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M E M O R A N D U M

August 31, 2007

To Our Clients and Friends

Re: Final Rule on Terms of Consumer Credit Extended to Service Members

The Department of Defense has issued a final rule implementing the John Warner National Defense Authorization Act for Fiscal Year 2007, which is intended to limit credit practices that have a negative effect on active duty service members and their dependents. The regulations limit the annual rate that may be charged on certain closed-end extensions of consumer credit to 36 percent. The rule applies to payday loans, vehicle title loans and tax refund anticipation loans consummated after October 1, 2007. The rule does not apply to any credit transaction secured by an interest in a residence. Virtually all lenders, including depository institutions, are subject to the regulations.

Among other provisions, the regulations specify the maximum amount and types of charges that can be associated with a covered extension of consumer credit. Creditors must provide disclosures showing the cost of the transaction as a total dollar amount and annualized percentage rate, according to a prescribed method of calculation. The regulations specify additional limitations, such as prohibiting an agreement that requires binding arbitration. A creditor that knowingly violates the statute as implemented by the regulation may be fined and imprisoned for up to a year. In addition, a loan that violates the statute is considered void.

A copy of the final rule can be found on our web site at
http://www.schwartzandballen.com/whats_new.html.

If you have any questions, please call Gilbert Schwartz, Robert Ballen, Tom Fox or Heidi Wicker at (202) 776-0700.