

Economic survival guide for servicemembers and veterans

Questions and answers about protecting your finances



Created by Consumer Action for the Veterans Financial Coalition



Veterans Financial Coalition

Economic survival guide for servicemembers and veterans

Questions and answers about protecting your finances

This training manual is designed to be used in conjunction with the rest of the “Economic survival guide for servicemembers and veterans” module, which includes a fact sheet (brochure), lesson plan and PowerPoint presentation (www.consumer-action.org/modules/module_military_money).

Table of Contents

Terminology to know	1
Alternative financial services	2
Using mainstream financial services	5
Financing your education.....	8
Laws that protect you	11
Debt collection.....	14
Recognizing and avoiding scams.....	15
Getting through a financial crisis	16
Improving your financial health	18
About Consumer Action	19
Credit for this publication.....	19

Terminology to know

What is the difference between an active duty servicemember, a veteran and a military retiree?

- **Active duty servicemember:** This refers to military personnel who are currently serving full-time in the Army, Navy, Air Force, Marine Corps or Coast Guard. For these branches of the armed forces, active duty begins the day you enter the military. For Reservists and members of the National Guard, active duty begins the day you receive mobilization orders (are “called up”).
- **Veteran:** For determining eligibility for some types of assistance, services and legal protections discussed in this publication, a veteran is any person who served on active duty in the Armed Forces for a requisite period of time and has received an honorable discharge and/or who became ineligible for active service due to a disability received during service. (The definition may differ for the purposes of qualifying for certain VA benefits.)

- **Military retiree:** A retiree is a servicemember who remains on active duty or serves in the Reserves or Guard for a requisite period of time (usually a minimum of 20 years) or whose service-related disability qualifies him or her for retirement. (All retirees are veterans, but not all veterans are retirees.)

The National Guard and the Reserves augment the active duty (full-time) military when necessary—in other words, during war, in a national emergency, or in other cases where national security is at risk. For the sake of determining whether they qualify for the consumer protections given active duty military, Guardsmen and Reservists are not considered “active duty” unless they are mobilized (see next question/answer).

What is the difference between “active duty,” “mobilized” and “deployed”?

Active duty refers to full-time service in the armed forces at an assigned duty station (a base, camp, airfield, ship, etc. in the U.S. or abroad). Mobilization is the assembling of Reserve forces for active duty during a national emergency or in times of war. Deployment is the next step after mobilization, and refers to servicemembers temporarily moving from their regular duty station to a designated “theater of operations” (for example, moving from Camp Pendleton in Southern California to Afghanistan).

See www.military.com/deployment/deployment-mobilization-overview.html for more information.

What is the Military Annual Percentage Rate (MAPR)?

The Military Annual Percentage Rate (MAPR) is similar to the standard Annual Percentage Rate (APR), but it includes some other fees and charges that are not required to be disclosed under the Truth in Lending Act (TILA) definition of APR. In addition to the interest and financing charges disclosed in the standard APR, the MAPR includes administrative and membership fees, credit insurance premiums, any service or credit renewal charges, the cost of credit-related products sold in connection with the loan, and any other fees that are known at the time the loan is made. It does not include avoidable fees, such as those for late and missed payments.

The purpose of the MAPR is to ensure that military consumers understand the true cost of credit and to ensure that credit products cannot circumvent rate limits by charging a low interest rate while adding in high fees.

Alternative financial services

What are alternative financial services and why are they sometimes described as “wealth stripping”?

Alternative financial services are financial products and services, typically offered by lenders other than mainstream financial institutions to individuals with blemished or limited credit histories, that carry predatory terms. Consumers who use alternative financial services pay an inordinately high proportion of their income on fees and finance charges, and risk losing their only assets if they use them as collateral for

unaffordable loans. Because the loans are often granted without regard to the borrower's ability to repay and are readily refinanced along with additional fees, they tend to facilitate a cycle of increasing indebtedness that is difficult or impossible to break. That is why these products and services are often described as “wealth stripping.”

What are examples of alternative financial services?

- **Check-cashing services** cash checks and, in some cases, provide cash for the balance on payroll and benefits cards in exchange for a fee. While the fee may seem low (a few dollars on a smaller check), the total cost over the course of a year can be significant—especially when you consider that cashing a check is typically free for bank and credit union customers.
- **Payday loans** are small loans that typically must be repaid the next payday. Payment is made via a post-dated check or bank account debit authorization that includes principal, interest and fees. Many borrowers must refinance the loan one or more times, incurring more fees and interest and making it increasingly difficult to pay off the debt and end the cycle. (Many check-cashing services also offer payday loans.)
- **Vehicle title loans** require the borrower to give the lender the title to his/her vehicle—some borrowers' most valuable asset. If the borrower can't repay the loan, including fees and interest, by the due date, he or she must renew the loan, if that is an option, or forfeit the collateral (vehicle). Typically the collateral for a vehicle title or pawnshop loan is worth much more than the amount of the loan, resulting in a very damaging loss if you can't make the payments as agreed.
- **Pawnshop loans** are similar to vehicle title loans, except the collateral—typically assets such as jewelry, electronics, computers, musical instruments and family heirlooms—is different, and you don't get to keep using it while the loan is outstanding. If the loan is not repaid, the lender can sell your personal property.
- **Subprime auto financing** can come from an independent lender or from the auto seller. These loans have very high interest rates. In the case of “Buy here, pay here” car lots, the unaffordable loans often result in repossession of the financed vehicle.
- **Rent-to-own agreements** enable buyers to purchase furniture, electronics and other big-ticket items through low weekly or monthly payments. But the amount you end up paying by the end of the contract is easily two or three times the retail price of the item.
- **Tax filing-related loans** let you get your tax refund early (refund anticipation or “pay stub” loans, often offered by payday lenders), finance your tax preparation fees (refund anticipation checks) or “sell” your refund (a product called Simple Cash Option). The fees are steep when calculated as an annual percentage rate.

