

# Economic survival guide for servicemembers and veterans



As a servicemember or veteran, you and your family have many of the same financial goals and responsibilities as civilian households—maintaining a home, paying off debt and saving for the future. Servicemembers also may face some unique challenges, including making frequent moves or being deployed. While these may seem like obstacles at times, you and your family still can achieve long-term financial success by avoiding financial scams, making wise choices about the financial products and services you use and understanding your rights.

This publication will help you recognize scams and abusive credit terms, identify better borrowing and banking options, understand any special protections you have under the law, and find help or file a complaint, if necessary.

## Financial products and services to avoid

Some financial products, though technically legal, make it more difficult for consumers who use them to get out of debt and achieve economic security. While these products generally are available to all consumers, some are marketed more aggressively to current and former members of the military. (For this reason, Congress has passed special laws to protect active duty military personnel. See the “Laws that protect servicemembers” section below.) The best way to avoid a costly mistake is to be able to recognize these wealth-stripping products and services and be aware of the better alternatives that exist.

**High-cost short-term loans:** Characterized by short repayment periods and high fees and interest rates, these loans are often granted without regard to the borrower’s ability to repay, and are readily refinanced along with additional fees. Payday loans, vehicle title loans and tax refund anticipation loans (or similar tax filing-related credit products) are widely available types of high-cost short-term loans. Though the Military Lending Act (MLA) (see below) has essentially banned these products for active duty servicemembers, veterans remain unprotected. Also, some lenders have designed their loans to fall outside the MLA definitions of prohibited credit

products, or offer other expensive credit products (rent-to-own agreements, for example) that aren’t governed by the MLA.

**Alternative:** When faced with a financial crisis, turn first to a military aid society—there is one to serve each branch of the military—or a civilian one. These groups make small interest-free loans or grants to active duty servicemembers and retirees. Learn more at the program’s website:

- Air Force Aid Society ([www.afas.org](http://www.afas.org))
- Army Emergency Relief ([www.aerhq.org](http://www.aerhq.org))
- Coast Guard Mutual Assistance ([www.cgmahq.org](http://www.cgmahq.org))
- Navy-Marine Corps Relief Society ([www.nmcrs.org](http://www.nmcrs.org))
- ReserveAid ([www.reserveaid.org](http://www.reserveaid.org))
- American Red Cross Financial Assistance for Servicemembers (<http://rdcrss.org/1ttOIQz>)

USA Cares ([www.usacares.org](http://www.usacares.org)) and the National Association of American Veterans ([www.naavets.org/service](http://www.naavets.org/service)) both extend emergency financial assistance to veterans.

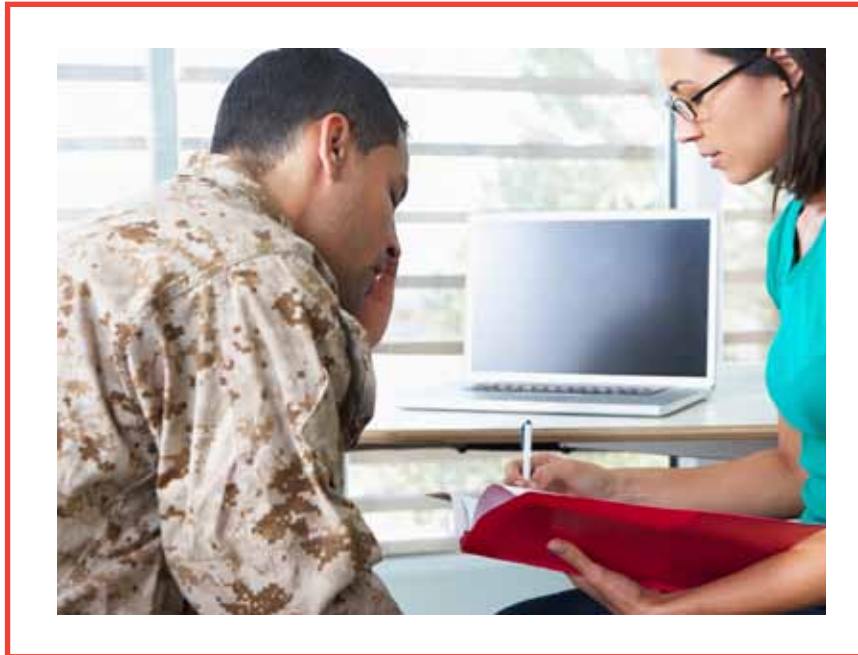
Other options include a short-term credit union or

