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A National Consumer Law Center Report

IN HARM'S WAY – AT HOME:

**Consumer Scams and the Direct Targeting of
America's Military and Veterans**

May 2003

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Direct Targeting of America's
Military and Veterans**

A Report by
National Consumer Law Center
May 2003

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ACKNOWLEDGMENTS

National Consumer Law Center attorneys Alys Cohen, Charlie Harak, Elizabeth Renuart, Stuart Rossman and Margot Saunders, plus Lynn Drysdale of Florida Legal Services and Jean Ann Fox of Consumer Federation of America, provided legal guidance and editorial assistance in the preparation of this report. NCLC's Svetlana Ladan formatted the report and its graphics. We also wish to thank the many people of and affiliated with the military, too numerous to name here, who provided input and information.

National Consumer Law Center is a non-profit organization with 35 years of working experience in consumer issues, especially those affecting low-income consumers. NCLC works with and offers training to thousands of legal-service, government and private attorneys, as well as community groups and organizations representing low-income and elderly people. Our legal manuals and consumer guides are standards of the field and can be ordered directly through our website.

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FINDINGS AND EXECUTIVE SUMMARY

- Scores of consumer-abusing businesses directly target this country's active-duty military men and women daily. Military people citing numerous examples tell NCLC that clusters of these businesses exist near every base's gates -- an observation in line with what NCLC found on its own visits to three bases. **National Consumer Law Center's analysis finds many of these businesses violate the law or have far higher costs than are generally available elsewhere to the same consumers.**

- Veterans are targeted too, by an often-expensive scam where streams of their military benefits payments are purchased for a lump sum. The effective interest rates veterans pay for these buyouts are often very high. A National Consumer Law Center analysis, requested by Congress, of several such deals finds not only that those deals were very expensive but, more importantly, that **any such purchase of veterans' benefits is illegal under a federal law prohibiting assignment of those benefits.**

- Military personnel are ripe targets for consumer predators because many are low-income (always the most-targeted group) but have a far longer list of economically-attractive qualities than most low-income people. Periods of deployment like those for the recent war in Iraq are especially vulnerable times. And military conduct codes that stress the need for orderly personal lives, including orderly finances, may inadvertently be driving service people toward the quick fixes many consumer predators offer.

- Consumer-unfriendly businesses get *inside* bases by skirting on-base solicitation curbs and via ads in military newspapers. The nationally-published and widely-read military "Times" newspapers are apparently thought to be "official" by substantial numbers of service people even though they aren't, leading some to trust those papers' advertisers more than they otherwise might.

- “Affinity marketing” using military-sounding names, military symbols and ex-military people in sales and executive capacities further clouds the identities and goals of many businesses military people would do better to avoid.
- Military leaders are concerned that widespread financial stress in the ranks, a documented problem many of them partly attribute to scams, may be impacting readiness.
- Regional efforts to combat consumer scams aimed at the military have sprung up at bases around the nation and show some promise as a template for wider actions.
- Military leaders had decisive impact in at least one statewide battle to rein in predatory lenders who harmed their people. They’ve begun speaking out about predatory businesses and unfair or deceptive business practices in several states, tapping a previously-unrealized level of credibility, moral authority and clout in states where bases are a major economic force. But businesses that prey on service people have very powerful lobbying arms and are often stronger politically.
- Veterans’ benefits buyout deals have attracted substantial attention from Congress and opposition from veterans’ groups. The Senate passed a useful bill explicitly banning such deals last year – but it’s important to note again that NCLC attorneys believe these deals are already illegal under existing law.
- The military is aware it needs to greatly bolster financial literacy training, including education about scams, but these efforts still have far to go.

RECOMMENDATIONS

- The numerous instances of law-breaking documented in this report point first to a need for far stronger enforcement of existing laws and pursuit of law-breakers. The military has a crucial role to play in more aggressively protecting its people through legal work, public advocacy, education and expanded use of existing military regulations like “off-limits” rules. The Federal Trade Commission, state attorneys general and private lawyers can also do more.
- Consumer protections must also be greatly expanded and protected. A federal law covering everyone, military and civilian, that sharply curbs predatory lending is a minimum first step. Amending the Soldiers’ and Sailors’ Civil Relief Act to cap interest rates on loans entered into during military service would sharply curb many harmful practices documented in this report. The problems outlined here are best addressed with comprehensive federal legislation for several reasons, but strong state and local laws would also be progress.
- Even though NCLC attorneys believe that veterans’ benefits buyouts are illegal under existing law, the federal law prohibiting those deals can be usefully expanded and clarified as well as better enforced.
- The military must also address an aspect of its culture that inadvertently aids consumer predators: the notion that financial trouble means career trouble.
- Military consumers should learn that they can often get far less expensive credit than they’re being offered. They should head first for credit unions, base financial counselors or military relief societies when money is an issue. They must also learn more about fundamental financial management and avoiding scams in the modern, less-regulated financial marketplace. This report contains a starter’s list of basic suggestions for consumers.

INTRODUCTION

A torrent of consumer-abusing businesses directly target this country's military men and women daily. There are predatory lenders, check cashers, high-cost car dealers, overpriced insurance sales and more that we'll detail in this report.

Every military installation we visited or spoke with is ringed and infiltrated by a breathtaking assortment of these scams. And veterans are being targeted off-base by an exceptionally expensive scam aimed specifically at them. National Consumer Law Center's analysis of these scams shows that many of them violate the law, often through unfair or deceptive business practices, or have far higher costs than are generally available elsewhere to the same consumers.

This report is aimed at bringing these issues and ways of dealing with them to the attention of the public, the Congress, the news media, the legal community (especially the military legal community) and consumers. It documents:

- The scope of the problems
- Why military personnel are especially ripe targets for these scams
- How these scams often fail to stand up to legal scrutiny
- The military's difficult and under-resourced struggle to control them

It also includes specific recommendations.

This report is only a start. It outlines potential legal, legislative, regulatory and educational paths to be followed. Given what's revealed here one hopes all four will be pursued, and we hope to do our part.

PART 1: TARGETING THE ACTIVE-DUTY MILITARY

I. THE VIEW FROM ROUTE 40 -- KINGSLAND AND ST. MARYS, GEORGIA:



Route 40 in Georgia's far southeast corner is the main road to the Kings Bay Naval Submarine Base. It's a four-lane boulevard off Interstate 95 that, with a turn onto the Route 40 Spur, leads directly to the base's two gates.

Base workers and their families conduct virtually all their everyday business here. Routes 40 and Spur 40 are thick with the standard fare of American commerce – restaurants, supermarkets, department stores and self-service gas stations.

They're also thick with businesses you *won't* find in many American communities. On this one road, near this single base, we found these:

- Kingsland Auto Pawn ("Cash on Car Titles")
- First American Cash Advance
- Advance Til Payday/Georgia Catalog Sales
- Pioneer Military Loans
- The Money Tree ("Fast Cash Loans/Tax Refund Loans")

- AAA Title Pawn & Gun (“Cash Advance - We Loan on Anything of Value”)
- “Buy Here, Pay Here” used car dealer KDS Auto
- Camden Services Inc. (“Ask Us About a Tax Refund Loan”)
- An H& R Block tax service advertising “instant money”
- \$peedy Ca\$h Title Pawn (“You Keep the Car”)
- Everybody Rents! Home Furnishings (a rent-to-own furniture store)

Now, these types of businesses are hardly unknown to low-income communities. And with military salaries in the six lowest ranks -- nearly three-quarters of all active-duty military personnel¹ -- barely topping \$30,000 a year and for most much closer to \$20,000, many military families are low-income.

But even for low-income communities the sheer ubiquity of these businesses around bases is something that might shock families elsewhere. While we can't speak to the specific practices of each business listed above, we can say they're of types often known to be notoriously poisonous to consumers.²

The Kings Bay region is no anomaly. Cross the border into Florida, and the final two miles of Mayport Road that dead-end at Naval Station Mayport are another economic minefield. Drive 25 miles more to Naval Air Station Jacksonville and the story's the same.

Experienced military people from all service branches tell NCLC these sights are the rule everywhere they've served. “You must not know much about the military,” chides Betty Hammack, a Defense Department employee who's worked at Air Force bases in six states. “Anytime you walk out the front gate of an installation you're going to find those businesses –

¹ Active-duty military personnel in the six lowest ranks total 1,041,697 of the 1,414,454 active-duty personnel, or 73.63%. Source: Department of Defense chart “Active Duty Military Personnel by Rank/Grade, February 28, 2003.”

² For ease of reading, detailed descriptions of many consumer scams commonly aimed at the military can be found in Appendix A of this report.

the payday loans, high-interest rate commercial finance companies, car title lenders, pawn shops. You can find them anywhere.”³

A Phone Call to Georgia Catalog Sales

St. Marys, GA, March, 31, 2003

(After visiting St. Marys, National Consumer Law Center Advocate Steve Tripoli phoned this business posing as someone interested in a loan and earning \$1,400 a month:)

ST: I drove by your place the other day and was wondering how I can get that \$500 instant cash (advertised in large letters on the window.)

CLERK: Depends on your income – bring in your pay stub. Are you military?

ST: No, I'm not -- I make about 1,400 a month.

CLERK: Well, once we verify your employment I would let you write (an instant-cash agreement) for \$350 and you'd get \$105 worth of catalog certificates. Instead of charging interest we do it that way. It's not a loan or anything.⁴

ST: So, how do I do this?

CLERK: You write a check for \$455 (in order to get \$350 instant cash) and we only hold it til your next payday. You can come in on payday and pay the amount on the check and we'll give you the check back, or if not we cash the check but we don't like to do that.

ST: What's for sale in the catalog?

CLERK: Oh, I'm not sure (moves away from phone to consult co-worker, then returns). We have some figurines, and a couple of leather jackets that someone returned because they were the wrong size.

NCLC ANALYSIS: In light of a recent court decision this company appears to be in the business of making loans at illegal rates under Georgia law.

In an early stage of the “Cashback Catalog Sales v. Price” case,⁵ a Georgia federal court found -- despite claims similar to those we heard on the phone here -- that another Georgia “catalog sales” business appeared to be primarily involved in lending. The court further stated: “it is unlikely that a reasonable mind could come to some other conclusion.”⁶

And the court agreed with Mr. Price that the catalog certificates he was issued were a sham, saying: “a reasonable trier of fact could conclude that the amount of the gift certificates are (in substance) usurious interest” – in part because the goods they could buy would be so overpriced as to make the certificates virtually worthless.

Assuming the catalog certificates we were offered in our phone call are never cashed, which military sources tell us is quite often the case with these businesses for a host of reasons, a two-week loan of \$350 carrying \$105 interest generates an interest rate of 30% *every two weeks* -- or an annual percentage rate (APR) of 780%.

³ Ms. Hammack currently works at Randolph AFB near San Antonio, Texas.

⁴ This is a statement often made by payday lenders skirting the rules governing legally-defined loans.

⁵ 102 F. Supp. 2d 1375

⁶ Other courts have looked behind the bells and whistles of a transaction and found that the consumer actually got a loan. See, e.g., Turner v. E-Z Check Cashing, Inc., 35 F. Supp. 2d 1042 (M.D. Tenn 1999) (“check cashing” was really payday lending); Hamilton v. HLT Check Exchange, 987 F. Supp. 953 (E.D. Ky. 1997)(same); SAL Leasing, Inc. v. Arizona ex rel. Napolitano, 10 P.3d 1221 (Ariz. App. 2000) (“sale-leaseback” of car really a loan); State ex rel. v. The Cash Now Store, Inc., 31 P.3d 161 (Colo. 2001) (“assignment of tax refund” really a loan).

II. WHY TARGET THE MILITARY?

Why are military personnel such ripe targets for consumer predators? The short answer is that they have a far longer list of economically-attractive qualities than most low-income people.

In other low-income communities predators are drawn to the high number of people who have trouble getting credit, lack economic sophistication, and have a high prevalence of debt problems resulting in part from those factors.

But military communities have a greatly-expanded list of such vulnerabilities, including:

- Higher-than-average numbers of economically-unsophisticated young adults, away from home for the first time and anxious to experience new things.
- A working population that universally receives U.S. Government paychecks on a rock-solid schedule – a golden guarantee to the payday lending industry especially -- and that is in no danger of being laid off.
- A population that's easy for debt collectors to track.
- A military culture that urges people to keep their finances in order as part of good conduct codes – a culture, as we'll see, that is heavily exploited and whose penalties are greatly exaggerated by some predators targeting the military.

By all accounts significantly more of today's young military personnel than previous generations are married as well, increasing the economic pressures they face. Retired Navy Capt. Bill Kennedy, a former aircraft carrier commander who now heads Naval Station Mayport's branch of the Navy-Marine Corps Relief Society, says many young military people walk a razor-thin economic line.

“An E-3 (one of the lower ranks), married with one child, after base pay and other allowances has no money left at the end of the month. Zero,” says Kennedy. “There's no

money for restaurants. No money to go to a movie or buy presents. A car repair or even a little mismanagement can wreck 'em. And the reason these businesses target the service member – and they won't say this – is they know what the pay is. And they know that, no matter what, those kids are paid on the 1st and 15th of every month, and they're not going to be laid off. They're easy targets.”

Easy targets for the “\$500 instant cash – NO CREDIT CHECK!” sign emblazoned across the storefront the soldier/sailor/airman has driven by a hundred times. Or the ones that say: “Make Your Next Payday Today” or “Instant Money.”

Or, more insidiously, they're targets for the numerous large ads for fast cash and easy loans they've just read in that week's military newspapers. The nationwide ArmyTimes, NavyTimes, AirForceTimes and MarineCorpsTimes newspapers are NOT published by the military – they're independently published by the Gannett newspaper group. But many people told NCLC that substantial numbers of military personnel believe them to be “official” newspapers, and therefore believe their ads have been vetted to screen out undesirable businesses.⁷

These newspapers and their omnipresence *inside* military bases present special problems when it comes to consumer predators' access. Retired Capt. Dave Faraldo, head of the Navy-Marine Corps Relief Society's NAS-Jacksonville branch, puts it this way: “A Navy person, using a Navy office, on Navy time, with a Navy phone can do business with one of these companies they see advertised – after he found out about it by reading the Navy's newspaper.”