Learn more about how tax filing-related financial products work

[\(www.foxbusiness.com/personal-finance/2013/02/07/refund-anticipation-loans-live-on-in-new-disguises/\)](http://www.foxbusiness.com/personal-finance/2013/02/07/refund-anticipation-loans-live-on-in-new-disguises/).

If I use a mainstream bank, am I safe from predatory—or very expensive—financial products and services?

Alternative financial services typically are provided outside traditional banking institutions. However, some mainstream banks might offer their own versions of high-priced products—overdraft protection programs are one example. Because of this, financial products and services should be judged not only by the source, but also by the terms, which consumers should read and compare before selecting a product or service.

Also, some consumers continue to use alternative financial services despite having a checking or savings account, for reasons such as convenience, habit or easy availability of loans. They are referred to as the “underbanked.” As long as you continue to use these services, you are not safe from predatory terms.

Why do alternative financial services providers and predatory lenders target servicemembers and veterans?

There are a variety of reasons servicemembers and veterans are targeted by and succumb to predatory lenders or make use of alternative financial services. These include:

- Recently enlisted servicemembers often are very young and have little or no experience managing a steady paycheck.
- The pay level for lower-ranked servicemembers can make it difficult to save money for an emergency, causing them to rely on loans to pay for car repairs or other urgent expenses.
- Frequent moves add an additional expense to a servicemember’s household budget. They also can make it difficult for the non-military spouse to advance in his or her job. And having to sell a home on a moment’s notice could mean selling at a loss.
- Deployments can result in higher childcare expenses at home.
- Medical bills and unemployment tend to be higher for veterans than for the general population.
- Servicemembers have a guaranteed paycheck and a discretionary allotment system, which can make a lender more confident about being repaid. Lenders also can use the threat of the loss of a security clearance to pressure borrowers into paying an unaffordable debt.
- The concentration of subprime auto lenders, rent-to-own businesses and other alternative financial services providers outside military installations makes it easier for servicemembers to be lured into debt.

What is the best way for servicemembers and veterans to avoid predatory lenders and alternative financial services?

The best way to avoid wealth-stripping financial services is to develop good money management skills, build an emergency fund and be aware of the better banking and borrowing alternatives exist.

Establishing a checking and savings account with a credit union is a crucial step toward avoiding alternative financial services; so is establishing or improving your credit. A secured credit card—a card that requires the applicant to put down a refundable deposit before it is opened—is a good way to establish or repair credit. Credit.com offers a list of “The Best Secured Credit Cards in America” (as of July 2014) (<http://blog.credit.com/2014/07/best-secured-credit-cards-in-america-86063/>).

Using mainstream financial services

Why should I open a checking and savings account?

Unbanked and underbanked households pay much more for basic financial services. According to a 2014 report from the US Postal Service (<http://bit.ly/29Wsu9l>), the average underserved household spends \$2,412 each year—almost 10 percent of their annual income—just on interest and fees for alternative financial services such as getting their checks cashed, paying their bills and taking out the occasional short-term loan.

Checking and savings accounts are the most essential of financial products, and there are many advantages to having each. Read Consumer Action’s materials on checking and savings accounts (www.consumer-action.org/modules/module_checking_savings_accounts) to learn more about the benefits they offer, how to choose and open an account and how to manage your accounts wisely. If you have trouble opening an account because of past unpaid overdrafts or other account problems, the publications offer possible solutions.

To find a financial institution, check out Military.com’s “10 Best Military Banks of 2015” (www.military.com/money/personal-finance/banking-and-savings/10-best-military-banks.html).

I’m a veteran and I receive my benefits on the Direct Express debit card—is there any reason to open a checking and savings account?

The Direct Express debit card is a better option than using a check casher, but it isn’t as good as having a checking and savings account. Here are some reasons why:

- First, it’s smart to establish a relationship with a financial institution that can help you when you need a car loan, mortgage, short-term loan or other financing.
- Second, a card is not a good place to keep your savings—your money doesn’t earn interest and it can be tempting to spend whatever is on the card. With a checking and savings account, you can make saving automatic by having a set amount transferred from your checking to your savings account each payday.

