



Soldiers at Risk:

Military Personnel Vulnerable to Payday Loans

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MILITARY FAMILIES: IDEAL TARGETS FOR PREDATORY PAYDAY LENDING

The Center for Responsible Lending estimates that predatory payday lending costs Americans families at least \$5.5 billion yearly in excess fees, up from \$3.4 billion in 2002. The payday lending business model is designed to cultivate repeat borrowers. Rather than filling a need for short-term credit, payday loans trap borrowers in escalating debt.

An analysis by the *New York Times* reveals that at least one fourth of military households (26%) have been caught up in payday lending.¹ Officials at the Army Emergency Relief office in Fort Bliss, Texas, estimate that 10% of the 10,000 active-duty military stationed there have needed financial counseling because of payday loans and other debt problems.

Military personnel vulnerable

Soldiers are ideal targets for payday loans. They have a steady income from the government, often with little to spare, at an average of \$1,200 per month for new recruits. At deployment time, when military families are faced with extra expenses at home and abroad, they may be more vulnerable to the promise of quick cash from payday lenders.²

Evidence of targeting includes use of business names that imply a military connection (such as Armed Forces Loans and Military Financial, Inc.), employment of former military personnel to solicit soldiers as borrowers, and the clustering of payday lending stores around military bases. The Center for Responsible Lending is documenting this clustering in North Carolina. Similar studies are underway in Florida and California, according to a recent article in the *New York Times*.³

Payday lending routinely brings financial devastation

Navy Petty Officer 2nd Class Jason Withrow, stationed on a nuclear submarine at Kings Bay Naval Submarine Base in Georgia, told ArmyTimes.com that in a five-month period of using payday loans, "I spent about \$7,000 in interest and didn't even pay on the principal \$1,900."⁴

What Are Payday Loans?

To qualify for a payday loan, borrowers need only a bank account and a steady income. They write a post-dated personal check and exchange it for cash from the lender, and are typically given just two weeks to repay their loan. In a typical scenario, the borrower writes a \$300 check, and takes home \$255 in cash, leaving a \$45 fee with the payday loan company. Fees are typically at least \$15 per \$100 borrowed, amounting to interest rates that routinely exceed 400% APR.

When the loan is due, most borrowers cannot pay it off. They face the threat of multiple bounced-check fees, and/or legal action by the lender. To avoid default, they must pay another \$45 and keep the loan outstanding, or close it out and immediately renew it in a back-to-back transaction. In either case, the borrower pays \$45 every two weeks to float a \$255 advance, never paying down the original amount of the principal.

Renewals are the rule, not the exception. Fees from borrowers with five or more times per year account for 91 percent of payday lenders' business.

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.⁵

Once caught in the debt trap, military members are reluctant to admit their financial problems for fear of reprisal from their commanding officers. Failing to repay a payday loan is a violation of UCMJ Art 123a & 134, punishable by confinement, court martial, loss of security clearance, transfers to a different unit, or discharge.

Payday lending threatens military mission

Payday lending is a problem not only for the soldiers, but for the mission of the military. As retired Navy captain Chalker W. Brown said in the *New York Times* article, "The last thing you want is a young sailor programming a Tomahawk missile in the Persian Gulf who is worrying about whether his car is being repossessed back home." Rear Admiral David Architzel, commander of the Navy's Mid-Atlantic Region, has also voiced his concern: "You want to know that [service men and women] are focused and paying attention. When they are not paying attention bad things happen."⁴

Military leaders recognize impact of payday lending on soldiers

The Department of Defense has listed payday lending as one of the top ten key issues impacting the quality of life of U.S. soldiers, asking governors and state legislators to work with them in protecting service members. Organizations such as the Army, Navy-Marine Corps, and Air Force Relief Societies provide financial counseling and emergency financial assistance to military members, and many military credit unions are now offering short-term loans with fair loan terms to servicemen and servicewomen in need of emergency funds, as an alternative to abusive payday loans.

In a report by the Consumer Union's Southwest Regional Office, Admiral J.L. Johnson, a former member of the Joint Chiefs of Staff, stated, "There can be no question that military families are among the 'targeted group.'"⁶

An estimated 180,000 military households were exposed to the high-cost entrapment of payday lending in 2002.⁷ The high growth and devastating impact of this industry is a serious threat to the well-being of our soldiers and their families.

About the Center for Responsible Lending

The Center for Responsible Lending 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.

¹ Henriques, Diana B. "Lenders at the Gate; Debtors in the Barracks." *New York Times*, December 7, 2004.

² IN HARM'S WAY - AT HOME: Consumer Scams and the Direct Targeting of America's Military and Veterans. National Consumer Law Center, May 2003.

³ See endnote 1.

⁴ Bynum, Russ. "High-interest lenders sink troops into debt." *ArmyTimes.com*, December 14, 2003.

⁵ "Payday Lenders Target Military Members." *FOXNews.com*, March 31, 2004.

⁶ Payday Lenders Burden Working Families and the U.S. Armed Forces. Consumers Union, July 2003.

⁷ See endnote 1.