The military in fact has virtually no control over these papers' advertising, a source of discomfort to many military commanders.

⁷ See examples of these ads in Appendix B. It should also be noted that these same businesses have a heavy advertising presence on the “Times” newspapers' websites.

“I Just Kept Coming Up Short”

Anthony G., who didn't want his last name used, has already logged 10-1/2 years of Navy service though he's just 28.

“I got into trouble with the check cashers starting about two years ago,” he says. “We were behind on bills and I was going through a divorce and I needed money.”

That led him to Jacksonville Catalog Sales for a very small cash infusion. “You write ‘em a check for \$125 and they give you \$100 cash,” says Anthony. “The check's cashed on your next payday in two weeks. I got the (catalog) coupons but I just threw ‘em away, I never even looked at them. I just didn't want to mess with them.”⁸

This tiny loan seemed like a temporary expedient to Anthony, but like so many predatory loans it turned into something much worse. “I'd be short again on payday,” he says, “then I'd go get a second one. I ended up going to more and more places because I just kept coming up short.”

Each time, Anthony's agreement would give the lenders electronic access to his bank account for payment.

“I think there were 10 loans altogether when I was done,” he says, with one being used to pay off the other. “It was, like, \$100 to \$150 in some places but in others it was \$300 covered by a check for \$388 [annual percentage rate 762%], or \$400 covered by \$475 [APR 487%].”

The house of cards of course collapsed. “It was definitely affecting me and my family as far as food, rent, and making us feel pretty crappy,” says Anthony, who reluctantly went to his commander. He was referred to a lawyer, and Anthony then decided to close his credit union account to bar lenders' access to his money while things are worked out.⁹

The overall situation isn't resolved yet but Anthony says one thing is: “I learned to get a loan from the bank if I need one.”

He's right about that for three reasons: A bank loan would be more affordable, it would allow payments to be made over time, and traditional lenders are far more likely than predatory lenders to screen out people who can't really afford loans.¹⁰

III. TAKING THE BAIT: CAREER WORRIES, DEPLOYMENT AND OTHER REASONS SERVICE PEOPLE BUY INTO SCAMS

It's easy to claim, as apologists for consumer scammers often do, that many military people who get involved with these scams do so with their eyes open. To be sure some do – and even many who were naïve or misled are strikingly willing to take their lumps and say they'd learned a hard lesson.

But there are more compelling reasons why military people take part. One factor specific to the military is the fear that disorder in one's personal finances can be career-

⁸ Assuming the coupons aren't cashed – which for many reasons they often aren't -- a \$25 interest charge for two weeks on \$100 loaned equals an annual percentage rate (APR) of 650%. See Appendix A for reasons why catalog coupons, and other services sold to thinly disguise payday loans, are often not used by the consumers.

⁹ It's telling that one of Anthony's lenders has cancelled his loan and paid a small settlement just on threat of a lawsuit.

¹⁰ Predatory lenders may in fact have a perverse incentive to grant loans to bad credit risks: the chance of sucking them into a repeat-lending cycle, generating profits that far outweigh potential losses from default.

damaging. As stated earlier, military codes of conduct call for orderly personal lives – specifically including orderly finances. This creates an incentive to chase quick fixes when finances start slipping: Signs of trouble can be and often are reported to commanding officers by creditors.

“I get calls from higher-ups all the time,” says Florida Legal Services attorney Lynn Drysdale, who represents many military people ensnared in consumer scams. She says her military clients “are just sitting ducks for bill collection” and the frequently intimidating tactics of bill collectors because they’re easy to track and any time they fall behind on their debts a creditor or debt collector can contact their commander.

What many soldiers and sailors don’t realize is that isolated instances of financial trouble almost never trigger military discipline. Some creditors work hard to create the opposite impression. Drysdale and others gave NCLC copies of loan contracts from Delaware-based Military Financial Network Inc. that prominently mention possible punishment, for instance.¹¹ After outlining the loan’s payment terms one of the company’s “Repayment Agreement” documents states:

“If I fail to provide these funds, I understand that this will be a violation of Article 123a and 134 of the UCMJ (Uniform Code of Military Justice), punishable by up to 6 months confinement, forfeiture of all pay and allowances, and a bad conduct discharge.....I authorize the Military Financial Network to contact my military superiors in these matters.”

That type of language, which NCLC attorneys believe is illegal in and of itself,¹² angers Retired Adm. Jerome Johnson. He’s head of the Navy-Marine Corps Relief Society, which deals with many of those driven to seek assistance after becoming ensnared in consumer scams.

¹¹ See a copy of one such document in the Appendix B.

¹² NCLC attorneys believe this language unquestionably violates Unfair and Deceptive Acts and Practices (UDAP) standards and therefore should be referred by military officials to the Federal Trade Commission. It should also be specifically prohibited from future contracts.

Sure, says Johnson, financial problems *could* trigger action from superiors, but in all but serious repeat-offender cases “that is just not what a commander does.” The far more likely response is to refer the troubled service person for financial counseling or legal help. The contract language “is there to intimidate and coerce,” Johnson says.

If that’s its purpose the language seems to work. Lynn Drysdale says that when some of her military clients fall behind on their debts “what happens is they’re so afraid of what’s going to happen next that they go to another payday lender to pay the first loan. I’ve seen clients so scared they spend a full day going from lender to lender,” rolling one loan into paying off the next in a debt spiral that’s virtually guaranteed to end disastrously.

So the fear of career damage can perversely drive a military person further into the arms of the scam artists. “With the military,” says Drysdale, “the creditors have this extra hook.”

The regular upheavals of military life can spring financial traps leading to consumer scams as well. Times of deployment, like the recent call-ups for the war in Iraq, can be especially vulnerable moments for lower-income military families, says Naval Station Mayport’s Relief Society head Bill Kennedy.

“They’re trying to get everything caught up, buy all the things the person going away needs to buy, there’s a lot of stress, and the spouse left behind may not be the one normally in charge of finances,” says Kennedy. “The paycheck’s split, too,” with some of it going to the service person’s small needs on board ship or overseas.

Kennedy tells of one young military wife who came to the Relief Society frantically worried about her entanglement with a payday lender. As he describes her plight, this 30-year veteran who once commanded an aircraft carrier’s awesome power twice stops to recover his

choked-up voice. “She was so proud of her husband, who was on deployment,” he says, “and she was scared to death that she’d failed him.”

“These Sailors Had Better Be Careful”

Peter Kahre recently retired from the Navy after 20 years but hasn't yet retired a predatory lending problem that started in 1996 and led him into bankruptcy.

It all started with a simple deployment to sea duty. The “basic sustenance” portion of his paycheck was reduced by \$197 a month while his food was being provided on-board. That plus the arrival of a new baby were enough to upset the family's finances.

Kahre went to a “Cash Back II” store near his Jacksonville base, receiving a hundred-dollar cash advance secured by his \$125 personal check. The money to cover that check wasn't there the following payday because of other bills, and Kahre's downward spiral began.¹³

“It just started snowballing to the point where I had nine of ‘em [payday loans] with nine different ones. Every payday I'd get off work at 3:30 in the afternoon and go from one to the other, rolling them over and re-writing them again. By the time I got home it would be 6:30 at night.”¹⁴

Kahre estimates he paid back \$20,000 on loans for which he received just \$2,000 to \$3,000 before things came crashing down into bankruptcy.

“You talk about someone the system took advantage of, I was the idiot. You get into it thinking you can get out of it real quick, and some people can and some can't.”

Kahre says fear of being reported to superiors kept him paying long after he knew things were out of control. “See, if you miss even one payment on this they'd either contact your CO (commanding officer) or send a nasty-gram.”

He says one collection agency even harassed his mother in Missouri. “They called claiming they were the ‘state attorney's office,’ wanting to know where I was at. They said if she didn't tell they'd arrest her, bring her to Florida, and leave her in jail until she told them where I was.”¹⁵

Kahre still hasn't settled all his problems. “All I can say is these sailors had better be careful,” he says. “There are a lot of people who will take advantage of you whether they know it or not.”

Other factors make increasing numbers of today's military vulnerable to scams.

Chalker Brown, vice president of Jacksonville's 300,000-member VyStar Credit Union, says many young people entering the service these days may be doing so in part *because* they're financially at-risk. “Many more are married, they aren't making it on the outside and credit problems are almost the norm,” Brown says. “These kids are over their credit limit, their

¹³ One insidious practice encountered while researching this report, though not in Mr. Kahre's case, was an instance of a payday lender electronically dunning a borrower's checking account 10 times on a single payday when money owed wasn't there – each time triggering a \$25 penalty fee for a total of \$250.

¹⁴ The fact that many payday borrowers take multiple loans each year debunks the industry's contention that the loans aren't harmful because, high interest rates and all, they're a small and infrequent convenience. See Adm. Jerome Johnson's references to payday borrowers' lending frequency in his letter to the North Carolina legislature, in Appendix B. Also, as of last October Florida law prohibits any individual's having more than one payday loan at a time, or taking out a new payday loan within 24 hours of terminating another one.

¹⁵ Behavior fitting this description is a gross violation of the federal Fair Debt Collection Practices Act.

account's been frozen, or they have no credit at all. So after being turned down (for lower-priced credit) numerous times it may be they've been burned so much they just don't ask anymore. Or they just see a simple solution when they see those storefront signs when they're coming down the road."

VyStar, a credit union with military roots, has its own special window on the prevalence of scams in Jacksonville's military community. Brown says VyStar's two branches nearest to the Jacksonville Naval Air Station recently decided to count the number of post-dated checks brought to the credit union by payday lenders (these again are the checks borrowers write, to be cashed on payday, in exchange for what is usually a very high-interest short-term loan.) In a single two-week pay period Brown says those two branches alone cashed 270 such checks.

When Brown says credit-starved young military people see fast cash as a "simple solution" he's pointing up another aspect of this problem – the "simple" solution is often irresponsibly simple. Financial counselor Pat Kelly at North Carolina's Camp Lejeune says young Marines there are attracted to quick-cash scams because those businesses "don't hold the kids responsible" for having credit good enough to get a loan -- the way businesses following sound lending practices would.

There's no incentive for sound lending practices. Easy money brings in customers, and sky-high interest rates and fees make it profitable to lend to all comers with little regard for their financial state or default risk. After all, a few bad loans at these prices still leave a healthy bottom line -- and the wreckage to individual lives and families is someone else's problem.

IV. AFFINITY MARKETING: THE “WHOLE LOT OF AUTHORITY” IN IMPLIED MILITARY TIES

Two more aspects of this targeting of the military deserve consideration. The first is the number of private companies using names that imply a military connection. Some examples targeting both active-duty military and veterans include:

- Force One Lending Inc.
- Armed Forces Loans
- Loans for Military
- Military Financial, Inc.
- Pioneer Military Lending
- Retired Military Financial Services
- Veterans First Financial Services
- American Military Debt Management Services

The list is hardly exhaustive. Military and former military personnel tell us that some of these companies' principals or high-visibility representatives are former service people as well, a source of anger to many still serving.

Like military-sounding names, these *human* military connections are also exploited in marketing high-cost goods and services to military people, or goods and services of questionable utility. Marketing experts refer to this use of people who hail from the targeted group as “affinity marketing.”

Air Force Col. Marcus Beauregard, who oversees a service-wide financial literacy program at the Pentagon, tells of a report he received from commanders at Lackland AFB in Texas about insurance salespeople – many of them former military. On-base solicitation rules

ban them from bases so they station themselves along San Antonio's popular Riverwalk, a magnet for tourists and off-duty military.

It's easy to pick out the young airmen and women even in civilian clothes, and easy for salespeople who've experienced military life to strike up a conversation. "They come across with a whole lot of authority," says Col. Beauregard, but the real purpose of the faux-comradeship is to sell whole-life insurance policies with premiums of \$100-125 a month.

The policies are real but this expenditure of a substantial chunk of many military paychecks is often unnecessary. Why? All military members have access to government-sponsored Servicemembers' Group Life Insurance, where coverage can be had automatically for about \$12 a month. The products aren't identical – the whole-life policies do have a savings component, for instance – but the higher-price policies aren't a purchase many financial planners would recommend to young people who already have good life insurance.

And many of those who buy these over-priced policies already do have SGLI, says Beauregard. So what drives them to buy the more-expensive policy?

"Because someone talks them into it – someone with credibility," he says. "They say 'this is something you need for your future.' They get sold that this is a way of putting your money away. It's savings. It's an investment."

An insurance-related scam using similar "affinity" tactics was reported to NCLC by commanders of the San Diego region's Navy and Marine Corps bases. According to an e-mail from Lt. Mei-ling Marshall of military Legal Assistance, a company called Trans-World Assurance that "claimed to be a non-profit organization providing financial services exclusively to active-duty military" has been operating there.

Lt. Marshall continues: "Its representatives go to some mid-level command official and offer to give no-cost GMT (general military training) to captive command audiences, and

then rely on Sailors to ‘pass the word.’ In reality, in certain circumstances the non-profit organization operated as an umbrella ‘for-profit’ life insurance company, thereby running afoul of DoD directives regarding improper solicitation on base.” Lt. Marshall says she recently cautioned commanders of a ship heading for deployment to check the background of another life-insurance company offering an on-board presentation to departing sailors.

Affinity marketing is also highly visible in the promotional materials of companies targeting the military – companies consumers might well be better off avoiding.

