



# Payday Lenders Target the Military

*Evidence lies in industry's own data*

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## **MILITARY PERSONNEL CAUGHT IN CYCLE OF DEBT**

Based on a Center for Responsible Lending analysis of the payday industry's own data and statements, we estimate that:

- **Active-duty military personnel are three times more likely than civilians to have taken out a payday loan.**
- **One in five active-duty military personnel were payday borrowers last year.**
- **Predatory payday lending costs military families over \$80 million in abusive fees every year.**

### ***Military families perfect targets for payday lenders***

Payday loans, sometimes called deferred deposit transactions, are loans of around \$300 to \$500, secured by a signed, postdated personal check. They are marketed as cash advances on the borrower's next paycheck to cover an emergency need. But payday lenders make the overwhelming majority of their loans to borrowers who cannot pay off their loans in full by payday.<sup>1</sup>

Instead of offering a product that enables borrowers to escape emergencies, payday lenders flip these borrowers — renewing their loans repeatedly for high fees without extending further credit. The trapped borrowers frequently end up paying back many times the amount of the original loan at annual interest rates that are typically 400 percent or higher.

### **Soldier Stories**

Navy Petty Officer 2nd Class Jason Withrow, stationed on a nuclear submarine at Kings Bay Naval Submarine Base in Georgia, took a \$300 payday loan in summer 2003. He borrowed more to service the fee, and by February 2004, he'd paid about \$5,000 in interest on \$1,800 in payday loans at four different lenders. *Bloomberg Markets*, "Preying on the Poor," January 2005.

Army specialist Myron Hicks, stationed at Fort Stewart, Georgia, borrowed \$1,500 for a car repair. He paid back \$3,000 — twice what he borrowed.

"Payday Lenders Target Military Members," *FOXNews.com*, March 31, 2004.

Cristie Worrow, a 29-year-old petty officer second class at the Naval Air Reserve in Jacksonville, Florida, took out a \$500 payday loan in 1998. Over three years she had two more loans and was paying fees that sometimes reached \$200 per month. Eventually, she had paid \$2,400 in fees. *Mother Jones*, "The few, the proud, the indebted: payday loan shops are drawing fire from military's top brass," May 1, 2004.

<sup>1</sup>Ninety-one percent of payday loans are made to borrowers with five or more loans per year. See Keith Ernst, John Farris & Uriah King, *Quantifying the Economic Costs of Predatory Payday Lending*, Center for Responsible Lending (2003), at <http://www.responsiblelending.org/pdfs/CRLPaydayLendingStudy121803.pdf>.

Military families are a natural target for this scheme. Most are young and often financially inexperienced, and, since they live on or near military bases, lenders can easily locate close to these families. Their steady government-issued paycheck becomes a reliable source of fees for the payday lenders. The lenders can be confident military borrowers will not default on these high-rate loans because members of the armed services face serious consequences for not repaying debt.<sup>2</sup> Finally, most military personnel do not make enough money to get ahead — or out of the debt trap.

### ***Do the math***

The typical private first class starts at an annual salary of \$17,000. Nearly three-quarters of active-duty military never reach a salary higher than \$30,000.<sup>3</sup> As the head of a branch of the Navy-Marine Corps Relief Society explains: “An E-3 [one of the lower ranks], married with one child, after base pay and other allowances has no money left at the end of the month. Zero.”<sup>4</sup>

The trap works this way: at \$20,000 annual salary, bi-weekly after-tax pay is approximately \$700. If regular household expenses are \$600 (a conservative estimate), then that leaves \$100 in disposable income per paycheck. If a military member does not have savings, then almost any emergency can prompt the individual to seek a short-term loan.