- Third, even though the Direct Express card does not have high fees compared to non-government prepaid cards, it still may be more expensive than a checking account. For example, many checking accounts allow you to pay bills free using the bank's online bill pay system; the Direct Express card charges 50¢ per bill payment.
- Fourth, a checking account offers maximum flexibility—you can write checks, use a debit card to get cash and make purchases, pay bills online and transfer money to other accounts.

If you are concerned about bank fees, most credit unions offer free checking (no monthly account fee) for customers who have their wages or benefits payments “direct deposited” into the account, maintain a minimum balance, or open a “Lifeline,” “basic” or “active duty” checking account.

How can I avoid Direct Express (or other prepaid card) fees?

If you understand which card or account activities incur a fee, you can, in many cases, manage your card use to avoid them. For example, a Direct Express paper statement mailed to you costs 75¢ per month. You can avoid this fee by checking your account transactions and balance online. Similarly, it will cost you 50¢ for every payment you make through the Direct Express Card's online “bill pay” feature (accessed on the card website). But it shouldn't cost you anything if you make the payment at the merchant or utility's website if it accepts MasterCard.

Learn more about the Direct Express card online (www.usdirectexpress.com/edcfdtclient/docs/faq.html). (Note: As of July 2016, the box titled “The ONLY Fees You Can Be Charged” did not list the bill pay fee and had not updated the ATM fee from 85¢ to 90¢. Refer to the Terms of Use agreement (www.usdirectexpress.com/edcfdtclient/docs/terms.pdf) for updated fee information.) If you use a different prepaid card, visit that card issuer's website for terms.

What if I can't get a checking account because I have bounced checks or abandoned an account in the past?

If you are denied an account because your name is in an account verification database such as ChexSystems, you have the right to a free copy of the report that the financial institution used in making its decision. If you can prove the information in your report is inaccurate or you can work with your former bank to pay the debt, you may be able to succeed in opening an account. (In the case of ChexSystems, information typically remains in the report for five years.)

You also can try to find a financial institution that does not rely on these reports. A military credit union is a very good bet—they are likely to be more lenient about past account problems.

Learn more about your options, including “second chance” accounts, in the FDIC article “You've Been Turned Down for a Checking or Savings Account. Now What?” (www.fdic.gov/consumers/consumer/news/cnfall13/deniedchecking.html).

What's the difference between using my bank's online bill pay system and paying creditors through discretionary allotment?

A military discretionary allotment is a system for having payments to creditors made directly out of your pay before you receive it. Some creditors require, or strongly suggest, setting up automatic debt payments from your paycheck—this ensures they receive their money regardless of any changes in your financial circumstances. But servicemembers often incur third-party fees for processing the allotment. (In 2013, the Consumer Financial Protection Bureau (CFPB) ordered U.S. Bank and Dealers' Financial Services to return \$6.5 million to servicemembers, in part because they failed to properly disclose fees associated with repaying auto loans through the allotment system.)

More important, allotment makes it impossible to delay a creditor 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.

If you have a checking account, you can have your creditor pull the money you owe from the account on a specified date or you can make electronic payments using the online banking system. In either case, you have much greater flexibility to withhold a payment, if necessary.

What options do I have if I need a car but have negative or no credit history?

If your credit is bad, you'll be paying higher interest rates no matter where you go, but it's important to avoid the high fees and risky terms of subprime auto loans, including "Buy here, pay here" financing.

Your options include:

- Shopping around among legitimate lenders and car dealers. Many have online credit applications you can fill out to get pre-approved. Bring pay stubs, personal references (including one from your landlord, if possible) and proof of recent monthly payments to a reputable lot—they may help your loan application get approved.
- Waiting to borrow until you've built better credit.
- Saving up and paying cash for the vehicle.

USA.gov (www.usa.gov/topics/travel/cars/buying-used.shtml) and Consumer Reports (www.consumerreports.org/cro/cars/used-cars/buying-advice/index.htm) offer some valuable tips for choosing a good used car and making sure you know the vehicle's history.

How can I find out what my credit score is and what is in my credit reports?

All consumers can request a free copy of their credit report every 12 months from the three major credit bureaus at AnnualCreditReport.com (www.annualcreditreport.com).

To get one or more of your credit scores, you can check your monthly credit card and/or auto loan statements (paper or online); many lenders have begun to provide them for all

their customers. Non-profit credit counselors and HUD-approved housing counselors can often provide you with a score and help you understand it. Some online credit card comparison websites, such as CreditKarma.com and Credit.com, also provide a free score.

Active duty servicemembers and their spouses can request a free credit score at SaveAndInvest.org (www.saveandinvest.org/ControlDebt/CreditScore/P124370). (Access to your score requires assistance from a military financial educator through the Personal Financial Management (PFM) program at your Airman and Family Readiness Center, Army Community Service, Fleet and Family Support Center, Marine Corps Community Services or their equivalents.)

Financing your education

Why should I avoid for-profit and career colleges?

