

## **Predatory Lending: Servicemembers get new protections from some loan practices.**

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### 9.0—Miscellaneous

A 2006 study by the Department of Defense found that payday, car title, and other “predatory” lenders target military personnel through their “proximity and prevalence around military installations, or through the use of affinity marketing techniques, particularly on-line.” The study concluded that predatory lending has impacted military personnel to the point that it “undermines military readiness, harms the morale of troops and their families, and adds to the cost of fielding an all-volunteer fighting force.”

Congress recently passed legislation designed to protect servicemembers and their dependents from predatory lenders. Currently scheduled to take effect Oct. 1, these protections include a 36 percent cap on annual interest rates on loans as well as protection from other common predatory lending practices.

The law applies to Active Duty and Reservists (on orders for at least 30 days) and to their dependents. Under the new law, creditors are prohibited from charging any military consumer greater than 36 percent annual percentage rate. This includes all the cost elements associated with the extension of credit, including fees, service charges, renewal charges, credit insurance premiums, any ancillary product sold with any extension of credit, and any other charge or premium with respect to the extension of consumer credit. This provision of the law is designed to prevent creditors from advertising a low interest rate and then hiking it up with hidden charges and fees.

Additionally, the following “predatory lending” practices will become illegal regarding loans to a military consumer:

- Creditors cannot “roll over” or refinance the same loan between the same creditor and borrower.

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<sup>1</sup>I invite the reader’s attention to <https://www.roa.org/page/LawCenter>. You will find more than 2000 “Law Review” articles about the Uniformed Services Employment and Reemployment Rights Act (USERRA), the Servicemembers Civil Relief Act (SCRA), the Uniformed and Overseas Citizens Absentee Voting Act (UOCAVA), the Uniformed Services Former Spouse Protection Act (USFSPA), and other laws that are especially pertinent to those who serve our country in uniform. You will also find a detailed Subject Index, to facilitate finding articles about specific topics. The Reserve Officers Association, now doing business as the Reserve Organization of America (ROA), initiated this column in 1997.

- Creditors cannot require borrowers to waive any state or federal law, including provisions of the Servicemembers Civil Relief Act.
- Creditors cannot require borrowers to submit to arbitration or other onerous legal notice provisions.
- Creditors cannot require a borrower to issue a check as a means of access to the borrower's financial accounts or require a borrower to provide a vehicle title as loan security.
- Creditors cannot insert into credit agreements any unreasonable notice requirement as a prerequisite to the consumer's right to bring legal action against the creditor.
- Creditors cannot require a borrower to create a voluntary allotment for the benefit of the creditor as a loan prerequisite.
- Creditors cannot charge a penalty for prepayment of a loan, in whole or in part.

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