Pioneer Services, for instance, uses an American-flag background on the cover of a promotional booklet and prominently quotes retired military figures inside. The overall theme is Pioneer’s devotion to military families’ financial well-being -- a devotion that might be called into doubt on examining a high-cost lending agreement from one of the company’s partners.¹⁶

V. FINANCIAL STRESS AND MILITARY READINESS

Some military leaders have begun to question whether military readiness is impacted when large numbers of their people are struggling with financial distress and the weight of high-cost loans in particular. Rear Admiral David Architzel, commander of the Navy’s 83,000-person Mid-Atlantic Region, recently told the TV news magazine “Inside Edition” when discussing his command’s struggle against payday lending:¹⁷ “You want to know that (service men and women) are focused and paying attention. When they are not paying attention bad things happen.”

¹⁶ See agreement for a high-interest, fee-laden Pioneer loan in Appendix B.

¹⁷ The segment aired July 22, 2002.

Former aircraft carrier commander Bill Kennedy agrees. “If it’s a dangerous job, like loading ordnance, and his or her mind is on ‘doggone it, back home they’re going to take [re-possess] the car,’ they’re not doing their job correctly, and there’s a potential for an accident.”

And Ret. Adm. Jerome Johnson, head of the Navy-Marine Corps Relief Society, told the North Carolina legislature that in the case of payday lenders in particular “the negative impact on military readiness is profound.”¹⁸

“It Just Drove Me Into the Ground”

Marine Sgt. Robert Farris had been stationed in Phoenix for a year when unexpected bills came up, and he remembered the “Cash One” store near the Marine Corps Reserve Center where he’s on the active-duty staff.

“I saw them (the quick-cash shops) on the corner, they were there, and I went,” he says. Since his credit rating “is not great,” Farris says, “it came down to the lesser of two evils.”

Or so he thought. Over 12 months, a \$125 loan became a long-running series: a \$170 loan costing “about” \$220 to re-pay in two weeks, then ever-larger loans, and finally a 10-day, \$500 loan costing \$587.50 to re-pay. The “deferred presentment agreement” offered by Amos Financial, LLC, stated the annual percentage rate – 638.75%.

“I saw the error of my ways in month two of the twelve months but I couldn’t get out of it,” Sgt. Farris says.

By the end, Farris believes he borrowed close to \$10,000 in dribs and drabs, never pocketing much because most all of it went to paying off previous loans.

His total payments? “Oh my goodness. Huge,” is all he’ll say.

“It just drove me into the ground,” he says a year after taking that fateful first loan. “I was about to get my car re-po’ed (re-possessed) and just now I have it worked out so all the debt collectors understand what was happening.

“I’ve never been a drug addict, but it’s kind of like smoking and you want to quit but you’re captured and you have no choice. It really starts to hurt because when all’s said and done you’re having a hard time feeding your family. I’ve got a new family and a new baby and I thought: ‘I didn’t drag my wife all the way out here (to Phoenix) to put her through this.’”

How does he feel about the whole experience? “In my opinion, if you’re speaking to higher-level commanders in Washington,” he tells this report’s authors, “I think it should be illegal for service members to do this. I was making almost \$3,000 a month as a sergeant – not bad money -- so if some junior troop gets into this it’ll destroy him financially in no time.”

VI. MILITARY RECOGNITION OF THESE PROBLEMS, AND RESPONSES THAT HAVE MET WITH VARYING SUCCESS

Driven in part by worry that “financial problems have impacts on readiness and productivity,” the military has begun taking a closer look at overall financial awareness with a

¹⁸ See Admiral Johnson’s letter to the legislature in Appendix B.

special eye toward consumer scams and their impact. The Defense Department's March 2002 "Report on Personal and Family Financial Management Programs" – from which the quote above is drawn -- says more than half of all service members in the lowest six pay grades describe themselves as having at least occasional difficulty (and often worse) making ends meet.

"Many young enlisted members do not anticipate the consequences of acquiring debt or paying off debts at high interest rates," says the report. "Easy availability of credit and credit cards makes it possible for members to live beyond their means for a while, but the short-term extravagance then creates a crisis to pay off bills."

All four branches of the service offer financial training as part of basic training, with the Army, Navy and Air Force each covering at least nine of 10 financial topics listed in the report. The Marine Corps falls short here, covering only two of the 10 topics and leaving out such fundamentals as "establishing savings," "credit management" and "consumer scams."

Individual bases, credit unions,¹⁹ the various branches' assistance programs and some non-military counselors add to the financial literacy mix, but Pentagon financial literacy coordinator Col. Marcus Beauregard is blunt in saying "we have a lot further to go." The Department of Defense report outlines several paths to improving or increasing financial training.

And the DoD is paying special attention to scams. Last December, it joined the Federal Trade Commission in launching the Military Sentinel Web site. The site, which is slowly coming into full operation, allows military personnel to directly report consumer complaints for investigation and also offers consumer education.

¹⁹ Navy Federal Credit Union, the nation's largest credit union with two million members, offers free budgetary counseling to all members as one example.

In the meantime individual efforts to combat consumer scams aimed at the military have sprung up across the nation. Some examples:

- Army commanders in the Fort Campbell, Kentucky, area negotiated a “Code of Ethics” with nearby auto dealers in response to problems ranging from overcharging to misleading buyers about warranties.²⁰ Dealers who sign onto the code get “preferred billing” acknowledging their commitment, and Betty Geren of the base’s Financial Readiness Program says complaints about dealers have dropped between 75 and 80 percent since the program began.
- A five-year campaign to rein in the excesses of Florida’s automobile “title pawn” lenders²¹ turned decisively on the military’s intervention, says Florida Legal Services’ Lynn Drysdale. An effort to change the legally-permissible 264% annual interest rate on these loans had bogged down, Drysdale says, because of industry contributions to key legislators. But when the military got involved “it changed the whole complexion of the issue.” Commanders and others went to Tallahassee to testify to the personal destruction they’d seen such loans wreak – debunking industry claims that such lending is a service to those who cannot otherwise get credit -- and eventually the maximum interest rate on title-pawn loans was knocked down to 30% a year. The campaign had one delightful and one perverse outcome. Apparently not satisfied to lend out money at a mere 30% interest, the title-pawn industry all but dried up in Florida. But just over the border near the Kings Bay Submarine Base in Georgia “you would not believe it,” says Gail Tate of the base’s Relief Society branch. “Within days,

²⁰ Auto dealers and repair shops near bases nationwide pitch special deals that often aren’t so special directly to military personnel. There are also substantial problems near bases in some regions with so-called “buy here/pay here” used-car dealers whose modus operandi are detailed in Appendix A.

²¹ See description of title-pawn lending in Appendix A.

- literally (of Florida's passing the new law), they were opening up here, just over the state line.”
- Military leaders have begun taking part in other legislative campaigns as well, or have asked military judge-advocate's offices to open discussions with businesses thought to be causing problems. In some cases those discussions led to companies voluntarily rescinding onerous contracts.²²
 - Jacksonville-area base personnel, frustrated by advertisements for high-priced loans and other scams in their local base newspapers, countered in those papers either by having (in one case) a base commander order such lenders to prominently display their annual interest rates in ads (resulting in many of the ads being discontinued) or by drafting their own “counter-ads.” The counter-ads, designed to look like those from the lenders, prominently displayed such slogans as “0% On Any Loan” – the true rate charged for Relief Society emergency assistance – or, “We'll cash no check before its time!” – a reminder that the Society can straighten out family budgets without demanding post-dated “payday” checks in return.²³
 - The joint command of the San Diego/Orange County-area bases in California is among those that have placed businesses charging super-high fees for goods or services “off limits” to military personnel. Capt. Cory Picton of that region's Armed Forces Disciplinary Control Board says a business “doesn't have to be illegal” to be placed off-limits. Board regulations give commanders wide discretion to do so if they believe, after a proper hearing at which the affected businesses are allowed to take part, that a

²² See letters to the North Carolina legislature and Florida officials from Retired Adm. Jerome Johnson, and to the Virginia House of Delegates from Rear Adm. David Architzel in Appendix B. The use of judge-advocates was reported by officials in the San Diego area, but military officials in several other places have begun pressuring local businesses that pose problems for service people as well.

²³ See copies of the “counter-ads” and the ads that inspired them in Appendix B.

business may affect “good discipline....health, morale, safety, morals (or) welfare of armed forces personnel.”²⁴

- A military-wide code governing solicitation on bases is in the process of being tightened, partly in response to incidents where high-priced insurance salesmen (some of them ex-military) were admitted to bases either by soft-pedaling or misrepresenting their intent with friends inside the military.²⁵

²⁴ Two good examples of results from such actions in this region are the cases of lenders Loans For Military and Armed Forces Loans. Once placed off-limits, military officials say in an e-mail, the two businesses “provided written assurances they would cease and desist their predatory practices and were removed from the off-limits list.”

²⁵ In one incident reported by a Federal Trade Commission staff member an investment products salesman skirted the on-base solicitation rule in a novel way: He hired a bus to pick up members of an entire unit and take them off-base to lunch – a lunch where the main course turned out to be investment-program pitch.

PART 2. REWARD FOR SERVICE: A SCAM TARGETING VETERANS' BENEFITS

Military-sounding business names, “affinity marketing” appeals, and promises of quick cash unfortunately don't end with active military duty. A worrisome and enormously expensive scam – one that can easily cost individual veterans tens of thousands of dollars – is drawing scrutiny from Congress and cries of alarm from veterans' groups.²⁶

Welcome to the world of “advance funding” or benefits buyouts, where lump-sum payments are offered in exchange for streams of veterans' benefits that often represent a lifetime of work. These buyouts' workings are simple: A veteran receiving monthly cash benefits needs, wants, or is pitched a quick cash infusion. A private lender offers that infusion in exchange for a fixed stream of the veteran's monthly cash.

The catch? The lump sum is often a rip-off, a horrible deal paying the consumer just a few dimes on the dollar. **These deals are illegal as well**, according to an NCLC analysis discussed below.

“Advance funding” marketing appeals are similar to what we've seen with services targeting active-duty military. The Internet home page of Veterans First Financial Services, for instance, features an undulating American flag, and at the top an eye-grabbing, full-color display of military insignias in motion across the screen. A three-part message flashes over those insignias: “You've worked hard – invest your money the way YOU want – If you're a retired veteran, VFFS, Inc., can help!”

The hints of military affiliations are unmistakable, and the printed message on the home page couched in the language of economic empowerment. It discusses how military

²⁶ Groups backing new legislation explicitly banning this practice include Disabled Veterans of America, Vietnam Veterans of America, AMVETS and Paralyzed Veterans of America, according to U.S. Sen. Bill Nelson's (D-Fla.) office.

pension-holders “deserve the same benefits many non-military retirees enjoy” – in this case the right to cash out a stream of benefits for a lump sum. The product is called the “Cash-Out Retirement Program,” or CORP – another military echo.

One Veteran's Story

Michael Ward Elliott was in a pinch. “My daughter was getting married, I was behind on the rent and other things, and I didn't have the credit rating to go out and get the money I needed elsewhere,” says the retired 20-year Navy veteran.

That's when he learned about C&A Financial Programs in an all-too-common way: “They had an ad in the NavyTimes.” And before Mr. Elliott knew it he had a deal -- \$15,000 cash in exchange for three years' worth of \$900-a-month payments from his Navy retirement check – almost the entire check.

That's \$32,400 over three years in exchange for that \$15,000.

Except it wasn't really \$15,000, because Mr. Elliott paid C&A Financial \$631.18 from that sum for insurance covering his payments to them should he die. And then C&A took the first two months' payments from the lump sum, meaning he only got \$12,568.82.

Now, counting those first two \$900 payments in the loan amount, borrowing \$14,368.82 and re-paying \$900 a month for three years works out to an annual interest rate of over 63%.

“I was rather stupid and I took it,” says Mr. Elliott, “but I was in quite a pinch and telling myself, ‘let me get out of this spot and see what I can do down the road.’”

“Well, it didn't get any better. I got the wolf away from the door but there was less income.”

Mr. Elliott was working a civilian job so the pension check fortunately wasn't his only support. “After two or three months debt just started snowballing again. I've never felt quite that stressed out, and I'm not used to that. And my wife was even worse.”

The Elliotts asked C&A for a payment moratorium and were told if they tried that they'd quickly be hearing from an attorney. They finally landed in the arms of Navy-Marine Corps Relief and say they've made the tough decision, after paying off the buyout principal and then some, to withhold further payments while awaiting C&A's response. They are getting legal advice.

And that limbo is where things stand as of April 2003.

Elliott says he's learned a few things from the experience. “I would recommend to anybody who asks don't do it, absolutely do not do it (sell your benefits),” he says.

“And I came to find out that the Navy has nothing to do with NavyTimes. Being that the ad was in NavyTimes I thought, surely they must screen the advertising. From what I know when I was on active duty I'd say over 50% of us have the perception that the Navy actually has a say in that newspaper.”

Michael Ward Elliott's got lots of company, and not just in his misperceptions about the major military newspapers. You might even call him lucky given the truly horrendous deals going to other veterans who sell their benefits (details below).

Veterans' benefits buyouts have attracted substantial Congressional attention, with the Senate last September approving legislation co-sponsored by Florida Democrat Bill Nelson and Arizona Republican John McCain banning the practice and making it punishable by stiff fines and jail time. Nelson's office says “dozens of companies” are engaged in the business.

The House may be a harder sell, but Sen. Nelson leaves little doubt about his feelings. “People who rob veterans of their retirement should be punished,” he says. “Veterans benefits are a reward for serving our country, and they shouldn't be for sale.”

