



Consumer Federation of America

FOR IMMEDIATE RELEASE
July 21, 2015

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OBAMA ADMINISTRATION AND DEPARTMENT OF DEFENSE ISSUE FINAL RULE EXPANDING CRITICAL MILITARY FINANCIAL PROTECTIONS

New protections expand 36 percent interest and fee cap to payday, auto title and other loans that put servicemembers' security clearance and careers at risk

Washington, D.C. – Today, the Obama Administration and the Department of Defense issued a [strong new rule](#) to close loopholes in the Military Lending Act, a critical military financial protection designed to prevent payday and other high-cost, abusive lenders from targeting servicemembers and their families – putting their security clearance and careers at risk.

In 2006, Congress passed the Military Lending Act which established a 36 percent interest and fee cap to loans made to servicemembers and their families.

The 2007 rule implementing the MLA applied this rate cap to a small number of loan types, such as payday loans of 91 days or less and auto title loans of 181 day or less. The 2007 rule also exempted payday and auto title loans structured as open-end credit. By extending the term or restructuring the loan as open-end credit, lenders have continued to target more than one out of every ten active-duty servicemembers with high-cost credit.

“For nearly a decade, high-cost lenders have exploited loopholes in critical military financial protections so they can continue lending at abusive rates far above the 36 percent rate cap established by Congress,” said Tom Feltner, director of financial services at Consumer Federation of America. “The final rule published today will ensure that servicemembers and their families get the financial protections they deserve.”

The final rule will:

- Apply market-wide to all high-cost credit products that target service members, including payday, auto title and installment loans that were excluded from the 2007 protections;
- Cap interest and add-on fees at 36 percent for loans issued to service members and their dependents;
- Preserve service members' access to the courts by prohibiting mandatory arbitration agreements;

Research by the Department of Defense released last year found that as many as one out of every ten enlisted servicemembers continued to be targeted by high-cost credit designed to evade the Military Lending Act. DoD estimates that the final rule will reduce involuntary separation caused by financial hardship, resulting in a savings of \$14 million a year or more.

“We applaud the Obama Administration and DoD for finalizing this important rule and ensuring that servicemembers and their families will no longer be put at risk by abusive lending practices,” said Feltner.

The Consumer Federation of America is a national organization of more than 250 nonprofit consumer groups that was founded in 1968 to advance the consumer interest through research, advocacy, and education.