Payday lenders take advantage of this need. A payday loan — typically \$300 to \$500 — is due in full on payday. If the borrower only has \$100 in disposable income at the end of a pay period, then even if he pays off the loan, he will need another loan before the next payday to cover that period’s living expenses. Thus, the payday lender willingly makes a new loan or rolls the old one over, collecting another high-interest payment, while not providing any additional credit. So a soldier who has taken a \$300 loan in a time of need will find it very difficult to pay the loan off, and will instead find himself paying \$45 to \$60 each pay period just to keep the same payday loan afloat. In fact, the average payday borrower pays back \$800 to borrow \$325.<sup>5</sup>

### ***Payday shops surround military bases***

A 2005 study by Christopher Peterson, an assistant professor at the Levin College of Law at the University of Florida, and Steven Graves, an assistant professor of

**“Payday lenders crowd around the gates of military bases like bears on a trout stream.”**

From “Predatory Lending and the Military,”  
Graves/Peterson study, p. 183.  
See footnote 6.

<sup>2</sup> Failing to repay a payday loan is a violation of UCMJ Art 123a & 134, punishable by confinement, court martial, loss of security clearance (65 percent of security clearance denials are due to personal financial problems), transfers to a different unit, and even discharge. *Source*: Consumers Union report, *Payday Lenders Burden Working Families and the U.S. Armed Forces*, July 2003.

<sup>3</sup> National Consumer Law Center, *In Harm’s Way – At Home: Consumer Scams and the Direct Targeting of American’s Military and Veterans*, p. 8, May 2003, [www.nclc.org](http://www.nclc.org).

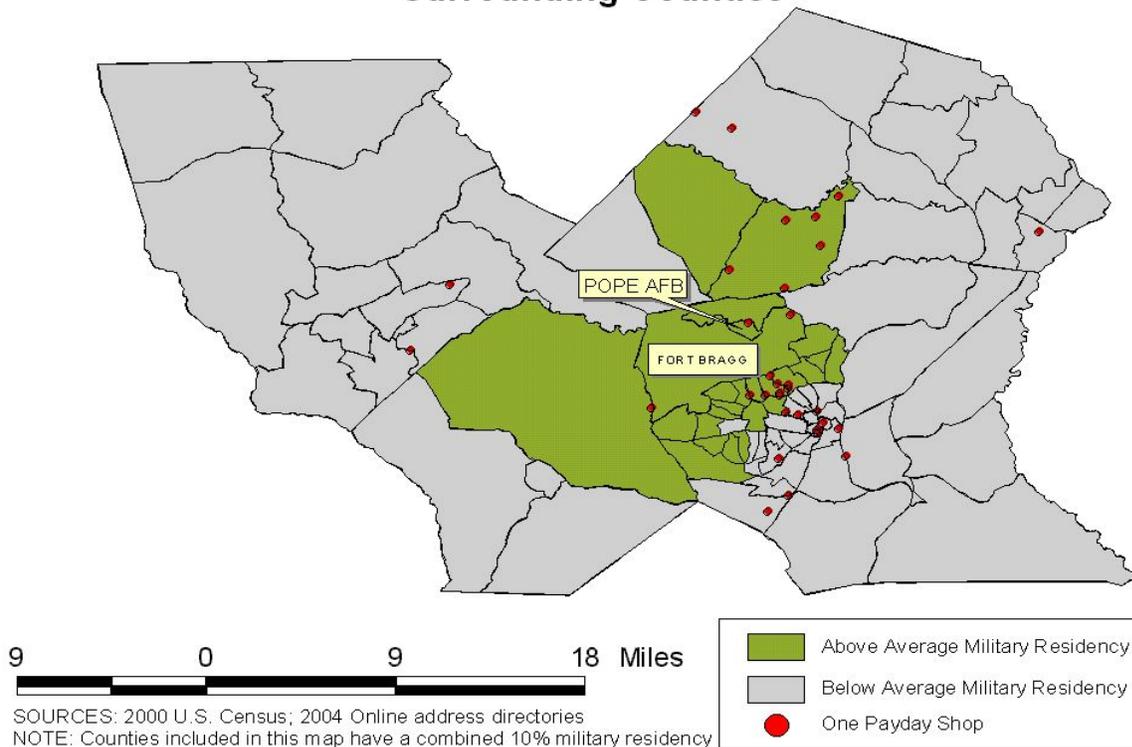
<sup>4</sup> Captain Bill Kennedy, quoted in National Consumer Law Center, *In Harm’s Way*, see footnote 3, pp. 10-11.