There is high-level interest in the House. Illinois Congressman Lane Evans, ranking Democrat on the House Veterans' Affairs Committee, asked National Consumer Law Center to analyze three individual buyout cases. We found all three to be terrible deals for consumers, much like Michael Elliott's detailed above, but more importantly **NCLC's analysis finds that veterans' benefits buyouts, even without new legislation proposed to curb them, are illegal under existing federal law prohibiting the assignment of veterans' benefits.**

The three cases provided us by Rep. Evans' office have the following rather eye-popping provisions:

CASE A: Veteran receives approximately \$66,100 – an \$80,000 loan minus \$10,000 broker's fee and an additional \$3,900 insurance premium – in exchange for 10 years' worth of monthly benefits – 96 months at \$2,195 a month and 24 months at \$1,207. The veteran must also pay a \$110 per month “management” fee plus \$439 a month into a “pooled investment” fund which may or may not be returned once the loan is paid. By NCLC's calculation that's \$302,928 in payments for the \$66,100 received – an annual percentage rate (APR) of 49.15% interest.

CASE B: The veteran receives \$6,000 initially and then at the *lender's* option two separate loans for an additional \$13,500. The three loans carry APRs of 106.21%, 92.22% and 79.82%. The veteran receives a total of \$19,500 and pays back \$36,637.92.

CASE C: Veteran receives an initial loan of \$10,250, with repayment terms of \$500 a month for 35 months. According to an addendum signed 10 months into the repayment, the veteran receives an additional \$5,000 (\$6,000 loan minus \$1,000 processing fee) and in return

adds \$50 a month to the remaining 25 payments on the original loan while extending those \$550 monthly payments for an additional 24 months. In total, this veteran receives \$15,250 and pays back \$31,950, with an average APR of just over 39%.

These types of transactions are ripe ground for consumer protection-law violations, and veterans who've sold their future benefits for up-front cash may have consumer law remedies as well. Based on the contracts reviewed by NCLC, these lenders often mischaracterize the nature of these loan transactions and fail to provide federally required disclosures.

Federal Truth in Lending Act disclosures exist so that consumers can make informed decisions about the cost of credit. By referring to these transactions as something other than loans (for example one contract explicitly states "This is not a loan," while another characterizes the transaction as a purchase), the lenders attempt to circumvent this important consumer protection law. This is not a new tactic, and courts routinely see through the smokescreen and apply consumer credit laws to such transactions regardless of how they're characterized by the parties.

In addition to Truth in Lending disclosure violations, these lenders may be violating state unfair and deceptive acts and practices (UDAP) laws prohibiting fraudulent, unfair, or deceptive practices in the marketplace. State usury laws placing a cap on allowable interest rates may also be violated.

PART 3. RECOMMENDATIONS

Predatory lending, high-priced goods and services and other scams plaguing military communities drain wallets in ways that destroy the basis for wealth-building, leaving many in those communities permanently cut off from the American Dream. These wealth-destroyers plague all low-income communities, but as we said earlier the military's special attractions make the sheer ubiquity of these businesses around bases something that might shock even low-income families elsewhere.

It seems a funny way to treat those of whom we ask so much.

Experience shows that even sophisticated, highly-educated consumers need protection from those determined to take advantage of them. And the level of vulnerability rises as maturity, education and financial sophistication levels drop. A comprehensive response is needed, including the following:

I. INCREASED ACTION BY THE MILITARY

The military can play a crucial role in cleaning up illegal and unscrupulous practices that prey on military personnel. It can use its authority and resources to expand law enforcement, limit service people's access to certain businesses, target advertisers, and increase financial education and counseling. Such efforts could have a real impact on the lives of service members. Here's a brief look at all four options:

a. Expand Law Enforcement

Military leaders can expand their challenges to the practices of predatory lenders and other abusive businesses targeting their people. By bringing actions on behalf of military people, the Judge Advocate General ("JAG") corps holds national and local businesses accountable for illegal lending transactions and other unsavory deals. Because some

businesses that target the military are national in scope, and their transactions often standardized, even a limited number of legal actions can greatly limit problem practices aimed at the military.

b. Make More Businesses “Off-Limits”

Military leaders can also make more muscular use of their power to designate certain businesses off-limits to service members. This can be done by identifying categories of businesses that should be avoided; naming national chains with standardized, problematic practices; researching local companies with a history of abusive transactions and establishing standards commanders can use to evaluate local businesses.

Some companies clearly break the law. While such firms are obvious candidates for law enforcement actions, in some cases other approaches can also be effective. By barring service members from doing business with such companies the market would quickly dry up -- leaving the company to move or clean up its act.

Military decision makers can be on the lookout for a variety of legal violations. Lenders may be issuing loans without providing proper disclosures under the Truth in Lending Act, or by advertising deals deceptively or including deceptive, harmful terms in their standard-form contracts. Payday lenders may not be complying with state provisions regulating such transactions. Companies also may be skirting state usury ceilings or using abusive collection tactics in violation of state law. Examples of such actions can be found throughout this report. In addition to banning service people from doing business with such companies, military officials should consider referring these companies to the Federal Trade Commission and state enforcement agencies for further action.

The military also has the authority and responsibility to go beyond law-breaking businesses in its efforts to protect service members. As noted above, commanders have broad

discretion to designate a business “off-limits” because it may affect “good discipline . . . health, morale, safety, morals (or) welfare of armed forces personnel.” A variety of businesses that target military personnel appear to fit this description. They may “push the envelope” in one state, while violating the standards in another. Payday lenders and cash-advance shops may argue they are following the letter of the law by disguising their transactions as something other than lending. Yet many are effectively charging higher interest rates than allowed by law for loans. Officials may decide that the human damage caused by business practices described in this report is sufficient for determining, after a full evaluation, that certain businesses are off-limits even in states where their practices are not patently illegal.

One area where the military may want to apply this approach is unfair or deceptive conduct. Because the Federal Trade Commission Act provides broad guidelines, it may not be clear whether the FTC would find that a lender’s conduct meets the FTC Act standard for unfair and deceptive acts and practices. Nevertheless, military personnel could make an independent assessment of the practice at issue.²⁷

The FTC has defined deceptive conduct as an act or practice likely to deceive consumers.²⁸ A showing that specific consumers were actually deceived is not necessary and an act can be deceptive even if it is an industry-wide practice. Deceptive practices include both actual misrepresentations and failure to disclose material information. Conduct is unfair where it “causes or is likely to cause substantial injury to consumers which is not reasonably avoidable by consumers themselves and not outweighed by countervailing benefits to

²⁷ Military leadership also may want to consider asking the Federal Trade Commission to make a determination, through a rule-making, that specific practices violate the general standards of the FTC Act.

²⁸ See *FTC v. Gill*, 265 F.3d 944 (9th Cir. 2001).

consumers or to competition.”²⁹ Most state unfair practices laws go further, banning activities that offend public policy or are immoral, unethical, oppressive, or unscrupulous.

Outside of any legal analysis, military leaders may determine that certain practices that prey on service people should be declared off-limits simply because of their harmful effect. Because of the unique role the military plays in protecting its members from situations that might interfere with readiness or individual welfare, it is wholly appropriate to evaluate unscrupulous businesses with a broader approach.

c. Address Newspaper Advertising by Problem Businesses

The nationwide Army/Navy/AirForce/MarineCorps “Times” newspapers pose special problems because so many service people apparently see them as “official” military publications when in fact they are not. That gives their advertisements more credibility than they often deserve, and thus a greater ability to draw in customers and deceive readers. The military can demand that Gannett, the publisher of the “Times” newspapers, clearly state on every page and website that the publication is not an official Department of Defense publication and is not condoned or checked by the Defense Department. If the newspapers balk at such a request, they can be banned from all military bases. Similar efforts can also be made to clarify the roles of local base newspapers, which are more under the control of base and regional commanders.

d. Additional Steps

As noted in this report, a variety of solutions already developed by the military provide an interesting template for further action. Local and occasionally service-wide efforts to

²⁹ The Federal Trade Commission Act Amendments of 1994, Pub. L. No. 103-312 §9, adding a new 15 U.S.C. §45(n) (Aug. 26, 1994).

increase financial education and counseling, rein in unscrupulous car dealers, and change laws have all met with success.³⁰

The easiest recommendation is to expand these efforts, but that first requires a greater commitment of resources. The military recognizes this need at least in principle; turning it into reality still has, as one Pentagon-level official put it, “a way to go.”

Broadening and strengthening education efforts is a good start. A major component of existing financial-literacy education takes place during basic training, but several officials told NCLC that is not a good time for these efforts because young people, trying hard to learn their jobs and get used to military life, often have little mental or emotional room left to absorb it. So financial education should probably be moved back a bit -- but without being long delayed in order to get new people started off right.

The Defense Department's own 2002 report on personal financial management advocates more comprehensive “life cycle” economic literacy training that updates and expands on initial efforts throughout a military career. The idea is to both keep knowledge fresh and adjust it to life's changing financial challenges, and it's one that needs speedier implementation. We note here that the military has begun taking steps in this direction with its May 8th kickoff of a service-wide “Financial Readiness Campaign.” Officials also might want to raise awareness of the new Military Sentinel website that allows service people to blow the whistle on illegal and abusive businesses.

The local and national military news media should also be encouraged to do more journalism that exposes consumer-scamming businesses *by name* and actively educates consumers. Given the youth and turnover of military personnel these should be ongoing efforts, regularly repeated.

³⁰ The military also has initiated some of the actions recommended above, such as confronting powerful advertisers and making certain businesses “off-limits” to service personnel.

Increasing the military's public witness and legislative advocacy in fighting financial abuses seems especially worthwhile right now. When military leaders "changed the whole complexion" of Florida's title-pawn lending battle they tapped into a perhaps-unrealized level of credibility and moral authority. They have the ear of political leaders at all levels, the credibility to debunk scam-industry apologists, the facts to illustrate the human toll and an especially-high profile at present. Those are powerful weapons that should be more freely employed.

Finally, an aspect of military culture that has inadvertently aided consumer predators also needs addressing: the notion that financial trouble means career trouble. While it's understandable that good conduct codes call for financial rectitude – and further that repeat offenders may be subject to discipline -- the notion that any scrape with money trouble will be damaging needs to be much more forcefully refuted. This is especially true in the face of the clear efforts to exploit those fears documented in this report. Too many military people have been driven further into the arms of predators by fear of being punished for their problems, and its accompanying desire to keep the news away from superiors. Much damage can be prevented if there's less fear of seeking help.

II. EXPAND CIVILIAN LAW ENFORCEMENT

The Federal Trade Commission, state attorneys general and private lawyers can also do more to fight scams targeting the military. The FTC can take a bigger role in analyzing suspected violations of its UDAP standards and other federal laws by businesses targeting service people. It can then follow up with appropriate enforcement actions against violators. The FTC's Military Sentinel website can serve as one source for such investigations.

Attorneys general – especially in states with a large military presence – also can be mindful that service people are more often targeted for scams. They can increase enforcement of state UDAP provisions and other laws, and investigate potential violators accordingly.

More private legal actions challenging scams that violate UDAP standards, federal Truth in Lending Act provisions, state and federal usury laws, and other mandates are also needed. Private actions are always an important component of effective law enforcement.

III. BAN THE PURCHASE OF VETERANS' BENEFITS

As reported in Part 2, NCLC attorneys believe the assigning of veterans' benefits in "advance funding" and other lump-sum buyout deals is illegal under existing law. To ensure that benefits intended to support veterans and their dependents are used for that support, however, the federal law prohibiting the assignment or sale of those benefits could be both clarified and better-enforced.

The approach in proposed legislation has been to clarify the law by explicitly prohibiting transfer of these future benefits for a lump sum, and by including fines and criminal penalties for violations of the law in order to aid enforcement. Although this approach does address the immediate issue, a broader and more open-ended approach would have a greater long-term effect. The size and shape of new consumer scams is limited only by the imaginations of the unscrupulous – we've already reported attempts by these buy-out companies to disguise the true nature of these assignments in order to avoid the federal prohibition. Broader-reaching language in new legislation to address not only this particular type of assignment (future benefits for a lump-sum payment now) but *any* transaction that is in essence an assignment will have greater impact; it can unequivocally prohibit the new and creative schemes that undoubtedly will appear. New legislation should explicitly ban not only the present version of the scam on veterans' benefits but any future variations.

The Nelson-McCain bill that passed the Senate last September (2002 SB 2237) included an outreach program to educate veterans about the ban on these assignments. Education is also an important part of protecting these benefits. Veterans receiving regular, guaranteed federal payments each month are attractive targets, and better education regarding this increasingly prevalent illegal scam will help reduce the number of victims. The bill, however, is unlikely to pass the Senate again during this session, nor is the current House likely to pass something similar. Nevertheless, the Veterans Administration can voluntarily send out notices to educate veterans about the ban on assigning benefits.

IV. STRENGTHEN AND EXPAND EXISTING LAW

A new federal law sharply curbing predatory lending and its usurious interest rates and fees for everyone, military and civilian alike, is a minimum first step toward improving the current situation.

The problems outlined in this report are best addressed with comprehensive federal legislation for several reasons, not least of which is the tendency of one state's problems to "bleed" over neighboring borders when only the first state toughens its laws.³¹ But strong state and local legislation would be progress as well.

On the federal front NCLC attorneys have drafted, at the Defense Department's request, an amendment to the existing Soldiers' and Sailors' Civil Relief Act of 1940. The Act currently prohibits lenders, in many cases, from charging military personnel more than 6% interest on loans entered into *before* they entered the service.

The amendment adds a flat cap of 36% interest (defined as the annual percentage rate as used in the Truth In Lending Act) for all loans entered into *during* military service. This

³¹ See reference to the perverse outcome for Georgia to Florida's successful battle against title-pawn lenders on pages 22-23 of this report.

amendment expands the law to prevent lenders from making very high-cost loans to military personnel during their tenure in the military and without any exceptions. Payday loans, auto title loans, and other forms of expensive obligations would effectively be banned.

Responsible lending to U.S. service people would not be affected.

In addition, businesses that seek to exploit lending-law loopholes by claiming they're not actually lenders – such as the catalog, internet and phone card “sales” businesses described in this report – would appear to be good targets for new or strengthened laws. As stated earlier, NCLC attorneys believe existing law can curb many practices of businesses that disguise their actual intent, but the ever-changing ingenuity of those who would evade the law strengthens the case for new legislative counter-measures as well.

