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EMPOWERING AND PROTECTING SERVICEMEMBERS, VETERANS, AND THEIR FAMILIES IN THE CONSUMER FINANCIAL MARKETPLACE

HEARING

BEFORE THE

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS UNITED STATES SENATE

ONE HUNDRED TWELFTH CONGRESS

FIRST SESSION

ON

EXAMINING THE FINANCIAL PROTECTION OF SERVICEMEMBERS, VETERANS, AND THEIR FAMILIES

NOVEMBER 3, 2011

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EMPOWERING AND PROTECTING SERVICEMEMBERS, VETERANS, AND THEIR FAMILIES IN THE CONSUMER FINANCIAL MARKETPLACE

THURSDAY, NOVEMBER 3, 2011

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
Washington, DC.

The Committee met at 10:32 a.m., in room SD–538, Dirksen Senate Office Building, Hon. Tim Johnson, Chairman of the Committee, presiding.

OPENING STATEMENT OF CHAIRMAN TIM JOHNSON

Chairman JOHNSON. Good morning. I would like to call this hearing to order.

Earlier this week, it was reported that 10 executives at Fannie Mae and Freddie Mac were scheduled to receive bonuses totaling more than $12 million. Given the current economic times and continued challenges in the housing market, I want to assure my colleagues that I plan to call Acting FHFA Director Ed DeMarco before the Committee as soon as possible. The details are still being worked out, and my staff will be in touch with your staff.

As the conservator of Fannie Mae and Freddie Mac, FHFA under Mr. DeMarco's leadership was responsible for approving the compensation and maintaining adequate internal controls to oversee the day-to-day operations at Fannie Mae and Freddie Mac. This Committee, the Congress, and taxpayers need to be confident that those controls are in place and that the conservator is upholding its responsibilities.

As we approach Veterans Day and we prepare to welcome home the last American troops from Iraq later this year, it is important for us to understand the unique consumer financial challenges members of the military, veterans, and their families face. I take special interest in this matter, not only as the father of a soldier, but also as a Senator from a State that has over 72,000 veterans and more than 3,500 military personnel at Ellsworth Air Force Base.

At today's hearing, we will examine how young enlisted personnel, officers, veterans, and military families manage their financial needs, whether through mainstream financial products or products marketed to the military community. We will also learn about the important role financial readiness plays in mission readiness. And we will look at some of the tools and protections available to

help military consumers navigate the complex consumer financial marketplace.

It is important to remember how military consumers differ from the average consumer. This population is predominantly young and enters the military with little financial education. The military lifestyle requires frequent relocations, forcing spouses to find new employment and families to sell their homes if they have chosen to live off base. Their mobile lifestyle also means they need banking services that are accessible throughout the country and the world. When a servicemember deploys, he or she must be certain family members have appropriate access to handle bills and financial needs in their absence.

It was with those needs in mind that Congress created the Office of Servicemember Affairs at the Consumer Financial Protection Bureau. I am pleased to welcome the first head of that office, Assistant Director Holly Petraeus. As a military daughter, wife, and mother, Mrs. Petraeus is very qualified to lead this office, which will educate and empower members of the military and their families to make the best financial decisions for themselves. As importantly, once the CFPB has a Director in place, the agency will finally be able to monitor the nonbank financial institutions which are often at the heart of the military community's financial hardships.

I would also like to welcome Bonnie Spain from my home State of South Dakota. Bonnie runs the Rushmore Consumer Credit Resource Center in Rapid City. Bonnie will explain some of the work she does and assistance she provides to airmen and their families stationed at Ellsworth and to members of the National Guard.

Admiral Steve Abbot, thank you very much for your service to our country and for being part of today's hearing. We look forward to your testimony on the importance of financial readiness and the work of the Navy-Marine Corps Relief Society.

We are also joined by Retired Major General Kevin Bergner of USAA and Mr. Frank Pollack from the Pentagon Federal Credit Union. General Bergner, thank you for your service to our country.

Both USAA and the Pentagon Federal Credit Union serve a large number of military consumers, and they do an outstanding job of meeting that community's needs. Thanks to both of you for being a part of today's hearing.

In closing, I would like to recognize our veterans and the thousands of military personnel who continue to serve in harm's way in defense of our country. I am grateful for their service. Throughout my time in Congress, it has been my highest priority to assist our servicemembers and veterans. As Chairman of the Senate Military Construction and VA Appropriations Subcommittee and the Senate Banking Committee, I continue to work to ensure servicemembers and veterans have the resources they need and protections they deserve. I look forward to today's testimony.

Now I turn to Ranking Member Shelby for his statement.

STATEMENT OF SENATOR RICHARD C. SHELBY

Senator SHELBY. Mr. Chairman, thank you. Thank you for calling this hearing.

First, I want to respond to your statement that you are going to call up the head of the Federal Housing Finance Agency—I think that is a good idea—regarding high salaries and so forth, these salaries at Freddie and Fannie. But I would also ask that you bring up the Treasury because the Federal Housing Finance Agency has to consult with Treasury on this, and we need them both here to have a proper and thorough hearing. So I would hope you would do that at the same time. And if you do that, I think we will have a good and thorough——

Chairman JOHNSON. I will take that into consideration.

Senator SHELBY. Sure. I do not know how you can have a hearing, a good hearing, without doing both. But, anyway, I have got an opening statement here, Mr. Chairman, that I would like to give.

The issue of consumer protection for military servicemembers has long been a priority for this Committee. During the 109th Congress, while I was Chairman of the Committee, the Committee examined reports of predatory lending practices aimed at members of the armed forces and their families. This examination identified a series of problematic tactics used to sell financial products to military personnel. It also identified regulatory gaps and the lack of coordination among financial regulators in handling military consumer protection issues.

Based on the investigation by the Committee, the Committee ultimately passed the Military Personnel Financial Service Protection Act of 2006. This law protects members of the armed forces from certain unscrupulous sales practices regarding the sale of insurance and financial and investment products. It also improved the ability of our regulators to enforce our consumer protection laws with respect to the military.

Servicemembers and their families have unique needs with respect to their use of financial services due to the special circumstances caused by their military service. For example, military personnel move regularly, which can make purchasing a home a very risky endeavor. In addition, military personnel are often very young and away from home for the first time. They often have to make important financial decisions without being able to consult with family or with trusted advisers.

Congress and the States have sought to address these problems through a variety of legislative and regulatory initiatives. As a result, at least nine Federal regulators and State regulators in all 50 States currently have varying levels of regulatory, supervisory, and enforcement powers in this area. At the Federal level, this includes the Department of Defense, the FTC, the Federal Reserve Board, the SEC, the OCC, the FDIC, the Department of Education, the Department of Justice, and most recently the Bureau for Consumer Financial Protection.

Accordingly, I do not believe there is any shortage of regulators. The real challenge is making sure that regulation keeps up with changes in technology and changes in the marketplace. In particular, I would like to hear today whether new forms of lending to our military, such as online lending, present any new difficulties for enforcing consumer protections for military personnel. I would also like to know whether more can be done to ensure that our

military personnel and their families receive the information they need to exercise all of their rights available to them under Federal laws, such as the Servicemembers Civil Relief Act, or SCRA.

Recently, several banks have settled claims under the Servicemembers Civil Relief Act because they currently foreclosed on members of the military while they were on active duty. In my view, that is the sort of problem no military member should have to worry about while they are fighting overseas.

Mr. Chairman, while often there appears to be very little upon which our respective sides can agree, there is complete agreement, I think, on our joint commitment to supporting our men and our women in uniform. I look forward to hearing from you today. I believe this could be a constructive hearing.

Chairman JOHNSON. Thank you, Senator Shelby.

Are there any other Members who wish to make a brief opening statement? Senator Tester.

STATEMENT OF SENATOR JON TESTER

Senator TESTER. I will get to my opening statement when we get into the questions. I want to thank you all for being here, especially you, Holly, but specifically I want to thank you, Mr. Chairman, for the hearing that you announced on the FHFA. I think ultimately in the end we need to have the people here so we can get to the bottom of why those bonuses were given out and get some accountability. But I appreciate your and your staff's scheduling of that hearing. I think it is critically important.

Chairman JOHNSON. Anybody else?

STATEMENT OF SENATOR MARK KIRK

Senator KIRK. Mr. Chairman, I just want to also put in a request. I think we are in a very dynamic situation with regard to U.S. exposure to the European banking system. I think you should probably call for an update on that because I am concerned that we may see a fairly bleak prospect of the current European Stabilization Facility meeting its goals. I am concerned about reports that U.S. bank exposure now is considerably more than it was, and activity and transparency led by this Committee I think would help U.S. markets.

Senator AKAKA. Mr. Chairman?

Chairman JOHNSON. Senator Akaka.

STATEMENT OF SENATOR DANIEL A. AKAKA

Senator AKAKA. Thank you, Mr. Chairman. I want to add my welcome to our witnesses today. I look forward to their testimony on a matter that many of us in the Senate are deeply concerned about: making sure that our servicemembers and veterans are economically empowered to make the best financial decisions possible. For years, my colleagues here on the Banking Committee have heard me talk about financial literacy and economic empowerment, and my colleagues on the Armed Services and Veterans' Affairs Committees know that I am concerned about the unique challenges confronting military families and our veterans. Prolonged deployments and more frequent relocations create unique banking and budgeting challenges. Our veterans come home from war only to

face the highest unemployment rates in the Nation. And meanwhile our Guard and Reserve forces are feeling the financial impact of sustained active service. It is clear our men and women in uniform now more than ever need to be educated in financial matters both before and after they complete their service to our country.

Chairman Johnson, thank you very much for convening this hearing on such an important topic. For many of our military families, financial education and protection is tied to their readiness. And servicemembers, veterans, and their families have sacrificed for us. Now it is our turn to do all we can to help them return.

Thank you very much, Mr. Chairman.

Chairman JOHNSON. Thank you.

Senator BROWN. Mr. Chairman?

Chairman JOHNSON. Senator Brown.

STATEMENT OF SENATOR SHERROD BROWN

Senator BROWN. Thank you, and I appreciate all the panel being here and, Mrs. Petraeus, thank you especially for the work that you are doing and will be doing. I sit at Chairman Akaka and Senator Tester on the Veterans' Affairs Committee, and the stories we hear about financial predators, especially around places like Wright-Patterson Air Force Base in Dayton, the scams that appeal to a veteran's patriotism, the scam Web sites, the mailings masked as though they are run by the Government and look like they are coming from the Department of Defense or the VA, deceptively they often come from a dot-com operation that wants access to the veteran's money, personal information, or both. It is shady automotive loans that target servicemembers. It is packed illegal fees into VA mortgages. You know all that. It is so important that we are on the side here of people who are serving their country or who have served their country, and I appreciate your focus on that.

Thank you.

Chairman JOHNSON. Senator Hagan.

STATEMENT OF SENATOR KAY HAGAN

Senator HAGAN. Thank you, Mr. Chairman. I, too, just wanted to tell you how much I appreciate you holding this hearing today, especially as we are so close to Veterans Day. I think it is very appropriate. In North Carolina, we pride ourselves on being one of the most military-friendly States in the Nation and having such a huge number of active duty and veterans living in our State.

I am also very concerned about the high rate of unemployment that returning veterans from Iraq and Afghanistan have. It is about 11.7 percent. And we also know that many of our military families are targets for predatory lenders and other schemes. So I think given these disturbing trends, we need to be sure that these returning heroes are not subject to predatory practices and that they also possess the tools and the skills that they need to make responsible financial decisions.

So I thank the witnesses for being here today, and I look forward to your testimony. Mrs. Petraeus joined me at Fort Bragg recently to really talk about these issues, and I think she can bring such an important light to this topic for so many of the young people in our military today. So I thank you for doing that.

Thank you, Mr. Chairman.

