

DOUBLE WHAMMY

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PAYDAY LOAN VICTIMS FACE SECURITY CLEARANCE PROBLEMS

"Need money fast? Want up to \$1,500 wired to you in one hour? Get an advance payday loan exclusive to the U.S. military!"

While these online advertisements may sound enticing to cashstrapped service members, they could ultimately cost them their jobs. Members of the military who unwittingly find themselves in dire financial straits with so-called "payday lenders" are often surprised when their security clearances are either revoked or denied, an increasingly common scenario that not only ruins career opportunities but hinders military readiness, according to Navy officials.

"The No. 1 reason our sailors are forced from one job to another is because they lose their security clearance," said Master Chief Petty Officer of the Navy Terry D. Scott. "And the No. 1 reason they lose their security clearances is because of financial difficulties."

During the last few years, the Navy has had to cycle through excessive numbers of service members to meet its manpower needs as they deploy to assignments in places such as Iraq, Afghanistan, Djibouti and Guantanamo Bay, Cuba, according to Scott. For every sailor who drops out of a mission due to a revoked security clearance, a replacement must be found, he said.

"They're not eligible to get a security clearance, or they've lost their security clearance, as a result of financial difficulties," Scott said.

The number of security clearances of sailors and Marines that were revoked or denied due to financial problems have soared from 124 in fiscal year 2000 to 1,999 in 2005. The total for the six-year period: 5,482.

Security problems are but one of the serious ramifications of the increasing number of payday loans to military families. Some sailors have ruined their financial lives by taking out successive payday loans at exorbitant rates they cannot pay off.

Top Navy officials note that many sailors refuse to talk to commanders, service lawyers or counselors about their financial problems for fear it will damage their careers. Meanwhile, the number of payday loan stores has shot up in recent years, and there are indications that increasing numbers of sailors are relying on payday loans. Navy leaders say the situation diminishes unit morale and operational readiness.

Payday lending is the practice of using a post-dated check or electronic checking account information as collateral for a short-term loan - often a matter of days - with high interest rates that average around 400 percent annually.

In many ways military personnel - particularly those in the lower ranks - are an ideal demographic for payday lenders because they usually have a steady government paycheck with little to spare at an average of \$1,200 a month for new recruits. Military families gearing up for deployment face extra expenses at home and abroad and are especially vulnerable to the promise of quick cash from payday lenders.

The Navy-Marine Corps Relief Society (NMCRS), a charitable organization that assists service members with financial guidance and loan programs, estimates more than 23,000 payday loan outlets generate loans of \$40 billion annually to civilian and military personnel, collecting \$6 billion in finance charges last year alone. Military families pay an estimated \$80 million annually in payday loan fees, according to NMCRS.

The number of predatory lending outlets has doubled since 2000, and 91 percent of all loans are made to people who take out five or more loans per year, according to NMCRS briefing charts on payday lending. Last year, one in five active-duty military personnel were payday borrowers. Active-duty personnel are three times more likely than civilians to go to a payday lender, and 70 percent of all customers choose a payday lender for convenience, the NMCRS charts state.

The extent to which military members use payday loans is unknown, according to an April 2005 report by the Government Accountability Office (GAO). However, NMCRS assistance to military members with payday loan problems nearly doubled in three years, from \$516,000 in 2003 to about \$1 million in 2005.

Scott said the problem has "reached a crescendo" in recent years and that "there is a widespread concentration" of payday lenders located near military bases.

North Carolina's Center for Responsible Lending (CRL), a Durham-based nonprofit group that fights predatory lending practices, asserts that payday loan companies directly target military personnel by using business names implying a military connection, employing former service personnel who solicit military customers for their business and locating stores in close proximity to military bases.

For example, scores of payday loan outlets are clustered near military bases in the Norfolk, Va., area, and outside Camp Pendleton Marine Corps Base, Calif., according to maps contained in a March 2005 draft report, "Predatory Lending and the Military: the Law and Geography of 'Payday' Loans in Military Towns," by Steven M. Graves, a geography professor at California State University, Northridge, and Christopher L. Peterson, a law professor at the University of Florida.

In the study, the professors conclude there is "irrefutable geographic evidence demonstrating payday lenders are actively and aggressively targeting U.S. military personnel."

In addition to security clearance problems, a sailor who is financially overextended and unable to meet obligations such as those associated with high interest rates charged for payday loans could diminish unit morale and operational effectiveness.

