November 2015

A snapshot of servicemember complaints

Products impacted by the new Military Lending Act rule

Consumer Financial Protection Bureau

As of November 2015, the Consumer Financial Protection Bureau had received almost 2,500 complaints from servicemembers, veterans, and their dependents about high-cost consumer credit. Consumers submitted these complaints to the CFPB under two different product categories: under our "payday" loan complaint category, or under our "debt collection" complaint category with the "payday" sub-product.[1]

FIGURE 1: TOTAL COMPLAINTS SUBMITTED BY SERVICEMEMBERS, VETERANS, AND THEIR DEPENDENTS (BY PRODUCT)

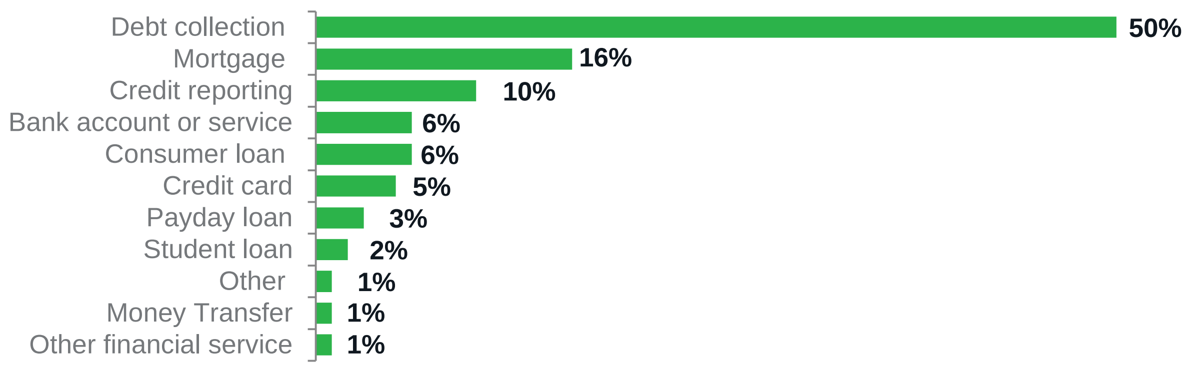
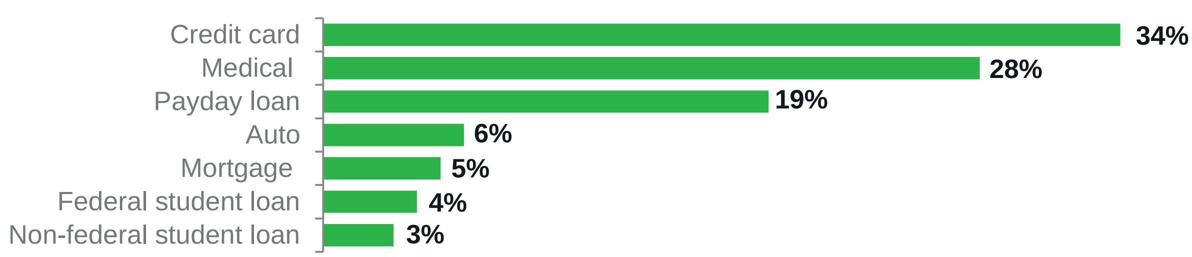


FIGURE 2: DEBT COLLECTION COMPLAINTS SUBMITTED BY SERVICEMEMBERS, VETERANS, AND THEIR DEPENDENTS (BY SUB-PRODUCT)



[1] Consumers submitted these complaints to the CFPB under two different product categories: as "payday" loan complaints and as "debt collection" complaints related to payday loans. The Bureau began accepting "debt collection" complaints in July 2013 and "payday" loan complaints in November 2013. This figure only includes complaints where consumers were able to specifically identify the type of debt being collected, thus it excludes complaints where the consumer selected "Other" or "I do not know" in response to the question, "What type of debt is this?"

While the “payday” loan complaint category represents 3 percent of total servicemember complaints, the “payday” loan sub-product category represents 19 percent of the complaints submitted by military consumers under the “debt collection” complaint category. “Debt collection” is the largest complaint category for military consumers, as well as for all consumer complaints. Within the “debt collection” category, the number of complaints stemming from the “payday” sub-product is very high: more than auto loans, mortgages, and student loans combined. Given the overall size of the financial marketplace for high-cost consumer credit products, the number of debt collection complaints servicemembers, veterans and their dependents submitted stemming from these loans is high. This suggests, in part, that military consumers struggle more with repayment of high-cost credit products as compared to other types of credit. The good news is that recent updates from the Department of Defense to the regulation implementing the ***Military Lending Act*** *(MLA)* should generally help servicemembers and their families avoid this type of high-cost debt going forward.

The chart below contains examples of high-cost credit products received by active duty servicemembers prior to the Department of Defense’s July 2015 revision of the regulation implementing the MLA. These servicemembers, who were struggling to pay back their loans, reached out to the CFPB and submitted complaints because they believed they were protected by the MLA’s limitation on the cost of credit. Although these loans carried high costs, they did not fall under the MLA under the prior implementing regulation:

Loan amount	APR	Loan term	Total finance charge
$2,600	139%	48 months	$11,500
$1,000	234%	24 months	$3,819
$1,000	500%	5.5 months	$1,313

One military consumer stated his frustration: *“While serving [in the military], I fell behind on money. I applied for a [loan] with [company]. After being charged over $200 every two weeks and my balance not going down I did some research and found out I have a 153.01% interest rate. When I contacted them about this being illegal for [servicemembers] they blew me off. Having this is ruining my credit score and I cannot keep up.”*

Changes to the Military Lending Act

Congress enacted the MLA to protect servicemembers from loans with a military annual percentage rate over 36 percent, with some exceptions. The initial rule implementing the MLA applied its protections to a very limited set of products, including narrowly-defined payday loans, auto title loans, and tax refund anticipation loans. In July 2015, the Department of Defense changed the implementing regulation so that more products are covered by the law's protections.

Here's what to know about the new rule, which became effective on **October 1, 2015**:

- Lenders will be expected to comply with the new rule on October 3, 2016 for all covered products other than credit cards. The compliance date for credit cards is October 3, 2017.
- For loans covered by the MLA, the all-in cost of credit will be limited to an **annual rate of 36 percent** (referred to as the Military Annual Percentage Rate or "MAPR"). Included in the MAPR are costs like finance charges, credit insurance premiums or fees, and additional fees associated with credit such as application or participation fees, with some exceptions.
- The new rule extends the protections of the MLA to a broader range of consumer credit products than previously covered. The MAPR cap and other MLA protections will now apply to all consumer credit subject to disclosure under the Truth in Lending Act, except for certain statutory exceptions. These exceptions include residential mortgages and certain secured loans for the purchase of personal goods and vehicles and that are secured by those items.
- For credit cards, there is a limited exclusion for "bona fide fees" when calculating the MAPR. This means that for credit cards some common fees, such as cash advance fees and foreign transaction fees, generally need not be included in the overall price limit.