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Strengthening the Military Lending Act *Protecting Service Men and Women from Predatory Lenders*

What's Happening

The Department of Defense is proposing updated rules to protect military men and women from predatory and abusive lenders. By proposing the new rules, the Department continues its commitment to ensure service men and women can avoid getting caught in a debt trap. Since the original rules were published several years ago, unscrupulous lenders have exploited loopholes and the Department is rightfully updating rules to address the changing market.

The proposed rule: [http://www.ofr.gov/\(S\(stnraikvfefq3v2y11k3buzu\)\)/OFRUpload/OFRData/2014-22900_PI.pdf](http://www.ofr.gov/(S(stnraikvfefq3v2y11k3buzu))/OFRUpload/OFRData/2014-22900_PI.pdf)

Background

The **Military Lending Act** (MLA) is bipartisan legislation passed by House and Senate legislators and signed into law by President George W. Bush in the 2007 National Defense Authorization Act after elected officials and the Department of Defense recognized that predatory loans were a threat to military readiness.

The law set a 36% APR interest rate cap (including interest, fees and certain add-on products) for consumer credit products extended to members of the military and their family. It also prohibited the use of a check or car as collateral for the loan. The law was intended to stop lenders from peddling predatory loan schemes targeting men and women in uniform.

Why New Rules Are Needed to Strengthen the Military Lending Act

- Predatory lenders are still exploiting the people who put their lives on the line to protect our country. In many cases, these lenders cluster around military bases to better target young men and women, often on their own for the first time, and have stable incomes.
- In the years since MLA was implemented, lenders have come up with ways to skirt the rules. In many cases, lending terms were adjusted slightly to avoid the 36% rate cap. Lengthening the loan term or increasing loan size allowed lenders to escape accountability under the rule.
- High-cost payday and installment loans cause a debt trap —with astronomical 400% interest rates or loaded with hundreds of dollars in junk fees for add-on products, these loans are specifically designed to trap members of the military in repayment years into the future.
- Over the years, lenders have found other loopholes to circumvent the MLA, requiring an update to apply the law to additional abusive products and protect service members from predatory loans.
- In a report to Congress, the Pentagon said, “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.” This update to the MLA is an important step to better serving the men and women who serve the country.

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