



Consumer Federation of America

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Congress Moves to Protect Service Members From High-Cost Credit Products

Provisions in the National Defense Authorization Act for FY2013 improve enforcement of financial protections for service members, require DoD to study the impact of abusive financial products and determine the need for new rules

Washington, D.C. – Service members using higher-cost credit products, such as payday and auto title loans, will be better protected from abusive interest rates and loan security requirements as the result of recently-passed amendments to the Military Lending Act (MLA) contained in the National Defense Authorization Act (NDAA) for FY2013, **H.R. 4310, H. Rept. 112-705**.

The amendments empower the Consumer Financial Protection Bureau and the Federal Trade Commission to enforce the 36 percent rate cap and other protections for loans made to service members. In the coming year, the Department of Defense (DoD) will be required to conduct a detailed study of abusive credit products frequently used by service members. Following that report, the DoD is required to review the effectiveness of existing MLA rules and determine if new rules are needed to ensure that service members are adequately protected from abusive products. Previously, enforcement authority was insufficient and some lenders modified products slightly to evade existing protections.

“These amendments are a positive step forward and will ensure that financial protections for service members, including the 36 percent rate cap, are adequately enforced,” said Jean Ann Fox, senior advisor for financial services at the Consumer Federation of America. “We look forward to working with the Department of Defense as it reviews and regulates credit options available to service members to ensure that the financial protections envisioned by Congress are fairly and evenly applied.”

About the Changes to the Military Lending Act

Taken together, the changes:

- **Empower the Consumer Financial Protection Bureau (CFPB) to enforce the Military Lending Act** - Previously, the CFPB had authority to supervise payday lenders but did not have authority to cite violations of the MLA when examining these lenders.
- **Empower the Federal Trade Commission (FTC) to enforce the Military Lending Act** – Previously, the FTC managed the Military Sentinel repository for complaints filed by service members, but did not have authority to take action when those complaints identified violations of the MLA.
- **Requires the DoD to review the effectiveness of existing Military Lending Act rules every two years, in consultation with financial regulators** –When the Bureau was

established, the requirement that the CFPB be consulted on MLA rulewriting was not transferred. The amendment adds the CFPB to the list of financial regulators to be consulted.

- **Require the DoD to conduct a study of credit products and practices and identify new credit products that negatively impact service members** – The study, to be developed in consultation with consumer protection advocacy groups and the financial services industry, must be delivered to the Committees on Armed Services of the Senate and House of Representatives within one year.
- **Ensure that service members are protected by existing state credit laws** – Some lenders have evaded state credit laws by claiming that they only originate loans to non-resident service members stationed at bases around the country. This provision will ensure that lenders follow the state credit laws of the state where the service member receives the loan.
- **Protect dependents of service members from abusive credit products and practices** – The MLA applies financial protections to both the service member and his or her dependents. The amendments standardize the definition of covered military dependents to make it easier for creditors to identify who is covered.
- **Provide for civil liability in United States district court for violations of consumer protections for service members and dependents.**

About the Military Lending Act

The Military Lending Act, enacted as part of the John Warner National Defense Authorization Act of 2007, sets a 36 percent inclusive rate cap for loans to service members and prohibits lenders from securing a loan with a personal check, debit authorization, allotment of military wages, or car title. [Under rules adopted by the DoD](#), the MLA protections only apply to short-term payday loans, car title loans, and tax refund anticipation loans. However, the rules excluded similar, longer-term loans and loans structured as open-ended credit.

A [Consumer Federation of America report](#) released in June 2012 found that some lenders have exploited definitional loopholes in the MLA in order to offer the same kinds of loans that the DoD attempted to prohibit. Some payday and car title lenders have circumvented DoD definitions by making loans that are “open-ended” (without a fixed ending date) or longer in term than the [DoD definitions of those products](#).

Senate version of NDAA offered stronger protections

The Senate version of the NDAA amendments (S. 3254), passed on December 4, expanded the 36 rate cap and prohibition on certain forms of loan security to longer-term loans and open-ended credit and would not have required a lengthy study and rulemaking process. The measures were not included in the House version and the Senate provisions were not included in the conference report.

“The amendments included in the Senate version of the National Defense Authorization Act would have ensured that service members were protected from loans designed to evade the rules,” said Fox. “As we work towards closing these loopholes, we urge the Department of Defense to move quickly and complete the necessary report and initiate a new rulemaking to protect our men and women in uniform and their families from abusive lending. The Consumer Federation of America would like to thank Senators

Blumenthal, Levin and Reed, and Congressman Frank for their hard work and their commitment to enacting these important reforms.”

Additional Resources:

[CFA Report: The Military Lending Act Five Years Later](#) (May 2012)

[CFA Fact Sheet: Creditors and Consumer Credit Covered by Department of Defense Rules](#) (October 2007)

[Department of Defense Report On Predatory Lending Practices Directed at Members of the Armed Forces and Their Dependents](#) (August 2006)

Consumer Federation of America is an association of nearly 280 non-profit consumer organizations that was established in 1968 to advance the consumer interest through research, education and advocacy.