

Written Testimony

of

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Introduction

Chairman Johnson, Ranking Member Shelby and members of the Committee, thank you for the opportunity to speak to you today.

In my testimony, I will address some of the financial challenges that military personnel and their families face. I will also explain what our organization does to assist them. Further, I will describe how additional funding and services could benefit military families.

Our agency has been providing housing and credit counseling and financial education services to western South Dakota for more than 37 years. We also develop and publish financial education programs. Our seven programs have reached more than 1.4 million consumers nationwide.¹

Our agency in Rapid City also serves nearby Ellsworth Air Force Base. The Ellsworth Air Force Base Airmen and Family Readiness Center invites us to provide financial education programs onsite two to three times each month. The programs we offer them include *Money in Motion*, a basic two-hour financial education program; *Credit When Credit is Due*, a six-hour credit education program; and *Make Your Move ... A Guide to Homeownership*, which is a six-hour homebuyer education program. We provide other programs if the base requests them.²

The Airman and Family Readiness Center refers airmen and women directly to our agency for housing counseling if they are struggling with their mortgage payments, and for our debt management program, if they need additional help handling their debts. Occasionally, a service member may come to our agency for pre-filing counseling or debtor education for bankruptcy services, if necessary.

¹ Bonnie Spain is the Executive Director/CEO of Rushmore Consumer Credit Resource Center and has been with the agency for over 25 years, serving as director for more than 21 years. Rushmore Consumer Credit Resource Center has two divisions: Consumer Credit Counseling Service of the Black Hills and the American Center for Credit Education. Rushmore Consumer Credit Resource Center is a member of the National Foundation for Credit Counseling (NFCC), a HUD-approved housing counseling agency, an approved practitioner of the National Industry Standards for Homeownership Education & Counseling, accredited by the Council on Accreditation, approved by the Executive Office of the US Trustees and is a United Way agency.

The National Foundation for Credit Counseling (NFCC) is the nation's largest and longest-serving national nonprofit credit counseling organization. The NFCC's mission is to promote the national agenda for financially responsible behavior, and to build capacity for its members to deliver the highest-quality financial education and counseling services. NFCC members annually help more than three million consumers through nearly 800 community-based offices nationwide.

² *Money in Motion* programs are sponsored by the South Dakota Community Investment Fund. This fund is made possible through the generosity of the following credit unions: Air Guard, Consumers, Dakota Plains, Dakota Territory, East River, Good Samaritan, HB Telco, Healthcare Plus, Interlakes, Med5, Minuteman, Northern Hills, Rapid City Telco, Service First, Sioux Falls Bell, Sioux Falls, SODES, and Mid America Credit Union Association.

Problems military families encounter

Military homeownership often comes with complications

When it comes to housing, military families face challenges that civilians don't. When a serviceman or woman receives transfer orders, their family must move. If their current house doesn't sell, military personnel may leave their family behind or leave the unsold home empty.

In a good economy, it may take three months to sell a home, but in today's economy, it can take years. If a military family cannot sell their home, they are often separated and put under a tremendous amount financial and emotional stress. Either way, military families can end up with two housing payments – one for the home they are trying to sell and one for the new place where they are living.

On the other hand, civilians can typically choose whether to move or relocate. A civilian family has more choices, perhaps negotiating with a potential employer to move after they sell their home, or choosing not to move at all. A civilian isn't under the tight timeframe a military member is and therefore, a civilian may have more time to sell his home and move.

Agencies such as ours that provide housing and financial counseling and financial education play a critical role in helping military families. This counseling and education helps military personnel and their families cope with difficult transitions demanded of them while they are serving our nation.

For example, our agency helped a 21-year-old airman who was discharged from the military after becoming disabled. He was hoping to get a short sale on his house so he could move back to his home state of Rhode Island. After calling several Realtors, the airman could not find one who would list his home. All the Realtors he spoke to said there were too many problems with lenders not accepting short sales, and they weren't willing to put the time and work into a deal that wasn't likely to go through.

Before listing his house, he was advised to find a lender that would agree to the short sale. At this point, the airman came to our office. Our Certified Consumer Credit Counselor contacted his lender and convinced the lender to agree to a short sale. Because of our intervention, the airman was able to get a Realtor to list his home.

Another serviceman was retiring; he and his family were moving back to Florida. He had a very difficult time selling his home and was referred to our agency. Our Certified Consumer Credit Counselor helped him get the lender to agree to a short sale. The lender, however, refused to forgive the second mortgage on the home and required the serviceman to sign a new note for \$10,500. The lender also required the serviceman to use his vehicles as collateral since he could no longer use his home for collateral. But the serviceman owed more on the loans than the vehicles were worth.

Even though the serviceman was facing a number of difficult financial circumstances, he has been able to work through them because of the help he has received from our agency. By using our Debt Management Program, he has almost repaid his debts in full.

Predatory lenders, debt settlement companies claim to help, but cause harm

Military personnel are always under pressure to maintain good finances and credit; their jobs can depend upon it. If a serviceman or woman has accounts in collections or is facing bankruptcy, these financial issues can cause security clearance problems that ultimately could destroy a military career. The unique financial pressures they face make servicemen and women particularly vulnerable to lenders who charge high rates of interest.