<sup>5</sup> The average number of loans per customer per year for Advance America, the nation’s largest payday lender is nine. Average principal is \$325, and average fee is \$52. For a loan renewed eight times, a borrower pays back \$800.

geography at California State University-Northridge, offers strong evidence that payday lenders target the military.<sup>6</sup> Based on their analysis of 20 states and nearly 15,000 payday shops, the authors find that payday lenders are located in counties and ZIP codes adjacent to military bases in significantly greater numbers and densities than other areas. This held true in 19 of the 20 states they studied.

For example, Fort Bragg and nearby Pope Air Force base in North Carolina are home base to about 50,000 active-duty military. The map below shows how payday shops are clustered near the bases and in the communities where the soldiers live. Thirty-one of 33 payday loan shops in this roughly 1,000-square mile area are within approximately five miles of the base and the census tracts where high concentrations of military personnel live.

### Payday Shop Concentrations Fort Bragg & Pope Air Force Base Surrounding Counties



CRL-generated map

The problem of payday lending to military members is receiving widespread, high-level attention. The Department of Defense (DOD) lists payday lending among its top ten issues of concern for military families, and recently asked governors and state legislators to work with the

<sup>6</sup> The study examines 20 states to determine the density of payday lenders within three miles of 109 military bases. Steven Graves & Christopher Peterson, *Predatory Lending and the Military*, March 2005, [http://www.law.ufl.edu/faculty/publications/pdf/peterson\\_military.pdf](http://www.law.ufl.edu/faculty/publications/pdf/peterson_military.pdf).

DOD to protect service members from these loans.<sup>7</sup> Officials with the DOD's Financial Readiness campaign consider payday lending their number one issue.<sup>8</sup>

Military personnel have testified or written letters to state legislators in numerous states, including Virginia, Georgia, Washington and North Carolina, asking for protection from predatory payday lenders as the state legislative bodies debate payday lending legislation. In Congress, Rep. Sam Graves (R-MO) has introduced legislation that would cap payday loans at 36 percent interest for military personnel and their spouses. Sen. Elizabeth Dole (R-NC) has sponsored an amendment to the Defense Authorization bill in the U.S. Senate that would provide the same protection.

***CRL conservatively estimates that one in five active-duty military personnel were payday borrowers in 2004***

Payday industry reports and press statements estimating the number of borrowers who are active-duty military have varied over the past few years, with recent estimates lower than those from 2001 and 2002. The data provided in studies of payday lending and press statements from Community Financial Services Association (CFSA), the payday lender trade group, suggest that anywhere from 1 to 4 percent of payday loans go to active-duty military personnel.

In 2001, the Credit Research Center (CRC) conducted a national survey of payday loan borrowers on behalf of CFSA.<sup>9</sup> The survey questionnaire asks the respondent if he/she is a "member of the military on active duty."<sup>10</sup> While the number of affirmative responses to that question was not disclosed in the study report, CFSA published a fact sheet stating the results — that 2 percent of the respondents were members of the military on active duty.<sup>11</sup>

In 2002, the payday industry sponsored a survey of six states conducted by the IoData Corporation, which found that 4 percent of payday borrowers are active-duty military.<sup>12</sup> Since the IoData reflected payday lending in six states, we extrapolated these results nationwide. To do this, we first compared the ratio of active-duty military to adult population in these six states<sup>13</sup> to nationwide figures. According to 2000 Census data, the military population percentage in the six states is slightly higher than the national average. (See Table 1.)