While there are legitimate for-profit and career colleges, many employ deceptive marketing and high-pressure sales tactics to get students to enroll and take out expensive loans. In an investigation cited in a U.S. News & World Report article (www.usnews.com/opinion/blogs/carrie-wofford/2013/11/11/this-veterans-day-help-a-vet-avoid-a-gi-bill-for-profit-college-scam), “every single one of 15 large for-profit colleges deceived federal undercover officers about the quality of education, cost, and likely job and salary for graduates. Four colleges engaged in actual illegal fraud. The undercover officers then registered as students at those colleges, and found the “education” of such low quality that students were encouraged to cheat and received top grades for submitting photos of celebrities in lieu of a required essay.” As the article reveals, even these bad actors in education admit that “community colleges and public universities offer lower cost, higher quality, accredited degrees.”

Learn how to make wise education and student loan choices in Consumer Action’s “Guide to Finding the Right Job Training School” (www.consumer-action.org/modules/articles/job_training_schools).

Why do for-profit and career colleges target servicemembers and veterans?

The GI Bill provides education dollars for active duty military, reservists and National Guardsmen who serve for at least 90 days. A loophole in the law allows for-profit schools to count the G.I. Bill and military tuition assistance as private, non-federal dollars. This enables them to get around the cap on federal student aid that the school is allowed to receive, creating a great incentive to sign up as many G.I. Bill beneficiaries as possible.

Why is it so important to take out a federal student loan instead of a private one?

There are many reasons why a federal student loan (offered by the government) is better than a private student loan (offered by banks and other lenders):

- Private loans tend to charge higher interest rates than federal loans.

- The interest rate on federal loans is fixed, which means your payments won't fluctuate. Private loans often have variable interest rates, which means your payments could go up over time.
- With a subsidized federal loan, the government pays the interest while you are a student.
- Federal student loans allow you to limit your monthly payments based on your income, or to delay or temporarily forgo payments (deferment and forbearance) under certain circumstances. Private loans don't offer as much flexibility.
- Federal student loans may be discharged (canceled) if the school you are attending or recently left closes. That is not the case with private loans. And your federal loan(s) could be forgiven after 10 years if you pursue a career in public service.

What are some resources that can help me choose the right school and the right financing?

There are many sources of information for prospective students, including:

- Consumer Action's "Guide to Finding the Right Job Training School" (www.consumer-action.org/modules/articles/job_training_schools)
- The VA's "School Decision Resources" page (www.benefits.va.gov/gibill/school_decision.asp)
- The U.S. Department of Education's database of accredited postsecondary institutions and programs (<http://ope.ed.gov/accreditation>)
- U.S. News & World Report's "Best Colleges for Veterans" (linked from the home page) (<http://colleges.usnews.rankingsandreviews.com/best-colleges>)
- The CFPB's list of programs that can reduce the cost of education for students who have served in the Armed Forces (www.consumerfinance.gov/servicemembers/planning/#degrees), and its cost and aid comparison tool (www.consumerfinance.gov/paying-for-college)

I am an active duty servicemember with a couple of student loans I took out before entering the service. How can I have the interest rates on these reduced to 6% under the Servicemembers Civil Relief Act (SCRA)?

New rules announced in June 2014 make the interest rate reduction on federal student loans (*not* private student loans) under the SCRA automatic. However, as this was a change in regulation, it would be wise for servicemembers to confirm at the beginning of their service that the rate reduction has been applied to their account.

Private student loan borrowers still need to submit a written request along with a copy of their duty orders to each of their loan servicers to get the rate reduction. Requests may be submitted anytime during active duty and up to 180 days after completion of active duty, but submission at the start of your service is better to avoid the possibility of your creditor arguing that your finances must not have been negatively affected by active

duty if you were able to pay your bill at the regular interest rate consistently throughout your service.

Learn more in the Consumer Financial Protection Bureau’s “Tackling Student Loan Debt” guide (http://files.consumerfinance.gov/f/201405_cfpb_servicemember-student-loan-guide.pdf). If you believe your student loan account hasn’t been handled properly, you can submit a complaint about your loan servicer to the agency at consumerfinance.gov/complaint or 855-411-CFPB (2372).

I’m having trouble making my student loan payments—what should I do?

The worst thing you can do is ignore your student loan bills or stop communicating with your loan servicer. If the lender thinks you are trying to avoid paying, it could start using aggressive collection tactics.

Use the following resources to learn about your options (forbearance, consolidation, income-based repayment, discharge, etc.) for dealing with student loan payment problems:

- Student Loan Borrower Assistance Project (National Consumer Law Center) (www.studentloanborrowerassistance.org/)
- “Federal Programs Give Student Loan Relief to Service Members” (U.S. News & World Report) (www.usnews.com/education/best-colleges/paying-for-college/articles/2013/11/11/federal-programs-give-student-loan-relief-to-service-members)
- “Action Guide for Servicemembers with Student Loans” (Consumer Financial Protection Bureau) (http://files.consumerfinance.gov/f/201210_cfpb_servicemember-student-loan-guide.pdf)
- “For Members of the U.S. Armed Forces: What you need to know about your federal student loan benefits” (U.S. Department of Education) (<https://studentaid.ed.gov/sites/default/files/military-student-loan-benefits.pdf>)

According to the Student Loan Borrower Assistance Project (www.studentloanborrowerassistance.org/repayment/programs-for-military/), a military service deferment is available for (federal) FFEL, Direct and Perkins student loan borrowers who are on active duty during a war, other military operation or national emergency. A deferment will allow you to stop making payments for a specified period. Interest will not accrue during this time. Some private lenders also offer deferments; programs vary.