Chairman JOHNSON. Thank you all. I want to remind my colleagues that the record will be open for the next 7 days for opening statements and any other materials you would like to submit.

Mrs. Petraeus, you may proceed with your testimony.

STATEMENT OF HOLLISTER K. PETRAEUS, ASSISTANT DIRECTOR, OFFICE OF SERVICEMEMBER AFFAIRS, CONSUMER FINANCIAL PROTECTION BUREAU

Ms. PETRAEUS. 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, or as we call it, CFPB.

As a lifetime military family member, I have seen firsthand the devastating impact financial scams and predatory lending can have on our military families. I also spent 6 years as the head of the Better Business Bureau's BBB Military Line program, and that was an education for me about the consumer issues and scams that impact the military. Unfortunately, there are still too many young troops learning financial lessons through hard experience and years of paying off expensive debt.

In January 2011, I was asked to join the CFPB and head up the Office of Servicemember Affairs. The OSA's job is to educate and empower servicemembers to make better-informed decisions regarding consumer financial products and services, to monitor their complaints about consumer financial products and services and the responses to those complaints, and to coordinate the efforts of Federal and State agencies to improve consumer protection measures for military families.

In support of our mission, we have already signed a Joint Statement of Principles with the Judge Advocate Generals of all the services about how we will coordinate the exchange of information between us concerning military consumer complaints and the actions we take to protect servicemembers. We have also set up a working agreement with the Department of Veterans Affairs. We are now referring any military personnel or veterans who call the CFPB's hotline claiming that they are in danger of foreclosure directly to the VA Home Loan Program.

As for our educational mission, I think that it is important to get out and hear from military families about the issues that concern them the most. I have visited bases all over the United States since I started my job. I have also met with the National Guard in Oklahoma, Ohio, Illinois, and Indiana.

So what are the issues that have come up? First, the housing meltdown has hit military families hard when they receive orders to move. Often they cannot sell their home for enough to pay off the mortgage. They cannot rent it out for enough to cover their mortgage payments. They are told they cannot get a loan modification or short sale because they are not yet delinquent. And they cannot refinance for a good rate because it will no longer be considered their principal residence once they leave.

We have heard of a number of cases where the servicemember has opted to go alone to the new duty station, and that is pretty

tough when you consider that he or she may have just had an overseas deployment and the family is now facing another separation—this time for financial reasons.

We are starting to see some positive movement on this issue. The Department of the Treasury has issued new military-related guidance for its Home Affordable Foreclosure Alternatives program, and Fannie Mae and Freddie Mac are tweaking their own guidance as well.

Another big issue we have been hearing about concerns military education benefits and for-profit colleges. There have been cases of very aggressive marketing by for-profit colleges to military personnel and their families of both educational programs and expensive private student loans.

Another issue is car loans. Servicemembers are often sold clunkers at inflated prices with high financing charges and, when the original clunker breaks down, may be urged to roll the existing debt into another loan for yet another clunker.

There is also yo-yo financing where servicemembers drive away thinking they have qualified for financing only to be told later that the financing fell through and they will have to pay more. Although the CFPB will only have supervisory authority over the auto dealers who write their own loans, the Federal Trade Commission and the Federal Reserve are required to coordinate with my office on military auto issues, and we have started to do that.

Finally, a continuing issue for the military is the issue of indebtedness. Many servicemembers do not make much money, but it is a guaranteed paycheck and it is subject to garnishment outside of the normal court process. That has led to a lot of businesses looking to lend them money. It can be the kiosk at the mall selling high-priced electronics at even higher financing, the rent-to-own furniture store, or the latest installment loans that manage to exist just outside the Military Lending Act definition of payday loans.

When servicemembers get behind in their payments, their debt is turned over to debt collectors. We are concerned about potential violations of the Fair Debt Collection Practices Act. We have heard reports of debt collectors calling servicemembers' units 20 times a day, threatening them with the Uniform Code of Military Justice and telling them that they will get them busted in rank or have their security clearance revoked if they do not pay up. They also may call the parents and spouses of deployed servicemembers in an attempt to get them to pay the debt. We have even heard of a debt collector telling a widow that she had to use the money from her husband's combat death gratuity to pay the debt immediately.

A big part of my job is to educate servicemembers about their rights under existing consumer financial laws and to give them the information they need to make wise financial decisions, and I will continue to work with you and other Federal and State agencies to help identify effective consumer protection measures that will work on their behalf.

Thank you for the opportunity to testify before the Committee.

Chairman JOHNSON. Thank you, Mrs. Petraeus.

Ms. Spain, you may proceed.

STATEMENT OF BONNIE SPAIN, EXECUTIVE DIRECTOR/CHIEF EXECUTIVE OFFICER, RUSHMORE CONSUMER CREDIT RESOURCE CENTER

Ms. SPAIN. Chairman Johnson, Ranking Member Shelby, Committee Members, thank you for the opportunity to be here today to speak to you about what we see happening with the military in our area.

Our organization has been serving Western South Dakota for 37 years, providing housing counseling, credit counseling, and financial education programs. We also create national financial education programs that have been used by 1.4 million consumers across the Nation. Our agency serves military personnel at Ellsworth Air Force Base. The Airmen and Family Readiness Center invites us twice or three times a month to come out and provide financial education programs. They also refer individuals to us that are struggling with housing issues or if they have more financial issues for our debt management program, and on a rare occasion for someone to come in for pre-filing counseling or post-filing debtor education.

Yes, the military do have housing issues that civilians do not. When they get orders, they have to move. A civilian has choices. They can choose not to move. They can choose when they move. The military cannot. If they take their family with them and they leave a home empty because it does not sell, it creates financial stress. If they leave their family home, it creates financial stress. It is a difficult time.

Agencies such as ours that provide housing counseling can help military members and their families as they work through these difficult times while they serve our country. We helped one 21-year-old who was being discharged for medical disability. He was told to short sell his house. He could not find a Realtor that would list his house. The Realtors told him they are not accepting short sells. It is too much work. You have to get the lender to agree first. They came in and talked to our Consumer Credit Counselor who was able to get the lender to agree to the short sale and the Realtors are now listing the house.

Another military family was retiring from the military and he was having difficulty selling his home, so he came in and contacted our Consumer Credit Counselor, certified, and she helped work with the lender to get the short sale through. Unfortunately, the lender refused to forgive the second mortgage and the military member had promised to sign a second note and repay $10,500.

Even though they struggle through these issues, there is support for them. Military personnel are always under the pressure to keep their finances and their credit good because collections or bankruptcies can cost them their career, but this leaves them vulnerable to lenders that charge high rates of interest, and predatory lenders continue to target the military.

One young man that came to the Airmen and Family Readiness Center had five payday loans, all charging over 36 percent interest. He received four loans online, one locally. He went to base legal. Base legal sent them a letter. The predatory lenders said these are open-ended transactions. They are not really payday loans. We are not changing the interest rate. At that point, the military member

only has the choice of hiring an attorney, which they cannot afford to do, and payday lenders know that. Payday lenders also know that people do not ask enough questions, and online, you can find different sites that do not tell you where they are located, not in their disclosures, not in their contact policy, not in their privacy policies. They do not tell you what their rates of interest are, but the very first question they ask the military member is, what is your Social Security number?

We had one client that had gotten the payday loan but did not realize the funds had come from Croatia. They finally had to close their bank accounts in order to stop this company from pulling money out.

Another issue that we see our military struggling with is debt settlement. Debt settlement can often do more harm than good because people do not understand how it works. One young airwoman paid $1,500 to find nothing being done with her creditors but for her to go farther delinquent. Another family that was civilian paid $6,000 in fees to have $600 set aside to settle their debts.

Our demographics are shifting and we are seeing people across the board of all ages struggling with their finances and with multiple issues. We had one young man that came to us after he left the military that was filing for bankruptcy. He said he had made every possible mistake he could. He got payday loans while he was in the military. He went through a divorce that caused additional problems. And then he trusted when he went overseas a nice little old lady, he said, to pay his bills, and she did not pay his bills. So when he finally got out of the service and he was moving home, he rented a car. He fell asleep, so his friend took the car, got in an accident, and the insurance company sued him. So there he was, filing for bankruptcy.

I can tell you unequivocally, after 25 years of working in the credit counseling industry, that financial education is key to helping people not be taken advantage of. It is important that the information be relevant to their personal situation. We also develop programs that are specific for Ellsworth and Rapid City, and we took our United Way funding and provided direct assistance to homeowners who were behind that needed a forbearance or loan modification and often have to come up with money. With $68,000, we helped 32 families save their homes.

Our financial education programs are used by bases across the United States, including Ellsworth, Langley, Mountain Home, Fairchild, Tinker, Sheppard, Shaw, Randolph, and the Virginia Air National Guard, Florida National Guard, Tennessee National Guard, and Virginia National Guard. Our programs have also reached overseas. We had a Marine that asked us to send some of our programs over to Afghanistan this year. In 2007, we received a request from the Army to send some programs over to Northern Iraq.

In wrapping up, I would like to recommend the following actions. Close the loopholes that payday lenders are using to charge military members over 36 percent interest. Require online businesses to post their locations and their interest rates. Strengthen regulation for the debt settlement companies that target individuals and are abusive. Apply the same standards for for-profit credit counseling agencies that nonprofits have to adhere to. Continue to sup-

port financial education for our military. And allow the bases to use the funds to purchase materials that they know are good for their agencies and their military.

Require homebuyer education for first-time homebuyers. It is vital we help people seek homes to help revitalize our troubled economy. And support housing counseling and homebuyer education. Military families need the assistance of trained, knowledgeable foreclosure specialists, individuals who can tell them what to watch for in their areas when they are buying a home.

In conclusion, on behalf of Rushmore Consumer Credit Resource Center, and more importantly, the servicemen and women that we see, thank you for the opportunity to testify today.

Chairman JOHNSON. Thank you, Ms. Spain.

Admiral Abbot, you may proceed.

STATEMENT OF ADMIRAL CHARLES S. (STEVE) ABBOT, U.S. NAVY (RET.), PRESIDENT, NAVY-MARINE CORPS RELIEF SOCIETY

Admiral ABBOT. Thank you, Mr. Chairman, Senator Shelby, Senators. I appreciate the opportunity to be with you today to discuss what our servicemembers are encountering in the financial marketplace.

In 2010 at Navy-Marine Corps Relief Society, we saw 73,000 individual sailors and marines in our offices around the world, and some of them more than once. That is 100,000 cases, or what amounts to one-fifth, one out of every five sailors and marines, 20 percent of the force, in a single year. So it is still a tough financial environment out there, especially for the junior troop.

The financial assistance that we provided in 2010 was the greatest that we provided since the end of the cold war when the military services, including the Navy and the Marine Corps, were substantially larger than they are today.

I would like to say up front that there is very good news. Senator Shelby referred to it, and it is the effect of the Military Lending Act, which became effective in October 2007. It has dramatically curtailed payday loans, and we are grateful for the farsightedness and the effectiveness of that legislation. To prove that point, I can say that our annual assistance to those who have become stuck in the payday loan trap has decreased from $1.4 million in 2006 to just $168,000 this year, and virtually all of that smaller amount went to retirees who were not covered by the Military Lending Act. We credit both the Military Lending Act and improved financial management education and training for this welcome development.

But the Military Lending Act was implemented on a limited scope. Financial institutions have found loopholes in the regulations and new predatory lending practices have arisen which continue to victimize our clients.

Before my visit this morning, I contacted all 51 of our offices around the world to ask what practices they are seeing that send their clients into the downward spiral of debt, and so here are a few illustrations of the problems that are facing young servicemembers.

In Fort Worth, Texas, we assisted a retired Navy E5 with rent, food, and utilities because he had used his retirement check to

repay a payday loan. He had borrowed $950 at an annual percentage rate of 277 percent and the finance charge was over $216.

