



Consumer Federation of America

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CONGRESS POISED TO ENACT HISTORIC PREDATORY LENDING PROTECTIONS FOR MILITARY FAMILIES

—Defense Authorization Conference Report Would Cap Loan Interest Rates at 36 Percent—

WASHINGTON D.C. – The Consumer Federation of American today applauded Congress for agreeing to legislation that will protect military families from predatory lenders who charge triple-digit interest rates. The legislation, which was proposed by Senator Jim Talent (R-Missouri), Senator Bill Nelson (D-Florida) and Representative Sam Graves (R-Missouri), will cap annual interest rates on loans to military families at 36 percent. It is expected to pass the Senate and House of Representatives later today or tomorrow as part of the 2007 Defense Authorization bill (H.R. 5122.)

“This historic legislation will protect members of the military and their families from financial predators who destroy their finances, damage their morale and undermine military readiness,” said Jean Ann Fox, director of consumer protection for CFA. “Congress is telling all lenders, including payday loan companies, tax preparation firms and banks, that they must not make loans to members of the military at exorbitant interest rates or under abusive terms.”

“We commend Senators Talent and Nelson and Representative Graves for their extraordinary efforts to pass this landmark consumer protection bill,” said CFA Legislative Director Travis Plunkett. “We applaud them for standing up for America’s Service members in the face of significant pressure from the payday loan industry and their allies in Congress,” said Plunkett. “Senator Elizabeth Dole also deserves credit for laying the essential groundwork for this law by convincing Congress to require the Department of Defense to issue a study on the effect of predatory lending on the military.”

The legislation, Section 670 of the John Warner National Defense Authorization Act for Fiscal Year 2007, includes the following:

- **Interest Rate Cap.** Prohibits any lender from imposing an annual percentage rate of interest of more than 36 percent on loans to members of the armed forces stationed anywhere in the world or their dependents. Interest is defined to include all extra charges and fees of any kind, including the sale of related products like credit insurance. This requirement complements existing federal law, which requires lenders to lower interest rates to six percent on loans that Service members open before they enlist.

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- **No Check Holding or Electronic Access to Bank Accounts.** Prohibits lenders from basing loans to Service members on the writing of checks without adequate funds in the bank to cover the check, or on electronic account access or wage allotments that allow lenders priority access to bank accounts or military pay. Loans secured by title to the Service member's vehicle are also prohibited.
- **Legal Protections.** Prohibits lenders from requiring Service members to agree to mandatory arbitration in the event of a dispute or to waive their legal right to recourse in the courts.

The Department of Defense report to Congress documents that high cost lenders cluster around military bases and tout easy money loans via the Internet. Payday lenders entice Service members to write checks without money in the bank for loans at rates of 390 percent annual interest or higher. Military borrowers, who are required to maintain a bank account to receive direct deposit of military pay, are likely to become trapped in a cycle of repeat borrowing to keep those checks from bouncing.

Car title loans, secured by the title to family vehicles owned free and clear, typically cost 300 percent annual interest. The owner risks repossession of the car if the loan is not paid in full or renewed every month. Installment loans, paid by military allotment or electronic access to the Service member's bank account, often include unnecessary insurance premiums and extra fees that drive up payments.

This legislation is supported by over seventy military and veterans groups, civil rights organizations and consumer groups, as well as the Department of Defense.

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CFA is a nonprofit association of some 300 pro-consumer groups, with a combined membership of 50 million people. CFA was founded in 1968 to advance consumers' interests through advocacy, research and education.

For the Department of Defense Report to Congress on the impact of predatory lending, visit:
http://www.usa4militaryfamilies.dod.mil/dav/lsn/LSN/BINARY_RESOURCE/BINARY_CONTENT/2141721.pdf

For background on payday lending to Service members, visit:
<http://www.responsiblelending.org/pdfs/ip011-PaydayMilitary-0905.pdf>

For information on regulation of payday lending by each state, visit:
<http://www.paydayloaninfo.org/states.cfm>

For the July support letter from military, veterans, civil rights, and consumer organizations, visit:
http://www.consumerfed.org/pdfs/Military_Lending_Talent_Amendment_Floor_Group_Letter.pdf