



Pentagon Finds Predatory Lending Harms Troops

A call for strong protective measures

CRL Summary

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DEPARTMENT OF DEFENSE DOCUMENTS IMPACT OF PREDATORY LENDING ON MILITARY TROOPS

- According to the Department of Defense, predatory lending is weakening our military.
- The Pentagon report finds that service members are caught in abusive lending schemes in high numbers, which damages their morale and threatens their security clearances.
- The report says the Department of Defense has worked hard to educate the troops, but cannot protect them adequately without strong laws, and calls on Congress to enact protective measures including a 36-percent cap on annual interest rates for loans made to military.

Congress Ordered Study of Impact of Predatory Lending on Military

As a provision of the National Defense Authorization Act for Fiscal Year 2006, the United States Senate asked the Department of Defense to conduct a study on the impact of predatory lending on their troops, and to report on their findings in 180 days.

The Department of Defense (DoD) report, sent to Congress on August 10, 2006, is entitled, "Report on Predatory Lending Practices Directed at Members of the Armed Forces and Their Dependents."

The DoD's report focuses on payday lending, car title lending, rent-to-own, refund anticipation loans, military installment loans and fee-based overdraft programs, and describes the impact of these practices on all branches of the military.

With this report, the DoD recognizes the faulty design of payday loans and other products that create a cycle of debt instead of helping borrowers through a shortfall. The DoD is highly concerned about the impact of this abusive lending on its personnel and the functioning of the military.

Pentagon on High Alert

In summary passages, the DoD report states:

“Predatory lending undermines military readiness, harms the morale of troops and their families, and adds to the cost of fielding an all volunteer fighting force.”

“Financial issues account for 80 percent of security clearance revocations and denials for Navy personnel.”

“Many of our youngsters must attain and maintain security clearances that demand complete and unquestionable integrity. A service member saddled with debt, fear, and considerable stress could suddenly find his integrity compromised. His job performance will probably suffer, and he most likely will lose his security clearance and be temporarily removed from his assignment. Between 2000 and 2005, revoked or denied security clearances for Sailors and Marines due to financial problems have increased 1600 percent.” (Appendix of DoD report – statement by Capt. Mark D. Patton, USN Commanding Officer, Naval Base Point Loma, CA)

Predatory Lenders Target the Military

The DoD estimates that **17 percent** of military personnel use payday loans. A conservative calculation based on payday industry data gives them a figure of 17 percent, which is close to CRL’s estimate (published last year) that 19 percent of military personnel use payday loans.

The DoD report cites mounting evidence that military families disproportionately suffer the effects of predatory payday lending, including a CRL finding that active-duty military are three times more likely than civilians to have taken out a payday loan, and an analysis of Colorado’s payday lending law, which finds that military personnel in Colorado are more than four times more likely than civilians in Colorado to have taken a payday loan.

Maps attached to the report, produced by Professor Steven M. Graves of California State University-Northridge show clustering of payday lenders in the following areas:

- Fort Campbell, Kentucky
- Fort Hood, Texas,
- Fort Lewis and McChord AFB, Washington
- San Diego, California region
- Duval County, Florida
- Tidewater, Virginia region

This augments previous research conducted by Steven Graves and Professor Christopher L. Peterson, University of Florida, and published in the Ohio State Law Journal. This earlier analysis of 20 states and 15,000 payday shops found that payday lenders are located near military bases in significantly greater numbers than other areas in 19 of these 20 states.

Pentagon Says Education is Necessary but Insufficient, Wants Strong Laws

The report recounts in detail the measures the military has taken to protect their troops from predatory lending through education and relief programs. The DoD has found that this is not enough.

“The Department of Defense cannot prevent predatory lending without assistance from Congress, the state legislatures, and federal and state enforcement agencies.”

“... statutory protections are necessary to protect Service members from unfair and deceptive lending practices and usurious interest rates and to require uniform disclosure of credit costs and terms.”

