

# Defense against rates

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## Military wants to crack down on payday lenders that charge high interest

**SAN DIEGO (AP)** — With a family to feed and no money for groceries, Navy Yeoman 2nd Class Damon LaForce recently did something the military is trying to crack down on: He went to one of the many payday-lending businesses near his base for an instant loan.

Essentially, he borrowed against his next paycheck: After showing his military ID and a proof of address, LaForce wrote the lender a postdated check for \$300. Five minutes later, the sailor walked out with \$255 cash in his pocket.

"It was easy," LaForce said. The \$45 charge for his two-week loan would amount to an

annual interest rate of a staggering 459 percent.

Worried that too many members of the military are falling to victim to ruinous interest rates and getting into deep financial trouble, the Pentagon 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 August, the Defense Department estimated 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 mem-

bers took out such a loan in 2004, and that someone who borrows \$325 pays an average of \$800 in charges.

In the six weeks after he borrowed from a payday lender, LaForce was short again, so he renewed it once, then took out another loan to pay off the first.

Total cost: \$150 for a \$255 advance.

"You are not doing a service to an individual who is already

short on cash, so he's living not just paycheck to paycheck, but from almost paycheck to almost paycheck," said Capt. Mark D. Patton, the commanding officer for Naval Base Point Loma in San Diego, where LaForce is stationed.

Patton said the Navy is worried that payday loans are contributing to the surge in the number of sailors who cannot be sent into duty overseas because of financial problems.

Under Navy rules, sailors whose debts are more than 30 percent of their income cannot be sent overseas, because their financial problems could distract them from their duties or, worse, make them vulnerable to bribery.

"An individual under excessive financial stress is subject to his integrity being compromised," Patton said. "Almost every case of espionage in our military has in some way had ties to financial greed or need

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on the part of the individual."

Patton said since 2000, the number of sailors and Marines barred from deployment because of financial problems has climbed 1,600 percent, straining an already stretched military. Security clearances were denied or revoked because of financial difficulties for some 2,000 sailors last year, and the trend is similar in other services, he said.

"I have guys guarding my gate here when they should be deployed in Iraq," Patton said.

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 U.S.

"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-based 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. 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.

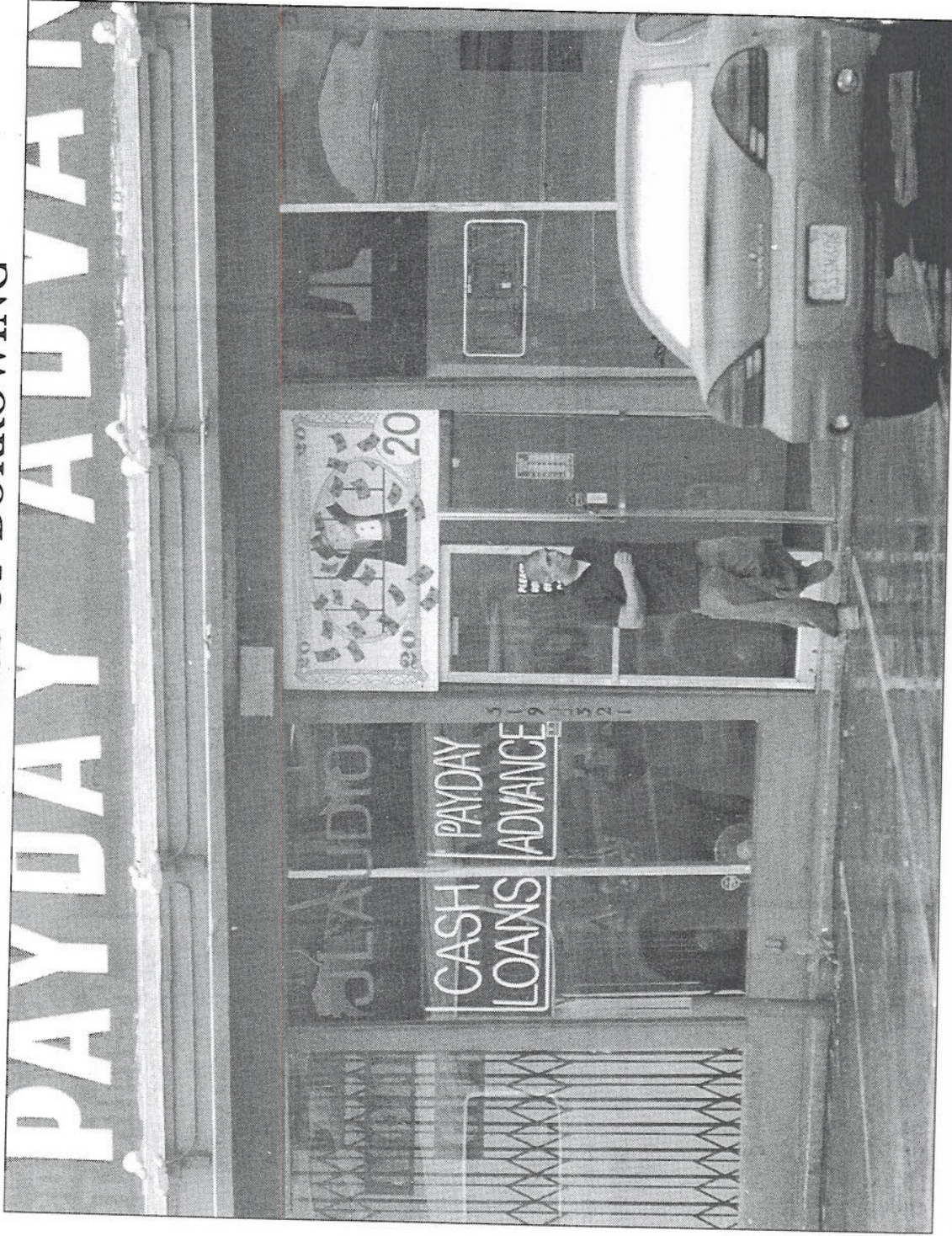
Many payday loan businesses are clustered near military installations, with nearly two dozen of them around Camp Pendleton, the Marine base north of San Diego.

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.

But some members of the military prefer the no-questions-asked attitude at payday lenders.

"I'm pretty smart and have a college degree, but maybe it's a defense mechanism where you don't let yourself calculate how much it really costs," said Kim Czaja, the wife of a San Diego sailor who borrowed \$300 and ended up paying more than \$1,000 in fees.

## THE BUSINESS OF BORROWING



THE ASSOCIATED PRESS  
A customer leaves the Payday Advance store in Oceanside, Calif. Many of these payday advance lenders charge extremely high interest rates, the kind of fee spurring military brass to lobby for state and federal controls on what they consider predatory lending. The Defense Department is backing an effort in Congress to establish a nationwide cap of 36 percent on loans to troops, while states are increasingly taking steps on their own.