



The Military Lending Act of 2006

Provisions and limitations of the 36% APR cap for loans to military personnel

CRL Summary

THE MILITARY LENDING ACT OF 2006

Department of Defense Study

As a provision of the National Defense Authorization Act for Fiscal Year 2006, the United States Senate asked the Department of Defense to conduct a study on the impact of predatory lending on their troops, and to report on their findings in 180 days.

The Department of Defense (DoD) report, “Report on Predatory Lending Practices Directed at Members of the Armed Forces and Their Dependents,” estimated that 17 percent of military personnel used payday loans, and states in a summary passage that: “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.”

The DoD recommended a 36 percent cap on APR for consumer loans to military personnel, including all fees.

Passage of the Military Lending Act (MLA)

An amendment to protect military families from predatory lending, proposed by Senators Jim Talent (R-MO) and Bill Nelson (D-FL), and Representative Sam Graves (R-MO), passed Congress on September 30, 2006 as H.R. 5122, Section 670 of the John Warner National Defense Authorization Act for Fiscal Year 2007, and was subsequently signed by President George W. Bush.

The MLA applies to active-duty military personnel (except where specified for less than 30 days), active National Guard or Reserve personnel, and their dependents. It includes the following provisions:

- Caps annual interest rates for consumer credit to military borrowers at **36 percent** including all fees and charges, credit insurance premiums and other ancillary charges.
- Prohibits lender from securing a consumer credit loan to a military borrower with a personal check, debit authorization, wage allotment, or title to a vehicle.
- Requires written and oral disclosure of interest rates and payment obligations before loan is issued.

- Retains the following legal rights for borrowers:
 - States must enforce their own laws to protect military families stationed within their borders.
 - Lenders cannot require mandatory arbitration or unreasonable notice provisions in the event of a dispute with borrowers.
 - Lenders cannot require that borrowers waive their right to legal recourse under any law, including the Servicemembers Civil Relief Act.
- Prohibits rollovers, or same-creditor refinances, renewals or consolidations.
- Makes violations a misdemeanor and preserves remedies including awarding of damages and voiding of contracts.

Implementation of the MLA

Congress gave the Department of Defense the authority to define the types of loans covered by the MLA. Final rules exclude credit cards, overdraft loans, military installment loans and all forms of open-end credit from coverage by the MLA. Thus the Act covers traditional payday loans, car title loans and refund anticipation loans, but does not cover loans with similar costs but varying structures.