CFA LAUDS OBAMA ADMINISTRATION AND DEPARTMENT OF DEFENSE FOR NEEDED FINANCIAL PROTECTIONS FOR AMERICA’S SERVICE MEMBERS TARGETED BY ABUSIVE CREDIT PROVIDERS

Proposed Rule Closes Loopholes in Military Lending Act

Washington, DC – Today, the Obama Administration and the Department of Defense took an important step to protect the financial security of American service members and their dependents by proposing a much-needed expansion of important military financial protections for payday loans, auto title loans and other products.

The proposed rule closes a number of loopholes in current military financial protections by capping interest rates at 36 percent for a wide range of high-cost loans made to active-duty servicemembers and their dependents and by prohibiting practices such as mandatory arbitration and securing loans by post-dated check. If adopted, the rule would clamp down on lenders that have modified products or designed new ones to continue marketing payday loans, title loans and other abusive credit products to servicemembers.

“Payday lenders and others have taken advantage of every loophole imaginable to continue the reprehensible practice of offering loans at triple digit interest rates with abusive terms to our men and women in uniform,” said Tom Feltner, director of financial services. “We applaud the Obama Administration and the Department of Defense for this strong step to put an end abusive debt, while preserving access to safe and sustainable credit.”

In 2007, the Department of Defense (DoD) issued rules to protect servicemembers and their dependents from abusive rates, unfair collection practices and the cycle of debt caused by payday lenders and auto title lenders. The 2007 rules implementing the Military Lending Act capped interest rates at 36 percent, and applied other key consumer protections, to a narrow subset of abusive credit: payday loans with terms of 91 days or fewer and for an amount of $2,000 or less, vehicle title loans with terms of 181 days or less for any amount, and tax refund anticipation loans. Shortly after the adoption of the 2007 rules, lenders began offering longer-term payday loans, auto title loans and triple digit interest rate lines of credit that DoD excluded.

Under the new proposal, credit products made to service members and their dependents would be subject to a 36 percent interest and fee cap and other protections regardless of the amount or length of the loan.
Department of Defense report on the need to expand servicemember financial protections: Enhancement of Protections on Consumer Credit for Members of the Armed Forces and Their Dependents (April 2014).


*CFA is an association of more than 250 nonprofit consumer groups that was established in 1968 to advance the consumer interest through research, advocacy, and education.*