If you’re having trouble paying your private student loan and aren’t able to come to an agreement with the loan servicer, the ombudsman at the Consumer Financial Protection Bureau may be able to help you negotiate a resolution. Contact the agency at CFPBOmbudsman@cfpb.gov or 855-830-7880, or file a complaint at <https://help.consumerfinance.gov/app/studentloan/ask>.

Laws that protect you

What does the Servicemembers Civil Relief Act (SCRA) mean when it says a servicemember requesting a rate reduction or other relief has to prove that active duty has “materially affected” his or her ability to pay the debt?

In this case, “materially affected” means it had a bearing on the servicemember’s “bottom line” to the extent that payment was made difficult or impossible. But because there is no definition in the SCRA of the term “materially affected,” proving or disproving it is not clear-cut and doesn’t have to be based solely on whether a borrower’s income was reduced upon entering military service. It could include other factors, such as the cost of maintaining dual households or relocation expenses. According to Scott Credit Union’s website (<https://ww2.scu.org/scra.php>), the burden is actually on the creditor to prove there was no material effect if it wants to deny the servicemember’s request.

In the case of having an eviction, foreclosure, repossession or similar type of action postponed, the servicemember would have to be “materially affected” by his or her inability to make an appearance at a hearing due to military service. The court or other administrative body hearing the case typically will require a letter from the servicemember’s commanding officer explaining why the servicemember cannot appear and when he or she will be available.

For a detailed guide to the SCRA, visit www.uscg.mil/legal/la/Legal_Assistance_SCRA_Guide.asp.

Is there any debt for which a rate reduction or other relief is automatic under the SCRA?

Per an Executive Order signed in June 2014, no written request for a rate reduction is required on federal student loans—the 6% rate cap should be applied automatically. However, as this is a new regulation, it would be wise for servicemembers to confirm at the beginning of their service that the rate reduction has been applied to their account.

Is the difference between my regular interest rate and the 6% reduced rate under the SCRA forgiven, or does it accrue during active duty and have to be repaid?

While some lenders/creditors will attempt to accrue it, the law intends for it to be forgiven. Consult your local JAG attorney (<http://legalassistance.law.af.mil/content/locator.php>) if you believe your lender/creditor is not applying the law correctly.

I applied for a reduced interest rate on my credit card under SCRA and the creditor ended up closing my account. Is that legal?

No. Claiming your rights under the SCRA cannot be the basis for a revocation or reduction of credit, or for a negative report to the credit bureaus.

My credit card issuer applied the 6% reduced interest rate allowed under the SCRA to my existing credit card balance at the time I entered active duty, but I notice that the regular rate of 23.9% is being applied to all my recent purchases. Why?

The 6% rate reduction only applies to debt you owed *before* entering active duty. Subsequent charges made while on active duty do not qualify for the reduced rate.

Who is a “covered borrower” under the Military Lending Act (MLA)?

The law defines who is covered under the MLA: Servicemembers on active duty, members of the Guard and Reserve who are on Title 10 orders for more than 30 days, their spouses and children, and individuals who receive at least 50 percent of their financial support from the servicemember for 180 days prior to applying for the loan.

What is the “covered borrower declaration”?

The covered borrower declaration is a written statement used by a lender to identify whether the loan applicant is protected by the MLA. If you fill out one of these forms, you must answer truthfully, even if it means you could be denied the loan. Misrepresenting your status is against the law.

How are lenders getting around the safeguards created by the Military Lending Act (MLA)?

The MLA’s safeguards apply to payday loans of up to \$2,000, for a term of 91 days or less; vehicle title loans for a term of 181 days or less; and tax refund anticipation loans and similar tax filing-related loan products. (See the Consumer Federation of America’s breakdown of exactly who and what is covered under the MLA: www.consumerfed.org/pdfs/MIL-Fact-Sheet-Final-Regs.pdf.)

This has enabled some predatory lenders to circumvent the MLA regulations by structuring their loans so that they fall just outside the MLA’s narrow limits. For example, a lender can offer loans starting at \$2,001 or requiring a minimum repayment period of 92 days. Likewise, tax preparers and lenders have switched from offering refund anticipation loans to offering similarly expensive refund anticipation *checks* (RACs) and other tax filing-related loans. (Learn more about RACs (www.komonews.com/news/consumer/Try-to-avoid-tax-Refund-Anticipation-Check-offers-191400031.html)).