community bank loan (Navy Federal Credit Union [[www.navyfederal.org](http://www.navyfederal.org)], open to all branches of the military, offers emergency loans with reasonable terms), a paycheck advance from your or your spouse's employer, a loan from friends or family or a credit card cash advance (expensive, but less than some options). You could also try to work out a payment plan with your creditors that would help you get past the financial crisis. The VA Debt Management Center ([www.va.gov/debtman/](http://www.va.gov/debtman/) / 800-827-0648) may be able to help you if debts incurred as a result of participation in a VA compensation, pension, education or home loan program are causing you hardship. A non-profit credit counseling agency, which you can locate by visiting the National Foundation for Credit Counseling online ([www.nfcc.org](http://www.nfcc.org)) or calling 800-388-2227, can help with most other unsecured debts.

**Check-cashing services:** Using a check casher can be risky, as cash can't be replaced if it's lost or stolen. Also, check-cashing services charge a percentage of the amount of the check, which can be expensive. Using a check-cashing service and paying bills with money orders could cost you hundreds of dollars a year for transactions that might be free with a checking account.

**Alternative:** Get a checking account if you don't already have one—you can deposit or cash checks for free, pay bills electronically or with checks, and use a debit card to make cash withdrawals or purchases. Your money at a federally insured bank or credit union is protected up to \$250,000. And a checking account can help you track your spending

and provide a record of payments. Compare bank accounts in your area at [www.bankrate.com/checking.aspx](http://www.bankrate.com/checking.aspx). Compare credit unions you may be eligible



to join at [www.aSmarterChoice.org](http://www.aSmarterChoice.org). Some credit unions and banks offer "Lifeline" accounts, which have some limitations but usually charge no (or a low) monthly maintenance fee. (Navy Federal Credit Union [[www.navyfederal.org](http://www.navyfederal.org)] offers an "Active Duty Checking" account.) Learn more in Consumer Action's Checking/

Savings Accounts educational module ([http://bit.ly/basic\\_banking](http://bit.ly/basic_banking)). One thing to beware of: Checking account "courtesy" overdraft protection fees can be very expensive (as much as \$35 each). You're better off signing up for an optional overdraft program that links to your savings account or a line of credit. There will still be a fee for each overdraft, but it will be lower. Do not opt in to allow debit card overdrafts—better to have your transaction declined than to pay a high fee.

**"Buy here, pay here" auto loans:** "Buy here, pay here" dealers provide their own financing on sales of their used cars. Because they often serve consumers who have trouble getting credit elsewhere, the interest rates and fees on these loans—as well as the prices of the vehicles on the lot—tend to be high. In many cases, the loans are unaffordable, with demanding payment requirements (many lots require customers to make cash payments at the lot once or twice a month), and the vehicles are eventually repossessed, causing the buyer to lose his or her entire down payment and any loan payments made so far. Also, because many of these dealers don't report your payments to the credit bureaus,

even a stellar payment record won't help you improve your credit.

**Alternative:** If your credit is bad, you'll be paying higher rates no matter where you go, but they can still vary considerably among lenders, so shop around.

Many lenders and dealerships have online credit applications you can fill out to get pre-approved. The best place to start is a credit union. (If you don't already belong, find one at [www.aSmarterChoice.org](http://www.aSmarterChoice.org).)

If you already have an account with a bank, try that. Some new car dealers will finance purchases even if you have a lower credit score. If you have little or no credit, bring proof of recent monthly payments (canceled rent checks or utility statements, for example), recent pay stubs and three personal references, with at least one from a landlord or other person you make payments to.

