



Consumer Federation of America

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Military Families Need Fully Armed Consumer Financial Protection Bureau to Battle High-Stress Credit Products and Practices

Washington, DC – As abusive practices that affect military families mount, the Senate Banking Committee will hold a hearing Thursday on “Empowering and Protecting Servicemembers, their Families, and Veterans in the Consumer Financial Marketplace.”

“The Consumer Financial Protection Bureau is fighting financial abuses with one arm tied behind its back without a confirmed director,” said Travis Plunkett, legislative director for Consumer Federation of America. “Military families, as well as all Americans, need an effective CFPB to curb abusive financial practices and products peddled by both banks and nonbanks.”

The Consumer Federation of America (CFA) identified a number of financial practices that harm military families that the CFPB will need its full authority to address. These practices are occurring even though Congress passed the Military Lending Act (MLA) in 2006 to protect servicemembers. The MLA, per Department of Defense regulations, capped the cost of loans at 36 percent, including fees, and banned the use of checks, debit authorizations, allotments, and vehicle titles to secure loans. For payday, car title, and tax refund loans defined as “covered credit” by DOD rules, loans also may not include prepayment penalties, mandatory arbitration clauses, or waiver of legal rights. CFA has identified a number of problematic practices that are still occurring despite passage of the MLA.

- **Loans and Credit Sales Targeting the Military:** Loan companies that target the military market advertise heavily online and in publications available on base, using patriotic symbols and claims of military connections to attract servicemembers. Installment loans and sales financing are not currently subject to the protections of the MLA, and are not licensed or supervised in some states. Often, military loan websites do not quote loan costs and some pack in fees and extras to drive up the total cost of credit to exceed the 36 percent inclusive APR cap benchmark set by the MLA. **The CFPB should monitor the military credit market and document problems and abuses for enforcement, consumer advice, and rule-making. If problems and abuses that the CFPB documents are widespread, the Department of Defense should expand the MLA rules to cover longer-term and unsecured installment loans and financing.**
- **Unfair Bank Overdraft Loans:** Servicemembers are required to have bank accounts in order to receive direct deposit of military pay and are vulnerable to credit abuses that depend on bank account ownership. Banks continue to charge steep and multiple fees for overdraft loans, require immediate repayment in full, and take payment first out of the account holder’s next deposit of military pay. Some banks manipulate the order in which they pay debits so that they

can increase overdrafts and the fees that consumers must pay. Over 80 percent of banks with branches on military bases market overdraft opt-in for debit card purchases and ATM withdrawals and charge up to \$38.50 for a single overdraft. **Consumers need comprehensive protections to ensure that banks do not manipulate the order of payments to increase fees. Banks with branches on military bases or with military accountholders should not permit debit card transactions --- which result in no fee when they are simply declined due to insufficient funds --- to trigger overdraft fees.**

- **Bank payday lending.** Three of the four large banks that offer “direct deposit advances” have branches on military bases and offer this type of loan to servicemembers. This “bank payday loan” product has the same dangerous features that led Congress to prohibit payday loans offered to servicemembers in 2006. Banks avoid the Department of Defense definition of a banned payday loan by claiming that direct deposit advances are open-end credit. The typical direct deposit advance costs 365 percent APR when computed like a payday loan and traps borrowers in repeat debt for an average 175 days per year. **The CFPB should not allow banks to exploit definitional loopholes to charge military and civilian borrowers triple-digit rates and catch borrowers in “payday loan” debt traps.**
- **Internet Payday Lending:** Department of Defense rules implementing the MLA ban high-cost payday loans secured by electronic access to borrowers’ accounts. While state regulators can more easily enforce this ban with storefront lenders, Internet payday lenders that market loans online are accessible to servicemembers stationed anywhere in the world. Internet payday loans mire cash-strapped consumers in repeat borrowing with finance charges to borrow \$100 ranging from \$15 (390% APR) to \$30 (780% APR). Many of these loans have built-in loan flipping, with finance charge-only payments withdrawn from borrowers’ accounts every payday without reducing the loan itself. Electronic payday loans expose borrowers’ bank accounts to the risk of unauthorized withdrawals, identity theft, and coercive debt collection tactics. **Consumers and our servicemembers need strong, consistent state and federal protections from abusive practices and unsustainable loans. The CFPB should supplement states in enforcing credit laws in the Internet payday loan market.**
- **Military Allotments to Pay for Commercial Credit:** Military lenders use the Pentagon’s wage assignment (allotment) mechanism to collect payment from pay before it is deposited to a servicemember’s bank account, giving loan companies, auto dealerships, and retailers that sell furniture, jewelry, and electronics preference in payment from scarce family funds. The allotment system also provides an incentive for retailers and finance companies to offer unsustainable loans without determining the ability of the servicemember to repay. State Attorneys General have taken enforcement action against retailers that operate kiosks in malls near military bases and sell overpriced items to servicemembers to be paid via allotments. The New York Attorney General wrote to the Secretary of Defense to warn about deceptive practices used by sales finance operations using allotments. **No lender should be allowed to require payment by allotment. Our servicemembers need comprehensive protections to guard them from deceptive wage allotment practices.**

“Military service members are vulnerable to abusive financial practices that put their bank accounts and military pay at risk,” said CFA’s Jean Ann Fox, director of financial services. “Documentation of Military servicemember complaints by the CFPB will enable the Consumer Financial Protection Bureau to protect servicemembers and to curb abusive practices, while helping the Department of Defense get the full impact of the Military Lending Act.”

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The Consumer Federation of America is an association of nearly 300 nonprofit consumer organizations that was established in 1968 to advance the consumer interest through research, advocacy, and education.