In the interest of time, I will skip over a couple of others of these and ask that they be included in the record, but I would like to focus on those that deal with the use of overdraft charges.

At Camp Lejeune in North Carolina, we recently helped a Marine Lance Corporal with food and utilities since his paycheck had been entirely consumed—entirely consumed—by overdraft charges and associated fees. And in Quantico, Virginia, a Navy E2 who we saw 1 month after his 21st birthday, with a wife and a child, had overdraft protection payments due at every payday, and when seen by our office, the member had six credit cards, one loan consolidation debt, and one personal loan. The Society helped with a no interest loan for food, gas, and diapers, and provided him some on-the-spot financial counseling and sent him to other sources for in-depth counseling.

A similar story in Corpus Christi, Texas, where we saw an active duty E5 with a wife and two small children. They were in a cycle of payments for overdrafts exacerbated by a high interest Internet loan, and the family had gone into the overdraft condition when they child they had required medical care at a facility in another town, but the distance was not far enough for TRICARE to cover the travel expenses. By the time the couple sought assistance, they had suffered four back-to-back paydays when $500 was taken by the bank to zero overdraft funds and fees.

So here are the trends that my directors report. Banks and credit unions on and near military bases continue to charge exorbitant and multiple fees associated with overdraft protection. With an overdraft protection plan, the bank agrees to cover a transaction despite lack of funds in the account, charges a fixed fee, and takes payment out of the next deposit to the servicemember's account before other banking transactions can take place. Common overdraft fees range from $25 to $35 per transaction. I mentioned earlier that I had polled all 51 of our offices. All but four of them listed this overdraft protection penalty as the top of their list.

It has already been mentioned about online lending. It is hard to monitor. It is predatory. They evade State regulations by being offshore and they hide behind anonymous domain registrations.

The financial industry is adjusting its practices. By structuring loans for a longer payback period and making them open-ended instead of closed-ended and for a larger amount, banks and other lending institutions offer installment loans that avoid the 36 percent annual percentage cap that was instituted with the Military Lending Act and can legally charge as much as 500 percent.

A few recommendations. First, we need to continue to improve financial education and consumer awareness for these technically savvy but not necessarily financially savvy men and women in uniform.

Two, legislators and administrators should plug the loopholes in the laws and regulations governing predatory lending practices.

Three, the need for credit will not go away, even with better education and better laws, so we should stimulate additional responsible, low-cost alternatives to predatory loan practices.

Fourth, we should encourage direct dialog between senior military leaders and banking and credit union executives, including at the local level.

Fifth, the protection of the Military Lending Act should be extended to retirees, Reservists, Guard, and to veterans.

And sixth, banks and credit unions located on military installations should be held to a higher standard of service, offering military families, including military retirees, lower fees and better protection from predatory lending practice. They should also offer financial education to inexperienced consumers before they commit to loan contracts and agreements. Adopting better business practices would go a long way toward ameliorating, if not fixing, the problems that these servicemembers are experiencing. Some institutions are moving in that direction and I applaud those steps.

I sincerely appreciate the opportunity to appear before the Committee today.

Chairman JOHNSON. Thank you, Admiral Abbot.

General Bergner, you may proceed.

STATEMENT OF MAJOR GENERAL KEVIN BERGNER, U.S. ARMY (RET.), EXECUTIVE VICE PRESIDENT AND CHIEF ADMINISTRATIVE OFFICER, UNITED SERVICES AUTOMOBILE ASSOCIATION

General BERGNER. Chairman Johnson, Ranking Member Shelby, and Members of the Committee, thank you very much for your leadership and for your commitment to protecting our servicemembers and their families, and I want to thank you for the opportunity to appear before this hearing and represent USAA.

I grew up in a military family. My father served in Korea and Vietnam. My brother served for 30 years, as did I, and I am the proud father of a son who is currently a Captain and recently returned from Iraq with the United States Army. So the issues before the Committee are ones that are important to me both personally and professionally and I appreciate the chance to represent USAA in this discussion.

I had the privilege to serve as the Deputy Chief of Staff for General David Petraeus in Baghdad, Iraq, in 2007 and 2008, and then I got to know him well in 2005 when I served in Mosul, Iraq, as well. And during that time, we were very honored to live right down the street from one Holly Petraeus, who we first came to see as a wonderful advocate for our soldiers and our families and a wonderful friend to my wife, Carla, throughout my deployment, and so I want to just take a moment to say how much I am personally appreciative of her service, her willingness to continue to serve and be an advocate for our servicemembers and our families. Our Nation is so well served with her.

I am also humbled to represent the 22,000 employees of USAA today. We were founded in 1922 by 25 Army officers who found themselves in the situation where the risk that they were exposed to and the mobility associated with their careers precluded them from finding insurance and security, and so they banded together and formed an association that has now grown to 8 million members today. But the founding values, their sense of service, and their commitment to one another endure and are still at the center

of USAA as an association of—a member-based organization. And our purpose today continues to be a very simple one: Help military families and facilitate their financial security.

The USAA employees today are broadly recognized for their commitment to customer service, and it manifests itself in how our members feel about their association. About 98 percent of our members will stay with this association. About 94 percent of them say that they will stay for life, and we have about a 97 percent member satisfaction rate among those 8 million members of the association.

Our employee commitment to those members is driven by one simple fact. We have the very best customers in the world, our members, and that is how we refer to them, as our members. And they deserve the very best service and protection that any financial services company could provide. In fact, we see their financial security as our national security responsibility to this Nation.

I want to just share one example of how that commitment comes to life on a daily basis. So this is an example that took place a few months ago, and it was an Army captain serving in Iraq who called USAA because she was about to lose her home in the States due to foreclosure. Her mortgage was not with USAA, but she is a member of USAA. She spoke to a member service representative whose name is Norma Renteria, and Norma understood how important it was for that captain to be able to get back to the important duties associated with her deployment and the special circumstances surrounding that and realized that we needed to find special circumstances to take care of her. So Norma agreed and arranged for a short-term loan at a competitive rate that would get this captain current with the other lender and got her started on an application to refinance her mortgage at a lower rate and kept her in her home, not with USAA but a USAA member.

And Norma Renteria represents the commitment of our association and the other 22,000 employees she serves with to understand the military, understand the special circumstances, and support them in those. About one in five of our employees is actively serving in the military, has served, or is a military spouse, so that is how we understand what it means to serve, and how we go the extra mile for our members.

Some of the things that we do specifically unique to their circumstance is we have a deployment kit specifically for those that are deploying to help them get their finances organized. Our insurance policies do not have a wartime exclusion. Our checking accounts are truly free, and we refund the ATM fees that other banks charge our members when they use them. Also in 2010, we adjusted the payment terms on about $1 billion in credit and loan balances, enabling members to continue to meet their obligations on 72,000 accounts to keep them financially secure.

We appreciate and share the Committee's commitment to supporting and empowering our servicemembers in the financial services sector and we very much look forward to the discussion today, and thank you for the opportunity to be here.

Chairman JOHNSON. Thank you, General Bergner.

Mr. Pollack, you may proceed.

STATEMENT OF FRANK POLLACK, PRESIDENT AND CHIEF EXECUTIVE OFFICER, PENTAGON FEDERAL CREDIT UNION

Mr. POLLACK. Good morning, Mr. Chairman and distinguished 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 our 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 servicemembers to better manage their money. Too many servicemembers 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 today, 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 the 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 of military servicemembers and I would like to share some of the programs that the Pentagon Federal Credit Union has and 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 Money University and MathMastery to develop financial education 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 prevent members from comparing and thus selecting the best financial options 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 that the disclosure format created by Pew Trust 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 servicemember 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 3-month period. We have also waived ATM surcharge fees at all of our ATMs on military installations and we provide free bill payer 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 fees 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 a used car loan, which is a staple in the military community, is 2.49 percent 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 percent. In short, we are trying to do everything we can to ensure 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 8 years, we have provided an alternative to our members in such circumstances. Through our ARK loan, we provide up to a $500 emergency loan 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 charge for any additional rollovers that might be necessary. Through our Foundation, we cover the losses for 12 other defense credit unions who participate in our ARK loan program.

And our Foundation's DreamMaker program provides matching grants of up to $5,000 for active duty servicemembers 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 members in trouble get out of 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 have given 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 on an issue of real importance to the long-term security of our Nation. Thank you.

Chairman JOHNSON. Thank you, Mr. Pollack. Thank you very much for your testimony.

As we begin questions, I will ask the Clerk to put 5 minutes on the clock for each member.

Ms. Petraeus, many of the abuses that have been raised in testimony today are committed by nonbank financial institutions. Do you think that the CFPB would be better able to protect servicemembers and their families from abusive debt collectors, for-profit companies, and unscrupulous installment lenders if it had a director in place?

Ms. PETRAEUS. Yes, Chairman, I do. We have an array of things that we can do to help servicemembers. One is certainly education, which we are already working on. Another would be enforcement. But the third leg, if you will, is supervision, and without a director, we cannot do the supervision of the nonbank entities such as payday lenders, debt collectors, private student lenders, the ones that you mentioned.

Chairman JOHNSON. Ms. Spain, would you please describe for the Committee some of the regular financial literacy training you and your partners conduct for Ellsworth and the South Dakota National Guard.

Ms. SPAIN. We provide a program called "Money in Motion," and it is a 2-hour basic financial education program. What it teaches—what people understand is they know they should budget. They do not know why. They know they should care about their credit score. They do not know why. And so what our programs do is explain the "why." For example, you budget so that you can reach your goals and cover your bills. You want to know what your credit score is because it affects the interest rate you are going to pay, and the interest rate you are going to pay determines what your car payment is and how much money you are going to have left for other things.

In addition, we provide a 6-hour credit education program called "Credit When Credit Is Due." And then the third program that we provide at Ellsworth is called "Make Your Move: A Guide to Home Ownership." It is a 6-hour homebuying education program that shows students the current forms as well as the information they need to know in any community, what they need to ask.

And those are the programs that we are currently providing. We also will provide programs upon request from Ellsworth Airmen and Family Readiness Center.

Chairman JOHNSON. Admiral Abbot, General Bergner, and Mr. Pollack, as we have heard, the military lifestyle is different and creates unique financial challenges for servicemembers and their families, especially during deployment. What tools are available to military consumers to make these transitions smoother? Admiral.

Admiral ABBOT. The military lifestyle is a peripatetic one that, as Mrs. Petraeus has described, in recent years has involves so many rotations into theater and back, that creates the difficulties for the families that are staying back at the installation and the dilemma that is posed them whether they are going to, in fact, remain at the installation or, in fact, move to some other location where they might have other more family oriented support, particularly difficult for the junior members.

So we, for instance, at the Navy Marine Corps Relief Society will see clients, individuals who have come in to us to ask for assistance in dealing with some of those circumstances where the military member is deployed over a substantial period of time. The spouse is back alone at the installation and, in fact, may choose to move to a location where she has or he has more family.

Chairman JOHNSON. General Bergner.

General BERGNER. Mr. Chairman, one of the biggest challenges our servicemembers face today is the mobility challenge. We send them hither and yon. We send them all over the world.

So, their ability to maintain their credit and at the same time have access to the financial services that they so deserve is one of the biggest challenges they face.

So, one of the tools that we have recently deployed is something called Auto Circle. You can access it on your mobile device and we have arranged discounts with car manufacturers to provide those to our servicemembers, and on average, they can save about $4,500 on the purchase of an automobile by using that.

But most importantly, it puts the facts in their hands. So, no matter where they are, where the services take them, they have the facts available to them to make a decision that is the right de-

cision for them, that is not going to be a car lender or car dealer outside their gate.

We do the same thing with home purchases and home mortgages, allowing them to access them online, fill out the application online, and pursue that mortgage online.

