Testimony of Frank Pollack, President/CEO, Pentagon Federal Credit Union before the U.S. Senate Committee on Banking, Housing & Urban Affairs

"Empowering and Protecting Servicemembers, Veterans and their Families in the Consumer Financial Marketplace"

November 3, 2011

Good afternoon, Mr. Chairman and members of the committee. On behalf of the Board of Directors of the Pentagon Federal Credit Union, I want to thank you for the opportunity to testify today on these important issues that affect those who are sacrificing so much to protect this nation.

When we think about financial issues within the military community, we believe that more can be done to provide financial education and tools necessary for service members to better manage their money. Too many service members are ill prepared to protect themselves from those who would take advantage of their lack of financial sophistication. We would never send our troops into battle that way but we have not similarly focused on their financial preparedness.

I would be remiss if I failed to recognize the laudatory efforts of credit unions in general, and defense credit unions in specific. Because defense credit unions are member owned, not-for-profit cooperatives, we can create unique programs to meet the financial needs the military service member.

I would like to share with you some of the programs the Pentagon Federal Credit Union provides to its membership.

Recognizing the need to address the lack of financial education and in conjunction with our PenFed Foundation, we have established relationships with partners like MoneyU and MathMastery to develop financial educational materials that will assist in teaching military personnel how to properly manage their money. We provide these services free of charge to members between the ages of 17 and 25.

While all of our materials and legal documents are already in "plain English," we do believe that the lack of clear and easy to use disclosures prevents members from comparing and thus selecting the best financial option available to them. As a result, in collaboration with the Pew Trust, we have introduced a checking account disclosure that is much more transparent and enables members to easily understand the fees and costs associated with their account. We hope to roll out similarly easy to use disclosures for all of our savings and loan products by the end of the first quarter of 2012. We believe the disclosure format created by Pew Trusts represents a better way forward for all financial institutions, and we are proud to be a leader in rolling this out.

The fact is that when a service member is fighting in Afghanistan or Iraq, they should not have to worry about fees and charges on their accounts even when they do make a mistake.

In 2009, we introduced a program for active duty servicemembers called Warriors Advantage, which waives checking account fees associated with insufficient funds for up to two occurrences in any rolling three month period. We have also waived ATM surcharge fees at all of our ATMs on military installations and we provide free bill pay services to all of our members as well. In a recent survey of fees by the *Military Times* newspaper, we had the lowest average fees of any financial institution serving on military bases in the United States. Importantly, we intend to continue driving our fee revenue even lower as we look to the future.

Our efforts extend to borrowers as well as savers. Because we do not price based on risk, every qualified member receives the same price for a loan. Our present rate for used car loans, a staple in the military community, is 2.49% APR. We provide a credit card offering that has no annual fees, no late charges; no foreign transaction fees; and the annual percentage rate is a market leading 7.49%. In short, we are trying to doing everything we can to insure that the military member has low cost credit available to them for any need they might have.

We do know that military members can and do get into trouble with debt. When they do, some turn to payday lenders for assistance. For the past eight years, we have provided an alternative to our members in such circumstances. Through our ARK (Asset Recovery Kit)loan, we provide up to a $500 emergency loan (or 10% of take home pay, whichever is larger), for a flat fee of $5. If a rollover is requested, the member is required to go to Consumer Credit Counseling, free of charge, to develop a plan to get them out of trouble. We provide up to five rollovers free of any additional charge. Through our Pentagon Federal Credit Union Foundation, we cover the losses for 12 other defense credit unions who participate in the ARK loan program.

Our Foundation's DreamMakers program provides matching grants of up to $5,000 for active duty military members seeking to purchase their first home. Because we have never done subprime lending, our delinquency and losses have remained low. As a result, our collection efforts are focused on helping the member in trouble rather than harassing them.

We are but one of many defense credit unions that view our reason for being as a labor of love for those who defend our country. The men and women who give so freely of themselves so that we may be free at home deserve nothing less.

We appreciate the opportunity to testify here today and we thank all of you for taking your precious time to focus on an issue of real importance to the long-term security of our Nation.