Navy Capt. TJ Dargan, chief of staff for Navy Region Northwest, said his pilots and aircrew men and women can become dangerously unfocused as a result of personal stress, including financial hardship. Dargan said he routinely meets with command members on flight status in order to evaluate personal situations and make

hard decisions about their ability to perform.

"I will take pilots or aircrew off flight status while they solve these problems," he said, adding that he has taken people off the flight deck as a result of payday lending issues. "It's a proactive approach."

Dargan said sailors often lack the financial savvy to realize they've walked into a trap.

"Sailors don't understand this industry is predatory," he said. "Some will have as many as 13 payday loans out, and they see that as their own financial responsibility because they don't understand the industry is designed to entrap them."

Dargan said if sailors come forward they can often get help with their finances. But many are afraid they will suffer because of security concerns. "It could negatively influence their career opportunities or clearances."

The study by Graves and Peterson cites John D. Hawke Jr., then-U.S. comptroller of the currency, who remarked to the American Banking Association's National Community and Economic Development Conference in Baltimore in March 2002 that "California alone has more payday loan offices - nearly 2,000 - than it does McDonalds and Burger Kings."

As the problem grows, payday loan companies are coming under increased scrutiny from Navy leaders who see abusive industry practices affecting quality of life and operational readiness. In a May 3 administrative memo to Navy personnel, Adm. Mike Mullen, chief of naval operations, underscored the impact of payday lending on military preparedness.

"A sailor's financial readiness directly impacts unit readiness and the Navy's ability to accomplish its mission. ... I am concerned with the number of sailors who are taken advantage of by predatory lending practices, the most common of which is the payday loan," Mullen wrote.

Consumer loans are regulated in large part by the states. Fifteen state governments, including New York, West Virginia and Arkansas, prohibit payday lending through usury laws and other regulations, according to a 2004 report by the Consumer Federation of America. Some states, such as Georgia and North Carolina, have outlawed payday lending entirely.

North Carolina essentially banned the businesses in 2001, with the state's last three payday lending companies agreeing to close shop in March. Georgia outlawed the practice in 2004, declaring it a public nuisance. The Virginia legislature in 2005 considered, but declined to pass, limits on payday loans such as a maximum interest rate of 36 percent.

In the state of Washington, Dargan said the Navy has been working with what it sees as more legitimate lending institutions in an effort to provide reasonable short-term loans to junior sailors.

"We are engaging local credit unions and banks to provide products to our sailors that scratch the itch, so to speak, for that short term, low-collateral loan," he said, adding that it is important for Navy leaders to educate sailors about the pitfalls of street-corner loans. "It's not about financial irresponsibility, it's about predatory lending. So we're educating our troops on the aspects of financial products out there, and we want them to

make good informed decisions."

Dargan said he and Navy Region Northwest Commander Rear Adm. William French continue to be heavily engaged with the Washington state legislature on the issue.

"We're seeing traction, an understanding on the part of the legislators," Dargan said, adding that any expectation of change during this year's short legislative session was low. "We have high hopes for next year. We will keep going back until we convince the legislature that this is bad for the citizens of Washington and the sailors who reside here."

Washington State Rep. Barbara Bailey said that while the legislature has considered numerous proposals to deal with unscrupulous payday lenders, state regulations, by and large, are some of the toughest in the country. However, more could be done to enforce those regulations without being onerous, such as requiring payday lenders to fully disclose details of loan contracts.

"You almost feel like sometimes you need to have one of those disclaimers like you have on a package of cigarettes that says 'payday lending may be hazardous to your financial stability,'" she said. "There needs to be full disclosure." Bailey also is a national director of the Navy League, the publisher of Seapower.

Steven Schlein, spokesman for the Community Financial Services Association, a Washington, D. C.-based industry advocacy group, said the industry as a whole supports state regulation seeking to curb abusive practices.

Efforts by North Carolina and other states to close payday-lending stores, however, have merely driven customers to other sources of quick cash advances, including online lending, he said. Demand for payday loans is too great to let states abolish the industry entirely.

"All they've done is shut storefront payday loans, and so consumers find other means," Schlein said. "There is no stopping payday lending because there is a demand for it and people are going to find it one way or another."

Bailey agrees.

"There's something happening that's causing this industry to flourish," she said.

Bailey said stiffer competition among payday lenders could be part of the solution.

"I don't know if the answer is to cap fees or to make the consumer more aware that they can get the same kind of service with another company at a lesser rate," she said. "But an average 400 percent [interest rate] is an exorbitant amount for people who can't afford it, because we're talking about a segment of society that's going to this service. They're already having financial difficulty and all we're doing is adding to it."

