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**Hearing on “Empowering and Protecting Servicemembers, Veterans and their Families in
the Consumer Financial Marketplace: A Status Update”**

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Chairman Johnson, Ranking Member Shelby, and distinguished members of the Committee: thank you for the opportunity to speak with you today about the Office of Servicemember Affairs at the Consumer Financial Protection Bureau (CFPB), and to update you on what we’ve been doing since I first testified in front of this committee on November 3rd, 2011.

In the subsequent seven months I’ve had the opportunity to visit with two of you in your states, as well as to travel to 27 military installations across the country. Just last month Chairman Johnson was kind enough to invite me to South Dakota to visit Ellsworth Air Force Base and to meet with members of the South Dakota National Guard. Senator Tester also gave me the chance to experience Montana in January, as he and I visited the Montana National Guard and also Malmstrom Air Force Base. I have to confess that I got off easy by visiting Montana during one of the mildest winters ever; I’m certainly not complaining!

During my travels to military installations across the United States I have talked with servicemembers and their families from coast to coast, and some of the issues I mentioned in my last testimony here continue to be hot-button items. First and foremost are the financial concerns of military homeowners. As I’m sure you know, some of the states that have the largest concentration of military bases are also the ones that were very hard hit during the housing downturn. In almost every town hall or roundtable I conduct, housing concerns are a major topic of conversation. In particular, active-duty servicemembers who own homes and have seen them drop in value and go “underwater” are faced with a true dilemma when they receive Permanent Change of Station (PCS) orders and have to move. What do they do with a house they can’t sell for enough to pay it off? PCS orders come with a short timeline, and military homeowners have not been getting the assistance they need, either in programs tailored to their unique circumstances or in timely information about foreclosure alternatives.

Both at town halls and through the CFPB’s complaint system we’ve heard from military homeowners that they have been:

- Told there was no help available;
- Told they had to be delinquent on their mortgage before they could qualify for help, and even advised to skip payments;

- Asked to waive their rights under the *Servicemembers Civil Relief Act* (SCRA) in order to be evaluated for assistance;
- Stalled with repeated demands for loan documents that have already been sent;
- Routed to a different loan-servicing official with each call;
- Denied the interest-rate reduction or foreclosure protection required by the SCRA;
- Listed as “failing to respond” while deployed despite the fact that their spouse had a power of attorney and was providing the requested information to the servicer;
- And given information about foreclosure alternatives too late to do any good.

I’ve been talking about these issues with a number of parties and I’m pleased to report that progress has been made for military homeowners. First of all, a recent settlement between the federal government, 49 states and the District of Columbia and the five largest mortgage servicers (Citigroup, JP Morgan Chase, Wells Fargo, Bank of America and Ally Financial) addressed some of the SCRA issues – mandating look-backs and compensation by the servicers where they had denied SCRA benefits – and provided some short-sale opportunities and deficiency waivers for servicemembers with PCS orders. Also, the government-sponsored enterprises, Fannie Mae and Freddie Mac, have both published guidance to servicers that says that a military PCS move is a qualifying hardship for loan-modification or other assistance.

And last week the Federal Housing Finance Authority, which regulates Fannie Mae and Freddie Mac, not only announced that PCS orders are a qualifying hardship for a short sale, but also released guidance that a servicemember with a Fannie or Freddie loan will not be asked to make a financial contribution to receive the short sale, or be liable for the difference between the short sale amount and the original mortgage amount.

Further, I was able to work with the Department of the Treasury – specifically, the Assistant Secretary for Financial Stability, Tim Massad – to encourage changes to the Home Affordable Modification Program (HAMP) guidelines that will provide more opportunities for mortgage assistance to military homeowners. As of June 1st military homeowners who have to move because of PCS orders, but intend to come back to their house and do not buy another house elsewhere, can still qualify as “owner-occupants,” making them eligible for a HAMP Tier 1 mortgage loan modification. I was really pleased to see this change in the guidance because military personnel have been effectively cut off from so much foreclosure-prevention assistance due to requirements that the home be “owner-occupied.” That’s just not possible for a servicemember on orders. My husband and I are a case in point, as we moved 24 times in 37 years and I have never lived in a house more than 4 years straight, and that only once. In recent years a number of servicemembers have seen no viable alternative but to leave their family in their “underwater” house and go alone to their new duty station, which may mean a separation of 3 years or more. I am hopeful this new guidance will help change that.