So, being relative to their mobility is one of the key things that we commit to with our members.

Chairman JOHNSON. Mr. Pollack.

Mr. POLLACK. Credit unions do a lot and the Pentagon does as well. Similar to the USAA, we have a deployment Kit. Many credit unions serve at overseas bases, and very, very few of those locations make any money. We do it at a loss.

The issues are, as the general has pointed out, that when you are moving that frequently, your spouse and family may be at home and you may be somewhere a long way away.

So, we too provide online services 24 hours a day, 7 days a week. A member who is stationed overseas can call us on DSN. We reimburse the Government for that so that they can reach us 24 hours a day, 7 days a week if there is an issue.

In our case, we are live, real-time in our computer system 24 hours a day, 7 days a week around the globe so that if a military person deposits money in Okinawa, and their spouse needs that money in Washington, DC, the money is available at the same time it is deposited.

Those kinds of services enable a military person to be far away from their family and able to take care of their family at the same time.

Chairman JOHNSON. Thank you. Senator Shelby.

Senator SHELBY. Thank you, Mr. Chairman.

Mrs. Petraeus, in your testimony you discussed that you joined the bureau in January of this year to start an entirely new office, the Office of Service Member Affairs.

How many people have you hired to work in your office? How many total staff members do you hope to hire, and what is your budget? And last, are you getting the resources that you need here?

Ms. PETRAEUS. Thank you for the question, Ranking Member Shelby.

I have six employees working for me. So, we are a small but mighty office I hope. I do not expect to have it get much larger than that, at least not for the moment.

Of course, everybody has a wish list, and there is nobody that, if you ask, can you use more employees they would say no. And I do have a wish list of a few more to extend our reach, but, you know, there are other divisions within the CFPB that we are able to tap for their expertise as well. So, we do not have to do everything ourselves.

As for our budget, that is still being hammered out, and thankfully for me my deputy is doing the numbers so I am a little bit removed from that so I cannot give you accurate information on that right now.

Senator SHELBY. Do you think you are getting the resources overall that you need thus far? I know you are just getting started in a way.

Ms. PETRAEUS. Yes, the resources are there, but again, I think it is a frustration right now to not be able to do everything that people expected us to do.

When I first began, I got letters saying we are so excited that there is an agency now, that you, Ms. Petraeus, will be able to do something about these people that prey on the military. So, I am very eager for the day when our nonbank supervision team can, if I can use an analogy, stop circling the airfield and get permission to land and start their work.

Senator SHELBY. Mrs. Petraeus, as you well know, in 2006 Congress passed the Military Lending Act, and this gave the Department of Defense the authority to promulgate regulations to address unscrupulous lending practices involving the military.

After the Dodd-Frank legislation was passed, the Department of Defense still continues to have the sole authority to write regulations implementing that particular Act.

What is your view of the effectiveness of the Act in stopping unscrupulous lending?

Ms. PETRAEUS. Well, I think we heard from Admiral Abbot.

Senator SHELBY. Absolutely.

Ms. PETRAEUS. That there has been success on the classic definition of a payday loan. I think the problem is there are a lot of predatory products out there that have now managed to write themselves a definition that puts them outside of the implementation.

I went online yesterday and I searched the search term military loans, and I got 9,980,000 hits, and the top two search terms that came up were military loans bad credit, which was almost 2,000,000, and military loans no credit check also 2 million.

So, there are obviously a ton of people out there who are managing to exist outside of the protections of the Military Lending Act, and it is a problem.

Senator SHELBY. Ms. Spain, should the VA require first-time home buyers to receive financial education of some sort before they can obtain a VA insured loan? In other words, counseling, serious counseling as to the implications and obligations of a loan like this?

Ms. SPAIN. My opinion would be yes, and the reason that I say that is buying a home is a complicated process; and unless you are a realtor or mortgage lender, you cannot possibly know everything that you need to know in buying a home.

Senator SHELBY. And it is a big buy for most people, is it not?

Ms. SPAIN. It is the most important, largest purchase they will ever make.

Senator SHELBY. Admiral Abbot, in your testimony, among other things, you stated that the Military Lending Act, and I will your words, "has dramatically curtailed payday loans to active duty servicemembers." We are glad to hear that.

You also point out, however, that some financial institutions have found loopholes in the regulations that the Department of Defense promulgated in 2007. They always do this and you have to come back.

Have you contacted the Department of Defense regarding these issues, and if so, what has been their response to close some of those loopholes?

Admiral ABBOT. Yes, Senator, we did, in fact, in the year immediately after the Act was passed and then implemented have a period where we examined its effect and we reported the results that we had seen to the Department of Defense.

It had already begun to be clear that it was having a positive effect and also the same phenomenon you describe of the workarounds were coming.

The narrowness with which we saw the Act implemented gave us concerns at the beginning and now in the light of 4 years of experience, it continues to cause us concern, and that is the direction that the financial industry has gone in using the particular limited application of closed end loans in certain circumstances to, in fact, offer new products that were essentially new payday loans.

Senator SHELBY. Regarding online lending and the growth there, are there additional steps that the DOD can take to ensure that it adequately covers online lending, because people will be resourceful to get around anything?

Admiral ABBOT. You know, Senator, I believe that education may be the single most important weapon in that particular fight.

Senator SHELBY. You agree with Ms. Spain?

Admiral ABBOT. Yes.

Senator SHELBY. OK. General Bergner, USAA, I know your organization is unique. What are some of the ways briefly that USAA is uniquely qualified to serve the military—I know that is your focus—and their families?

General BERGNER. Senator, I think it starts with the best customers in the world, and we recognize that. It is then followed by the best employees in the world to do that.

The combination of those two things generates a level of commitment that really is at the center of how we can truly put their needs first.

A couple of ways that it manifests itself, we look at every person out there from a member needs perspective, and so that is where we start and finish.

Last year we saved those members about $165 million through refinancing on mortgages and on savings in their auto purchases specifically. That is a tremendous amount of savings for servicemembers who are exposed to the kind of threats that Ms. Petraeus is talking about.

So, it is a member-focused effort. SCRA is another example. SCRA caps 6 percent. At USAA we cap the exposure at 4 percent.

So, it is going that extra mile for servicemembers because it is the right thing to do.

Thank you, sir.

Senator SHELBY. Mr. Pollack, briefly, it is my understanding there are at least nine Federal regulators and regulators in all 50 States, all of our States, with the authority to regulate, supervise, and possibly enforce lending to servicemembers by both banks and nonbank lenders.

In your view, have any of these regulators failed to properly oversee lending to military personnel, and if so, which ones, because we need to point this out because the regulators need to do their jobs?

Mr. POLLACK. I am not sure I could actually answer your question but I do believe it is an issue of education. If we properly edu-

cated our young people in America, they would not make some of the mistakes that they make today.

Senator SHELBY. Do you all agree that the worst thing a lender can do is overload anyone but especially a young servicemember, 19, 20, 21 years of age with debt they cannot carry? It makes no sense financially and it is exploiting the servicemember, is it not?

Mr. POLLACK. Yes, sir, it is. And I have been doing this for 33 years and for 33 years we have had that exact problem that a young person enters the service and the first thing they do is buy a car that they cannot afford. The second thing they do is take on more insurance than they can afford; and before they ever get going, they are in trouble.

Senator SHELBY. Thank you, Mr. Chairman.

Chairman JOHNSON. Senator Reed.

Senator REED. Thank you very much, Mr. Chairman, and thank you for your wonderful testimony.

First, let me make three points. I want to commend, Mr. Pollack, Pentagon Federal for adopting a Pew disclosure form. That should be the standard for financial institutions throughout the country. So, thank you.

Second, I think one of the most satisfying aspects of the Dodd-Frank Act for me was working with Senator Brown to create the Office of Servicemembers Affairs and particularly delighted that Holly Petraeus is leading it. So, thank you for what you are doing.

Third, in the mid-1970s, I commanded a paratrooper company; and before that, I was the executive officer of the company which meant every day I got letters from creditors and I got young paratroopers telling me how they bought a $25,000 truck on a $17,000 a year income.

But what I have heard today is, I think, even more outrageous than I recollect in terms of what is being done to military personnel, particularly now in a time of war.

So, whatever we have done, it is not enough, and we have got to do more. Let me start with that premise.

But let me focus in on those particular issues alluded to in Admiral Abbot's testimony. Thank you, by the way, sir, for your selfless service to the Mutual Aid Association, to the Marines and Sailors, and to your colleagues in the Army and the Air Force.

But we have facilities that operate on bases, and the expectation, I think, is that they are on a military base from the individual servicemembers is that they are sort of the gold edition because they have the stamp of approval. They are sitting there.

I know they operate under operating agreements. So, the question I want to address to Ms. Petraeus and Ms. Spain and the admiral is, are those operating agreements sufficient? Are they being enforced?

And I will just say there are some indications in an *Army Times* story that some of these facilities are charging far in excess of fees for missed payments or failure to pay on time on time, *et cetera,* than is normal.

So, Ms. Petraeus.

Ms. PETRAEUS. I will say, as you mentioned, they do have a contract to operate on those installations and they are expected to do

certain things. Part of that contract is to provide financial education.

Certainly, there should also be transparency in the fees that they are charging. When that contract comes up for review, that is an opportunity for these services to decide if they are treating their customers right.

I will say that we are taking a look at the issue of what are these special products that financial institutions are providing for servicemembers. We put a Federal Register notice in about a month and a half ago asking for input from across the field saying let us know what you are doing, and we are going to have a 1-day forum next month where we discuss both the issues and then some of the things that are being done that are on the positive side.

Hopefully, that will serve to kind of put the word out about what is being done that is commendable and what are the issues that need to be addressed, and we look forward to some cross-pollination, if you will. I hope they will look at that and go back and say, why can't our institution do this?

So, I am pleased about that.

Senator REED. Ms. Spain, your comments.

Ms. SPAIN. There is a credit union that operates on Ellsworth Air Force Base, and they support financial education through grants that allow us to go to the base to provide the education. The military members and the family readiness center have not had any complaints regarding that particular credit union.

Senator REED. Thank you. Admiral Abbot, you can elaborate on your comments.

Admiral ABBOT. Senator, I know that our servicemembers and our clients at the Navy Marine Corps Relief Society are grateful for the services that they do get from the finance industry on base. That is a great convenience and we are grateful for it.

I do agree that the renegotiation of the periodic contract is a spot at which there ought to be a frank discussion about practices and that the local leadership should be empowered to discuss those issues with the bank and credit union leadership.

We have heard today about some commendable best practices. I personally believe there is an opportunity for a discourse consolidation of those in a way that would benefit all of the military installations that have those facilities.

Senator REED. Thank you. My time is about expired. General Bergner, I do not want to upset your premise that you have good customers because I have been a customer for 40 years so forgive me.

Back in 1971 I insured a very dashing Triumph with USAA, a Triumph sports car. The years have passed and now I am ensuring a 1991 Ford Escort. That is what happens as you grow older.

So, thank you for your service and my regards again to General Moellering. Thank you all.

Chairman JOHNSON. Senator Akaka.

Senator AKAKA. Thank you very much, Mr. Chairman.

Ms. Petraeus, our guard and reserve forces have been called up to fight alongside their active duty counterparts at a higher ops tempo to ensure our Nation's safety.

What do you see as differences in the consumer protection needs for families of our reserve component when they are on active duty versus when they are in reserve status?

Ms. PETRAEUS. I have had the opportunity, as I mentioned, to talk with a number of National Guard officers and enlisted and their families on my trips out to the States. In fact, I try to do that when I go out because their issues are a bit different.

For a great amount of their time, the families especially consider themselves really to be civilian families, and some of the challenges preparing them for that change of circumstance is when suddenly they become a military family and they have their guardsman or reservist deployed.