Pentagon Recommendations

The DoD recommends a 36-percent cap on annual interest rates for loans made to military borrowers. This 36-percent cap would include all extra fees, charges and products like credit insurance premiums and would effectively protect military families from abusive loans.

In addition to the 36-percent annual cap on interest for military borrowers, the DoD seeks more protections against predatory lending to service members:

The Pentagon calls on Congress to prohibit:

- loans made without consideration of ability to repay;
- loans secured by personal checks or car titles;
- waiving legal rights to go to court;
- waiving protections afforded by the Servicemembers Civil Relief Act; and
- violations of consumer protections in the state where service members are stationed.

Impact on Military Families

The DoD collected case studies of over 3,000 service members who had been trapped in high-cost loans. Their report describes 17 of those cases in detail. Here are several of those stories:

- Active duty Air Force E-4 obtained a \$500 loan with an agreement to pay back \$600 in two weeks. Unable to repay, she then took out other payday loans and was forced to do multiple rollovers on each one. To pay off these loans she contacted an installment loan company who provided her with a \$10,000 loan at 50 percent APR. Total cost to pay off the payday loans was \$12,750 and her total obligation to the installment loan company was \$15,000. Her financial problems were a contributing factor to her pending divorce.
- Active duty Air Force E-5 used his wife’s car as collateral for a title loan. For a few months all he could pay was the fee to keep the account current, without paying any of the principal.

Summary: Pentagon Report on Predatory Lending

When he missed two months of payments, the car was repossessed in the middle of the night. After the repossession, the title loan store reported that he still owed them \$1,000. He filed for bankruptcy, and his financial difficulties resulted in disciplinary action.

- Active duty Air Force E-4 had payday loans over seven months with two lenders, totaling \$900 owed in principal, with \$200 in fees each month to rollover the loans. At the time she went to financial counseling she had spent \$1,875 carrying the loans. In addition, she had a military installment loan for \$7,000 and an additional loan for \$13,000. The interest rate on the military installment loan was 61 percent, and the loan agency would not provide any accommodations to allow her to extend her repayments.
- Active duty Air Force E-4 was short \$400 and borrowed from a payday lender. She could not pay back the loan and went to a second payday lender in order to pay off the first payday loan. This process was repeated five times until she realized she was paying \$1,200 per month to maintain the loans. By the time she sought help she had paid \$3,000 on the \$400 loan. She had to declare bankruptcy to financially survive.
- Active duty Air Force E-4 obtained a payday loan for \$300 that he paid for over 18 months at a cost of \$2,700 involving 3 payday lenders. He could not escape the cycle of debt and eventually filed for bankruptcy.
- Active duty Navy E-5 began using payday loans in March 2004 with 3 payday loans to take his family to visit his grandfather sick with cancer. By October 2005, he had 4 payday loans, totaling \$2,300 and costing him \$600 every month in rollover fees.
- Active duty Navy E-6 took out a payday loan to pay for his wife's trip to Japan to visit her ill father. He had taken out another loan to pay off the first and began to take more to cover the initial obligation. Eventually he had taken out 10 payday loans. He used his Selective Re-enlistment Bonus to pay off the lenders, and refinanced his house to pay off other outstanding debts.
- Active duty married Navy E-5 and his wife had 9 payday loans and one installment loan outstanding at the time they approached the Navy-Marine Corps Relief Society (NMCRS) for assistance to pay the \$7,561 they owed (\$2,156 in finance charges and \$5,405 in principal). In addition, they were regularly using the courtesy overdraft protection provided by their credit union at \$25 per returned check.

About the Center for Responsible Lending

The Center for Responsible Lending (CRL) is a national nonprofit, nonpartisan research and policy organization dedicated to protecting home ownership and family wealth by working to eliminate abusive financial practices. CRL is affiliated with Self-Help, one of the nation's largest community development financial institutions.

For additional information, please visit our website at www.responsiblelending.org.