The CFPB is continuing to take action to protect military homeowners. Last week, the CFPB, along with the prudential regulators – the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the National Credit Union Administration and the Office of the Comptroller of the Currency – issued supervisory guidance for mortgage servicers specifically addressing the issues of military homeowners with PCS orders. The guidance not only reminds servicers of the need to provide important information in a timely manner, but also

makes it clear that military homeowners with PCS orders should get accurate and clear information from their mortgage servicers early enough to make informed decisions that will minimize damage to their financial readiness.

Now, to go on to another issue that has been a frequent topic of conversation since I last spoke before you: you may recall that I testified last November about aggressive marketing to military personnel and their families by certain institutions of higher education – pushing not only their educational programs, but also, in many cases, expensive private student loans to pay for the amount of tuition and fees not covered by military GI Bill or Tuition Assistance benefits. There is an extra incentive for for-profit colleges, in particular, to chase after military students because of the 90-10 proprietary college federal funding cap – a requirement that for-profit colleges get at least 10 percent of their revenue from sources other than Title IV federal education funds administered by the Department of Education. Military GI Bill and Tuition Assistance benefits are not considered Title IV funds, so they fall into the 10 percent category that these colleges need to fill. Some of your colleagues have recently submitted proposed legislation on this topic, and, in addition, a bipartisan group of more than 20 state Attorneys General recently wrote to Congress urging the moving of military education benefits to the 90 percent side of the 90-10 rule.

For our part, CFPB's Office of Students, through its "Know Before You Owe" project, has done a lot of work to ensure that prospective students can determine the cost of their college degree in advance and can compare financial-aid offers from various institutions. They developed a "financial aid shopping sheet" and posted a beta version on our website, ConsumerFinance.gov, encouraging visitors to give us suggestions on how to improve it. And students can also find on our website a Student Debt Repayment Assistant that can help them learn about their options when repaying their education loans.

On the same topic, on April 27th I was honored to accompany the President and the First Lady to Fort Stewart, Georgia to watch the President sign an Executive Order establishing principles of excellence for educational institutions serving military personnel, veterans, and their families. The Order directed the Departments of Defense, Veterans Affairs, and Education, in consultation with the CFPB and the Attorney General, to take steps to ensure that servicemembers, veterans and their families can get the information they need about the schools where they spend their education benefits. The Order also strengthens oversight and accountability within the federal military and veterans' educational benefits programs. And the CFPB is currently working with groups from the above agencies to see that the Order is implemented in a way that best serves our military and veterans.

Another part of my job, as described in the *Dodd-Frank Wall Street Reform and Consumer Protection Act* (Dodd-Frank), is to "educate and empower service members and their families to make better informed decisions regarding consumer financial products and services." When I last appeared before you, I was in the process of taking a look at the financial education given to servicemembers at the front end of their career: at Basic Training and the Advanced School that follows it. A couple of things struck me as significant. First, that Basic Training is not a good place to absorb financial content, because recruits are tired, stressed and worried about their next meal and their next formation. And second, that recruits may already be in debt before they

show up at Basic Training. I heard from staff at Lackland Air Force Base, which does Air Force Basic Training, that recruits arriving there in 2008 had an average of \$10,000 in debt upon arrival.

Those two observations, among others, led us to a plan to provide a short financial-education curriculum that can be delivered via smartphone or computer during what the military calls the Delayed Entry Program (DEP). DEP comprises the period when an individual has committed to join the military, but has not yet arrived at boot camp, and DEP can range from two weeks to up to a year in length. It's a timeframe when a new recruit would have more time and less stress than at Basic Training so could focus on some "just-enough and just-in-time" financial lessons that could be very helpful before they get that first military paycheck and start thinking of ways to spend it. We feel that this curriculum will fill a niche where there is no financial education at present, and the Pentagon, including the Senior Enlisted members of all the services, is enthusiastic about the idea and has signaled its intent to help us field it.

Finally, I'd like to highlight a few of the consumer-protection issues that I've heard about repeatedly in recent months from military and veteran families and those who provide support services to them. Let me mention that I am also charged under *Dodd-Frank* with coordinating efforts among Federal and state agencies on consumer protection measures relating to consumer financial products and services offered to or used by servicemembers and their families.