They do not have the installations that the active duty force has with all the wonderful offices that they can walk into and get information. So, a great deal of it really has to be delivered virtually through the Web.

I think they have come a long way. There are some great initiatives now. Yellow Ribbon programs that do provide information before they deploy and then also circle back around after they come back.

But delivery of information is certainly a challenge for them. Again, just making the families really aware of what is there for them in the way of benefits. I will add, the economy is, of course, a challenge for those families as well. Employment is a big issue both for them when they are not on active duty and also for their family members.

Senator AKAKA. Thank you.

Ms. Spain, on average, military members arrive at their initial training assignments with $10,000 in debt. This means that they may already be behind before they even consider how to manage their finances.

In your experience, does this initial debt influence their reliance on high interest loans to meet their short-term needs?

Ms. SPAIN. When they come in and have debt, it does affect them because they become targets, because they know they have to make those payments. If they have anything go wrong, if the car breaks down or whatever happens, they become more vulnerable, and that is why they fall prey to lenders that are charging the exorbitant fees. So, it does make a difference.

At Ellsworth we are allowed to come in and talk to the first-termers which makes a huge difference and provide them the education so that they know that they have options and to ask questions very carefully and to know that there are other programs and assistance available.

Senator AKAKA. Thank you. Ms. Petraeus, I want to congratulate you and wish you the best as you focus on the important topic of financial education and consumer protection for military families.

If there was one thing Congress could do to help CFPB better protect servicemembers and their families, what do you think that would be?

Ms. PETRAEUS. Confirm a director for us so we can use the full array of what is there. I agree education is vitally important but we need to be able to also exercise supervision, to go in and take

a look at the practices of some of the nonbank lenders that are out there.

I actually heard a quote from a CEO of a Federal credit union in Ohio. The quote was, "We have a branch of ours near a pawn shop and a payday lender and the only one that is regulated is us."

So, we need a fair playing field and to do that we have to be able to go in and supervise and look at these folks, and then, as needed, exercise the enforcement capability as well.

Senator AKAKA. Thank you.

Ms. Petraeus, as operations come to a close in Iraq, we will begin to see end strength numbers decrease and veterans numbers increase.

What are you doing now to partner with agencies, such as the VA, to identify the financial needs or vulnerabilities of those transitioning to veteran status? How are the needs of these wounded in action different?

I was glad in your statement you did mention you are working closely with VA.

Ms. PETRAEUS. We are and we have talked to them both, as I said, about the distressed homeowners that may come to us that we might be able to help.

We have also talked to them on the issue of education benefits because we will have a lot of veterans getting out looking to use their G.I. Bill which is a wonderful benefit, and we want to be sure that they use it for college programs that provide them the best bang for your buck, if you will.

Unfortunately, there is very heavy marketing right now because military education benefits do not count in the 90 percent for for-profit colleges. They can only get 90 percent from Title IV education funds. They have to get 10 percent of their funding elsewhere, and the military benefits are part of that elsewhere, that 10 percent. So, they are heavily marketed to.

We have been talking to them again hopefully to make it more transparent when you look at a college, what is its track record, what is the default rate on loans for its graduates, what is its accreditation.

And our Office of Students has just put out a "know before you owe" kind of financial worksheet that I think is a good first step.

I think we all want to see our veterans come out, find gainful employment, and become productive members of society. We have also worked with the Department of Defense, Office of Transition on that as well.

Senator AKAKA. Thank you very much. Thank you Mr. Chairman.

Chairman JOHNSON. Senator Tester.

Senator TESTER. Thank you, Mr. Chairman.

I had a question that I wanted to dovetail with the Ranking Member's question. I think Senator Akaka may have gotten the answer to it but I just want to be very clear.

The reason that the nonbank supervision team is still circling, to use your words, and has not received permission to land, in other words, the reason we cannot regulate the nonbank financial folks that I think just about everybody on this panel referred to as being

somewhat of a problem as regards to our military folks is because we do not have a director of the CFPB, is that correct?

Ms. PETRAEUS. That is correct.

Senator TESTER. Thank you.

I want us to go back on what you just finished up with, and that is for-profit schools. You brought the attention to us of some of the unethical recruitment and marketing practice of the bad actors in this industry, and they are not all bad actors but some of them are.

What are you doing about it? Is it an education situation? How are we reaching out to the military personnel and are we being successful in that?

Ms. PETRAEUS. I think it is a work in progress right now. I think a lot of it really just has to be education where servicemembers know to ask the right questions.

There are kind of two competing priorities in a way when a servicemember is on active duty and has what is called tuition assistance benefits. They may be looking for college credits for promotion. So they want something they can get quickly, easily if you will, possibly online. Seventy percent of those courses are delivered online.

That may not be the best college credits for them when they get out and want to apply that college to a job.

So, right now it is mostly education. Our jurisdiction, if you will, is limited to the private student lender side of the market. But I have a broad mandate to work on consumer protection measures with Federal and State agencies, and I will continue to do that especially on this issue.

Senator TESTER. We appreciate that work. I want to talk about foreclosures for a second. And this is a question for you to Major General. Right now, the servicemembers are protected under the Servicemembers Civil Relief Act when it comes to foreclosures, and correct me if I am wrong on that.

Can you tell me what is the mechanism for mortgage servicers to determine if there is a deployment status of a servicemember and how is that handled?

What I am trying to get at is it is my understanding that there are some servicers that are starting foreclosure before, while the servicemember is employed. I do not believe that is illegal under the law. Correct me if I am wrong. What is being done about that?

I will start with you, Holly.

Ms. PETRAEUS. First, I have to fess up, I am not a lawyer.

Senator TESTER. Neither am I.

Ms. PETRAEUS. I am not going to give you binding legal advice here. But when it is a question of foreclosure, it is not the obligation of the servicemember to tell their mortgage holder that they are going on active duty, unlike the interest rate reduction provision where you do have to tell them.

For protection from nonjudicial foreclosure, it is on the lender to determine if you are on active duty, and they can do that by going to the Defense manpower data system and looking that up.

You are right. Judging by the recent announcements by the Department of Justice of some large-scale settlements, obviously there are servicers who are not doing that before they foreclose.

Senator TESTER. Major General, could you just address that from your perspective?

General BERGNER. Senator, I think I go back to a reference I made in my opening statement about Norma Renteria. She is probably the best example I could give you of our commitment and the way that it plays out on a daily basis.

So, Norma Renteria benefited from the training necessary for a member service representative to understand what the SCRA requirements are and to ensure that we operate and are true to those.

Remember, in my recollection, this was not a loan that we had even made.

Senator TESTER. Right. I guess the question I have got is that we have heard a lot about mortgage servicers. It has not necessarily been good in a lot of cases.

General BERGNER. Yes, sir.

Senator TESTER. Do we have to ramp up the penalty on them? I mean, I am not big into this stick; but by the same token, and you know this better than anybody and tell me if I am wrong. If you have a servicemember in theater in very stressful conditions, the last thing you want is to have the kid, is to have their head back at home thinking about a house that is being foreclosed on.

General BERGNER. Exactly.

Senator TESTER. So, what do we do about this?

General BERGNER. Senator, I think it starts with a sense of ownership and it starts with a sense of ownership and obligation to those servicemembers and that is what is at the center of our commitments.

Even when the loan is not with our financial institution, we will work with that servicemember to protect them from foreclosure and do everything humanly possible to keep them in their home, and not to mention the law requires us to do so for those who are deployed.

Senator TESTER. I appreciate you and I appreciate your company. Unfortunately, there are a lot of other folks out there that do not share the same commitment, and I do not appreciate them near as much as I do you.

I want to thank you guys all for your testimony. I appreciate the work you do and good luck.

Chairman JOHNSON. Senator Menendez.

Senator MENENDEZ. Thank you, Mr. Chairman. Thank you all for your testimony.

I want to pick up where Senator Tester left off. As the Housing Subcommittee Chair, we have taken a particular interest in stopping foreclosures on military families. At one of the hearings I chaired, we invited Dick Harpootlian to testify, who is an attorney who represents military families who were illegally foreclosed upon by some of the largest banks in violation of the Servicemembers Civil Relief Act. And it seemed to me from his testimony and other sources that the act is either not well understood—on the benign side we will say that—or simply not followed and needs better enforcement. For example, Bank of America, Morgan Stanley, and JPMorgan Chase collectively agreed to pay $80 million to hundreds of military families whom they illegally foreclosed on.

So, Mrs. Petraeus, my question is: What can the CFPB do to help the problem of servicemembers and their families being threatened with foreclosure and high interest rates when they are on active duty?

Ms. PETRAEUS. I have certainly had the opportunity to talk about this issue, and I did hear Mr. Harpootlian testify over on the House side along with the young captain who had been impacted by being foreclosed on while he was—or the threats of it while he was deployed.

I should first point out that is a law—the Servicemembers Civil Relief Act is not a law that the CFPB will enforce. That does remain with the Justice Department Civil Rights Division, and it is partly because, as you said, it is a very complicated law. There are a lot of pieces to it.

But we did want to take steps so if we got complaints that came in to us, first of all, that our consumer response folks would be able to identify something that was a potential SCRA complaint. So we have done some training in our own system so people recognize it, and we also met with all the JAGs and the Justice Department in the same room, and we and the JAGs of all the services signed a Joint Statement of Principles. Really one of the main drivers of that was to make sure that SCRA complaints did not fall through the cracks and that we would have a procedure for what we would do with them if we got them to see that they would be addressed.

Senator MENENDEZ. Well, I appreciate that because the Justice Department, of course, is—sometimes it is a matter after the fact where you have gone through, you know, the nightmare of foreclosure while you are stationed abroad. And while you may get relief at the end of the day, financial relief by an action taken by someone like Mr. Harpootlian on behalf of those families, that does not mean that you have solved the problem of keeping your home. And so I hope that—while you may not have direct jurisdiction, I appreciate this effort. We would love to work with you all to try to have a more vigorous approach that has those who give mortgage products out understand the responsibility they have here at the end of the day so we can prevent that action versus deal with the aftermath of foreclosure.

Ms. PETRAEUS. Much better to be proactive than reactive, and, frankly, it all boils down to that person on the other end of the phone, and if they are unaware of what protections they should be extending, then you are going to have a problem for that servicemember.

Senator MENENDEZ. Is the Justice Department considering bringing in the largest mortgage entities and giving them a little bit of a primer here on what they are supposed to do? Do you know whether your discussions have led to anything like that?

Ms. PETRAEUS. I have not heard that in particular from them, but, again, a lot of what they do they do not announce publicly. I did have the opportunity—I went ahead and wrote a letter to the CEOs of the 25 largest banks several months ago saying this has been an issue and I hope that you will look at your own practices and make sure that you are not doing this to the servicemembers who have accounts with you.

Senator MENENDEZ. I appreciate that. We will follow up with Justice.

Let me ask you collectively, I know that some of my colleagues before have talked about the Military Lending Act, and I just want to get a bottom-line answer here. It seems to me that the act which capped annual interest rates for consumer credit to military borrowers at 36 percent, including fees and charges, has been narrowly defined in payday lender loans, in vehicle title loans, and tax refund anticipation loans, but they do not include high-cost credit cards, they do not include overdraft loans, military installment loans, any forms of open-end credit, mortgages, auto loans. If the public policy in one universe is to protect servicemembers at the end of the day from such high-interest fees and charges, is there a public policy reason not to extend that to this broader universe for servicemembers?

Ms. PETRAEUS. Well, I am all about consumer advocacy, so I would love to see broader protections. But I know the devil is in the details trying to write a rule that does it in a way that does not have unintended consequences. But, yes, I am for broader protections.

Senator MENENDEZ. Anybody in public policy, why that is not a good one?