On July 21, 2015, the U.S. Department of Defense (DOD) announced amendments to the MLA that would extend the law’s strict lending restrictions to consumer credit card issuers and unsecured consumer lenders, including depository institutions (in other words, banks) that have never before been subject to the Act. Under the final rule, credit cards, unsecured credit lines and loans, vehicle refinance loans, overdraft lines of credit and student loans held by military borrowers cannot carry a military annual percentage rate (MAPR) of more than 36%. Additionally, consumer lenders are prohibited from enforcing arbitration clauses against qualifying military borrowers and are required to comply with additional disclosure obligations.

The revised regulation became effective on October 1, 2015, but compliance is not required until October 3, 2016. Additionally, the regulation provides a temporary exemption for credit cards until October 3, 2017.

I'm an active duty servicemember, and I received a payday loan with a rate higher than 36%—I thought that wasn't allowed under the Military Lending Act?

The rate cap under the Military Lending Act only applies to payday loans of up to \$2,000 with a term of 91 days or less. Some lenders circumvent the law by adjusting their terms to fall outside these parameters. The rate on loans that don't conform to the law's limits isn't capped. Depending on its specific amount and/or terms, your loan may fall outside the protection of the MLA.

If the lender did in fact break the law, your credit agreement is invalid. But you can't just walk away from it. You have to have it declared invalid, which means you should contact your local JAG attorney (<http://legalassistance.law.af.mil/content/locator.php>).

If a payday or other type of loan is permitted under the law, does that mean it's a good option?

Not necessarily. Even at the legally allowable rate of 36%, a payday loan is still expensive, as are other types of loans and credit that aren't governed by the MLA, such as rent-to-own agreements.

If you need short-term credit, seek out other options instead, such as a loan or grant from a military aid society, a short-term credit union loan or even a cash advance from your credit card, before turning to a payday loan, vehicle title loan or other high-cost credit.

How do creditors verify my identity when there is an active duty alert in place?

There is no set protocol for all lenders/creditors. An active duty alert simply requires that they take reasonable steps to confirm the credit applicant's identity—it is up to individual companies to determine what that entails.

How many times can I renew my active duty alert?

There is no limit—you can renew as often as you like, in one-year increments, as long as you are on active duty.

What is a "personal representative" for my active duty alert?

This is a spouse, parent or other trusted individual who can act for you—verify your identity or remove/renew the alert—when you are not able to (for example, when you are deployed).

Debt collection

I'm being contacted by a collector for a debt I don't believe I owe—what can I do?

Don't make any payment until you verify that you owe the debt. The Consumer Financial Protection Bureau's (CFPB) Office of Servicemember Affairs (OSA) reports that nearly two out of five of roughly 3,800 debt collection complaints the agency received between July 2013 and February 2014 involved collectors pursuing "phantom debts" that servicemembers did not actually owe.

Debt collectors are required by law to tell you the name of the creditor, the amount you owe and how you can verify or dispute the debt. If you are not given that information when the collector first contacts you, s/he must send you a written notice containing the information within five days.

If you dispute the debt in writing within 30 days, the collector can't call or contact you until after your dispute has been investigated and you have received proof of the debt in writing. (The CFPB has prepared sample letters you can use to respond to a debt collector (www.consumerfinance.gov/askcfpb/1695/ive-been-contacted-debt-collector-how-do-i-reply.html).)

Consult your local JAG attorney (<http://legalassistance.law.af.mil/content/locator.php>) to learn more about your rights and options before paying a debt collector.

You can file a complaint against a collector with the CFPB online (www.consumerfinance.gov/complaint/) or at 855-411-CFPB (2372). You can also report the issue to your state's attorney general (www.naag.org/current-attorneys-general.php).

My credit card issuer got a judgment against me for an unpaid debt. Can my wages be garnished?

According to the Defense Finance and Accounting Service website (www.dfas.mil/garnishment/civgarnishment/enforce.html), active duty servicemembers are not subject to "garnishment" for commercial debt (credit cards, loans, etc.), but their pay can be attached through the military involuntary allotment process (effectively the same as garnishment).

A creditor who has been awarded a civil judgment against a servicemember may apply for an involuntary allotment from his or her pay to satisfy the judgment. If approved, the allotment can be for up to 25 percent of the servicemember's disposable pay (gross pay minus mandatory deductions, such as income tax withholding or debts owed to the government) per month. If there already are other involuntary allotments in place or deductions are being made for child or spousal support, there may be no money left for a new allotment, in which case the creditor/collector would have to reapply for an allotment later.

The allotment wouldn't start for 90 to 120 days after the creditor/collector submits the allotment request.

Military retiree pay is exempt from garnishment for anything other than child support, spousal support, or a property division under the Uniformed Services Former Spouses' Protection Act.

Note: In order for an involuntary allotment to be approved, the judgment must be valid under the SCRA. For example, if you didn't appear in court, the plaintiff (creditor or collector) has to have filed an affidavit stating whether or not they had evidence you were on active duty. If you were believed to be on active duty, the court could not enter a judgment against you until it had appointed an attorney to represent you. Learn more about SCRA guidelines for judgments and other civil actions (www.uscg.mil/legal/la/Legal_Assistance_SCRA_Guide.asp).

A collector has contacted me about a very old debt I owe—do I still have to pay?