V. WHAT CONSUMERS CAN DO

A major frustration with these scams is that so many who become entangled with them need never do so. Many consumers simply don't realize they have access to far less costly, better-quality credit than that offered by many of the businesses they patronize. So credit unions, financial counselors, relief societies and others serving the military should be approached first when money is an issue. They can often steer people to a better credit source and, more importantly, help individuals and families control debt and move toward long-term financial stability.

Self-education also matters. The modern financial marketplace is far less regulated and offers many more choices than previous generations had. Marketers complement these choices with a steady stream of “do it now” temptations. So service people should think of “basic training” in more than just a military sense. “Financial awareness basic-training” should include the fundamentals of budgeting and spending, debt control, use of credit, insurance, long-term goal-setting, consumer scams and more.

Here are some of the basics for steering clear of scams:

- ❖ **Save now for unexpected expenses.** Even putting aside a small amount each week will help. Try saving money *before* there's an unexpected expense so you can avoid borrowing. You can talk with budget or financial-planning counselors -- most military bases have them -- who can help you understand how you spend your money each month and how you might save.
- ❖ **Shop around.** Don't immediately accept a lender's statement that you're a "sub-prime" borrower who must pay very high interest rates to get credit. You should always shop around rather than accept higher-than-normal loan rates. You may have perfectly good credit in the eyes of another lender. Even if you are considered high-risk by all those you contact, there are many types of sub-prime loans. You should shop among the different sub-prime lenders until you find a reasonable rate and terms. And don't just look at the monthly payment. Compare the interest rate (also called the "annual percentage rate," or APR), the total amount you'll repay, the number of payments, and the fees added to the loan.
- ❖ **Avoid the most common scams.** The list in Appendix A is not a complete one, and new scams constantly emerge while old ones change form. The main message is that services aimed at people with bad credit or other financial problems are often rip-offs. If they seem too good to be true, they probably are. And here are a few additional scams to watch out for:
 - *Paying for credit repair.* No credit repair agency can clean up your credit record if you've been behind on many debts. Promises to do so are lies designed to get you to pay for something that can't really help you.
 - *Taking high-rate loans to tide you over.* Some lenders offer high-rate loans to help you get back into the credit market. The worst of these are high-interest loans secured by your home – you can lose your home for non-payment! These lenders are counting on your belief that you can't get credit on better terms elsewhere. They also may make false promises that the rate can be reduced if you establish a year or more of timely payments. Lenders offering high-rate credit in these circumstances are only trying to rip you off.
 - *Doing business with companies that advertise claims such as "no credit check" or "bad credit no problem."* These companies are either loan brokers or lenders looking for borrowers who consider themselves too risky to pass a credit check -- and who are therefore willing to sign up for high rates. You may discover when reputable lenders evaluate your credit record that you're a better credit risk than you think.
- ❖ **Read before you sign.** Make sure you or someone you trust reads the loan papers *before* you sign them. If a lender won't let you take the papers home to study them or tries to rush you, that's a sign of trouble and you should walk away.

- ❖ **Ask for help.** If you borrowed money from one of these lenders and want to know your legal rights, you can get free assistance from your local legal services office or, in the military, your JAG office. You may also want to contact your state Attorney General's office, the local Better Business Bureau, or the Federal Trade Commission's Internet-based consumer complaint hotline Military Sentinel at <http://www.consumer.gov/military/>. You can also find more detailed information about common consumer scams and your legal rights on the websites of National Consumer Law Center (www.nclc.org), Consumers' Union (www.consumersunion.org), Consumer Federation of America (www.consumerfed.org), the various state Public Interest Research Groups (reachable through the U.S. PIRG website's home page at www.uspirg.org), or in NCLC's "Guide to Surviving Debt."

APPENDIX A: DESCRIPTIONS OF SCAMS COMMONLY AIMED AT THE MILITARY

Payday lenders, cash advance and other “fast cash” businesses: Most all these businesses operate in similar ways, lending small amounts of cash for short terms at exceedingly high interest rates. Many take a post-dated check to be cashed on the borrower's next payday for the principal and interest owed, and some require electronic access to a borrower's bank accounts for payment purposes – see examples throughout this report.³² Some of these lenders have been known to soft-pedal sky-high annual interest rates they're legally obliged to disclose, using spiels like: “Sure, the form says 520% a year but you're only borrowing the money for two weeks, and it's only 20% for two weeks.” They also soft-pedal their interest rates in print ads, like one we found in the NavyTimes that says “Pay only for the time you have the money”³³ -- as if that were a privilege.

Automobile-related scams: Cars are a big source of financial trouble for service people. The Navy-Marine Corps Relief Society, for instance, gives the largest single portion of its cash aid to military families – nearly a quarter of all its aid – for car-repair assistance. Three big auto-related scams aimed at the military are:³⁴

“Title Pawn” lending: This goes on in a number of states and has been sharply limited in a few. It's a form of short-term lending where instant cash loans -- usually for no more than a quarter of the car's value – use the car's title as collateral. Interest rates are

³² More traditional lenders targeting the military (those not of the “instant cash” variety) also have problems, including high interest rates and very high costs. Some charge double-digit interest rates while at the same time larding on fees that greatly raise the real cost of the loan, for instance.

³³ See this and other ads from military newspapers in Appendix B.

³⁴ An interesting look at car-related scams aimed directly at the military in California is an April 2, 2003 “Your Wheels” column in the Los Angeles Times: “Scamsters preying on military families” by Ralph Vartabedian. Also, military Legal Assistance officials in the San Diego region told NCLC that high-priced used car sales are “the single largest consumer (contract) problem that we see here in Legal Assistance.”

usually very high, and there are many cases of cars being lost to lenders for what amounts to a fraction of their value.

“Buy Here/Pay Here” used car dealers: Lynn Drysdale of Florida Legal Services describes typical operations in her region this way: “These dealers finance usually rather old used cars with a large down payment – often equal to the car’s value – then put the customer on a bi-weekly (payment) plan for ‘the rest.’ The car breaks down, the payments stop, they repossess the vehicle and sell it again. They’re just churning cars, basically.”³⁵

“Spot Delivery” or “yo-yo sales”: A form of bait-and-switch. Several sources describe these fundamentals: Buyer buys car, signs financing agreement, and drives the new purchase away. The dealer calls later and says buyer’s credit has not been approved, and in order to keep the car buyer will have to agree to either a higher interest rate, a larger down payment or both. If a trade-in was involved the buyer is often told the trade-in has already been sold and is not recoverable. Dealer then offers the option of buyer’s losing the value of the trade-in if he or she wants to keep the remaining terms of the original deal.

Catalog, internet and phone card “sales”: NCLC’s analysis shows these are often nothing more than thinly-disguised forms of high-priced lending, with the disguise in the form of up-front cash either exchanged or called a “rebate” for the purchase of very high-priced goods or services. Examples of how catalog sales businesses operate can be found in the main report’s sections “A Call to Georgia Catalog Sales” and “I Just Kept Coming Up Short.” Former military financial counselor Ray Meaux was one of many who told us catalog-sales customers rarely use the catalog coupons that supposedly make these cash advances “not a loan,” because the catalog goods are often some combination of very high-

³⁵ Ray Meaux, a former financial counselor at military bases in South Carolina and Georgia, says his investigation of one “buy here/pay here” dealer in Charleston, South Carolina showed the dealer had sold the same car 18 times!!

priced, very low-quality, or subject to outrageous shipping and handling charges that make the “purchase” not worthwhile.

Internet sales: According to counselors who've dealt with ensnared military personnel one of these businesses in Florida, called Florida Internet,³⁶ offers customers a series of instant-cash “rebate” options in exchange for Internet service. One option is a \$480 “rebate” when customers commit to a year's Internet service. The cost is \$80 every two weeks for up to eight hours' service, and the Internet can only be accessed at the company's handful of storefront sites – we visited two of them and between them they had four terminals, none in use. The company also arranges for payments to be automatically deducted from customers' bank or credit-card accounts. The math? First of all, unlimited Internet access on a home computer can be had for less than \$20 a month or \$240 a year in most places. Customers buying the \$480 rebate option are being asked to pay \$2,080 (\$173.33 per month) for a year of limited service (eight hours every two weeks,) minus the “rebate” that brought the price down to \$1,600 or \$133.33 a month. Looked at another way, a \$480 loan that triggers \$173.33 monthly payments for 12 months as this “purchase” does would be a loan carrying a 421.6% annual interest rate.

Phone card sales: This is quite similar in structure to the Internet sales scam above except that the product's different. In a reported example near the Marine Corps' Camp Lejeune in North Carolina, local counselors say those joining a “phone card membership club” got an instant \$300 “cash back” rebate in exchange for their agreement to purchase 300 minutes' worth of phone cards twice a month over a year. The cost was \$67.50 each time or \$135 a month. Setting aside that 600 minutes' worth of phone cards can be purchased at many stores for a fraction of that price (and that even at very high prices the

³⁶ See copy of a Florida Internet contract in Appendix B.

phone cards have some usable value), a \$300 loan triggering \$135 in monthly payments for a year would be a loan carrying a 533% interest rate.

Other sales ripoffs:

The list includes:

- ✓ High-priced life insurance sales reported around the country (the insurance is often unnecessary as well as high-priced).
- ✓ “Education” scams where military personnel are verbally “promised” a college degree but only receive study materials, an encyclopedia or a computer purchased as “part” of the program.
- ✓ Sales of very high-priced “lifetime” camera, film and film developing packages reported to NCLC by San Diego-area military officials.³⁷
- ✓ Miscellaneous door-to-door sales and attempts to circumvent rules banning these sales on base. One Pentagon official reports that salespeople normally banned from Air Force bases work hard to gain access as “exhibitors” during the spring and summer exhibition air show season.

Rent-to-Own: A common presence in low-income communities nationwide, RTO businesses are essentially furniture and appliance retailers who lease their products to those who can't pay cash or obtain market-rate credit. Those customers who rent long enough to actually assume ownership of the goods have often paid two to three times the retail price by the time they've stopped renting – and of course many only rent at what turn out to be very high prices.

³⁷ The military Judge-Advocate's office for that region tells NCLC that one such business, Focus Point/Photo World -- “also formerly known as ABC Finance Company,” was placed off-limits to military personnel by regional commanders. The business “has a long history with Legal Assistance attorneys,” wrote an office representative, who added: “when the issue arises, almost every contested contract is voluntarily rescinded by (the) company's attorney.”

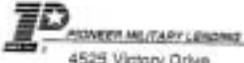
Benefits buyouts aimed at veterans: This is one of the most costly scams for individuals, who can lose tens of thousands of dollars' worth of future benefits payments in exchange for a lump-sum, "advance funding" buyout. Fully described in Part 2 of the main report, "Reward for Service: A Scam Targeting Veterans' Benefits."

APPENDIX B - EXHIBITS

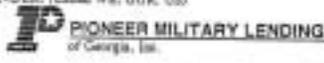
HIGH FEES JACK UP LOAN'S COSTS - PIONEER MILITARY LENDING

This loan agreement with Pioneer Military Lending adds \$431.99 in fees to the finance charge, changing the listed 19.95% "agreed rate of interest" to 31.99%. And the original loan includes \$476.35 for insurance premiums, so the money actually pocketed by the borrower in exchange for this deal's 24 payments of \$195 yields an interest rate of 49.4%.

COUPLE FILLED OUT FORMS
IN JAX BUT DROVE TO
GA TO GET MONEY



PIONEER MILITARY LENDING
4525 Victory Drive
Columbus, GA 31903-0008

FORM:	ACCOUNT IDENTIFICATION	CODE	Social Security Number	BORROWER (Called YOU or YOUR)																																																																											
LENDER: (Called WE, OUR, US)				CO-BORROWER:																																																																											
				MAILING ADDRESS:																																																																											
YOUR AGREED RATE OF INTEREST IS <u>19.95%</u>				This loan agreement and the Ready-Loan are inoperative in nature. YOUR loan is controlled by Georgia law, will be originated in Georgia, and, if approved, will be made in Georgia.																																																																											
24 Monthly Payments of \$ <u>195.00</u> Beginning <u>12/07/2002</u>				SATISFACTION GUARANTEED, see reverse side for details. THERE'S NO RISK TO YOU!																																																																											
ITEMIZATION OF AMOUNT FINANCED																																																																															
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*We may receive or retain a portion of these amounts. INSURANCE: Credit Life, Discontinuance and Disability (or any non-property) insurance are NOT required to obtain credit, and will NOT be provided unless YOU sign and agree to pay the additional cost. You may obtain property insurance from any one YOU want. IF YOU get any insurance from US, YOU will pay the cost indicated below. If we require property or automobile insurance coverage, see reverse side for costs.																																																																															
CREDIT LIFE: <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <th>Term</th> <th>Premium</th> <th>Credit Accident & Health</th> <th>Term</th> <th>Premium</th> <th>Type</th> <th>Term</th> <th>Premium</th> <th>Type</th> <th>Term</th> <th>Premium</th> </tr> <tr> <td><input type="checkbox"/> Joint</td> <td>24</td> <td>41.47</td> <td><input type="checkbox"/> Joint</td> <td>24</td> <td>140.40</td> <td><input type="checkbox"/> Property</td> <td>24</td> <td>294.48</td> <td><input type="checkbox"/> Property</td> <td>0</td> <td></td> </tr> <tr> <td><input checked="" type="checkbox"/> Individual</td> <td>Ins Amt \$</td> <td>4,028.00</td> <td><input checked="" type="checkbox"/> Individual</td> <td>Ins Amt \$</td> <td>4,080.00</td> <td></td> <td>Ins Amt \$</td> <td>3,424.25</td> <td></td> <td>Ins Amt \$</td> <td></td> </tr> </table>					Term	Premium	Credit Accident & Health	Term	Premium	Type	Term	Premium	Type	Term	Premium	<input type="checkbox"/> Joint	24	41.47	<input type="checkbox"/> Joint	24	140.40	<input type="checkbox"/> Property	24	294.48	<input type="checkbox"/> Property	0		<input checked="" type="checkbox"/> Individual	Ins Amt \$	4,028.00	<input checked="" type="checkbox"/> Individual	Ins Amt \$	4,080.00		Ins Amt \$	3,424.25		Ins Amt \$																																									
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YOUR payment schedule will be:		Number of Payments: 24		Amount of Payments: \$195.00		When Payments are Due Monthly Beginning: 12/07/2002		LATE CHARGE: If any payment is more than 3 days late, YOU will be charged 5% of the unpaid scheduled payment or the maximum permitted by controlling state law, at the time of payment.																																																																							
PREPAYMENT: If YOU pay off early YOU WILL have to pay a penalty and WILL NOT be entitled to a refund of part of the Finance Charge.					SECURITY: If checked below, YOU are giving a security interest in:																																																																										
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See YOUR contract documents for any additional information about repayment, default, and required repayment in full before the scheduled date and prepayment refunds and penalties. Collateral securing previous loans with US may also secure this loan.																																																																															

DECEPTIVE SCARE TACTICS - MILITARY FINANCIAL NETWORK CONTRACT

This Repayment Agreement from a Military Financial Network "Rapid Cash" loan (company-quoted annual interest rate of 365%) prominently notes that failure to repay could result in six months' confinement, a bad conduct discharge, and the borrower's being reported to military superiors. Though possible, those kinds of penalties for financial problems are virtually unheard of. One retired admiral says the contract language "is there to intimidate and coerce." NCLC believes this language unquestionably violates Unfair and Deceptive Acts and Practices (UDAP) standards and therefore should be referred by military officials to the Federal Trade Commission.