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<sup>7</sup> Dr. David S.C. Chu, Undersecretary of Defense (Personnel & Readiness), *Key Issues-The Department of Defense/States Military Partnership*, www.USA4MilitaryFamilies.org.

<sup>8</sup> Statement from Lillie S. Cannon, Director of Partnerships and Collaborative Efforts, National Military Families Association, February 1, 2005.

<sup>9</sup> The survey project was supported in part by a grant from CFSA. See Gregory Elliehausen & Edward C. Lawrence, *Payday Advance Credit in America: An Analysis of Consumer Demand*, Georgetown University, McDonough School of Business, Credit Research Center (2001).

<sup>10</sup> See Elliehausen, footnote 9, at p. 82.

<sup>11</sup> On file with CRL and posted on CFSA website, as of September 21, 2005. See <http://www.cfsa.net/mediareports/researchreportcomparisons.iodatagcrc.pdf>.

<sup>12</sup> 2002 IoData Cumulative State Report, see <http://www.cfsa.net/mediareports/Reports/ResearchReportComparisons.IoDataGCRC.pdf>

<sup>13</sup> California, Colorado, Illinois, North Carolina, Utah, Washington

Based on this extrapolation, 3.2 percent of payday borrowers in the U.S. were active-duty military.<sup>14</sup> (See Table 2.)

In press reports, industry spokespeople have claimed that between 1 and 3 percent of payday borrowers were active-duty military, with the latest public statement asserting 1 percent.<sup>15</sup> Unfortunately, these spokespeople have offered little public evidence to demonstrate the extent to which their customer base is composed of active-duty military.<sup>16</sup>

In selecting the appropriate estimate on which to base further calculations, we believe a conservative approach is warranted for these reasons: limited public information is available regarding these industry studies and press statements, problems exist in the CRC survey itself,<sup>17</sup> and the payday industry has grown rapidly since these studies were conducted.

So while industry estimates range up to 4 percent, in order to be conservative, we estimate that 1.5 percent of payday borrowers are active-duty military. We base our calculations on a figure lower than both of the industry-funded reports discussed above, but higher than the one

**Table 1. Armed Forces Compared to Adult Population**

	Total 6 states*	Total U.S.
U.S. population over 16 years old in 2000*	50,896,775	217,168,077
Population of armed forces in 2000*	342,406	1,152,137
<b>Ratio armed forces to adult population</b>	<b>0.67%</b>	<b>0.53%</b>

\*Source: Census Bureau

**Table 2. Payday Borrowers in the Military**

	Total 6 states	Total U.S.
<b>% of payday borrowers who are active-duty military</b>	<b>4%*</b>	<b>3.2%</b>

\*Source: Io Data Study

<sup>14</sup> Calculation: 0.53%/0.67%\*4%=3.2%

<sup>15</sup> “In the 2001 national survey conducted by the Credit Research Center at Georgetown University, only 2 percent of payday advance customers were members of active duty military.” Factsheet by Consumer Financial Services of America, *Payday Advance and the Military*; “Steven Schlein, a spokesman for the group [CFSA], said [military consumers] made up only 2 to 3 percent of all payday loan customers.” Reported by Diana Henriques, *Seeking Quick Loans, Soldiers Race Into High-Interest Debt*, The New York Times, December 7, 2004; “Steven Schlein ... estimates military personnel account for 1 percent of customers.” Reported by Sam Hananel, *Military Warning Personnel on Payday Loans*, Associated Press, June 24, 2005.