Predatory lenders, for example, continue to target the military - in spite of protections that the Military Lending Act is supposed to provide. Often, these lenders charge more than the 36% interest cap. This is the case for an airman who turned to the Ellsworth Air Force Base Airmen and Family Readiness Center for help with his five payday loans.

He'd applied for four of these payday loans online, and only one loan was from a local company. All were charging interest rates higher than 36%. Payday lenders call these transactions open-ended, treating them like revolving lines of credit, in order to bypass the law. The airman sought the help of the legal assistance office at the base. Unfortunately, the companies refused to change their interest rate, and the airman's only other recourse was to sue the companies. However, the base legal assistance office can't represent the airman if he decides to sue the payday lenders. If he chooses to sue, the airman would have to hire an attorney. Payday lenders know that people who borrow from them don't have the money to hire an attorney.

Payday lenders also count on the fact that prospective borrowers won't ask questions. On many payday lending sites, such as militaryfinancial.com, there is no physical business location listed anywhere on the site. There is no location listed in their disclosures, privacy policy or "contact us" links. There is no disclosure anywhere of the cost of loans militaryfinancial.com provides. Borrowers have no idea who the company is, where it is located, or what they'll be charged for a loan, but they are immediately asked to provide personal information. For example, the very first question militaryfinancial.com asks is for the borrower to provide his or her Social Security number on the website and on any documentation they submit.

One client who got a payday loan online had no idea the money came from Croatia. The client had a difficult time getting anyone to respond to his requests for information. In the meantime, the company had access to his bank account and continued to take payments directly from his account. The client finally had to close his bank account.

When service members are knowledgeable about their finances, they are less likely to fall victim to predatory lenders and schemes designed to take advantage of them.

The following story illustrates one type of financial pitfall that our clients can face. A former car salesman said that one of the first questions he would ask potential buyers is whether the buyers knew if they had good credit. The buyers' answer determined the offer they would receive from the dealership. If buyers had not seen their credit report or didn't know their credit score, the salesman excused himself and said he would pull their credit report.

Instead of actually pulling a credit report while he's gone, however, the salesman simply left for several minutes. The salesman then returned and told buyers there were issues with their credit report, but assured them they could still buy a car. The salesman quoted the buyers a monthly payment, making them believe this was the best rate they could receive. The buyers have no idea they would end up paying a higher rate of interest than necessary, and the salesman earned a bigger commission.

Unfortunately, our agency sees many service members who seek financial services, only to find that the help they receives pushes them further into debt. Debt settlement is particularly destructive. Service members seek the help of debt settlement companies, not knowing that these companies can do them more harm than good.

In one case, a servicewoman had paid \$1,500 to a debt settlement company before the Airman Family Readiness Center advised her to stop making payments. Of course, she did not have \$1,500 to lose, but thankfully she didn't lose any more.

One of the worst examples of problems caused by debt settlement was the case of a civilian family of six who came to us in April. By the time they came to our agency, they had paid more than \$6,000 in fees to a debt settlement firm; only \$600 of that had actually been aside by the firm for debt negotiations. By October, they would have paid the debt settlement firm more than \$10,200, but the firm would have only set aside \$1,500 to settle the family's debts. We are currently working with this family so they can repay their debts and rebuild their finances. Military or civilian, people who are already struggling financially cannot afford to pay for services that never happen.

More financial problems, striking clients of all ages

Our client demographic is shifting and so are the financial difficulties these clients are encountering. Several years ago, our average clients were young couples in their thirties raising children. Traditionally, that was a time in their lives when their expenses were high, but their incomes were lower. Our client base is now much more diverse. We work with clients in their 20s who are often struggling to pay back their school loans; young parents raising small children; couples who are raising teens, while also taking care of their own aging parents; and couples at or near retirement who are struggling.

Frequently, our clients find themselves facing multiple financial problems at once. For instance, a young man leaving the service came to our office because he was in the process of filing bankruptcy. He told his counselor that he had made almost every possible financial mistake. His initial problems began when he was using the services of payday lenders while he was still in the military. Later, he got a divorce, which further disrupted his finances.

Then, he agreed to let an elderly woman handle his finances while he was stationed overseas. The woman, who seemed trustworthy, spent his money instead of paying his bills for him. To make matters worse, he let a friend drive a rental car and they had an accident. The rental insurance did not cover the friend, so the insurance company sued the serviceman for damages.

Like this serviceman, most people filing for bankruptcy do so because of multiple financial problems. Before they file for bankruptcy, most people have never taken a financial education course. Financial counseling and education are key to helping people overcome financial crises.

People often lack the knowledge to handle their finances successfully

Unfortunately, financial matters can often be confusing, and many consumers don't have the information they need to make wise decisions. A young airman or woman, for example, might seek a friend's advice, which ultimately turns out to be incorrect or inappropriate for their situation. What they don't know leads them to make financial decisions that they later regret.