Military Financial Network, Inc.
A Division of Citizens United
29 Bala Ave, Suite 204, Bala Cynwyd, PA 19004
Phone: 888 / 756-2607 Fax: 888 / 756-2608 E-Mail: info@MilitaryFinancial.com

Repayment Agreement

I, [REDACTED], understand that payment for this loan will be debited from my account, number [REDACTED], with JAX NAVY FCU. I understand that I am responsible for making sure that \$242.50 is available on the following date(s): 15-Aug-00, 1-Sep-00, . If I fail to provide these funds, I understand that this will be a violation of Article 123a and 134 of the UCMJ, punishable by up to 6 months confinement, forfeiture of all pay and allowances, and a bad conduct discharge. In the event of my failure to provide for the collection of these funds, I authorize the Military Financial Network to contact my military superiors in these matters. I further authorize any representative of the United States Military to release any and all information about me, deemed necessary in the collection of this debt, to The Military Financial Network, Inc.

Printed Name: [REDACTED] Date: 2 AUG 00
Signature: [REDACTED] SSN: [REDACTED]

ENT BY: WEN TUN EV-5

ERODING BORROWERS' PROTECTIONS -- LOANS FOR MILITARY CONTRACT

(next two pages)

This agreement specifically excludes the lender, Loans For Military, from exposure to any of the borrower's subsequent financial problems – leaving the borrower few protections and the lender with little incentive to responsibly screen borrowers. The boldface paragraphs on the first page say the loan must not be part of any future bankruptcy or debt-consolidation program the borrower might enter into. NCLC attorneys believe that clauses like the one excluding the lender from any bankruptcy proceeding filed by the borrower are not enforceable. On the second page, this loan's addition of a hefty fee not counted in the 17% "annual percentage rate" effectively turns this into 12 payments of \$68.02 for a \$500 loan – a 101.8% annual interest rate. NCLC attorneys believe the failure to include the \$245.75 "Origination & Administration" charge in the box labeled "Finance Charge" is a clear violation of the federal Truth in Lending Act.

Loans For Military

Credit Release Authorization & Supplemental Loan Application Information

2ND LOAN APPLICATION PACKAGE

Name (Last) [REDACTED] (First) [REDACTED] (Middle) [REDACTED] SS # [REDACTED] Rank E5

Date of Birth [REDACTED] Base NAVAIR JACKSONVILLE, FL Duty Phone [REDACTED]

Off Duty Address NAVAL AIR RESERVE Apt#: [REDACTED] Home Phone [REDACTED]

City JACKSONVILLE State FL Zip 32212-0004

Co-Borrower (Last) N/A (First) [REDACTED] (Middle) [REDACTED] SS # [REDACTED]

NAVAL AIR
STATION JACKSONVILLE

I hereby authorize Loans For Military to contact any individual, business and company, corporation, or credit bureau to supply any information concerning my credit worthiness and credit history in case my loan goes into default. I hereby also give my permission for any individual business, company, corporation or credit bureau to release any and all information regarding my credit worthiness and credit reports permissible by all governing laws to Loans For Military for the same purpose..... [REDACTED] (X) initials

The applicant(s) has thoroughly examined his/her income and determined it is sufficient to repay the above referenced loan, including any other debts for which the applicant(s) is liable..... [REDACTED] (X) initials

The applicant(s) has no collections or debts in arrears, or in force, including charge-offs or repossessions, which have not been made known to the Lender..... [REDACTED] (X) initials

The applicant(s) has made known to the Lender any and all derogatory information, which would have bearing on the Lender's decision to make the requested loan..... [REDACTED] (X) initials

THE APPLICANT(S) IS NOT NOW IN ANY CREDIT COUNSELING PROGRAM, AND SPECIFICALLY AGREES TO EXCLUDE THE LENDER FROM ANY DEBT CONSOLIDATION PROGRAM INTO WHICH HE/SHE MIGHT ENTER..... [REDACTED] (X) initials

IN THE EVENT OF AN UNFORESEEN OCCURRENCE, THE BORROWER(S) EXPLICITLY AGREES TO EXCLUDE THE LENDER FROM ANY BANKRUPTCY PROCEEDINGS INTO WHICH THE BORROWER(S) MAY ENTER..... [REDACTED] (X) initials

The Borrower(s) EXPLICITLY AGREES not to discontinue any allotment payment being made to retire the debt without the EXPRESS, WRITTEN CONSENT of the Lender..... [REDACTED] (X) initials

The Borrower(s) EXPLICITLY Agrees to immediately notify the Lender when there is a change of Duty Station and provide the new address and telephone numbers to the Lender..... [REDACTED] (X) initials

I (We) have read and understand this agreement, and explicitly agree to its terms as a condition of obtaining a loan from Loans For Military..... [REDACTED] (X) initials

Signature Co-Borrower [REDACTED] X N/A Signature Co-Applicant [REDACTED] Date 1/01

**LOANS FOR MILITARY
FEDERAL TRUTH-IN-LENDING DISCLOSURES**

Note Number 2ND LOAN

ANNUAL PERCENTAGE RATE	FINANCE CHARGE	PRINCIPAL AMOUNT	AMOUNT FINANCED	TOTAL OF PAYMENTS
The cost of your credit as a yearly rate.	The dollar amount the credit will cost you.	Loan Amount	The amount of credit provided to you or on your behalf.	The amount you will have paid after you made all payments as scheduled.
17 %	\$70.44	\$500.00	\$745.75	\$816.19

Payment Schedule

Number of Payments	Monthly Payment	When Payments Are Due
12	\$68.02	Monthly

Charges That Increase The Annual Percentage Rate:

Prepaid Interest	0 days at 17.000%
Origination & Administration	\$245.75
Nominal Interest Rate	17.000%
Effective Annual Rate	18.717%
Periodic Rate	1.417%
Equivalent Daily Rate	0.047%

Summary of Total Payments

Loan Amount	\$500.00
Interest	\$70.44
Origination & Administration	\$245.75
Total Payments	<u>\$816.19</u>

NOTE: ALL LOANS ARE FOR 12 MONTHS

VIRTUALLY USELESS "PURCHASE" - FLORIDA INTERNET CONTRACT

Florida Internet's "computer access" purchase agreement more closely resembles a thinly-disguised and very high-priced loan. The Internet service "purchased" in this agreement is not only exceptionally expensive but subject to strict access limits that make it virtually useless to many. That makes the up-front "rebate" the only item of consequence in this transaction – pretty much a high-cost instant loan at over 400% annual interest. In order to get the \$240 instant-cash "rebate" checked here, for instance, the borrower commits to payments of \$1,040 over a year.

FLORIDA INTERNET
2444-7 Mayport Rd. #6
Jacksonville, FL 32233
(904) 249-1218

Date: _____ Internet Computer Access Rebate Purchase Application and Contract PAGE 1 of 2

Customer Information:
Name: _____ Daytime Phone Number: _____
Address (sorry, no P.O. boxes): _____
City: _____ State: _____ Zip Code: _____
Social Security Number: _____

Checking Account or Credit Card Information (you must provide to qualify)
Name of Bank: _____ ABA: _____
Account Number: _____
Check Number: _____ ACH Contract:
Card # _____ Check one M/C VISA DISC AMX
Authorized Card Holder's Signature: _____ Expiration Date: _____

PURCHASE TERMS

I elect to have Florida Internet deduct my first payment from my Rebate

Select the promotion you are electing to participate in (select only one)
I understand as incentive to purchase and subscribe for more time this contract includes two (2) Audio Visual Career Seminars for each Rebate Amount.

<input type="radio"/> \$120 Rebate 2 hours @ \$20 every 2 Weeks	<input checked="" type="radio"/> \$240 Rebate 4 hours @ \$40 every 2 weeks	<input type="radio"/> \$360 Rebate 6 hours @ \$60 every 2 weeks	<input type="radio"/> \$480 Rebate 8 hours @ \$80 every 2 weeks	<input type="radio"/> \$600 Rebate 12 hours @ \$100 every 2 weeks
--	---	--	--	--

Subject to the terms and contract set forth, I hereby agree to purchase and subscribe to the Florida Internet Computer program selected above from Florida Internet for the terms of one (1) year. I shall have, by appointment, Access to the Internet Computer at address shown above.

I agree and understand that the right to use this Internet computer access account is restricted to the computers located on these premises, access shall be by appointment only during regular business hours and that these hours may change without notice. I agree that unused computer time cannot be carried forward, that time is not accumulative, and all time expires at the end of each two (2) week period beginning with the above date herein. I agree I shall not be entitled to any refund or compensation of any kind for any unused or expired computer time.

ACH DEBIT AUTHORIZATION

I hereby authorize Florida Internet to withdraw funds by ACH debit entries from my checking, savings account, or credit card indicated above for those services contracted herein.

I understand that the foregoing ACH authorization is a fundamental condition to induce Florida Internet to accept my Florida Internet Computer Access Rebate application. Consequently, such authorization is intended to be irrevocable. In the event I terminate such ACH authorization Florida Internet in its sole discretion may deem such termination to be a default, and may terminate this contract without notice to me.

By this ACH contract I authorize Florida Internet to debit from my account stated above for the full amount of the above rebate, the termination fee. I have read and agree to all terms and conditions contained in this ACH contract, Florida Internet's rebate application and the purchase contract and further agree that said contract cannot be waived, altered, modified, revoked or rescinded unless both parties agree, and that said modification is in writing and signed by both parties. I agree to pay a \$30 returned item charge for each NSF ACH or check. I also give permission to Florida Internet to ACH debit all NSF fees due as a result of any NSF, from checks or ACH debit.

Customer Signature: _____

INSTANT REBATE TERMS AND CONDITIONS

Upon acceptance of your application, Florida Internet will authorize an instant rebate to you in the amount above indicated.

To qualify for the rebate:

- 1) You must sign up for a new Florida Internet Computer Access account for a 1 (one) year term, said account payable in 26 equal installments which are to be paid every 14 days (1 period);
- 2) You must pay for the Internet Computer Access account each period in advance (plus applicable taxes);
- 3) This form must be completed fully.
- 4) You must sign to show that you agree to all the terms and conditions described in this Purchase Application and contract.

NavyTimes NEWSPAPER ADS

The "Finance Directory" of the March 3, 2003, NavyTimes newspaper is full of ads for fast loans (this page and next). Aside from quick-cash and other lenders, several of the small-print ads on the right (enlarged at bottom) are for companies that buy out streams of veterans' benefits – a worrisome phenomenon detailed in Part 2 of this report. The ads themselves can be misleading, as with Military Financial, Inc.'s. "Pay Only for the Time You Have the Money" line – a tactic frequently used by short-term lenders to soft-pedal super-high *annual*/interest rates. But these ads can also mislead in a more subtle way: The nationally-circulated NavyTimes and its Army, Air Force and Marine cousins are not published or controlled by the military though many military people believe they are -- thus letting their guard down when reading ads like these.

\$

FINANCE DIRECTORY

\$

LOANS\$ FOR MILITARY

WE DO NOT CHECK CREDIT

- * Bankruptcies Welcome
- * 12 Month Repayment
- * Instant Phone Approval
- * No Additional Fees
- * No Credit - No Problem

- * Loans to \$3000
- * Fast Funding
- * Add'l Loans Available After 6 Month
- * Others Promises . . .

. . . We Deliver !

We can help... Call Toll Free: 1-888-988-8403 or From Overseas Call 302-765-3471 Fax your L.E.S. to 1-888-988-8404 or From Overseas Fax Your L.E.S. to 302-765-3473 For More Information, Visit Us At: www.loans4military.com

*Loans For Military is not affiliated with any agency for the U.S. Government

222 Philadelphia Pike, Wilmington, Delaware 19808

\$

Instant Cash

\$

Attention All Active Duty Personnel!
Could You Use an additional \$500 - \$3,500 Today?
Call us today for an Advance Pay Loan from the Privacy of your Home.