Try to do all your loan shopping within a 14-day period to avoid any negative consequences to your credit report. If you are on active duty and took out an auto loan before starting service, request the 6% interest rate you are entitled to under the Servicemembers Civil Relief Act (SCRA) (see below) if your current rate is higher.

### **For-profit college and "career education" student loans:**

While some for-profit and career colleges are legitimate, many employ deceptive marketing and high-pressure sales tactics to get students to enroll and take out expensive loans. The private student loans they push often carry higher interest rates and lack the consumer protections of federal or government-guaranteed loans, such as flexible repayment plans and deferred payments. The programs also often misrepresent the job placement rates of their graduates and the salaries they can expect. Statistics show that graduates of for-profit career education colleges have no guarantee of employment or

earnings higher than someone who had not attended such a program. Often, credits earned don't transfer to any reputable college.

**Alternative:** Visit the VA's "School Decision Resources" page ([www.benefits.va.gov/gibill/school\\_decision.asp](http://www.benefits.va.gov/gibill/school_decision.asp)) to find links to tools and information that will help you make smart education and student loan choices. If you must take out a loan, make it a federal student loan. Learn more about your options at the Consumer Financial Protection Bureau's (CFPB) Paying for College webpage ([www.consumerfinance.gov/paying-for-college](http://www.consumerfinance.gov/paying-for-college)). Before committing to a school or program, confirm that it is licensed and accredited, and that credits earned will transfer to another college (if you're getting an AA or similar degree).



The U.S. Department of Education maintains a database of accredited postsecondary institutions and programs (<http://ope.ed.gov/accreditation>). U.S. News and World Report, one of the leading college and program ranking sources, includes a section "Best Colleges for Veterans," linked from the homepage: <http://colleges.usnews.rankingsandreviews.com/best-colleges>.

Don't rely on the recruiter's claims: Do your own research. Consumer Action's "Guide to Finding the Right Job Training School" ([www.consumer-action.org/modules/articles/job\\_training\\_schools](http://www.consumer-action.org/modules/articles/job_training_schools)) offers a list of questions you should ask when vetting a school or job training program you're considering. You may find that a public school or a job-training program offered by a government agency or non-profit would be a better bet.

Submit complaints against a school or educational program: <http://bit.ly/1o6M4wT>.



If you need legal advice, contact your Armed Forces Legal Assistance Office (<http://legalassistance.law.af.mil/content/locator.php>). (From outside the U.S.: <http://1.usa.gov/1rozVuJ>.)

The American Bar Association's ABA Home Front (<http://bit.ly/1wbgWSS>) can provide information and legal assistance even if you are not on active duty or you are a veteran.

## What to know about military pay allotments

Some creditors strongly suggest, setting up automatic debt payments from your paycheck. But



military allotment—the system that allows payments to creditors to come directly out of your income before you receive it—has some important disadvantages compared to the other electronic payment options available today. These include possible third-party fees. But, more important, because an allotment is automatic, you can't delay the payment if you have a financial emergency or a reason to end the arrangement entirely. And because the money comes out of your paycheck rather than your bank account, you lose the protection against unauthorized payments that a checking account provides.

Rather than use an allotment to pay your creditors, you can set up automatic payments from your checking account (the creditor pulls the money from the account on a specified date) or make electronic payments using the online banking system. In either case, you have much more flexibility to withhold a payment, if necessary.

## What to know about military disability payments

Even if you are sued by a creditor and lose the case in court, your military disability compensation cannot be taken from you to satisfy the debt.

Veterans Administration (VA) disability payments are federally protected from attachment (garnishment) of any kind. However, some civil court judges are unaware of the difference between military retirement pay (which can be attached) and VA disability compensation. The Veterans Disability Protection Act of 2010 (VDPA) sought to clarify and reinforce this protection.

## Spotting and avoiding scams

Scam artists often target veterans because they can appeal to their sense of loyalty to the military (taking advantage of someone's allegiance to a group for illegal financial gain is called "affinity fraud") or because they can exploit veterans' receipt of military pensions and other benefits.

