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Military wants to cap payday lenders' rates

BY THOMAS WATKINS THE ASSOCIATED PRESS

Advertiser

SAN DIEGO - With a family to feed and no money for groceries, Navy Yeoman 2nd Class Damon LaForce recently did something the military is trying to crack down on: He went to one of the many payday-lending businesses near his base for an instant loan.

Essentially, he borrowed against his next paycheck: After showing his military ID and a proof of address, LaForce wrote the lender a postdated check for \$300. Five minutes later the sailor walked out with \$255 cash in his pocket.

"It was easy," LaForce said.

The \$45 charge for his twoweek loan would amount to an annual interest rate of a staggering 459 percent.

Worried that too many members of the military are falling victim to ruinous interest rates and getting into deep financial trouble, the Pentagon is backing an effort in Congress to slap a nationwide cap of 36 percent on payday loans to troops. An increasing number of states are taking steps, too.

In a report released August, the Defense Department estimated 225,000 servicemen - or 17 percent of the military - use payday loans. The Center for Responsible Lending, a nonprofit group seeking stricter industry controls, says that one in five servicemen took out such a loan in 2004, and that someone who borrows \$325 pays an average of \$800 in charges.

In the six weeks after he borrowed from a payday lender, LaForce was short again, so he renewed it once, then took out another loan to pay off the first. Total cost: \$150 for a \$255 advance.

"You are not doing a service to an individual who is already short on cash, so he's living not just paycheck to paycheck but from almost paycheck to almost paycheck," said Capt. Mark D. Patton, the commanding officer for Naval Base Point Loma in San Diego, where LaForce is stationed.

Patton said the Navy worries that payday loans are contributing to the surge in the number of sailors who cannot be sent into duty overseas because of financial problems.

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because of financial problems.

Navy rules say sailors whose debts equal more than 30 percent of their income cannot be sent overseas because their financial problems could distract them from their duties or, worse, make them vulnerable to bribery.

Industry officials say payday loans offer a service when no one else will. They say a lower cap could force some military lenders to close, and their absence would drive sailors and soldiers to unregulated lenders, including Internet sites registered outside the United States.

Several states prohibit triple-digit rates on payday loans, according to the Consumer Federation of America. They include Connecticut, Georgia, Maine Maryland, Massachusetts, New Jersey, New York, North Carolina, Pennsylvania, Vermont and West Virginia.

Despite Arkansas' 17 percent constitutional usury cap, the state has permitted payday lenders to charge triple-digit interest rates, including to airmen stationed at Little Rock Air Force Base in Jacksonville, the Defense Department report said. Information for this article was contributed by David Smith of the Arkansas Democrat-Gazette.

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This story was published Friday, September 01, 2006



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