She added that the military could also do a better job educating its people on the pitfalls of cash-advance loans.

"We need to encourage our military commands to provide a full education of what the local and state

regulations are in regards to the payday lending industry," she said. "Military personnel move around, and [regulations] vary from state to state."

Such preventative measures could be the best solution, she said.

"If people weren't utilizing these services this industry would go away," Bailey said.

Although the Defense Department is not seeking any payday lending legislation in its fiscal 2007 budget request to Congress, department officials are working with individual states to cap payday loan interest rates for military personnel at 36 percent.

In some states, the Pentagon is also seeking to allow borrowers to ask the lender for a repayment plan after only one loan, rather than after multiple loans. Other initiatives include giving borrowers 60-90 days to repay loans, and prohibiting lenders from requiring borrowers to waive the right to sue.

In their study, Graves and Peterson concluded that "all state legal strategies except for aggressive criminal prosecution of usury laws have been ineffective" in deterring payday loan companies. "Our interdisciplinary use of law and geography should serve as a realistic check on ... unfounded faith in the efficacy of our existing legal strategies."

David Dubois, the Navy's program manager for military career readiness, said last year the Navy offered special classes and seminars focused solely on predatory lending to more than 96,000 Navy personnel.

Dubois, who oversees all of the Navy's Fleet Family Support Centers, said the service's financial management program offers a standardized curriculum that discourages sailors from seeking payday loans in the first place.

"Our primary emphasis in our approach is with education and training of our sailors," he said. "You find very little financial management taught in high school or college, so we have a full approach from basic money management all the way through saving and investing - it runs the whole gamut"

But the key, Dubois said, is using continuous positive reinforcement to change bad personal habits that can lead to financial trouble.

"You don't just take someone in the classroom and expect them to go home and change their lifestyle," he said. "It takes a long time for people to break habits."

In addition to education and training, Dubois said the Navy offers an outreach program through its command financial specialists - trained financial counselors who function at the command level to help sailors even when deployed at sea.

John Alexander, vice president of the NMCRS, said, "Military families experiencing financial difficulties that result from credit problems, unforeseen expenses or any other reason should always seek financial help from military aid societies first, since our loans are interest-free and the schedule for repayment is flexible and based on the service member's ability to repay the loan."

Information about the dangers of short-term, highinterest loans is available at www.nko.navy.mil

In addition, the issue has received extensive coverage in the press, including recent articles in The New York Times, St. Petersburg Times, Consumer's Union and Mother Jones magazine.

In his May 3 message, Mullen told the financial specialists in each command that they were "on the front lines in the battle against predatory loans," and urged them to make every effort to educate sailors about predatory loans and encourage them to use the Navy's free legal assistance before signing a loan agreement.

He also raised the payday lending issue in his closing remarks to the House Appropriations Military Quality of Life subcommittee in March.

"This is spiraling into a very, very tough, tough environment for many of our sailors and their families," Mullen told the panel.

He said the issue strikes at the heart of military quality of life, and asked that lawmakers consider ways to curb payday lending "at such extraordinary interest rates."

The 2006 defense authorization bill requires the Pentagon to report to Congress by July on the prevalence and impact of payday loans to military people. In addition, 64 House members are co-sponsors of legislation written by Missouri Republican Rep. Sam Graves to amend the Soldiers' and Sailors' Civil Relief Act that would cap payday loans to service members and their families at 36 percent annual interest.

The proposal also would require more transparent loan disclosures and prohibit loan rollovers, said Brianne Hyder, Graves' communications director. Introduced in January 2005, the bill has not made it out of the Veterans Affairs Subcommittee on Economic Opportunity. However, Hyder said the political prognosis is "realistically, really good."

Graves gets additional co-sponsors each time the issue is discussed in Congress, and expects the Pentagon's forthcoming report to generate additional interest, Hyder said.

Meanwhile, the GAO has said the services could do more to police payday loan firms. For example, most bases have Armed Forces Disciplinary Control Boards that can recommend a business be placed off-limits to service members. At some installations, the boards rarely meet due to high deployment levels and the bureaucracy involved in placing a business off limits.

In addition, the GAO said in its April 2005 report that base newspapers should exercise more care in accepting advertisements from loan companies, and require that ads be labeled to clearly indicate they are not affiliated with the government, despite the practice of many companies to use military-related titles.

While a lot of effort to reach out to service members can be directed at the command level, Dubois said that, ultimately, it is up to the individual sailor to come forward and seek assistance.

"Personal finances are just that - very personal," he said. "The biggest barrier we're facing is the pride of a sailor."