Scams aimed at veterans include:

- **Bogus charitable requests:** Just because a charitable organization has "veterans," "servicemembers" or "military" in its name doesn't mean it's legitimate. In some cases, the organization is a sham; in other cases, only a small portion of any donation goes to the charity and the rest goes into the pockets of the fundraisers.

**How to protect yourself:** Before responding to a donation request, research the organization. CharityWatch ([www.charitywatch.org](http://www.charitywatch.org)), the Better Busi-

ness Bureau ([www.bbb.org/us/charity](http://www.bbb.org/us/charity)), Charity Navigator ([www.charitynavigator.org](http://www.charitynavigator.org)) and GuideStar ([www.guidestar.org](http://www.guidestar.org)) are some of the online resources that allow you to verify the legitimacy of a charity. Never feel pressured into giving an immediate donation. Ask the person who contacted you for his or her name, organization name and contact information—you can call the charity directly or visit its website to make a donation after you do your research if you are satisfied with what you find out. (Be sure to verify any callback number on the organization's official website.)

• **Pension schemes:** These usually fall into two categories: In one, veterans needing money are persuaded to take a lump sum pension advance loan. When fees are added in, the cost of the advance is exorbitant—anywhere from 27% to 106% if calculated as an annual percentage rate, according to one study. In the other, advisers (or “advocates”) convince veterans that they can qualify for Aid and Attendance benefits if they move their money into an annuity or trust. The veteran ends up paying high fees for the advice and financial products, and also may jeopardize their eligibility for Medicaid and/or lose access to their money for a long time.

**How to protect yourself:** The American Legion advises veterans who need money to seek advice from a trusted financial expert rather than take a pension advance, and to never allow a creditor to access the account where they receive benefits. The Federal Trade Commission's (FTC) publication “Veterans’ Pensions: Protect Your Money from Poachers” (<http://1.usa.gov/1gHYJJn>) provides details about the Aid and Attendance scheme as well as links to resources that can help you check a financial adviser's background and apply for Aid and

Attendance benefits for free.

• **Phishing/vishing attempts:** These could be email messages or phone calls claiming to be from the VA requesting personal information in order to “update [their] records.” Or they could claim to be from a legitimate financial institution asking for information from you to, say, complete a deposit or keep your account open. Once the scammer has your information,

he or she can use it to access your financial or other accounts or open new ones in your name.

**How to protect yourself:**

The VA and other government agencies will not call or email you to ask for personal information. If you get such a call or message, call the VA (800-827-1000), agency or business directly. If you confirm that the call or email you received was a phishing attempt, forward the message or the name and contact information to the legitimate agency or business and the FTC (<http://1.usa.gov/1IXrb6w> or

877-FTC-HELP/877-382-4357).

**Charging for military records or benefits assistance:**

Here, someone attempts to charge for military records that are available free or at a low cost to you directly through the VA or other agency. Or, they call or visit you to offer personal assistance with filing for your VA benefits—for a fee.

**How to protect yourself:** Contact the VA or your service unit directly to request copies of the records you need. The FTC warns veterans not to pay for benefits application forms (they are available free) and wants you to know that the people who are accredited through the VA to provide assistance are not allowed to charge you for help completing and submitting VA paperwork.



## Laws that protect servicemembers

Servicemembers can be an attractive target for lenders because they typically have a steady income and are easy to track down. Fortunately, there are laws that help protect servicemembers and their families from high-cost debt and give them a reprieve during active duty. But because not all protections are automatic, it's important you understand what your rights are so that you can exercise them and also recognize when a financial service or product is illegal.

**Servicemembers Civil Relief Act (SCRA):** Provisions of the SCRA apply to active duty servicemembers (Army, Navy, Marine Corps, Air Force and Coast Guard), Reservists and members of the National Guard. Some of the Act's provisions also extend to servicemembers' spouses and children. The protections begin the day you start service and typically end 30-90 days after discharge from active duty. (For Reservists and Guardsmen, SCRA protections kick in the day you get your mobilization orders.)