The first issue is aggressive and deceptive tactics by debt collectors specifically targeting members of the military. These tactics have included:

- Contacting the servicemember's military chain of command as a way to coerce payment;
- Putting a clause in the loan contract that the servicemember must grant the debt collector the right to contact the chain of command;
- Threatening punishment under the Uniform Code of Military Justice, threatening to have the servicemember reduced in rank, or threatening to have the servicemember's security clearance revoked; and
- Contacting a spouse after deployment of the servicemember and pressuring the spouse to repay right away without the benefit of communicating with the servicemember, or, in one particularly appalling instance, demanding that the widow of a servicemember killed in combat pay them immediately from the combat death gratuity.

The second issue, and one that has been the subject of a hearing this month by the Senate Special Committee on Aging, concerns abuses connected with the veterans' benefit known as Aid and Attendance. This benefit is designed to provide assistance with basic daily activities such as cooking and bathing to severely disabled veterans who have very limited means, and the benefit can amount to two thousand dollars or more per month. I have heard from a number of state Veterans Affairs directors, starting with my trip to Montana in January, that they are concerned about the increasing number of individuals and companies that use Aid and Attendance as a hook to sell their services to elderly veterans.

Aid and Attendance offers can take a variety of forms:

- It may be an offer from a lawyer or “veterans’ advisor” to get the Aid and Attendance benefit for you – for a fee. In reality there is free VA claims-processing assistance available in every state, accessible by contacting the state Department of Veterans Affairs.
- It may be a claim from a paid advisor that they can get the benefit for you more quickly than anyone else. But all VA benefits claims have to go through the standard VA evaluation process, and no one can bypass the system to get your claim approved faster than usual.
- It may involve helping you qualify for Aid and Attendance, if you have too much money, by taking control of your assets and moving them into a trust where you can’t access them. This, in turn, may disqualify you for other assistance such as Medicaid, and it also means that you can’t get at your money – whereas the scammer can.
- Also, some retirement homes are now using the lure of Aid and Attendance to get veterans to move in on the premise that they will get Aid and Attendance and it will pay for everything. In cases where the claim is denied after the veteran has already spent money to move in, this leaves the veteran in the untenable position of being unable to afford to remain in the facility.

The CFPB has an Office of Financial Protection for Older Americans and my office is working with them on this issue. They have a statutory requirement to give recommendations to Congress on the vetting of financial advisors for seniors and have included some questions about fraudulent or deceptive practices that target older veterans and/or military retirees in a recent Request for Information published in the *Federal Register*. We look forward to reading the responses and exploring ways in which we can be helpful on this issue.

One more consumer-protection area of concern continues to be installment loans marketed to the military. I hear from financial counselors on the installations about the prevalence of payday-like products that are specifically marketed to military families – often with patriotic-sounding names and the American flags on the website to match, but with a sky-high interest rate for the servicemember who takes out the loan. And the internet is full of “military loans,” some outright scams and others with very high interest rates.

Although the *Military Lending Act* put a 36 percent cap on the annual percentage rate of certain types of loans to the active-duty military, some lenders have found ways to get outside of the definitions in the Department of Defense (DoD) rule implementing the *Military Lending Act*. We know from our discussions with representatives from the DoD that they intend to revisit the *Military Lending Act* rule later this year, either in response to changes in the law or to see if the definitions in the rule need to be updated to reflect changes in lending practices since the initial release of the regulation.

Also, in May the Deputy Assistant Secretary of Defense for Military Community and Family Policy, Robert L. Gordon, III and I signed a Joint Statement of Principles on Small-Dollar Lending, and we at the CFPB look forward to working with the DoD on creating strong consumer protections for servicemembers in the small-dollar lending marketplace.

In conclusion, the Office of Servicemember Affairs is working hard to fulfill its mission to work on consumer financial education and consumer-protection measures for military personnel and their families. I think we've seen some promising developments since I last appeared before you, and we will press on to work on existing problems and also address new issues as they arise. Our military and their families have done extraordinary service for our country, and, in return, it's an honor for me and my staff to serve them through our work at the Office of Servicemember Affairs.

Thank you for the opportunity to testify before the Committee.