<sup>16</sup> A survey commissioned by the CFSA and conducted by Penn, Schoen & Berland Associates concludes that the number of military payday borrowers is much lower even than a Department of Defense survey. It claims that only 51,660 members of the military had taken out a loan in the past five years, which CFSA says comes to only 3.69 percent of the military population. This finding is inconsistent with the industry’s own statements that 1 to 3 percent of their customers are active-duty military (which according to their population figures would reflect that 11 to 32 percent of military members have been recent payday borrowers). CFSA has not offered a detailed explanation of their methodology, so we are skeptical of these findings. See news release on the CFSA-commissioned survey by Penn, Schoen & Berland Associates at <http://www.forrelease.com/D20050203/flth033.P2.02032005171013.27591.html>

<sup>17</sup> For a discussion of flaws in the CRC study, see *Facts About the Georgetown CRC Study*, July 1, 2002 at [http://www.responsiblelending.org/pdfs/Georgetown\\_Study070102.pdf](http://www.responsiblelending.org/pdfs/Georgetown_Study070102.pdf).

inconsistent, unsupported public quote by CFSA’s spokesperson. This figure is 30 percent lower than the average of the available industry data. (See Table 3.)

Based on our conservative estimate that 1.5 percent of active-duty military are payday borrowers, the number of military members who are payday borrowers is 225,000. This means 19.4 percent (or roughly one in five) of active-duty military personnel were payday borrowers last year. (See Table 4.)

A Department of Defense survey<sup>18</sup> found that 9 percent of enlisted personnel and 12 percent of mid-level non-commissioned officers voluntarily admitted that they had payday loans. We believe this survey under-represents the extent of payday borrowing in the military since it depended on military personnel volunteering that they had payday loans. As we know from the CRC study, civilians have proven reluctant to confirm that they have payday loans when surveyed.<sup>19</sup> Assuming that military borrowers have the same degree of hesitancy to admit their use of payday lenders as do borrowers in the general population, the Department of Defense respondents who were actually payday borrowers (whether or not they chose to admit it) may have been closer to 24 percent of the military personnel surveyed.<sup>20</sup>

The 19.4 percent estimate is supported by other recent reports. A December 2004 *New York Times* analysis found that over one fourth (26%) of military households, which includes spouses

**Table 3. Varying industry estimates of percentage of payday borrowers who are active-duty military**

Credit Research Center 2001	2%
IoData study for six states 2002	4%
IoData data extrapolated nationally (CRL)	3.2%
CFSA press statement 2004	2 to 3%
CFSA press statement 2005	1%
Average of industry estimates*	2.2%
<b>CRL estimate</b>	<b>1.5%</b>

\*Includes national IoData figure (not six state data)

**Table 4. Number of Payday Borrowers in Military, 2004**

Stephens Inc. estimate of # of payday borrowers in US in 2004 (a)	15 million
Percentage of payday borrowers who are active-duty military (b)	1.5%
Number of active-duty military personnel who are payday borrowers (c=a*b)	225,000
Department of Defense report of military population in 2004 (d)	1,161,060
<b>Percentage of military members who are payday borrowers (c/d)</b>	<b>19.4%</b>

<sup>18</sup> Sam Hananel, *Military Warning Personnel on Payday Loans*, Associated Press, June 24, 2005.

<sup>19</sup> In a study commissioned by the payday industry, the Credit Research Center attempted to interview 2,196 payday customers and completed interviews with only 427. Almost twice that number (726) denied they had a payday loan even though they were indeed payday borrowers. See Gregory Elliehausen & Edward C. Lawrence, *Payday Advance Credit in America: An Analysis of Customer Demand*, Credit Research Center, April 2001, p. 21 at <http://msb.georgetown.edu/prog/crc/pdf/mono35.pdf>.

<sup>20</sup> In the CRC study (see footnote 21), borrowers denied having loans at rates of 1.7 times the number who acknowledged it. Taking the Department of Defense’s 9% number (see footnote 20) as the percentage that acknowledged their loans times 1.7 comes to 15.3%, which could represent the percentage that had loans but did not acknowledge them. Adding those two figures together comes to 24.3%.

of military members, have recently taken out payday loans.<sup>21</sup> In July 2005, the *Los Angeles Times* reported that 21 percent of San Diego sailors surveyed by the Navy had taken payday loans.<sup>22</sup>

**Active-duty military are 3 times more likely than civilians to be payday borrowers**

As described above, the methodologies in estimating the number of borrowers who are active-duty military raise many questions. Even at the lowest estimate (1 percent), active-duty military are twice as likely as civilians to be payday borrowers. Based on our assessment of the payday industry’s studies and outside surveys, and our conservative 1.5 percent estimate as explained in Table 3, we believe active-duty military are three times as likely to be payday borrowers as other American adults.

