

FOR IMMEDIATE RELEASE: JULY 21, 2015

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Advocates Applaud DOD Move to Protect Troops from Predatory Lending *Final Rules Extend 36% Rate Cap to More Forms of Credit*

Military servicemembers and their families will be better protected against predatory lending under new rules announced today by the Department of Defense (DOD), according to advocates at the National Consumer Law Center (NCLC).

“We find it abhorrent that some lenders target servicemembers with high rate loans,” said Lauren Saunders, associate director at National Consumer Law Center. “The new rules give broader protection to those who serve from unaffordable loans over 36%,” she explained.

In 2006, Congress passed the Military Lending Act, which capped interest rates for servicemembers and their families at 36%. But initial DOD regulations narrowed the scope of the protections to short-term payday loans, auto title loans and tax refund anticipation loans. Predatory lenders found loopholes and servicemembers continued to face high interest rates on installment loans and open-end lines of credit, as well as some fee harvester credit cards. The new regulations finalized today close those loopholes, although credit cards will not be subject to the rule until 2017 or 2018.

“The 36% rate cap has a long pedigree, going back to the early twentieth century with reforms aimed at preserving access to credit while preventing predatory lending, goals that a 36% cap continues to serve. We applaud the Department of Defense for protecting troops from loan sharks. On behalf of our low-income clients, we urge Congress and the States to pass a 36% rate cap for all consumers,” Saunders added.

The new rules also protect servicemembers from forced arbitration clauses, which are often hidden in the fine print of financial transactions and take away a consumer’s constitutional rights. “We applaud DOD for eliminating forced arbitration clauses that deny servicemembers their day in court and give predatory lenders a ‘get out of jail free’ card when they break the law,” said Saunders.

More information on NCLC’s work on financial lending to servicemembers is available at:
<http://www.nclc.org/special-projects/military-personnel.html>

Related materials

Department of Defense final rules: <http://bit.ly/1HOD5v4>

NCLC issue brief: Why Cap Small Loans at 36%?: <http://www.nclc.org/images/pdf/pr-reports/ib-why36pct.pdf>

NCLC report: Why 36%? The History, Use, and Purpose of the 36% Interest Rate Cap:
<http://www.nclc.org/images/pdf/pr-reports/why36pct.pdf>

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