Admiral ABBOT. I was going to climb on the side of saying that I think there is a public policy reason to extend it for the same reason that the original legislation was put in place because of the effect that it was having on service men and women on their condition, on their loss of security clearances, on their loss of readiness to deploy, and the morphed measures that have been taken to deal, to go around those measures that are in existence have effectively produced the same circumstances, just with slightly different products.

Senator MENENDEZ. Well, thank you.

Thank you, Mr. Chairman.

Chairman JOHNSON. Senator Hagan.

Senator HAGAN. Thank you, Mr. Chairman. And I once again just want to say how thankful I am for you holding this hearing today. I think we have gotten good information. And I also think what we have discussed speaks volumes about the need for financial literacy education in our public school systems. I do not think we do enough of that. I keep saying it is not rocket science. We just do not teach it, and I think so many of our young people in the military could benefit greatly if they had had a financial literacy education course while they were in high school. So it is something that I am advocating for, and I certainly hope at some point in time we can accomplish that at the State level and at the Federal level.

But I did want to, General Bergner, ask you a question. I know that many years ago when many of our military bases were in very remote locations, there was a one-base, one-bank rule that came into play, and I have heard that this limits the number of financial institutions on military bases. So can you describe this to me and discuss the benefit to servicemembers, pro and con? And then anybody else.

General BERGNER. Senator, thank you very much. We do not operate on a military installation as a single bank, but we do have

an educational foundation that will produce about 4.1 million pieces of material on everything from cybersecurity to financial management to car seat safety, things that truly do matter to servicemembers and their families, without regard to a product endorsement or even a mention of the company that is sponsoring the educational foundation.

One of the challenges that exists is access to those military servicemembers to support their requirements and their needs. For example, we have been asked by army community service and family readiness groups to provide such educational material and support them, and because of the one-bank rule, that sometimes limits our ability to provide those, even though they do not have any reference to a bank or other financial activity.

So I think to the degree that we can level that and make those kinds of resources available, there is the opportunity for nonprofit, not-for-profit educational foundations to help fill that gap in financial literacy. We will give about 900 presentations this year from the educational foundation on financial management, many of those to servicemembers and their families, many of them to National Guard and Reserve components who are located far away from the footprint of army community services.

So I think there is an opportunity for us to be able to enable nonprofit educational foundations like our educational foundation to serve some of those purposes.

Senator HAGAN. Anybody else care to comment on that question?

Mr. POLLACK. Senator, I think we need to be careful in the overseas environment because the credit unions are not making money overseas, and to the extent that we put more financial institutions on base overseas, I think it would actually be counterproductive. Stateside it is a different issue, but overseas I think we need to be careful.

Senator HAGAN. Thank you.

Admiral Abbot, you mentioned overdraft practices in your testimony. What could be done on this front? And are high overdraft fees common on on-base financial institutions?

Admiral ABBOT. Senator, yes, I would have to assess it as probably the top problem that I am observing right now in young service men and women who are getting into a condition that they cannot cope and, therefore, come to see us. And it is the magnitude of the fees that they pay. I read a statistic that in 2011 the national cost of overdraft fees will be $38 billion. And, of course, the military members are only a small fraction of that, but at $25 to $35 a time, and in some cases up to as many as seven per day. So for somebody who has overdraft protection and $500 worth of it, seven times $25 does not work out very well. There needs to be and there are a number of proposals that have not only been made but implemented by credit institutions which improve that circumstance. We do not advocate one specific list of them, but are encouraged that they are being discussed, and we think that is going in the right direction.

Senator HAGAN. Well, it certainly seems like something that, once again, education would really help up front on this issue.

Admiral ABBOT. I would like to strongly agree with that, and also add that it is not a one-time inoculation, that you have to repeat

financial management education throughout the career of an individual, because the problems will rear their head again.

Senator HAGAN. Chairman Johnson, I have one more question, or should we——

Chairman JOHNSON. Go ahead.

Senator HAGAN. Mrs. Petraeus, in your testimony you state that the CFPB will focus on ensuring that students understand the dynamics of student loans, and so many of our servicemembers in particular in many cases are first-generation college students, and they are being offered opportunities for a lot of different areas. Can you describe a little bit more about what you are looking at in that regard as far as advising them and giving advice?

Ms. PETRAEUS. Well, I think there are some real concerns. Again, there is such aggressive marketing right now to the military, and it is not just the military members but it is their spouses and children as well because the GI bill now, those benefits can be transferred to them.

I talked to an army wife at Fort Campbell, Kentucky, and she started her comment at my roundtable by saying, "Well, I am attending a military-affiliated college." And I thought, "Hmm." So I asked her the name of it, and, of course, it was not. It was a for-profit. But obviously they had marketed themselves to her in such a way that she thought they had an official military affiliation. And she said that when she had filled out a card of inquiry, they called her 10 or 15 times a day until she enrolled. And once that first day of class happened, she was having trouble logging on, because it was an online class, and she could not find anybody to take her calls because, again, they had her money at that point. She ended up not passing the course because she could not get logged on enough times to do so, but the money was definitely committed.

So, again, I have a real interest in folks being able to make more informed decisions than just "they sounded military-friendly," "they called me 15 times a day." I think we need to get some tools out there to make it easy for people to compare and see, you know, what is the track record. If it is a for-profit and it costs more, is it worth the extra money I may have to spend beyond my military education benefits which will not cover the whole cost.

Senator HAGAN. In that particular instance, did she get her money back?

Ms. PETRAEUS. No.

Senator HAGAN. Thank you, Mr. Chairman.

Chairman JOHNSON. To the panel, thank you all for your testimony and for being here with us today. I am grateful to those brave men and women who have served our country and to those who continue to serve and their families for sharing them with us. I will continue to work to make sure that servicemembers, vets, and their families have all the tools and protections they need and deserve.

This hearing is adjourned.

[Whereupon, at 12:09 p.m., the hearing was adjourned.]

[Prepared statements supplied for the record follow:]

PREPARED STATEMENT OF SENATOR MICHAEL F. BENNET

Thank you Chairman Johnson and Ranking Member Shelby for holding this important hearing.

It's not often that the Banking Committee has the opportunity to specifically discuss the financial challenges faced by military families and veterans.

In Colorado, which has multiple military installations for our Active Duty, Guard, and Reserve forces, and around 460,000 veterans, this issue is critical.

As we all know, military families face unique financial challenges, such as multiple deployments, temporary relocations and changes of duty station, and sudden health care costs.

These challenges have been magnified over the last decade, as we've asked more of our men and women to serve in the wars in Iraq and Afghanistan, and as our economy tumbled into the toughest downturn since the Great Depression.

Meanwhile, it seems that some pay day lenders, irresponsible banks, and for-profit schools have made a profit off of the sacrifices of our men and women in uniform. As more have served, more unhelpful products and services have been marketed to our troops and veterans.

I am hopeful that strong, effective oversight of such products and improved financial literacy programs can help us ensure that military families face as few financial challenges as possible.

I look forward to your testimony.

PREPARED STATEMENT OF HOLLISTER K. PETRAEUS

ASSISTANT DIRECTOR, OFFICE OF SERVICEMEMBER AFFAIRS, CONSUMER FINANCIAL PROTECTION BUREAU

NOVEMBER 3, 2011

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 the role we play in the financial well-being of servicemembers and their families.

To tell you a little about my qualifications to talk about military issues: I've been a part of the military community my entire life. My father served in the Army for over 36 years, fighting in both World War II and Vietnam. Two of my brothers also served in Vietnam, and, of course, my husband just retired from the Army after 37 years of service. And I'm a military mom, as well.

In my role as a military family member, I have seen the problems that can arise for our servicemembers who may experience "too much month and not enough money." I have also seen first-hand the devastating impact financial scams and predatory lending can have on servicemembers and their families. Unfortunately there are still too many young troops learning about wise spending through hard experience and years of paying off expensive debt.

As an Army wife I spent a lot of years—over 20—as a volunteer on the Army posts where we were assigned. During the first year of the Iraq war, when my husband was the commander of the 101st Airborne Division (Air Assault) at Ft. Campbell, Kentucky, I served as the Division's Senior Family Readiness Group Advisor. In that capacity, I saw the unforeseen financial problems that came with deployment, and I worked on those issues with Department of Defense (DoD) officials as well as local, State, and national legislators.

A year later, I was invited to become the Director of BBB Military Line, a program of the Council of Better Business Bureaus providing consumer education and advocacy for servicemembers and their families—a position that I held for 6 years, from 2004 to 2010. While with the BBB, I made on-site visits to military units all over the country: learning about the consumer issues that impacted them, giving presentations on consumer scams, and working to establish local BBB-military relationships. I guided development of 6 teen and adult financial workshops taught to more than 20,000 individuals in military communities around the United States. I also wrote a monthly military consumer newsletter—and it was an education for me each month to research and write the articles that went into that newsletter.

In January 2011, based on my knowledge of the military community and my experience with military consumer issues, I was asked to join the CFPB and set up the Office of Servicemember Affairs. As you know, when the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) established the CFPB, it included a mandate that the CFPB establish an Office of Servicemember Affairs (OSA). The OSA is responsible for developing and implementing initiatives to educate and empower servicemembers to make better informed decisions regarding con-

sumer financial products and services, to monitor their complaints about consumer financial products and services—and the CFPB's and other Federal or State agency responses to those complaints—and to coordinate the efforts of Federal and State agencies to improve consumer protection measures for military families. The CFPB is also authorized to enter into agreements with the DoD to carry out OSA's work and to make sure that OSA's goals are achieved.

We've already signed our first agreement with DoD: a Joint Statement of Principles with the Judge Advocate Generals (JAGs) of all the services: Army, Navy, Air Force, Marine Corps, and Coast Guard. We wanted to work out a mechanism for sharing complaints made to the CFPB with the JAGs (and vice versa), and we felt it was important to detail how we would work the exchange of information between us. We don't want any military consumer complaints to fall through the cracks!

We've also set up a working agreement with the Department of Veterans Affairs (VA). We are now referring to the VA Home Loan Program any military personnel or veterans who call the CFPB's hot line claiming that they are in danger of foreclosure, even those who do not have VA-guaranteed loans. The VA has a very good track record of helping military homeowners avoid foreclosures and a thorough knowledge of what benefits might be available to assist military personnel or veterans in danger of foreclosure, even those with a non-VA loan. So this seemed to us to be a very exciting and helpful collaboration.

To circle back to the OSA's educational mission, although I have a good insider's knowledge of the military community, I think that it's important for us to get out and hear from military families directly about what the financial issues are that concern them the most. Those trips help us tailor our education and outreach efforts to the most pressing issues. I've been to many military installations since I started my job in January 2011. In fact, the second week on the job I went to Lackland Air Force Base in Texas to hold a roundtable, and I haven't stopped since, visiting bases in California, North Carolina, Kentucky, Virginia, and Illinois, to name a few. I've also met with the Adjutants General and their National Guard troops and families in Oklahoma, Ohio, Illinois, and Indiana to hear about their particular issues, which may be a little different from those of active-duty troops since they spend much of their time as civilians and don't have an infrastructure of military-installation-based support like the active-duty community does.

So what are the issues that have come up? Well, a big one concerns home ownership. Owning a home of your own is the American dream, and military families want that, too. But the housing meltdown here in the U.S. has hit military families hard. Some of the States that were most affected in the housing crisis are ones that have a large number of military stationed there. Declining home values are putting military families between a rock and a hard place when they owe more than their house is worth and they receive Permanent Change of Station, or PCS, orders. Often they can't sell their home for enough to pay off the mortgage; they can't rent it out for enough to cover their mortgage payments; they're told they can't get a loan modification or short sale because they're not yet delinquent; and they can't refinance for a good rate because it will no longer be considered their principal residence once they leave. We've heard of a number of cases where the servicemember has opted to go alone to the new duty station, an option that is pretty tough when you consider that he or she may have just come back from a deployment and the family is now facing another separation—this time for purely financial reasons.

