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Prepared Statement

Before the

Committee on Banking, Housing, and Urban Affairs

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Mr. Chairman, Senator Sarbanes, Members of the Committee on Banking, Housing, and Urban Affairs: I am honored to have the opportunity to testify this morning on the Department of Defense Report on Predatory Lending Practices Directed at Members of the Armed Forces and their Dependents. The Navy-Marine Corps Relief Society was founded by President Theodore Roosevelt in 1904 to provide emergency financial assistance in the form of interest-free loans and grants to Sailors, Marines and their families. Through the decades, our organization has encountered various scams, but none as flagrant and serious as today's predatory lending industry. As President of the Society, I have personally witnessed the downward spiral of debt suffered by our Sailors, Marines and their families who seek financial assistance from predatory lenders. This industry says it does not target the military, but pick up any edition of Army, Navy, Air Force or Marine Corps Times and you'll see large, color advertisements with quotes like "Our entire focus is on the U.S. Military"; or "We are dedicated exclusively to military personnel.." Instead of solving what may be temporary cash flow problems, these military families

become overwhelmed and financially destroyed when they fall into the payday loan trap. The resulting low morale and pre-occupation with personal financial difficulties has a negative impact on military readiness. Their stories are heart-wrenching:

- A 21-year-old Active Duty Sailor in Virginia Beach, with four dependents was involved in payday loans for two years. He started in March 2004 by taking out three payday loans to take his family to visit his grandfather who was diagnosed with cancer. By October 2005, he had four payday loans totaling \$2,300 that cost him \$600 every month just to roll over. To cover all of this, plus the bounced checks that it caused, he also borrowed from his Thrift savings Plan and took out additional loans. He routinely paid late charges for his rent and car payments.
- An E-4 Active Duty Sailor with a wife and child in the Pacific Northwest was assisted by the Society with payment of 8 payday loans totaling \$5,250 in July 2005. The service member took out two payday loans to make a down payment on a car. His two loans grew to four, six, then eight as he rolled them over and continued to make up his budget deficit by taking out additional payday loans. His electricity was cut off.. The family had to go and live with relatives. His car was repossessed, sold at auction, and he currently owes \$12,000 on that automobile.
- An E-6 Active Duty Sailor requested assistance in paying one month's mortgage (\$1,870.38) payment. The service member stated he got behind

on his mortgage when his wife's father became ill in Japan and he had to send her home to provide support. At that time, he turned to payday lenders. He took out 10 payday loans. During some months, he needed two payday loans to pay off earlier loans. He used his reenlistment bonus check to pay off the lenders and refinanced his house to pay off all of his other debts, but still required the Society's assistance to catch up on his mortgage.

- In Jacksonville, Florida, an E-5 Active Duty Sailor with a wife and three children accumulated nine payday loans totaling \$5,409. The interest rate on these various loans varied from 121% to 421%. Having no credit cards, this military couple purchased furniture by using a payday loans on the occasion of a permanent change of station move. There was a death in the family, followed by an ill relative. Each month they rolled the loans over, paying a fee to take out additional new loans. Finally, they sought assistance from our organization.

These examples illustrate the ever-growing problem. Since August of 2001, the Society has assisted more than 5,500 Navy and Marine Corps clients victimized by predatory lenders in the amount of \$2,597,881.19. The problem has been made more difficult to monitor and control now that these loans are easily accessible on the internet. The web sites of these predators are as compelling as the neon signs that beckon unsuspecting Soldiers, Sailors, Airmen and Marines at establishments outside our

military bases across the United States. If one reads the not so fine print at these web sites, one can learn that :

- At Checkmate, you can borrow \$150 for three days with a finance charge equivalent to an Annual Percentage Rate (APR) of 3,220 percent;
- At Northway Financial Corporation, you can borrow \$700 and the cost for your credit as a yearly rate is 758.08% APR;
- At ATMAdvance.com, you can borrow \$170 for two weeks and the finance charge is equivalent to 460.16% APR;
- At Cashcall, you can borrow \$5,000, and if you make scheduled payments only (120 payments over ten years), you will end up paying back more than \$30,000.

It is a grim picture that is brought into sharp focus when destitute military clients come to the military aid societies to ask for help. The Department of Defense report does a commendable job of documenting the problem and its impact on our military families. Equally commendable is the Department's aggressive education program designed to inform our military families about the perils of accepting financial assistance from predatory lenders. Education, consisting of effective personal financial management training, and an intensive, sustained publicity campaign can reduce the problems resulting from this legalized loan shark industry. It is an important first step, but education alone is not enough.

Two additional requirements are critically important to solving this serious problem: responsible alternative sources of short term loans and, equally important, Federal legislation with teeth. There has been some success fighting this battle on the state level, but Federal legislation will be necessary that, at a minimum, provides the following:

- Caps the interest rate at 36% (to include all fees and insurance)
- Eliminates all loan roll overs or the ability for individuals to take out another loan to pay off the first loan which creates a vicious cycle of debt
- Requires all payday lending businesses to belong to a PDL association that will serve as a clearing house to ensure clients don't have outstanding payday loans from other payday lenders, and allows monthly payment plans
- Regulates on-line payday loan transactions.

Thank you for focusing attention on this significant problem that affects military readiness and the lives of our men and women in uniform. I appreciate this opportunity to share my concerns with members of this committee. I hope that Congress will take prompt and effective action by drafting and passing effective anti-predatory lending legislation.

I would be pleased to answer your questions.

