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Law caps interest on 'payday advances' to servicemembers

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AP

The Defense Department is backing an effort in Congress to establish a nationwide cap of 36% on loans to troops, avoiding high interest rates found at many payday advance lenders, like this one in Oceanside, Calif..

By William M. Welch, USA TODAY

Consumer loans to servicemembers will be limited to 36% annual interest next year under a law President Bush signed Tuesday that is aimed at store-front lenders clustered around military bases.

The law is a response to "payday advance" stores that market short-term loans, typically charging \$15 or \$20 per \$100 loan for periods of up to two weeks or a borrowers' next payday. Borrowers generally renew loans several times before paying them off, and the fees result in effective annual interest rates of 400% or more, a Defense Department study concluded.

Congress approved the limits before adjournment this month. Bush signed it into law as part of a larger defense bill.

Military officers pushed for the law, saying the loans saddled low-paid enlisted men and women with debts that ruined their finances, jeopardized security clearances and left them unable

to deploy to Iraq or other assignments.

"What we're hoping is a lot of payday lenders will pack up and go elsewhere because they can't bilk the military for the exorbitant interest rates," says John Irons, a retired Navy captain and director of the Navy-Marine Corps Relief Society in San Diego, which counsels and aids sailors and Marines.

"This will be a great help," says Capt. Mark Patton, commanding officer of Naval Base Point Loma. "It is a great statement by Congress on the importance of the financial health of our military, especially right now when our readiness is so strained by the demands of war."

The Defense Department report said the average borrower pays \$827 on a \$339 loan and called the lending predatory. The 36% rate cap means lenders can charge no more than \$1.38 on a \$100 loan for two weeks — an amount lenders say is too low to be profitable.

"That's why the 36% rate cap means we're getting out of the military business," said Steven Schlein, spokesman for the Consumer Financial Services of America, a trade group whose members operate half the 22,000 short-term lending stores across the USA.

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Darrin Andersen, president of the group, said the industry will still offer loans to civilians. "While this will only have a slight impact on our industry's bottom line, it will have a large impact on individuals in the military who will have to look elsewhere when they are in need of a short-term loan," he said.

The limit was added to the defense bill in a House-Senate conference after passing the Senate overwhelmingly. The House of Representatives did not initially approve it, but opposition melted in the face of the Pentagon report and media attention, said Sen. Jim Talent, R-Mo., a sponsor of the limit.

"It means that we're going to protect our servicemen and women from this kind of abuse," he said.

Michael Calhoun, president of the Center for Responsible Lending, said Congress should "extend these protections to all of America's working families."

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