I've been talking a lot about this issue to people in Washington, and we are starting to see some movement to try to make it easier for servicemembers to get help. The Department of the Treasury has issued new guidance for its Home Affordable Foreclosure Alternatives (HAFA) program making it more accessible for those with PCS orders, and Government-sponsored enterprises like Fannie Mae and Freddie Mac are tweaking their own guidance. There have also been various letters on the importance of this issue, from your colleagues here on the Hill as well as the banking industry.

Another big issue we've been hearing about concerns military education benefits and for-profit colleges—an issue that impacts military spouses, too, now that they can use the Post-9/11 GI Bill. Because of a quirk in the Higher Education Act, military education money is very appealing to for-profit colleges, because it counts towards a requirement that for-profit colleges get at least 10 percent of their revenue from sources other than Title IV education funds administered by the Department of Education. This has led to some cases of very aggressive marketing by for-profits schools to military personnel and their families—and these schools often market not only the educational programs themselves, but also expensive private student loans. A key focus at the CFPB is to be sure that students understand these loans—and whether they will really be able to repay them. There are also serious questions

about whether the education you get at many of these institutions justifies their high price.

Another issue, and one that always applies when it comes to the military, is the issue of car loans! Military personnel love their wheels, and they don't always go shopping for them in the right places. I'm sure many of you are familiar with the typical strip of used-car dealers that cluster around the gates of military installations. Servicemembers are often sold clunkers at inflated prices with high financing charges, and when the original clunker breaks down, they sometimes take an offer to roll the existing debt into another loan for yet another clunker—which may also break down. There is also the issue of spot financing, where they are allowed to drive away with a car with a promise of certain financing, and then get called back a week or two later to be told that the financing fell through and they will have to pay more. Although the CFPB will only have supervisory authority over the auto dealers who write their own loans (what are often called "buy here, pay here"), the Federal Trade Commission and the Federal Reserve are required by Dodd-Frank to coordinate with us on military auto issues, and we have already started to do that.

Another thing we've heard about fairly often from military families is employment challenges for military spouses. Those spouses who are in professions that require a license or certification have told us how difficult and expensive it is to get or renew their professional license at each new duty station. And I can testify that military spouses move a lot! My husband and I moved 24 times in 37 years, in fact. Also, if the spouse is self-employed it's hard to keep a client base when constantly relocating. And many installations happen to be in rural areas where available jobs may be few and far between. Those are problems I may not be able to solve, but I can certainly raise awareness about them as I work with Federal and State agencies. And I know that the Department of Defense is working to improve the employment possibilities for military spouses through their new Military Spouse Employment Program.

Last but not least, a continuing issue for the military is the general issue of indebtedness. Many servicemembers don't enter the military debt free. In fact, on a visit to Texas we were told that the average Air Force recruit arrives at Lackland Air Force Base for basic training over $10,000 in debt! [1] Once in the service, military personnel don't make a whole lot of money, especially at the beginning, but it's a guaranteed paycheck in this time of economic uncertainty, and it's subject to garnishment. That has led to a whole lot of businesses looking to lend money to servicemembers for various products (which are often overpriced to start with). This can be the kiosk at the mall selling high-priced electronics at even higher financing, the rent-to-own furniture store, or the latest installment loans that manage to exist just outside the definition of payday loans as written in the rule implementing the Military Lending Act.

I'll give you an example of the type of installment lender I just mentioned. When we recently put a notice in the *Federal Register* seeking information about financial services provided to servicemembers and their families, one respondee told us about an Internet lender that caters to the military and will loan up to 40 percent of a servicemember's take-home pay, without a credit check, for an interest rate as high as 584 percent APR. The lender specifically mentions on its Web site that it is not required to comply with the 36-percent APR cap of the Military Lending Act because it offers an open-ended revolving line of credit versus the closed-end credit products governed by the Military Lending Act. And it tells the servicemembers who go to its site: "We believe that your membership in the armed forces entitles you to special treatment." "We speak your language."

But when servicemembers get behind in their payments these lenders are often very quick to turn their debt over to debt collectors. And what we've heard leads us to believe that a number of these collectors may not comply with the Fair Debt Practices Collection Act. They may call the servicemember's home and unit 20 or 30 times a day, threaten them with the Uniform Code of Military Justice, and tell them they'll get them busted in rank or have their security clearance revoked if they don't pay up. We've even heard of a debt collector harassing a surviving spouse of a servicemember killed in action, insisting that she had to use the money from his death gratuity to pay the debt immediately.

Again, it will be a big part of my job to educate servicemembers about their rights under existing consumer financial laws, and to give them the information they need

[1] The Lackland Airman & Family Readiness Center (802d Force Support Squadron) gathered debt information on airmen arriving at the Technical Training Group at Lackland Air Force Base following Basic Military Training from 1997 to 2009. The average debt increased from $7,565 in CY 1997 to $10,431 in CY 2008, the last full year the data was collected. A total of 109,048 airmen were surveyed during the period.

to make wise financial decisions. Continuing financial education should have a central role in protecting the financial future of military families, and I have had very productive meetings on the subject already with Robert Gordon, the Deputy Assistant Secretary of Defense for Military Community and Family Policy, who oversees financial literacy programs within the Department of Defense. No amount of prosecutors or Government agencies can stop every scammer or predatory lender, so, in addition to enforcing the law and writing rules as needed, the CFPB must also provide the right tools and information to military personnel and their families so that they recognize the red flags of a bad deal or scam and make sound financial choices. And I will also continue to work with you and other Federal and State agencies to help identify effective consumer protection measures that will work on their behalf.

In conclusion, the OSA is already working hard to ensure that servicemembers and their families, who devote their lives to protecting our Nation, have a strong advocate to help protect them from financial threats. We will make every effort to achieve the goal of every military family being a financially educated family, armed with knowledge of how to avoid scams and poor financial decisions, protected by consumer laws as needed, and willing and able to invest towards long-term financial goals.

Thank you for the opportunity to testify before the Committee.

PREPARED STATEMENT OF BONNIE SPAIN

EXECUTIVE DIRECTOR/CHIEF EXECUTIVE OFFICER, RUSHMORE CONSUMER CREDIT RESOURCE CENTER

NOVEMBER 3, 2011

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 2-hour financial education program; Credit When Credit is Due, a 6-hour credit education program; and Make Your Move—A Guide to Homeownership, which is a 6-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 servicemember may come to our agency for pre-filing counseling or debtor education for bankruptcy services, if necessary.

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[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 U.S. 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 home ownership 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 percent 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 percent. 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 Web site 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 servicemembers 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 servicemembers who seek financial services, only to find that the help they receives pushes them further into debt. Debt settlement is particularly destructive. Servicemembers 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 benefited 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 percent 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 nonprofit credit counseling agencies and for-profit credit counseling agencies.

[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 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.

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
- Moutain Home
- Fairchild
- Tinker
- Sheppard
- Shaw
- Randolph-Brooks

Air National Guard Bases in

- Virgina
- Florida

National Guard Posts in

- Tennessee
- Virgina

PREPARED STATEMENT OF ADMIRAL CHARLES S. (STEVE) ABBOT

U.S. NAVY (RET.), PRESIDENT, NAVY-MARINE CORPS RELIEF SOCIETY

NOVEMBER 3, 2011

Mr. Chairman, Senators, good morning, and thank you for the opportunity to appear before the Committee to discuss the conditions which military servicemembers face in the financial marketplace. The information which I provide to the Committee comes from my perspective as President of the Navy-Marine Corps Relief Society, a private, nonprofit charity which supports active duty and retired Marines and Sailors, and has been doing so for over 100 years. Last year, in 2010, we saw 73,000 individual Sailors and Marines in our offices around the world, some of them more than once. When you count the repeat clients, it adds up to a total of 100,000 cases in 2010, and we are on that same pace this year. That amounts to almost one out of every five active duty Sailors and Marines, or 20 percent of the force in just a single year.

Although it is always great to wear a military uniform, being a junior enlisted man or woman in these recessionary times, especially if you have a family, is tough sledding. While the servicemember's employment may be stable, many military spouses have lost jobs in the civilian economy. These families are turning to the Society in record numbers. The financial assistance we provided in 2010 is the greatest since 1993 when the size of the force was significantly larger.

The Military Lending Act (MLA), which became effective in October 2007, has dramatically curtailed payday loans to active duty servicemembers—our annual assistance to those stuck in the payday loan trap went from a high of $1.4 million in 2006 to just $168K thus far in 2011. That is very good news, and we credit the MLA, and improved personal financial management education and training. But the Military Lending Act was implemented on a limited scope. Financial institutions have found loopholes in the regulations and new predatory lending practices have arisen which continue to victimize our clients. Before my visit this morning, I contacted all 51 of the Society's Directors around the world to ask what practices they are seeing that send their clients into a downward spiral of debt.

Examples Illustrate the Problems

- *Fort Worth, TX.* Assisted a retired Navy E-5 with rent, food, and utilities because he used his retirement check to repay a payday loan. He had borrowed $950 at an APR of 277.65 percent. His finance charge was $216.80.
- *Camp Lejeune, NC.* Helped a Marine Lance Corporal with food and utilities since his paycheck had been withheld due to overdrafts and associated fees.
- *Newport, RI.* Assisted a Navy E-5 seven times with loans totaling $3,652. Most recently he got a high interest loan from one of the on line lenders to repair his car "because it was available, quick and immediate."
- *Norfolk, VA.* Helped a Navy E6 suffering from a 365 percent motor vehicle line of credit with a title loan company in Virginia Beach. Sailor had title to the 1998 Nissan Maxima, was paying $200 per month on a $1,000 loan and had recently filed Chapter 13 Bankruptcy.
- *Quantico, VA.* A Navy E2, seen one month after his 21st Birthday, with a wife and one child, had overdraft protection payments due after every payday. When seen by our office, the member had six credit cards, one loan consolidation debt and one personal loan. Society helped with a loan for food, gas and diapers, as well as financial education and referrals for more in-depth counseling.
- *Corpus Christi, TX.* An active Duty E-5 with a wife and two small children was in a cycle of overdraft that he had been unsuccessful in resolving following a high interest Internet loan. The family went into their overdraft when his child required medical care at a facility in another town, but the distance was not far enough for Tricare to cover travel expenses. By the time the couple sought assistance, they had suffered four back to back paydays on which $500 was taken by the bank to zero overdraft funds and fees. We helped the family with basic living expense and provided financial counseling.

Most Egregious Trends

- Banks and credit unions on and near military bases continue to charge exorbitant and multiple fees associated with overdraft protection and direct deposit advance loans. With an overdraft, the bank agrees to cover a transaction despite lack of funds in the account, charges a fixed fee and takes payment out of the next deposit to the servicemember's account before other banking transactions. This problem is compounded by the common practice of processing

checks from largest amount to smallest in order to charge additional fees. Common nonsufficient (overdraft) fees range from $25 to $35 per transaction.

- Online predatory lending is hard to monitor. Many evade State regulation by being offshore, hide behind anonymous domain registrations and have no physical address.
- By structuring loans for a longer payback period and making them open-ended instead of close-ended, and for a larger amount, banks and other lending institutions offer installment loans that avoid the 36 APR cap instituted with the Military Lending Act and legally charge as much as 500 percent APR.
- Today's young military families are technically savvy but not necessarily financially savvy. A military lifestyle adds additional challenges with frequent family separations and relocations. This can impact spouse employment and education opportunities.