WE BEAT THE COMPETITION
PAY ONLY FOR THE TIME YOU HAVE THE MONEY
CASH IN YOUR HAND THE SAME DAY YOU APPLY
LOWEST RATES AROUND CUSTOMIZED MULTIPLE PAYMENTS
NO LONG TERM COMMITMENT

99.9% APPROVED - BANKRUPTCIES OK - FAST, COURTEOUS SERVICE - NO CREDIT CHECK

Call Toll Free
1-888-756-2607
or Fax L.E.S. and ID to
1-888-756-2608

From Germany
0-800-181-6995

All Others
302-479-8560

Or Visit us on the Web
MilitaryFinancial.com

Military Financial, Inc.
1403 Rock Road, Suite 303 Wilmington, Delaware 19808

GET OUT OF DEBT!

Reduce Interest - Lower Payments
Use Simple Money Payment
Specializing in the Military
Retirement Account Analysis
Existing Debt/Retiree

1-800-541-8167
www.militarycashflow.com

*Noting the needs of the service
Member Since 1980
*No Credit Check
*No Collateral
*No Long Term Commitment
*No Hidden Fees
*No Penalties
*No Prepayment Penalties
*No Late Fees
*No Annual Fees
*No Monthly Fees
*No Service Fees
*No Maintenance Fees
*No Insurance Fees
*No Title Fees
*No Closing Costs
*No Escrow Fees
*No Recording Fees
*No Transfer Fees
*No Recording Fees
*No Transfer Fees

IMMEDIATE CASH!
We pay cash for your military pension, VA pension, VA pension & VSO pension. Transaction time can be as short as 10 working days. NO upfront fees.
www.milcash.com
12304 Santa Monica Blvd #107 LA, Ca 90025
CALL TODAY 1-800-888-1325

OVERDUE BILLS?
1-800-788-1141-24 HOURS
Bad credit ok. Licensed/Bonded since 1977. Appro to \$10,000. No Loan or adv. fees. Town & Country Acceptance, 400 Century Park South #110, Bham, AL 35206

ALWAYS THE MOST CASH
Paid for Annuities, Business or Mortgage notes. The "Ideal Team" LLC
A Funding Company, 688-830-7604 or e-mail: milmark2@aol.com

**BORROW \$200-\$500 UNTIL NEXT PAYDAY
NO CREDIT CHECK! 1-888-442-CASH
www.cashnow.com/washingtondc**

\$550.00 WEEKLY SALARY
Mailing Sales Brochures from Home.
No Experience Necessary. P/T/F/T. Overtime Opportunity. All supplies provided. Paychecks guaranteed. 1-768-431-4800 (24 hours)

IMMEDIATE CASH!!!

Retired Military Financial Services
pays cash now for your military pension,
Regular pensions, VA pensions & VSO pensions
Transaction time can be as short as 10
working days. NO upfront fees.
www.milcash.com
12304 Santa Monica Blvd #107 LA, Ca 90025
CALL TODAY 1-800-888-1325

OVERDUE BILLS?
1-800-788-1141-24 HOURS
Bad credit ok. Licensed/Bonded since
1977. Appro to \$10,000. No Loan or adv.
fees. Town & Country Acceptance, 400
Century Park South #110, Bham, AL 35206

ALWAYS THE MOST CASH
Paid for Annuities, Business or
Mortgage notes. The "Ideal Team" LLC
A Funding Company, 688-830-7604 or
e-mail: milmark2@aol.com



FINANCE DIRECTORY





NEED A LOAN?
Installment loans for active military personnel

Fill out an application online at...

www.armedforcesloans.com

AND
Fax Your L.E.S to 1-800-698-0914

Quick Phone Approval | Fast Funding
Why Pay More? Call 1-800-706-9676

ARMED FORCES LOANS OF NEVADA INC. 3824 S Jones Blvd. Las Vegas Nevada 89103

Qualify to borrow through our Armed Forces Loan programs.

- Bankruptcies OK
- No Advance Fees
- Lowest Rates
- No Credit? Not a Problem.
- Overseas? Call 702-868-6204
- Up To \$3,000

FORCE ONE LENDING, INC.

NEED MONEY TO GET BACK ON TRACK???
Attention Active Duty Members

Compare our cost to other Companies:

<ul style="list-style-type: none">● No Original Fee● No Upfront Fees● No Hidden Fees● No Penalty for Early Pay Offs	<ul style="list-style-type: none">* No credit Check* You can apply from the tranquility from your home* Loans up to \$3000* Overseas Applicant Welcome
--	---

Fax Your L.E.S. & ID Toll Free: (888) 565-3672
Call Toll Free: (888) 819-3672
For more information visit our WEBSITE:
www.force1loans.com

Se Habla Espanol

FORCE ONE LENDING, INC.
P.O. BOX 129, CAMUY PR, 00627
Licensed Lender in PR

Debt Consolidation - Military Allotments Available
Receive Cash Back Every 6 Months
Feel Good About Your Finances Again
Reduce Total Monthly Payments by 1/3 or More
Eliminate High Interest Rates & Fees
One Simple Low Monthly Payment
1-800-438-9179 Ext: 214
Brighton Credit Management Corp.
www.brightoncredit.com

Financial advice for those serving in the military can be found in the Financial Directory of each week's classified section.

Call to place your ad today.

1-800-424-9335 ext. 8902

Nearly 11% of military personnel have aviation specialties. Reach them through a classified ad in this newspaper.
1-800-424-9335 ext. 8902

A SPECIAL MENTION FOR BRAZENNESS

This Military Financial Network ad shamelessly declares “You Won't Believe How Low Our Rates Are!” before disclosing in smaller print that those “low” interest rates are a mere 365% a year.

Need Cash Today?

Need a Short Term Loan Until Payday?
Borrow 35% of Your Pay Today, and Repay it Next Month!

Fast, Confidential Service for Active Duty Military Only

Short on Cash?
If You Are An Active Duty Member of the United States Military and Your Pay is Directly Deposited into a US Bank, Then You Are Approved to borrow up to 35% of your take home pay! Have the Cash in your hand before you get Off Duty Today!

You Won't Believe How Low Our Rates Are!

*\$1.00 per day per \$100.00 borrowed
APR 365%

Same Day Delivery To US Customers If Application Approved During Normal Business Hours

Easy to Apply:
Fax LES and ID Card to (Toll Free)
1-888-756-2608
Or Call Us:
1-888-756-2607
Or Visit Us On The Internet:
www.MilitaryFinancial.com/AdvPay

Hours (all times Eastern): Mon.-Fri. 0400-1600;
Sat. 0900-1700; Sun. Closed

The Military Financial Network, Inc.

“COUNTER-ADS” DESIGNED TO FIGHT HIGH-COST BUSINESSES

The “Counter-Ads” at right were created by Navy-Marine Corps Relief Society officials near Jacksonville, Florida, in response to the two ads on the left. The left-side ads for high-cost “instant cash” establishments ran in local base newspapers as did the subsequent counter-ads, which use similar wording and designs to point out that lower-cost alternatives exist to doing business with these “catalog sales” stores.

 <p>UP TO \$500 INSTANT CASH! <i>* Write your personal check and we'll deposit it your next payday!</i></p> <p>YOU QUALIFY FOR CASH TODAY!</p> <p>ST. MARY'S CASH 512-ND-7669</p> <p>JACKSONVILLE</p> <p>Phone: 904-249-2535 904-779-2525 Fax: 904-249-1218 904-777-1992</p>	 <p>0% ON ANY LOAN</p> <p>* <i>Rent, Electricity, Water, Food, Emergency Leave</i></p> <ul style="list-style-type: none"> • Whatever your need call us first! • No credit check, completely confidential <p>Active Duty, Retirees & Family Members Quality</p> <p>NMCRS Navy-Marine Corps Relief Society</p> <p>Naval Submarine Base, Kings Bay 912-673-3928</p> <ul style="list-style-type: none"> • Dedicated to helping you • No coupons, gift certificates • Just the money you need!
 <p>\$500 UP TO INSTANT CASH <i>Employed Full Time?</i> YOU QUALIFY!</p> <p>GA. CATALOG SALES ADVANCE TIL PAYDAY</p> <p>Got A Bill That Won't Wait? Need Cash Till Payday? Been Turned Down Before?</p> <p>Write a Check And We'll Deposit Your Next Payday!</p> <p><small>(Over The Purchase • Catalog Store • Personal Checks Welcomed)</small></p> <p>GCS #11 Charles Smith, St. Mary (next to Mall & More) ST. MARYS, GEORGIA 912-882-7669</p> <p><small>***Corporate policy to refuse return items. *Repayable when written, checks approved</small></p>	 <p>NO CREDIT CHECKS! ACTIVE DUTY, RETIRED, FAMILY MEMBER YOU QUALIFY!</p> <p>NAVY-MARINE CORPS RELIEF SOCIETY FOR ALL YOUR UNEXPECTED EMERGENCIES</p> <p>BRING YOUR ID AND LES</p> <p>NO NEED TO WRITE A CHECK, ALL REPAYMENTS COME DIRECTLY OUT OF YOUR PAYCHECK!</p> <p>DELAYED REPAYMENT! ALL REPAYMENTS BASED ON YOUR BUDGET!</p> <p>Car repair, emergency leave, rent, electric, water. Whatever your need, give us a call! We're here for you!</p> <p>NMCRS KINGS BAY</p> <p>Naval Submarine Base Kings Bay Building 0039 (Community Center) 912-673-3928</p>

HINTING AT MILITARY TIES - VETERANS' FIRST FINANCIAL SERVICES

Insignias and a waving flag give this Web page for Veterans First Financial Services a military look, and the language hints at financial empowerment. But VFFS wants veterans to sell their streams of cash benefits for a lump sum, a type of deal that NCLC attorneys believe is illegal under federal law.

Veterans First Financial Services, Inc. Page 1 of 2

[VFFS, Inc. Home](#) | [The CORP Program](#) | [More Information](#) | [Determine Benefits](#)
[Questions & Answers](#)

April 14, 2003

If you have already been contacted by Veterans First Financial Services, and you have your User Name and Password, [Click Here](#).

MSNBC NEWS
A FREE SERVICE OF MSNBC.COM
4/14/03 2:04 AM ET

- Baghdad struggles for normalcy
- U.S. Marines enter Tikrit
- Seven U.S. troops found healthy

Go to [MSNBC.com](#) for complete coverage

*MSNBC is not affiliated with this website

Would you like to have your retirement account in **CASH TODAY** to invest or spend in your own way?

You can fund your own retirement account and invest the money the way you see fit. You can use part of the money for education or recreation, buy an investment property or vacation home, buy a new boat or pay off bills! You've worked hard to earn your retirement and you deserve the same benefits many non-military retirees enjoy.

[Click for more information about the VFFS, Inc. CORP program!](#)

MoneyCentral Stock Quote
Enter Symbol(s)

[Online Military Resources](#)

Unlike many civilian retirement accounts that have a specific cash value, the military retirement program has no real cash balance, but rather, pays a specific amount monthly to retirees based on pay grade at retirement and the number of years of service. This amount continues until the retiree dies, at which time the benefits either cease or transfer to surviving dependents.

Veterans First Financial Services, Inc.
Copyright © 2002 Veterans First Financial Services, Inc. All rights reserved.
For additional information about Veterans First Financial Services, Inc. or VFFS, Inc., please contact firstvet@firstveterans.com.

STRIKING BACK IN THE MEDIA - FINANCIAL EDUCATION FOR THE MILITARY

Examples from two local base newspapers (this page and next) of articles promoting financial literacy and anti-scam education. Military officials, concerned about the presence of consumer scams both in their communities and in the local and national military news media, are slowly beginning to use the media to put out their own counter-messages.

HEY MONEYMAN!

Hey, MoneyMan!
I just recently moved to Jacksonville and I keep getting these phone calls trying to get me to invest money.

I do not know anything about investments and I am afraid these people may rip me off. Do you have any recommendations on where I can go to get good advice?

MoneyMan Sez:
It is good that you are trying to plan ahead. There are lots of different ways to invest – some of them good and some, not so good!

Fortunately, the Fleet and Family Service Center is conducting training on a variety of personal financial management topics later this month.

On March 18 they will be talking about investing and financial planning. On March 19, they will focus on car buying strategies and on March 20 they will be discussing real estate



and credit issues.

You can sign up for this free training by calling 542-2766, Ext. 151. Make a call and sign up.

This is great opportunity for everyone and I know they are going to bring in the "experts" to make sure the right information is provided.

After the training, give me a call and let me know how it turned out.

More questions? Call Hey MoneyMan at 778-0353.



BEWARE of PAYDAY LOANS

Loans are fast track to deep debt

By JO2 Jennifer Spinner
Periscope Staff

The loan advertisements are creative and enticing, and they lure consumers with promises of quick cash to help them make ends meet until their next payday. What the ads do not mention, however, is that these payday loans can come at a very high price.

"There are many different names for these loans," said Felipe Gonzalez, financial counselor at the Fleet and Family Support Center. "Some businesses refer to them as cash advance loans, others call them deferred deposit check loans. Regardless of what you call them, the process is the same. Check cashers, finance companies and other businesses are offering small, short-term, high-interest loans to consumers."

In most cases, the borrower writes a personal check, payable to the lender, for the amount borrowed plus a fee. The company gives the borrower the amount of the check in cash, minus a fee.

"These fees are usually a percentage of the face value of the check or a flat fee charged per amount borrowed," said Gonzalez. "If you extend or 'roll over' the loan, let's say for another two weeks, you pay the fees for each extension."

"This is a very expensive method of obtaining credit and it should only be used as a last resort, according to Gonzalez. He used this example to

illustrate the true cost of payday loans.

"Let's say you write a personal check for \$115 to borrow \$100 for up to 14 days. The check casher or payday lender agrees to hold the check until your next payday," said Gonzalez. "When payday comes, the lender deposits the check or you redeem it by paying the \$115 in cash. If you can't pay the amount, you pay a fee to extend the loan for another two weeks."

Debt Problems?

Contact the
Fleet & Family Support Center or
the Navy-Marine Corps Relief
Society for help in solving
your financial troubles.