Under the law:

- **You can have the interest capped** on most preexisting loans or credit lines (mortgages, credit cards, car loans, some student loans, etc.) at 6% during your active duty. ("Interest" includes other finance charges and fees related to the debt.) Monthly payments must be recalculated to reflect the reduced rate. The 6% cap applies only to debt incurred prior to military service. New debt incurred while on active duty will be assessed interest at the regular APR.

In most cases, you must make a written request that includes a copy of your military orders and an explanation of how/why military service makes it difficult to make your payments. Requests can be submitted anytime during active duty and up to 180 days after leaving service, and the rate cap is effective as of the call for active duty.

Your rate will be reduced unless the creditor can prove in court that your military service has not materially affected your ability to pay (in other

words, your income has not been reduced or expenses increased because of active duty).

- **You can cancel an auto lease** without incurring early termination fees if you are called to active duty for 180 days or more. You also can terminate a lease entered into during active duty if you receive a permanent change of station outside the U.S. or you will be deployed for 180 days or more.

- **You can cancel a residential lease** if you receive a permanent change of station or are called to active duty for 90 days or more.

- **You can avoid an automatic (non-judicial) foreclosure or vehicle repossession** on property purchased or leased before you started active duty if you breach the terms of the contract because of your active duty. A creditor must obtain a court order before moving forward with a foreclosure or repossession, and the court may halt the proceedings if it finds that your ability to make payments is hampered by active duty.

- **You can suspend or cancel a long-term cell phone contract** without incurring early termination fees if you are deployed for 90 days or longer or if your change of duty means you can't use the service or can't satisfy the terms of the contract.

Most of the provisions of the SCRA require you to request relief—they are not automatic. Stateside Legal, a free Web-based resource for low-income individuals with a military connection, offers downloadable form letters for a variety of SCRA requests: <http://statesidelegal.org/interactive-forms-directory>.

There may be additional requirements to meet or guidelines to follow in order to qualify for the benefits the law offers. Consult your Armed Forces Legal Assistance Office for personal legal guidance: <http://legalassistance.law.af.mil/content/locator.php>. (For help outside the U.S., visit <http://1.usa.gov/1pvCTpS>.)

Learn more about the SCRA, including your rights when being sued by a creditor or facing other judicial proceedings, at <http://bit.ly/1kcdzY9>.

**Military Lending Act (MLA):** Like the SCRA, the Military Lending Act protects active-duty regular or reserve members of the armed forces. It also protects their spouses and children. Lenders governed by the law are required to determine, before granting credit, if prospective borrowers fit into these categories. The MLA does not apply to inactive personnel, retirees or veterans.

The protections the MLA offers have always been limited to short-term small-dollar loans—specifically payday loans, vehicle title loans and tax refund anticipation loans. Now, under amendments to the MLA announced in 2015, the law's strict lending restrictions will extend to credit cards, unsecured credit lines and loans, vehicle refinance loans, overdraft lines of credit and student loans held by military borrowers. Compliance with the new rules is not required until October 3, 2016, and the regulation provides a temporary exemption for credit cards until October 3, 2017.

Under the law:

- **Creditors must disclose** (orally and in writing) the interest and fees you will owe and your payment obligations before issuing the loan.
- **There is a 36% interest rate cap**, which includes interest, most fees (but not late or default fees), any service or credit renewal charges, credit insurance premiums and other fees for credit-related products sold in connection with the loan. (This is called the Military Annual Percentage Rate (MAPR).)
- **A lender can't "roll over"** (renew or refinance) a loan unless the new loan offers more favorable terms.
- **A creditor can't require you to waive** any state or federal protections or submit to mandatory arbitration (give up your right to take a grievance to court).
- **A creditor can't require you to secure your loan** with a personal check, access to your bank account or title to your personal vehicle, or require you to permit military allotment (having money automatically taken from your paycheck).

- **You cannot be charged a prepayment penalty** (a fee for paying off your loan early).

The Military Lending Act applies unless state laws provide even greater protections (for example, a lower rate cap).