State law determines the statute of limitations (deadline for legal action) on different types of debts. A debt becomes “time-barred” when the statute of limitations runs out—in other words, the collector did not make a legal claim against you before the deadline. Once the collector misses that deadline, he or she no longer has the right to sue you for payment. That doesn't mean you don't owe the debt or that the collector has to stop trying to get you to pay. It also doesn't mean that the unpaid debt will be removed from your credit report.

Check your state's statutes of limitations at Bankrate.com (http://bit.ly/bankrate_SOLs) and/or Nolo.com (<http://bit.ly/29a4cf3>). Keep in mind that these deadlines do not apply to federal or state tax bills, federally guaranteed student loans or spousal or child support.

Learn more in the Federal Trade Commission's fact sheet “Time-Barred Debts” (www.consumer.ftc.gov/articles/0117-time-barred-debts). Contact your local JAG attorney (<http://legalassistance.law.af.mil/content/locator.php>) if you need help determining your liability for the debt.

Recognizing and avoiding scams

What are GI Bill scams?

The GI Bill provides money for veterans' education expenses. Some private, for-profit schools have been pressuring veterans into enrolling in their programs so that the schools can get access to their GI Bill funds. According to an investigation (www.usnews.com/opinion/blogs/carrie-wofford/2013/11/11/this-veterans-day-help-a-vet-avoid-a-gi-bill-for-profit-college-scam), some aggressive sales representatives for the schools have posed as “military advisers” to gain veterans' trust. In other cases, the schools charged veterans for classes they never took or signed them up for loans without their knowledge.

Visit the Know Before You Enroll website (www.knowbeforeyouenroll.org), developed to protect student veterans and their GI Bill benefits, before you choose a school or program. Consumer Action's “Guide to Finding the Right Job Training School” (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 can submit a billing or financial aid complaint against a for-profit school here, as well as at the Postsecondary Education Complaint System website (www.militaryonesource.mil/voluntary-education?content_id=274604).

Someone is offering me a great opportunity—I just need to hand over part of my veterans pension benefits. Should I go for it?

Don't respond to a pitch without first getting an unbiased assessment of the legitimacy of the offer or "adviser" (salesperson). Call the VA National Pension Hotline at 877-294-6380 to speak to a counselor about any investment or other pitch that requires you to pay for it out of your pension or sign over your benefits.

Where can I find a free adviser to help me apply for my veterans benefits?

There is no fee to apply for veterans benefits, and professionals accredited by the VA to help you are not allowed to charge for their assistance with completing and submitting VA paperwork. To find an accredited adviser (attorney, claims agent or Veterans Service Organization representative), use the VA's online search tool (www.va.gov/ogc/apps/accreditation/index.asp). You can also contact your state Veterans Affairs office for information and referrals (www.va.gov/statedva.htm).

Do not assume that an adviser is accredited, qualified or honest just because the business has "veterans," "military" or similar terms in its name.

Where can I get more information about avoiding scams?

Military Consumer is a website that provides servicemembers and veterans a virtual library of financial and consumer information from government and non-profit partner organizations (www.military.ncpw.gov/). There is an extensive section on scams (www.military.ncpw.gov/know-how/scam-alert) and another on protecting yourself against identity theft (www.military.ncpw.gov/know-how/protecting-against-identity-theft).

TAP\$ (Troops Against Predatory Scams) educates servicemembers and their families about "financial common sense." Their booklet, "Protect You and Your Family from Fraud," is available for free download (www.dbo.ca.gov/Consumers/TAPS/Pubs/Taps_Booklet.pdf). (This resource is published by the California Department of Business Oversight, but the information is not state specific. Where you are referred to a California agency to file a complaint, check a license, etc., contact the equivalent agency in your own state.)

Getting through a financial crisis

My rent/mortgage is due and I don't have the money to pay it—what can I do?

Do not turn to a payday or other high-cost loan—while providing a short-term solution to the immediate problem, these will make your long-term financial situation much, much

worse. (Although the Military Lending Act provides some protection against high-cost loans for active duty servicemembers, it does not protect veterans.) You have other options:

- If you are an active duty servicemember or military retiree, apply for a grant or interest-free loan from a military aid society—Air Force Aid Society (www.afas.org); Army Emergency Relief (www.aerhq.org); Coast Guard Mutual Assistance (www.cgmahq.org); Navy-Marine Corps Relief Society (www.nmcrs.org); ReserveAid (www.reserveaid.org)—or the American Red Cross Financial Assistance for Servicemembers program (www.redcross.org/find-help/military-families/financial-assistance).
- If you are a veteran, contact USA Cares (www.usacares.org) and/or the National Association of American Veterans (www.naavets.org/service) for emergency financial assistance.
- If you're a member of a credit union or community bank, inquire about a small short-term loan at a reasonable cost.
- If you have a credit card, you could take a cash advance. It will be expensive, but not nearly as much as a payday or similar loan. Pay off the balance as soon as possible to avoid long-term interest charges.
- Borrow from a friend or family member if they can manage to help and you are sure you can repay the loan.
- Asking for an advance on your military pay may require the approval of your commanding officer, who will become aware that you are having financial difficulties. A pay advance from your spouse's (non-military) employer could be an option, but check first whether it would be simply a fee-free/interest-free advance or a short-term loan. If it is a loan, know the terms.
- You could try to work out a manageable payment plan with your landlord (or other creditor) if you believe your financial circumstances will improve soon.

