Department of Defense Moves to Limit Interest Rates Charged to Military Families

September 30, 2014 - The Department of Defense (DoD) has published a proposed rule in the Federal Register that would limit interest rates that military families can be charged by lenders on a wide variety of loan product. The proposal would have very limited impact on credit card interest rates, but significantly limit many other loan products. The rule would extend interest rate limitations as defined in the Military Lending Act (MLA) to cover virtually all lending products currently covered by the Truth in Lending Act (TILA).

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The MLA currently limits interest rates for certain lending products to 36%. While that may seem high, over the years many lenders have developed new lending products specifically designed to circumvent the MLA limits. And members of the armed forces have taken to using many of those products with alarming frequency and some very bad consequences.

According to the DoD's Federal Register publication, there are currently 1.4 million active duty members of the armed forces. 4.9% of them use payday loans with a median APR of 391%. 7% of active duty personnel use installment loans with a median APR of 80%. And .3% of use auto title loans with median interest rates of 300%.

There are several very good reasons for the DoD to be concerned with high interest rates and service members/families that are overextended on credit.

In military circles, a service member who is heavily in debt is considered to be vulnerable to manipulation. That manipulation can take the form of selling classified information to foreign governments. That's why the military won't assign active duty service members with too much debt to overseas posts. It is also one of the primary reasons for active duty personnel working on classified projects to lose their security clearance. When that happens, it normally ends any hopes of a military career.

According to the publication, for the years 2003 to 2011, there were approximately 8,000 involuntary separations from the armed forces annually due to loss of security clearance caused by being overextended on credit. An involuntary separation is essentially the same thing as being fired. And involuntary separations due to financial distress occur when a service member is overextended on credit, and either stops making payments or misses payments to creditors. At that point, the service member will lose his or her security clearance and be let go from the military.

The DoD estimates the average cost to the department for an involuntary separation at approximately $58,000.

Therefore, the DoD has a vested interest in reducing the indebtedness of service members. The DoD is seeking public comments on the new proposed rule. Comments are due by November 28th.
byJim Malmberg
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