

Support Stronger Credit Protections for Servicemembers

June 25, 2012

Dear Senator:

Re: **S. 3254 Subtitle E – Military Lending Matters**

The undersigned military, consumer and community organizations urge your support for provisions of the National Defense Authorization Act (S. 3254, Subtitle E, p. 191-199) that will strengthen the Military Lending Act and benefit servicemembers and their families and improve military readiness. We request that you oppose any efforts to delete or weaken the legislation as reported by the Senate Armed Services Committee on June 4.

As you know, Congress enacted landmark bi-partisan legislation in 2006 at the request of the Department of Defense (DoD) to protect active-duty servicemembers and their families from predatory lending practices found by DoD to undermine readiness and morale of the all-volunteer fighting force. The Military Lending Act (MLA) took effect in the fall of 2007 and has made a major improvement in the financial lives of servicemembers for credit products covered by DoD rules. As found in a recent report from the Consumer Federation of America, some lenders are exploiting loopholes and narrow product definitions to evade MLA protections. A protection meant to require consistent treatment of servicemembers under state law, regardless of where they are stationed, has not been effective and enforcement tools are limited. S. 3254 addresses these problems with targeted reforms that will deliver the protections Congress intended in 2006.

The Military Lending Act provisions of S. 3254 protect the financial well-being of servicemembers by making the following improvements and clarifications in the law:

- **Removes definitional loopholes exploited by some lenders** so that protections intended by Congress will apply to all payday and car title loans, regardless of loan duration or structure as open or closed-end loans. This will stop car title lenders from charging servicemembers 400% interest for 32-month loans secured by the borrower's vehicle. It will also stop online payday lenders from charging 586% APR for payday loans that have been tweaked to be "open-end" credit.
- **Requires the Department of Defense to evaluate installment loans targeted at the military.** DoD must set a policy for military installment loans that improves protections and provides financial education on better credit options. DoD may cover installment loans under Military Lending Act rules, if found appropriate. For example, the MLA ban on securing loans by requiring servicemembers to pay them back via allotment could be extended to longer term unsecured installment loans, safeguarding servicemembers' pay.
- **Clarifies that the Military Lending Act requirement that non-resident servicemembers be protected by state credit laws applies to all forms of credit**

regulated by states, not just to specific products defined as consumer credit by the Department under MLA rules. As a result, military installment lenders who only extend credit to servicemembers stationed in a particular state would be subject to that state's consumer protections and supervision.

- **Requires the Department of Defense to review its MLA rules periodically** and to consult with financial regulators to determine if new forms of credit are harming servicemembers and should be covered by MLA protections. The bill also requires a new DoD rule-making to implement changes specified in the legislation.
- **Strengthens enforcement of the Military Lending Act by adding a private right of action and civil penalties** to make the MLA equivalent to the Servicemembers Civil Relief Act. In the five years the MLA has been in effect, only one private enforcement action has been brought.
- **Modifies the definition of a dependent** in the MLA to be consistent with Department of Defense procedures. This change will make compliance with the law easier for creditors.

America relies on servicemembers to protect our country in a troubled world. As noted by the Department of Defense, we have a compact with servicemembers and their families to protect them from abuses that undermine their welfare and morale. Predatory lending that drains family funds, puts ownership of key assets at risk, and traps borrowers in abusive and unaffordable debt was prohibited by Congress in 2006. We strongly urge your support for amendments to the Military Lending Act to apply protections to products that currently harm servicemembers and to strengthen enforcement of the law.

For any questions, please contact Jean Ann Fox, Consumer Federation of America, at 928-772-0674.

Sincerely,

Fleet Reserve Association
Military Officers Association of America
National Association of Consumer Advocates, Military Justice Project
National Military Family Association
Americans for Financial Reform
Center for Responsible Lending
Consumer Federation of America
National Consumer Law Center, on behalf of its low-income clients
U.S. PIRG
California Reinvestment Coalition