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PENTAGON URGES LIMITS ON PAYDAY LOANS

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The Pentagon, worried that too many members of the military are falling victim to ruinous interest rates and getting into deep financial trouble, is backing an effort in Congress to slap a nationwide cap of 36 percent on payday loans to troops. An increasing number of states are taking steps, too.

In a report released last month, the Defense Department estimated that 225,000 service members -- or 17 percent of the military -- use payday loans. The Center for Responsible Lending, a nonprofit group seeking stricter industry controls, says that one in five service members took out such a loan in 2004, and that someone who borrows \$325 pays an average of \$800 in charges.

Industry officials say payday loans offer a service when no one else will.

They say a lower cap could force some military lenders to close, driving sailors and soldiers to unregulated lenders, including Internet sites registered outside the United States.

"The demand for the service is always going to be there, and people are going to be endlessly inventive in ways to meet it," said Mark Thomson, director of government relations for Moneytree Inc., a Seattle lender.

Twelve states prohibit triple-digit rates on payday loans, according to the Consumer Federation of America. They are Arkansas, Connecticut, Georgia, Maine Maryland, Massachusetts, New Jersey, New York, North Carolina, Pennsylvania, Vermont and West Virginia.

Despite interest limits in Arkansas, borrowers often pay interest and fees that are more than 100 percent.

In New Mexico, borrowers can renew payday loans only twice.

In California, legislators have been considering bills that would impose interest rate ceilings or give military borrowers a 180-day grace period and no-cost extensions while they are on duty overseas.

Military bases offer financial counseling and zero-interest emergency loans to troops in trouble. They also can recommend credit unions that offer low-interest loans.