



Highlights of [GAO-05-349](#), a report to Senator Richard J. Durbin

## Why GAO Did This Study

The Department of Defense (DOD) has expressed concerns about servicemembers' use of predatory consumer loans as well as their overall financial conditions. "Predatory lending" has no precise definition but describes cases where a lender takes unfair advantage of a borrower, sometimes through deception, fraud, or terms such as very high interest or fees. Serious financial problems can adversely affect unit morale and readiness as well as servicemembers' credit history and military career. DOD has tools such as off-limits lists to help curb the use and effects of predatory loans.

GAO answered two questions: (1) To what extent do active duty servicemembers use consumer loans considered to be predatory in nature? and (2) Are DOD and active duty servicemembers fully utilizing the tools that DOD has to curb the use and effects of predatory lending practices?

## What GAO Recommends

GAO is making two recommendations for DOD to curb the use and effects of predatory lending practices on servicemembers: amend regulations to require at least semi-annual meetings of the Armed Forces Disciplinary Control Boards and clarify regulations pertaining to advertisements in official DOD publications. DOD concurred with GAO's recommendations.

[www.gao.gov/cgi-bin/getrpt?GAO-05-349](http://www.gao.gov/cgi-bin/getrpt?GAO-05-349).

To view the full product, including the scope and methodology, click on the link above. For more information, contact Derek Stewart at (202) 512-5559 or [stewartd@gao.gov](mailto:stewartd@gao.gov).

## MILITARY PERSONNEL

# DOD's Tools for Curbing the Use and Effects of Predatory Lending Not Fully Utilized

## What GAO Found

The extent to which active duty servicemembers use consumer loans considered to be predatory and the effects of that borrowing are unknown. The only DOD-wide data come from surveys. In a 2004 survey, 12 percent of servicemembers said they or their spouse had used, during the last 12 months, at least one of four types of loans: payday, rent-to-own, automobile title pawn, or tax refund, which DOD says can often be associated with predatory lending practices. DOD is unable to quantify the extent to which the loans have associated predatory practices, the frequency of such borrowing, the amounts borrowed, or the effects of the loans. Although not generalizable, participants in GAO's 60 focus groups at 13 bases in the United States and Germany identified problems resulting from the use of short-term consumer loans, but other participants described the loans as quick, easy, and obtainable by servicemembers with bad credit. Privacy concerns and the reluctance of servicemembers to reveal financial problems make it difficult to quantify the use and effects of predatory lending.

DOD and active duty servicemembers are not fully utilizing DOD's tools for curbing the use and effects of predatory lending practices. At some of the installations that we visited, the Armed Forces Disciplinary Control Board—a panel that can recommend to an installation commander that a business be placed off-limits to servicemembers—had not met in over a year. Fort Drum's board, for example, had not met in about 4 years, even though the New York Attorney General had filed two lending-related lawsuits against businesses on behalf of servicemembers and some of their family members at Fort Drum. DOD officials told us the reasons for boards not meeting or making recommendations include high deployment levels and the effort required to place a business on an off-limits list. Other commanders effectively changed businesses' predatory practices by using their board's recommendations to place or threaten to place the businesses off-limits. In addition, DOD is not always providing a clear message regarding advertising in installation publications. Participants in GAO's focus groups said they were confused because DOD-provided financial management training (described in our 2005 report, *Military Personnel: More DOD Actions Needed to Address Servicemembers' Personal Financial Management Issues*) warned them against using payday lenders but some installation newspapers carried advertisements for such businesses. These problems occur even though a DOD instruction requires (1) a disclaimer indicating that the advertisement does not constitute endorsement by the U.S. government and (2) a review by public affairs staff to determine if the advertisement might be detrimental to servicemembers. Our review of some installation newspapers showed possible reasons for the confusion; the disclaimers were often not prominently displayed or were located away from the advertisements. DOD also offers servicemembers free legal review of contracts and other financial transactions, but servicemembers often do not use the reviews until problems result. Recently, DOD began exploring additional on-installation alternatives to payday loans.