Financial education is key to helping consumers protect themselves and their money. We know that financial education works. After 25 years of working with people in financial duress, I can unequivocally tell you that the most important thing people can do to get their finances under control is to complete a financial education program appropriate for their needs.

Counseling is very helpful and provides insight, and a plan, but counselors can't impart everything they know to their client in one or two sessions. On the other hand, a good financial education program provides information people can use to make better financial decisions now and in the future.

All of our financial education programs are relevant to the financial issues people are experiencing today. We teach a program called *Money in Motion* twice a month at Ellsworth Air Force Base. We also teach *Credit When Credit is Due* and *Make Your Move ... A Guide to Homeownership* at the base. All of these programs are updated to reflect our ever-changing financial environment.

Some of our programs are uniquely tailored to fit the needs of military and civilian clients in our community. In 2009, our agency developed an assistance program to help families qualify for forbearances and loan modifications. With United Way funding, we provide direct assistance to qualifying homeowners to help them save their homes; specifically, we have used \$68,171 to help 32 families save their homes. Per family, this is a cost of about \$2,100 to intervene in homeowners' lives when they urgently need our help.

Our financial education programs have benefitted military personnel nationwide. In addition to Ellsworth Air Force Base, our programs have been used at Langley AFB, Mountain Home AFB, Fairchild AFB, Tinker AFB, Sheppard AFB, Shaw AFB and Randolph AFB, Virginia Air National Guard, Florida Air National Guard, Tennessee National Guard and Virginia National Guard.

Our financial education programs also have reached troops overseas. In May, we received a request from a former client who was serving in Afghanistan. He asked us to send *Credit When Credit is Due* books so Marines could learn more about managing their finances; we shipped a box of books to him. In 2007, our agency received a request to provide *Credit When Credit is Due* and *Money in Motion* to

troops in Iraq. With the support of several local and regional credit unions, we were able to provide books to the troops in Iraq.³

When military personnel themselves ask for financial education, that speaks volumes about their need for information and about the quality of our programs.

What more can we do to help military families?

To provide our financial education programs for the military, we need to seek grant money. Unfortunately, grant funding is becoming more difficult to find. What's more, Family Support Centers are only able to offer a few approved programs.

I would like to recommend the following actions that could give our military personnel and families the support they need and deserve.

For the Consumer Financial Protection Bureau (CFPB):

- Close the loopholes on payday lenders, making it impossible for them to charge military personnel more than 36% for a payday loan.
- Require online businesses to list a physical business location and to list their fees, or range of fees, before being able to collect personal information such as a Social Security number.
- Strengthen regulation of for-profit debt settlement companies so that consumers are protected from abusive and predatory debt settlement practices.
- Apply the same federal standards, regulations and consumer protections to non-profit credit counseling agencies and for-profit credit counseling agencies.

For Congress and the CFPB:

- Continue supporting financial education for military personnel. All Readiness Centers, Family Support Centers and bases should be authorized to use their operating funds to purchase the materials they know are most helpful and relevant to their military personnel.
- Require homebuyer education for first-time homebuyers, as well as those using specialized loan products. The housing industry is an integral part of our economy. Many consumers may have avoided foreclosure, or other problems, if they had been well-educated before they signed home loan documents. Having qualified buyers seeking homes they can afford will help to revitalize our troubled economy.

³ The following credit unions gave our agency support to send financial education materials to Iraq: Aberdeen, Air Guard, Black Hills, Consumers, Dakota Plains, Dakota Territory, East River, Empire Corporate, Healthcare Plus, Huron Telco, Interlakes, Minuteman Community, Northern Hills, Rapid City Medical, Service First, Sioux Falls, Sioux Falls Bell, SODES, and Turtle Creek.

For Congress:

- Support and fund HUD homebuyer education. Buying a home is a complicated process. The average consumer simply has no way of understanding the details of the home-buying process without taking a comprehensive homebuyer education course. This is particularly true if an individual or family is new to the area. Military personnel who transfer to a different location, for example, would benefit from homebuyer education.
- Support and fund HUD-approved housing counseling. Military personnel need the assistance of trained and knowledgeable foreclosure specialists to help them find resolutions for their housing issues.

In closing, on behalf of the Rushmore Consumer Credit Resource Center and, more importantly, on behalf of the men and women who are serving our nation and who come to us for financial counseling, education and help, thank you for this opportunity to tell you their stories and their needs. I would be happy to respond to any questions you may have.



Financial Education for the Military since 2000



The American Center for Credit Education (ACCE), a division of Rushmore Consumer Credit Resource Center, helps the military invest in the financial well-being of troops and their families. Family support centers at military bases throughout the United States use curriculum developed and provided by ACCE. For the past 10 years, ACCE programs have taught servicemen and woman to manage their money with *Money in Motion*, improve their credit with *Credit When Credit is Due*, and become knowledgeable home buyers with *Make Your Move...A Guide to Homeownership*.

Air Force

- Langley
- Ellsworth
- Mountain Home
- Fairchild
- Tinker
- Sheppard
- Shaw
- Randolph-Brooks

Air National Guard Bases in

- Virginia
- Florida

National Guard Posts in

- Tennessee
- Virginia