managing attorney for the National Consumer Law Center, which strongly supported passage of the law on behalf of its low income clients. “We only wish it applied to other credit that can be abusive, such as credit cards and bounce loans.”

“The interest rate cap is a good model for states. It’s the only thing that has proven to control predatory payday lending,” said Kathleen Keest, senior policy counsel for the Center for Responsible Lending. “In fact, the Council of the District of Columbia just repealed an exemption for payday lenders from their 24 percent usury cap.”

The Military Lending Act does not replace stronger protections, so military personnel stationed in D.C., for example, will be further protected once that law takes effect.

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