Stephens Inc., an investment bank that tracks and invests in the payday industry, estimates that 15 million Americans took payday loans in 2004. Based on this estimate<sup>23</sup> and US Census figures,<sup>24</sup> 6.75 percent of US civilian adults were payday borrowers last year. (See Table 5.)

Comparing this figure (6.75%) to the percentage of payday borrowers in military population (19.4%), we estimate that active-duty military members are three times (2.9) more likely to be payday borrowers than civilians. (See Table 6.)

**Table 5. Percentage of U.S. Civilians who are Payday Borrowers, 2004**

US Census Bureau's total adult civilian population 2004 (a)	219 million
Stephens Inc. estimate of # of payday borrowers in US in 2004 (b)	15 million
# of military payday borrowers based on 1.5% of total borrowers (c= 1.5%*b)	225,000
# of non-military payday borrowers (d=b-c)	14,775,000
<b>Percentage of US civilian adults who are payday borrowers (d/a)</b>	<b>6.75%</b>

**Table 6. Proportion of military members who are payday borrowers as compared to civilians**

Percentage of payday borrowers in military population (a)	19.4%
Percentage of payday borrowers in civilian population (b)	6.75%
<b>Number of times military personnel are more likely to be payday borrowers than civilians (a/b)</b>	<b>2.9</b>

<sup>21</sup> Diana Henriques, *Seeking Quick Loans, Soldiers Race Into High-Interest Debt*, NY Times, Dec. 7, 2004, p.1.

<sup>22</sup> Tony Perry, *Navy, State Target Payday Loan Stores*, Los Angeles Times, July 24, 2005, p. B-3.

<sup>23</sup> Assumes industry sources have not double-counted borrowers by disregarding multi-shop use.

<sup>24</sup> According to the US Census Bureau, the U.S. population in 2004, minus the military population, was 219,216,346.

**Predatory payday lending costs military families over \$80 million every year**

The Center for Responsible Lending conservatively estimates that predatory payday lending — fees charged to borrowers caught in the debt trap (defined as having five or more loans in one year) — costs American families at least \$5.5 billion in abusive fees every year, up from \$3.4 billion in 2002.<sup>25</sup> If 1.5 percent of payday borrowers are military personnel, then military families are losing over \$80 million in abusive fees every year to predatory payday lenders. (See Table 7.)

Yearly cost of abusive payday lending fees nationally (a)	\$5.5 billion
% of payday borrowers who are active-duty military (estimate) (b)	1.5%
<b>Yearly cost of abusive payday lending fees to active-duty military (a*b)</b>	<b>\$82.5 million</b>

**SOLUTIONS**

***CFSA’s “Military Best Practices” will not stop loan flipping***

In an attempt to address concerns about soldiers getting caught in the payday lending debt trap, CFSA has published “Military Best Practices.”<sup>26</sup> Like other CFSA “Best Practices,” they do not require payday lenders to refrain from refinancing a payday loan repeatedly, whether through rollovers or back-to-back transactions.<sup>27</sup> Other important shortcomings, as mentioned in Peterson and Graves’ paper,<sup>28</sup> include no form of price limitation (typical annual interest rates for payday loans exceed 400 percent), and no penalties or sanctions for CFSA members who do not comply – the best practices are merely voluntary.