In this example, the cost of the initial loan is a \$15 finance charge or an APR of 391 percent. If you were to extend the loan three times, the finance charge would climb to \$60 for a \$100 loan. Gonzalez said there are many alternatives to these costly loans.

"Consumers should really consider their options," he said. "When you need credit, shop carefully and compare offers. Look for the credit offer with the lowest APR or, even better, consider a small loan from your credit union, a small loan company or from family or friends. Always know the terms before deciding on a loan."

Gonzalez said consumers should also consider contacting creditors personally before taking out a quick payday loan.

"Ask your creditors for more time to pay your bills," he said. "Find out what they will charge for that service, whether it's a late charge or additional finance charge or even a higher interest rate, and compare that to what you would pay for a payday loan."

Of course, prevention is the best plan for avoiding credit emergencies. Setting a realistic budget and regularly setting aside money for savings, even in small amounts, can help keep consumers out of debt when emergencies and unexpected expenses pop up.

"This can give you a valuable buffer against financial emergencies, said Gonzalez. "The last thing you need when an emergency situation comes up is to have a mountain of debt to take care after everything is over."

Under the Truth in Lending Act, the cost of payday loans must be disclosed. The borrower must receive in writing the finance charge, expressed as a specific dollar amount and the annual percentage rate. The APR is the annual cost of the credit to the consumer.

The Kings Bay Fleet and Family Support Center offers many programs to educate and assist consumers with credit. If you would like help working out a debt repayment plan with creditors or developing a budget, contact your command financial specialist, the FFSC, or the Navy-Marine Corps Relief Society.

SPEAKING UP ABOUT SCAMS - LETTERS FROM MILITARY OFFICIALS

(next seven pages)

The following letters to officials in three states, from Ret. Admiral Jerome Johnson and Rear Admiral David Architzel, strongly detail the pitfalls for the military of payday lending, check cashing and other “fringe lending institutions” and include specific legislative recommendations. The first letter in the group, also the most recent from April 2003, notes that payday lenders’ “negative impact on military readiness is profound.”

The military is becoming increasingly vocal in the public arena about scams, and its unique credibility and moral authority on these issues appears to have had decisive impact in at least one state. But the backers of consumer-unfriendly businesses are often stronger politically. One day after Adm. Johnson’s April 30, 2003 letter, the North Carolina House passed the bill he was warning against by a 79-32 vote. Adm. Johnson refers to payday lenders’ support of the bill in his letter.



Navy-Marine Corps Relief Society

4015 Wilson Blvd., 10th Floor
Arlington, Virginia 22203-1978

Tel:(703) 696-4904
DSN 426-4904
Fax:(703) 696-0144

April 30th, 2003

The Honorable Representatives of the North Carolina House

Dear Representatives:

I am disappointed to learn that the House Financial Institutions Committee gave a favorable report April 29th to House Bill 1213. It is regrettable that you are being encouraged to pass legislation, which re-authorizes the predatory practice of payday lending. The Navy-Marine Corps Relief Society is opposed to charging exorbitant triple-digit interest rates for short-term deferred deposit loans using post-dated personal checks. Payday lending is harmful to our military readiness. It harms the financial stability of our military families and personnel who sacrifice so much to maintain our freedom.

Payday lenders and their national association support HB 1213. There are numerous flaws in this legislation. For example, this bill hurts consumers by imposing excessive interest rates, a compressed 14-day short term for repayment, and other unfavorable terms on borrowers. HB 1213 is designed to legalize the predatory elements of payday lending by trapping consumers in a continuous cycle of debt.

A more consumer friendly bill, HB 1005, has also been introduced but is currently held in the House Rules Committee. This bill is supported by state consumer affairs organizations. Transaction fees with their resulting interest rate and a 90-day period for repayment are more affordable and reasonable. Borrowers will be protected from the coercion and threats practiced by predatory lenders to encourage additional rollover transaction fees and entrapment in a cycle of indebtedness. HB 1005 is clearly the better option for borrowers and will help protect our military personnel from the predatory nature of payday lending.

For several years I have coordinated actions with military commanders and consumer organizations in North Carolina to protect military families from the violation of usury laws by payday lenders. The negative impact on military readiness is profound. For young members of the Armed Services who are experiencing the extraordinary pressure of family separation and deployments, these loans may seem to help with their emergency needs, but most often lead to greater hardship. In 2002, the Navy-Marine Corps Relief Society provided over \$276,363 to over 750 service personnel to pay off their payday loans and to protect them from triple-digit interest rates. On no account should you support legislation like HB 1213. Rather, should you be determined to legalize payday lending, it is in the best interest of the targeted group of low-income families to pass HB1005 in its entirety.

Best wishes in your deliberations today and in the days to come and I thank you for your support of our military personnel in North Carolina.

Sincerely,

J. L. Johnson
Admiral, USN (Ret)
President/CEO



Navy-Marine Corps Relief Society
801 North Randolph Street, Suite 1228
Arlington, Virginia 22203-1978

Tel: (703) 696-6904
DSN 426-6904
Fax: (703) 696-0144

August 29, 2000

General Robert F. Milligan, USMC (Ret.)
Comptroller
101 East Gaines Street
Tallahassee, FL 32239

Dear General Milligan:

The purpose of this letter is to request your assistance in curbing abuses by deferred presentment establishments. We greatly appreciate the stand you took when "title lenders" were charging exorbitant interest rates in Florida. Now we need your assistance to rein in an industry that is an even greater financial menace to our service families.

As you know, our Navy-Marine Corps Relief Society is a private, non-profit service organization whose purpose is to provide financial, educational and other assistance to members of the Naval Services of the United States. Recently, we have observed a sharp rise in the number of "fringe lending institutions" throughout the United States. A number of euphemisms are used to describe these operators including, payday lenders, cash advance establishments, check cashing services, and cash express offices. No matter how they are described, they are simply lenders that charge extremely high interest rates. Every day a service member visits one of our Navy-Marine Corps Relief Society offices with financial problems that have been greatly aggravated by the usurious charges imposed by these operators. Some of them owe hundreds of dollars in "fees." An officer for a Navy credit union in Florida recently reported that his credit union processes up to 600 of these checks each month!

These lenders circumvent banking and lending regulations by claiming to be "check cashing" operations. In fact they are accepting post-dated checks on accounts that have insufficient funds, and then holding these checks until payday. Since there is little or no money in the bank when cash is exchanged for the check and the check is held until the next payday before it is deposited, the transaction is, in reality, loan at triple digit interest rates.

The Maryland Division of Financial Regulation recently ruled that these actions were illegal and that the state usury laws would be enforced. Their action will prevent lenders from charging rates in excess of the usury limits and then attempting to enforce the collection of these loans.

A similar ruling in Florida that defines and separates check cashing from deferred presentment and treats the latter as a loan would go a long way toward resolving the problem.

Since 1904.... Helping the Navy and Marine Corps Take Care of Their Own

These transactions could then be governed by the same regulations that apply to other lending institutions.

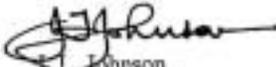
Problems caused by payday loans and cash advances are similar nationwide. Payday loans become an ongoing financial trap. They are not used on a one-time basis as claimed by the industry. In fact, it has been estimated that only 2% of customers take out just one loan. According to a Wall Street analyst, the average customer makes 11 transactions per year. Payday loan rates are outrageously high. In Colorado, one of the few places in the country that collects actual data from the industry, payday lenders write-off only 3.0% while charging APRs of 485%. Banks write off 2.7% of credit card debt while charging APR's of 15 to 22%.

Despite industry claims to the contrary, there are viable alternatives to payday loans. One such alternative for service members is to seek assistance from NMCRS in the form of an interest free loan or a grant when they have an unforeseen financial need. Other alternatives include:

- Debt management training and education.
- Negotiating payment plans with creditors.
- Using credit cards or secured credit cards.
- Advances from employers.
- Seeking credit union assistance.
- Bank accounts with overdraft protection.
- Lines of credit from finance lenders.

We urge you to take action to stop these abuses. Thank you for your support in protecting the interest of service members and other consumers in Florida.

Sincerely,


A. Johnson
Admiral, USN (Ret.)
President



Navy-Marine Corps Relief Society

4015 Wilson Blvd., 10th Floor
Arlington, VA 22203-1952

Tel: (703) 696-4904
DSN 426-4904
Fax: (703) 696-0144

August 21, 2002

DEAR MEMBER-NORTH CAROLINA GENERAL ASSEMBLY:

It is my understanding that during the week of August 26th the North Carolina House Finance Committee will hear Senate Bill 104, "Regulate Deferred Deposit," or what is otherwise known as payday lending. I most strongly urge you to protect the men and women of our Armed Forces and other low-income families that are the target of the unscrupulous business called "payday lenders" or "fast cash" franchises. Please let me explain.

I currently serve as the President and CEO of the Navy-Marine Corps Relief Society. Our mission is to provide financial, educational, and other assistance to members of the Naval Services of the United States and their families. In spite of ongoing efforts to educate our Marines and Sailors about predatory lenders, our service members and families continue to borrow money from payday lenders that charge triple-digit interest rates. There can be no question that military families are among the "targeted group". A preponderance of payday lenders and cash advance offices are located in the immediate vicinity of our military installations at Camp Lejeune, Cherry Point, and New River, North Carolina. (Ft Bragg and Pope AFB also apply, but I am representing our experience from severe financial hardship among Marines and Sailors who have requested emergency assistance from the Navy-Marine Corps Relief Society).

Military Commanders such as Rear Admiral Jan Gaudio, Commander, Naval Region Southeast stated that he is "deeply concerned with the problems associated with our Sailors and Marines obtaining payday loans...this practice effects not only our service family, but also operational readiness of the command." The most obvious problem is the high cost for borrowers. Perhaps an even more serious issue is that the loans are designed to entrap the borrower into perpetual debt. One of our consumer studies reported that 77% of payday loans are to borrowers caught on the rollover treadmill with an average interest rate of 499%! In North Carolina in 2001 the average borrower took out 14 payday loans per year, and 96% of the payday loans were to borrowers caught on the repeat treadmill of at least 5 or more loans per year. Last year the NMCRS provided emergency financial assistance for 1086 service families amounting to \$205,209 to buyout payday lenders and prevent financial entrapment.

How can you help? I encourage you to insist on the protection of NC consumers and the military families serving in your state. Should a new bill be enacted it must:

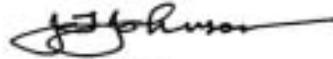
- Prohibit the use of a post-dated personal check as collateral for a payday loan. Borrowers have insufficient funds to cover the check and are forced into perpetual fees and rollover of short period loans at triple-digit interest/fees. Some contracts threaten and coerce the military member with prosecution and Bad Conduct Discharge for violation of the Uniform Code of Military Justice for failure to provide repayment funds.

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- Have a minimum loan term of 90 days and allow for partial payments to increase borrower's ability to repay.
- Set a maximum interest on these short-term loans of 36%. It is unscrupulous to violate NC consumer protection laws and charge 375% APR for a two-week loan of \$200.
- Forbid payday lenders from using out of state banks and lender franchises as cover for their loan agreements. Again, NC usury laws are bypassed through this arrangement. This is a common practice in your state since August 2001 when the NC payday statute expired.

Thank you for your interest and concern for military families and the consumers of North Carolina.

Sincerely,



J. L. Johnson
Admiral, US Navy (Ret.)

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DEPARTMENT OF THE NAVY

COMMANDER
NAVY REGION MID-ATLANTIC
3033 HAMPTON BLVD
NORFOLK, VA 23508-1273

IN REPLY REFER TO:

5800
Ser 0013/12-02
28 JAN 2002

Virginia House of Delegates
House Commerce and Labor Committee
General Assembly Building
P.O. Box 406
Richmond, VA 23218

Dear Mr. Morgan and Committee Members:

This letter is in regard to HR 1197. The issue of "payday lending" is one of deep concern to the military, and, as Commander of the Navy's Mid-Atlantic Region responsible for the shore commands within Virginia, I want to take this opportunity to communicate my support for the bill.

"Payday lending," and other similar practices, has a lasting detrimental impact on many of those enticed by the easy availability, yet who are unaware of the true costs. With the tight budgets that most junior enlisted personnel operate on, cash advances, regardless of interest rates, seem an appealing solution to their difficulties. However, for many of these personnel, most with young families, the practice of "payday lending" simply compounds their financial problems by subjecting them to the additional hardships of what are effectively unreasonable interest rates and payment schedules causing even tighter budgets. Although the military has the option of ordering individuals not to do business with certain establishments, by declaring those establishments "off limits," it does not have the authority or ability to sanction the businesses themselves.

The outright ban proposed by HR 1197 represents the most effective remedy for the problem of "payday lending" created for military personnel stationed in Virginia. However, the issue of unreasonable interest rates on short-term loans not covered by HR 1197 is also of concern to the military. This is not to say that the military objects to all short-term loans, only those whose interest rates unfairly burden those individuals who find themselves in financial difficulty despite their dedication to, and self-sacrifice for, their nation.

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Box 0013/06-00
28 JAN 2007

Given my concern for the quality of life of the servicemembers in my region, I would urge you to vote FOR HR 1197.

The other piece of pending legislation on this topic, HR 970, seems to send the message that "payday lending" is an acceptable lending practice despite the negative impact it has on those in financial hardship. This Bill's attempt to address the issue of unreasonable interest rates, while in theory laudable, fails to address several areas of concern. It does nothing to address lenders who make repeated transactions with the same individual over a short period of time. The proposed bill provides no safeguard for a consumer who makes repeated transactions with multiple lenders. Finally, the proposed transactional rate would still represent a 390% APR on a 14-day loan. For these reasons, I would urge you to vote against HR 970.

Thank you for your time. I hope this information will prove helpful to you in determining the disposition of HR 970 and 1197.

Sincerely,



David Architzel
Rear Admiral, U.S. Navy