

# DoD report backs cap on interest rates

Measure to protect military borrowers rests with conferees

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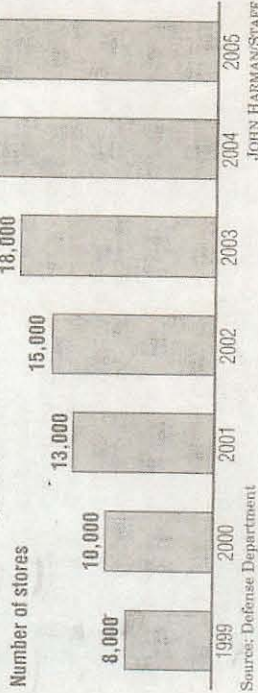
Financial naiveté and regular paychecks make service members, especially young enlisted troops, perfect targets for a growing industry of lenders who bet that loans often cannot easily be repaid, according to a new Pentagon report.

The report on predatory lending practices, mandated by Congress as it considers legislation to cap interest rates on consumer loans, calls for a two-pronged defense of military people.

First, it recommends changes in state and federal laws to better protect service members, including a proposed 36 percent cap on interest rates for loans to service members and their immediate families.

## GROWTH IN PAYDAY STORES

The number of payday loan stores located around military bases has almost tripled over a six-year span. Payday store growth from 1999 through 2006:



Second, the report calls for dramatic improvements in financial education courses on military bases so service members know what they face.

Predatory lending "undermines military readiness" and "harms the morale of troops and their families," the report says.

It notes that the number of troops in financial trouble —

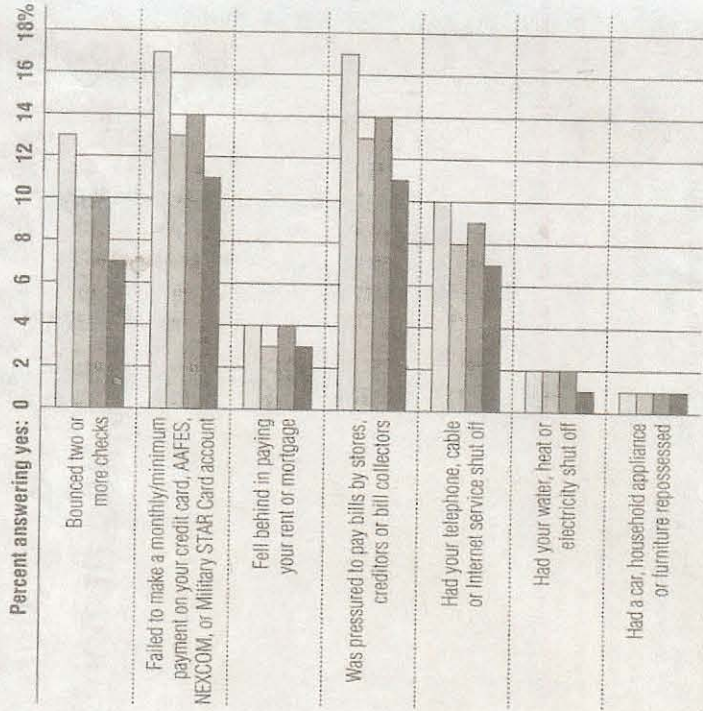
bouncing checks, being late on mortgage payments, hearing from bill collectors — appears to have declined over the past four years, a sign that education and loan alternatives may be working.

However, the number of people using payday loan or other "easy credit" lenders is about the same

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## TROOPS HANDLING FINANCES BETTER

Despite a huge increase in the number of payday loan stores, a recent survey found that active-duty members have improved in their ability to manage their finances since 2003. Officials say greater command attention to the issue and improved financial education for troops have played a role. The percentage of service members reporting various financial problems from 2003 through 2006:



JOHN HARMAN/STAFF





Since 1999, the number of payday loan stores, often located near military bases and known to charge interest rates as high as 800 percent for short-term loans, has almost tripled, a Pentagon report says.

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today as it was in 2004.

Sen. Jim Talent, R-Mo., who has been trying to get Congress to pass a federal interest rate cap on loans to service members, said the Pentagon report "supports our cap to stop these abusive lenders from preying on military personnel and their families."

He called predatory lending a "staggering problem."

Talent proposed the same 36 percent cap on payday loans called for in the Pentagon report. His proposal was approved as an amendment to the Senate version of the 2007 defense authorization bill, which is pending before a conference committee working out differences between the House and Senate bills.

But Rep. Steve Buyer, R-Ind., chairman of the House Veterans' Affairs Committee, is urging House negotiators to drop the rate cap from the defense bill because he does not think the proposal belongs there.

This is largely a jurisdictional fight: Military consumer issues fall under oversight of the veterans' affairs committees, while the defense authorization bill is the chief responsibility of the armed services committees.

The Pentagon report is careful to note that payday loans are not illegal. Thousands of legitimate businesses are involved in the growing industry, which offers loans with high interest rates and fees that are easily flipped or renewed without requiring even part of the initial loan to be paid off.

Operating on the edge of lending laws, payday lenders require those getting loans to waive their right to legal redress, which is allowed under state and federal laws, the report says. But the report also notes that some lenders are involved in illegal activities, primarily fraud and deception in persuading people to take loans.

Since 1999, the number of payday loan stores, often located near military bases and known to charge interest rates as high as 800 percent for short-term loans, has almost tripled, to 23,000.

The report also identifies other predatory practices targeting service members — among them Internet lending, car-title lending, tax-refund anticipation loans, rent-to-own stores and installment lending.

"Predatory lenders seek out young, financially inexperienced borrowers who have bank accounts and steady jobs, but also have little in savings, flawed credit or have hit their credit limit," the report says, adding that this type of borrower is "less

likely to weigh the predatory loan against other opportunities and ... less likely to be concerned about the consequences of taking the loan."

Some high-interest and high-fee loans are designed so they can almost never be paid off. "Most predatory business models take advantage of borrowers' inability to pay the loan in full when due and encourage extensions through refinancing and loan flipping," the report says. "These refinances often include additional high fees and little or no payment of principal."

The operations often try to work outside state and federal laws by "developing schemes designed to circumvent existing laws" or by operating with exemptions, the report says.

Loopholes allowing such operations should be closed through a combination of changes in state and federal laws, the report recommends.

The report acknowledges that its proposed interest rate cap "may limit the availability of credit" to some service members but says limits would help make the point that high-cost loans "are not fiscally prudent."

The report notes efforts by the Defense Department and the services in recent years to provide financial education. Some 354,000 troops and family members received such education in 2005, and military-affiliated groups educated another 61,000.

Programs are ongoing to warn about the pitfalls of borrowing, provide financial counseling and, when needed, help those who have trouble paying off high-interest loans. Some 960 news articles and 157 memos on these issues were generated and circulated within official military channels last year, the Pentagon report says.

Senior commanders encourage financial counseling and point people with financial problems to alternatives through military aid societies and banks or credit unions located on or near military bases that can provide credit at lower costs.

"As a result, service members are doing better with their finances, though considerable predatory lending problems still remain," the report says. □

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