



Consumer Federation of America

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OVER HALF OF ALL SERVICE MEMBERS LIVE IN STATES THAT PERMIT HIGH COST LENDING NOT COVERED BY THE MILITARY LENDING ACT

Consumer Federation of America Recommends Expanding High-Cost Credit Protections to All Types of Credit Available to Service Members

Washington D.C. – A Consumer Federation of America (CFA) analysis of state lending laws finds that 54 percent of service members are stationed in states that permit forms of high-cost lending not covered by the Military Lending Act (MLA). The Act, which went into effect in 2007, caps interest and fees on loans to active-duty military and their dependents at 36 percent and provides other protections, such as a prohibition on mandatory arbitration.

[The analysis is available here.](#)

The Department of Defense, which determines what types of credit are subject to the interest and fee cap and other protections, is [currently collecting information](#) on the impact of high-cost credit on service members and could broadly apply these protections to all forms of consumer credit available to service members in a future rulemaking.

Currently, DoD rules cap interest and fees, and apply other key consumer protections, to just three narrow categories of loans:

- **Payday Loans:** Closed-end with a term of 91 days or fewer and for an amount that of \$2,000 or less.
- **Vehicle Title Loans:** Closed-end with a term of 181 days or less for any amount.
- **Refund Anticipation Loans:** Closed-end and expressly paid with a tax refund.

A [2012 evaluation of the Military Lending Act](#), conducted by CFA, found that many products, such as open-end credit and longer-term installment loans fall outside the current, narrow definitions.

“The high-cost credit market is changing, with many products falling outside the scope of the DoD rules which were designed to keep credit made to service members safe and sustainable,” said Tom Feltner, director of financial services at CFA. “DoD has the opportunity to broadly apply the important protections established by Congress in the MLA to all forms of high-cost credit.”

CFA’s analysis of state laws found that 20 states permit payday lending, vehicle title lending or both not covered by the current DoD definition of consumer credit. If state law allows lenders to make loans outside of the scope of the DoD definition, e.g. a payday loan larger than \$2,000 or a title loan with

a term longer than 181 days, the important protections Congress put in place for service members do not apply to those loans and service members are at risk from:

- **No protection from high interest rates:** Lenders can continue to charge triple digit interest rates and are not required to comply with the 36% interest and fee limit established by Congress.
- **No limits on unfair security:** Lenders can require a service member to provide direct access to a bank account, vehicle title, or make payments by military allotment.
- **No prohibitions on restructuring:** Lenders can roll-over, renew, refinance or consolidate loans even if there is no benefit to the service member.
- **No protection of legal rights:** Loan contracts can include unfair binding arbitration clauses and prevent service members from using the courts to resolve disputes.

Comments on the availability and impact of high-cost credit not subject to the current DoD protections are due August 1, 2013.

“We applaud DoD for moving forward with this effort to collect information about the impact of high-cost credit on service members,” said Feltner. “We are hopeful that it results in a proposed rule that broadly applies the important protections established by the Military Lending Act.”

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

Related resources:

[Policy Brief: Gaps in the Military Lending Act Leave Many Servicemembers Vulnerable to Abusive Lending Practices](#) (July 2013)

[Congress Moves to Protect Service Members from High Cost Credit Products](#) (December 2012)

[CFA Report Finds Military Lending Act Has Curbed Some Abusive Loans, Service Members Still Exposed to Dangerous Financial Practices](#) (May 2012)