For more information about the Military Lending Act, visit <http://1.usa.gov/1oCjQiY> or <http://bit.ly/29Joe0B>.

If you think your rights under the MLA have been violated, submit a complaint to the Consumer Financial Protection Bureau: [www.consumerfinance.gov/complaint](http://www.consumerfinance.gov/complaint) or 855-411-2372.

**Fair Credit Reporting Act (FCRA):** While the FCRA protects all consumers, a feature within the law allows servicemembers to place an "active duty alert" in their credit reports while on deployment. The alert requires creditors to take extra steps to verify the identity of the applicant before granting credit in his or her name, making it more difficult for an identity thief to succeed in opening fraudulent new accounts. The law allows you to use a personal representative to place or remove the alert while you are deployed.

An active duty alert is effective for one year, but you can have it removed sooner, or you can place a second alert if you need it to last longer. To place an active duty alert with all three national credit bureaus or to have it removed, call the fraud department of just one of the bureaus: Equifax (<http://bit.ly/RKirYZ> / 800-525-6285), Experian (<http://ex.pn/SXU6QP> / 888-397-3742) or TransUnion (<http://bit.ly/1kcdUdq> / 800-680-7289).

If you haven't done so already, request your free credit reports. You can get one per year from each of the three major credit bureaus at [www.AnnualCreditReport.com](http://www.AnnualCreditReport.com). (If you are outside the U.S., you'll need to use the Federal Trade Commission form: <http://1.usa.gov/1izeoWS>.) Follow the dispute process to correct any inaccurate or outdated information—this could improve your credit score, which would qualify you for better credit terms.



## Your financial health

There are a number of resources available to help servicemembers and veterans make ends meet and weather a financial crisis.

Consumer Action's 15-page **Servicemembers and Veterans Financial Empowerment Resource Sheet** (<http://bit.ly/1hiKQ4V>) provides information about dozens of government and non-profit resources and programs that you might qualify for, from housing assistance and emergency grants to food programs and utility discounts. This is a companion to, and should be used in conjunction with, the general Financial Empowerment Resource Sheet (<http://bit.ly/1kce7gG>), which includes dozens more resources that do not require military or veteran status.

**VeteransPlus** ([www.veteransplus.org](http://www.veteransplus.org)) programs were designed by veterans and are delivered by veterans to provide housing and financial counseling to current and former military personnel.

The **BBB Military Line** is a program of the Council of Better Business Bureaus. It provides free financial

literacy resources, complaint resolution services and a monthly e-newsletter, The Trusted Scout. Go to [www.bbb.org](http://www.bbb.org), enter your ZIP code, and then click on BBB Military Line. Another BBB resource (in partnership with McGraw Hill Financial) is the My Military & Money mobile app (available in the iTunes App Store and Google Play Store), which offers training videos, articles and interactive tools to help you manage your credit, pay off debt, create a budget and establish a savings plan.

**Military Saves** ([www.militarysaves.org](http://www.militarysaves.org)) helps motivate, support and encourage military families to save money, reduce debt and build wealth.

The **Savings Deposit Program (SDP)** ([www.dfas.mil/dfas/militarymembers/payentitlements/sdp.html](http://www.dfas.mil/dfas/militarymembers/payentitlements/sdp.html)) is a savings account for active duty servicemembers and activated Guard and Reserve members during combat deployments (i.e., receiving Hostile Fire Pay/Imminent Danger Pay). The account pays up to 10% interest on up to \$10,000 in deposits per deployment.

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## Consumer Action

[www.consumer-action.org](http://www.consumer-action.org)

### Our consumer advice and referral hotline

Submit consumer complaints to our advice and referral hotline to [http://www.consumer-action.org/hotline/complaint\\_form/](http://www.consumer-action.org/hotline/complaint_form/) or 415-777-9635.

Chinese, English and Spanish spoken

**Note:** Lengthy Web addresses (URLs) have been shortened using bit.ly ([www.bitly.com](http://www.bitly.com)).

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Veterans Financial Coalition