Some of these options require time (applying for a grant or loan, for example). If you know that you will have trouble paying next month's rent or other essential expenses, start working on a solution now rather than on the payment due date.

I'm having ongoing trouble paying my monthly bills—where can I get advice?

Free Personal Financial Management programs are offered to servicemembers and their families at military installations (at the Army Community Service Office, the Fleet and Family Support Office, and the Airman and Family Readiness Center). Counselors can help you contact creditors and develop a plan to pay your bills. To find a PFM counselor, visit www.militaryinstallations.dod.mil/.

For servicemembers who are not near a military installation, financial counseling is also available through Military OneSource (www.militaryonesource.mil/pfm?content_id=267031), a confidential Department of Defense-funded program for active duty, National Guard and Reserve members and their families. Call 800-342-9647 to make an appointment.

Another option for servicemembers and veterans is a non-profit credit counseling agency, which typically provides money management (budget), credit/debt and housing counseling for free or for a nominal fee. In some cases, they can negotiate for you to get your creditors to accept lower payments, reduce interest rates and/or eliminate fees. If you participate in a debt management plan (DMP) through the agency, you would send one payment to them, and they would disburse your money to your individual creditors. There may be a monthly fee for the service (typically \$20 to \$50, but it is sometimes waived in hardship cases). Counseling and/or participation in a debt management plan might be enough to get you back on track.

- VA Military Debt Management Center: www.va.gov/debtman / 800-827-0648
- National Foundation for Credit Counseling (NFCC): www.nfcc.org / 800-388-2227

If one of the bills you're having trouble paying is your mortgage, you can discuss this with your credit counselor if s/he is also a housing counselor. You can also call the Consumer Financial Protection Bureau's mortgage payment help line at 855-411-2372.

I'm a veteran and need to find a job/make more money. How can I get the job training I need?

The American Job Center (online) provides nearly a dozen employment and job training resources specifically for veterans (<http://jobcenter.usa.gov/resources-for-veterans>).

If you have not already left the service but will soon, you can find resources on Military OneSource's Transition Assistance webpage (www.militaryonesource.mil/transition). The Transition Assistance Program is a partnership of the Department of Defense, Department of Veterans Affairs and the Department of Labor's Veterans' Employment and Training Service.

Improving your financial health

I just left the military and would like some help learning how to adjust to my new financial situation—where can I find that?

Members of the Veterans Financial Coalition (the Association for Financial Counseling and Planning Education, Consumer Action, Consumer Federation of America and Visa's Practical Money Skills for Life) offer free money management materials to help guide veterans through the transition from military to civilian life (<http://www.veteransfinancialcoalition.org/resources/>). Visa's 40-page "Tactical Money Guide for Transitioning from the Military" (<http://www.veteransfinancialcoalition.org/resources/tactical/FLASH/index.html>) includes sections on such topics as transition assistance, employment planning and using credit wisely.

You can also contact a non-profit credit counseling agency (see previous section) for free or low-cost budget and debt counseling, free materials and, in some areas, workshops. If you belong to a credit union, ask about what personal finance counseling and education services they offer.

Where can I learn more about saving and investing for my children's college and/or my retirement?

Military Personal Financial Management (PFM) programs are designed to help servicemembers become more financially secure. PFM specialists are available to help at military installations (at the Army Community Service Office, the Fleet and Family Support Office, and the Airman and Family Readiness Center). Visit Military OneSource's PFM webpage for information (www.militaryonesource.mil/pfm).

Active duty servicemembers also can get a free consultation with a certified financial planner through Military OneSource. The adviser won't give specific investment advice, such as which stocks to purchase, but will educate you on your saving and investing options and the pros and cons of each one. Call 800-342-9647 to learn more or make an appointment.

How do I choose an honest and qualified financial adviser?

Read the Consumer Financial Protection Bureau's guide to "Choosing a Financial Professional" (http://files.consumerfinance.gov/f/201401_cfpb_guide_choosing-financial-professional.pdf). In it, you'll learn how to determine the type of adviser you need, and how to vet the adviser (check his or her background).

You can also ask family members, friends and coworkers if they use an adviser they are satisfied with. But don't just take their word for it—check his or her background and other references.

About Consumer Action

www.consumer-action.org

Through multilingual consumer education materials, community outreach and issue-focused advocacy, Consumer Action empowers underrepresented consumers nationwide to assert their rights and financially prosper.

Submit consumer complaints to our advice and referral hotline: www.consumer-action.org/hotline/complaint_form/ or 415-777-9635. Chinese, English and Spanish are spoken.

Credit for this publication

This brochure was made possible through a grant from Visa Inc.

© Consumer Action 2014
Rev. 7/16