***Action to protect military families***

Members of Congress have introduced bills in both the House and the Senate that would cap annual interest rates for payday loans at 36 percent for military personnel and their spouses. Military personnel have come forward to testify in a number of states on the harms of payday

<sup>25</sup> Our recent extrapolation of the \$3.4 billion cost identified in an earlier CRL study (See Ernst et al, footnote 1) updates the cost to \$5.5 billion yearly. See Uriah King, Wei Li, Delvin Davis & Keith Ernst, *Race Matters: The Concentration of Payday Lenders in African-American Neighborhoods in North Carolina*, Center for Responsible Lending (2005), at [http://www.responsiblelending.org/pdfs/rr006-Race\\_Matters\\_Payday\\_in\\_NC-0305.pdf](http://www.responsiblelending.org/pdfs/rr006-Race_Matters_Payday_in_NC-0305.pdf).

<sup>26</sup> <http://www.cfsa.net/genfo/MilBestPractie.html>

<sup>27</sup> CFSA Best Practices state: “A member will limit rollovers to four (4) or the State limit, whichever is less. In the few States where rollovers are permitted, a member will limit rollovers to four (4) or the State limit, whichever is less.” In spite of these best practices, CFSA member lenders have continued to flip loans through back-to-back transactions, allowing customers to close out and re-open a loan immediately or within days. Through this method, lenders flip loans an unlimited number of times.

<sup>28</sup> See Peterson et al, footnote 6.

lending to their colleagues. State legislators have responded by proposing a variety of provisions directed at easing the burden of payday lending on military families.

The Department of Defense has invested resources in its Financial Readiness campaign, holding financial fairs in an attempt to steer military personnel away from these abusive loans. The problem is clear to military officials, military coalitions and officers at all levels, and they are consistently seeking legislative action to protect military families from these abusive lending practices.<sup>29</sup>

### ***Securing responsible loans for all borrowers: CRL's payday policy recommendations***

CRL recommends policies that protect military members and all of our citizens from the debt trap of payday lending. The following terms recommended for small loan products are designed to ensure the loans are responsible and fair to borrowers:

- A minimum loan term of 90 days to enable borrowers to recover from financial emergencies;
- Repayment in installments (with no prepayment penalty) to enable borrowers to get back on their feet incrementally;
- Full consideration of borrowers' ability to repay the loan;
- No use of personal check (or electronic equivalent) as loan collateral to stop punitive civil collection actions and accumulation of bounced-check fees, and to remove fear of criminal prosecution;
- Meaningful limits on rollovers, extensions, and back-to-back transactions<sup>30</sup> to stop loan flipping; and
- No mandatory arbitration clauses so borrowers retain their right to sue for redress.

## **CONCLUSION**

Payday lenders target military personnel. They locate stores near military bases. Research they have funded and/or directed suggests that more borrowers are military members than would be expected from the general population. Their own press statements reflect this targeting.

Based on the best analysis we could do with available data, we estimate that active-duty military members are three times more likely than civilians to have taken out a payday loan in the past year. In addition, one in five active-duty military personnel have taken out a payday loan during this time period – payday lending is a fact of life for many military personnel. The cost of abusive payday lending to active-duty military is over \$80 million a year.

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<sup>29</sup> See footnotes 7 and 8.

<sup>30</sup> Rollovers are extensions of the loan with the collection of an additional fee. Lenders evade limits on rollovers by closing out a loan and renewing it immediately or within a matter of days. This form of loan-flipping costs the borrower exactly the same as rollover extensions.

We recommend that policymakers continue their investigation into payday lending in military communities and take steps to protect military personnel from the payday loan debt trap. This report has demonstrated the need for additional protections and for more complete data on this problem.

**About the Center for Responsible Lending**

The Center for Responsible Lending (CRL) is a national nonprofit, nonpartisan research and policy organization dedicated to protecting home ownership and family wealth by working to eliminate abusive financial practices. CRL is affiliated with Self-Help, one of the nation's largest community development financial institutions.

For additional information, please visit our website at [www.responsiblelending.org](http://www.responsiblelending.org).