Recommendations

- Continue to improve financial education and consumer awareness.
- Plug loopholes in the laws and regulations governing predatory lending practices.
- Stimulate additional reasonable cost alternatives to predatory loans.
- Direct local senior military leaders to urge local banking and credit union executives to alter abusive banking practices.
- Extend the protections of the Military Lending Act to retirees and to veterans.
- Banks and credit unions located on military installations should be held to a higher standard of service, offering military families, including military retirees, lower fees and better protection from predatory lending practices. They should also offer financial education to inexperienced consumers before they commit to loan contracts and agreements. Adopting better business practices would go a long way toward ameliorating if not fixing the problems that these servicemembers are experiencing. Some institutions are moving in that direction and I applaud those steps. I appreciate this opportunity to meet with you today and thank you for the work you do to empower and protect servicemembers, their families, and veterans in the consumer financial marketplace.

PREPARED STATEMENT OF MAJOR GENERAL KEVIN BERGNER

U.S. ARMY (RET.), EXECUTIVE VICE PRESIDENT AND CHIEF ADMINISTRATIVE OFFICER, UNITED SERVICES AUTOMOBILE ASSOCIATION

NOVEMBER 3, 2011

1. Introduction

Chairman Johnson, Ranking Member Shelby, and Members of the Committee, I am Kevin Bergner, Executive Vice President and Chief Administrative Officer of USAA, the United Services Automobile Association. As a retired U.S. Army Major General and 30-year veteran who served [six] overseas tours of duty, I have firsthand experience with the financial needs and challenges of our servicemembers, their families, and veterans. I want to thank you for holding this important hearing and for giving USAA the privilege of testifying. USAA was founded in 1922 by 25 U.S. Army officers who joined together to insure each others' automobiles because they were deemed to be too risky by traditional insurers because of their transient and perilous careers. Our core mission, and the manner in which we have always conducted our business, honors our history and legacy—rendering USAA uniquely positioned to empower and protect America's servicemembers, their families, and veterans in the consumer financial marketplace.

Today, USAA is proud to serve more than 8 million active-duty servicemembers, veterans, and military family members. We are a membership-based association open to all who have honorably served in the U.S. military, as well as their families. We support the financial security of our members and their families with a full range of highly competitive financial products and services, including insurance, banking, credit, and investment resources. Our core values of service, honesty, loyalty, and integrity drive our business.

Our efforts have paid off in member satisfaction and loyalty. Year after year, USAA receives top customer service rankings from leading independent research firms. We have a 98 percent member retention rate and 97 percent member satisfaction rate. In fact, 94 percent of our members plan to stay with us for life.

2. USAA Services Are Tailored to Military Families' Financial Needs

Servicemembers, who are willing to risk their lives in service to our country, deserve our highest respect and our strongest endeavors to support their efforts and to accommodate the special burdens placed on them and their families. While servicemembers and their families need the same financial products and services as other consumers—including insurance, home mortgages, checking and savings accounts, investment products, financial planning, and retirement resources—they also face unique challenges in the consumer financial marketplace. Military events, such as deployments, involve stresses and financial consequences with no equivalent in the civilian world. Even when they are not deployed overseas, servicemembers are often required to be highly mobile due to temporary relocations, changes of duty station, or other travel in connection with, or in support of, our national security. Moreover, military careers may leave servicemembers with limited time to manage their financial affairs, especially when serving in combat situations.

We strive to provide financial stability and support for military families, so that our members can focus on serving our country. To address these unique challenges, USAA offers a full suite of financial products, tools, and advice tailored to the needs of military families, and we are a market leader in developing "best practices" for empowering and protecting servicemembers and veterans. Along those lines, I would like to highlight for the Committee, in more detail, some specific examples.

A. Products and Services for Military Milestones

USAA has found that it is crucial to address military milestones when developing financial products for the military community. The way in which we serve our members and help them identify the financial products they need is based on significant life events. Included in those life events are milestones that impact all customers: marriage, divorce, birth of a child, *etc.* But, at USAA, we also focus heavily on life events that are unique to military service: deployment, life-altering injury, separation from the military, permanent change of station, to name a few. This specialized focus on life events—from a military perspective—is crucial to identifying and meeting the unique needs of the military community.

(i) Deployments

Active-duty servicemembers may experience multiple overseas tours of duty during their careers, including deployments to combat zones. We have seen a spike in those deployments since 2001, rendering this one of the most critical life events facing servicemembers and their families today. The financial issues and changes relating to deployments—and redeployments—are multifaceted and challenging—even to the savviest consumer. To help ease the burden and ensure that each of our deployed members is prepared financially, we offer the "USAA Deployment Kit" to help servicemembers and their families prepare and organize for deployment. We also have specially trained employees whose sole purpose is to ensure that our military members and their families are able to seamlessly transition into deployment. These employees will help teach—to the extent necessary—soldiers and families how to manage their finances during a deployment. This includes ensuring the spouse's access to all accounts; setting up automatic bill pay, if required; arranging for powers of attorney, as needed; adjusting insurance premiums for vehicles that will not be driven during the deployment; changing insurance for household belongings that will be stored or moved during deployment, and helping servicemembers manage their new financial picture, which often includes hazardous duty pay and deployment tax relief. Active-duty soldiers who contact us from Afghanistan and Iraq are transferred immediately to those specialized USAA representatives. Because deployed servicemembers may have limited access to computers and telephones, as well as limited time, these specialized resources are critical.

In addition to the specialized customer care we provide in this vein, USAA also offers financial products and services specifically designed to protect the financial interests of our deployed servicemembers and their families. For example:

- We offer life insurance without the standard "wartime exclusion" to servicemembers, including those that are deployed or facing deployment in combat zones.
- Some of our insurance products provide additional coverage for personal property that may be abandoned, destroyed, or damaged while a servicemember is deployed overseas in wartime.
- We reimburse foreign transaction fees for debit and credit cards.
- USAA often goes beyond the standards set under the Servicemembers Civil Relief Act to make interest rate accommodations on credit cards, auto loans, and other payments for deployed servicemembers.

- For our credit card holders who fall behind on payments during deployment, we provide options for long-term workout programs and *ad hoc* settlements.
- Finally, USAA offers innovative financial tools and specialized customer service resources to assist deployed servicemembers. For example, we seek to deliver documents via email or our secure Web site, and our representatives are available 24 hours a day to assist active-duty members with most needs.
- In addition to providing a full suite of online and telephone services, USAA was an early adopter in providing bill pay and bank deposit tools for mobile phones and iPads. There are nearly 15,000 logins through USAA Mobile every hour. These benefit all our members—but are especially crucial to our deployed members.

(ii) Change-of-Station Moves and Overseas Assignments

Frequent relocations, often on short notice, are another common component of the military lifestyle. Moreover, members of the military often complete at least two or three overseas tours during a full career. Servicemember mobility creates special financial challenges. Those challenges have been exacerbated by the volatile housing market, as many servicemembers find themselves forced to move from homes in which they have little or no equity. At USAA we stand ready to address this and other unique needs brought on by repeated relocations. For example:

- We make great efforts to assist all members who encounter credit difficulties and financial hardships. We strive to identify solutions that allow our members to remain in their homes, including member assistance programs, such as, loan extensions, modifications and short sales.
- Specifically, when members who are distressed homeowners are not able to meet their financial obligations for USAA serviced loans, USAA works to identify foreclosure alternatives. We provide payment deferrals and loan modifications appropriate to the circumstances to help keep soldiers and their families in their homes. When members are in an unfavorable equity position, we help them navigate the short-sale process and avoid the pressure of imminent foreclosure. Our sizeable number of member modifications and short sales compared to our relatively small number of foreclosures demonstrates that USAA has devoted substantial resources to assisting our members in maintaining homeownership where possible, and where not possible, helping them leave their homes responsibly and with dignity.
- With our HomeCircle™ solution, we are the first company to enable consumers to carry out most components of the home-buying process from their computer or mobile device, from research to financing to insuring.
- USAA tailors our products to help members cope with the financial consequences of frequent or rapid relocations within the United States and across the globe, such as transferring automobile and insurance registration across State lines or facilitating the sale and purchase of their homes.
- For members living abroad, we continue to service their bank accounts with us and provide free wire transfers, and foreign automobile and renters insurance in certain countries.
- Our emphasis on remote and mobile banking tools provides a seamless transition for our members when they relocate.
- Members can deposit checks from most UPS store locations.
- Our AutoCircle™ solution provides a similar ability for members to find, finance, and insure new or used vehicles online or through a mobile device.
- USAA does not charge a fee for members' first 10 monthly ATM withdrawals and refunds other banks' ATM usage fees up to $15 in each month, enabling access to all ATMs regardless of where servicemembers live or travel.

(iii) Survivorship

Financial institutions serving the needs of servicemembers must also be prepared to address the difficult issues of untimely death and survivorship in a simple, fair, and efficient manner. Moreover—because new technology and armor has reduced wartime deaths, financial institutions should also be able to help soldiers and their families navigate the world of severe injury and disability—as they have become commonplace in today's military.

USAA provides special benefits to servicemembers and their families in the event of a member's injury or death. For example:

- USAA offers severe injury benefit riders on certain life insurance policies. In the event of a severe injury, these features provide a payout to meet immediate

needs such as enabling family members to travel to the military hospital where the injured servicemember is being treated.

- If a servicemember is severely injured, certain USAA life insurance policies also permit servicemembers to purchase additional coverage when they leave the military and lose their Servicemembers' Group Life Insurance coverage.
- USAA has a dedicated team of employees that are specially trained to assist the families of terminally ill and deceased members, with a special outreach team for servicemembers killed in action. This Survivorship Response Team provides a single point of contact to assist with executing members' wills. We act as advocates and help family members to access the military benefits to which they may be entitled.

B. Service and Education

USAA believes that financial literacy and education are essential to empowering military families in the consumer financial marketplace. Financial literacy is especially crucial for younger soldiers who have little experience in such issues but have very serious responsibilities in their service to the Nation. In a war zone, commanders and soldiers should not be distracted by financial problems, uncertainty and hardship. Thus, at USAA we take our financial literacy mission very seriously.

At no cost to our members, USAA.com, features tremendous resources including market news and research, articles, calculator tools, and online communities. Our Web site provides information to all military families preparing for deployment, permanent change of station (PCS) and leaving the military. For example, our "Deployment" page provides articles and checklists teaching servicemembers about the importance of having a will and durable power of attorney, making your spouse a joint account holder, and notifying your insurance company if your home will be unoccupied or your car will be in storage. In addition, this page provides information for spouses during deployment and articles to help servicemembers readjust to family life upon their return from deployment. Further, USAA.com has a "Military Spouse Community" page for military spouses to get in touch with each other and help one another on issues such as PCS, deployment, converting to civilian life, and finances. In addition to the services available on USAA.com, we provide fee-based financial planning services by licensed salaried professionals to help members plan for and achieve their financial goals, including retirement and estate planning.

USAA also protects our members by helping them navigate the wider consumer marketplace. For example, purchasing a vehicle is a major financial milestone, especially for our younger members. Members can use USAA's AutoCircle™ solution to find, finance and insure a vehicle from their computers or mobile phones. USAA certifies dealers across the country and offers a Lowest Price Guarantee so members can get the best price on the vehicle they want, without time-consuming negotiations. In 2010, we helped members and customers save over $165 million through our car-buying and mortgage refinancing services.

Last but not least, we proudly sponsor The USAA Educational Foundation, a nonprofit organization dedicated to helping individuals make informed financial decisions through education (the Educational Foundation). The Educational Foundation offers a wide range of materials on financial management, safety concerns, and life events that are available to the general public at no charge. Over 4.7 million of these publications were distributed online and by mail in 2010, and the Educational Foundation will exceed that number in 2011. The Educational Foundation also delivers personal financial management presentations to ROTC cadets, military servicemembers, and their families, reaching 51,000 individuals in 2010 alone. This year, the Educational Foundation also produced a short video on the importance of Financial Readiness for members of the military.

We also sponsor another nonprofit organization known as The USAA Foundation that is active in providing funds to the military community, especially those in need. In 2010, USAA, the USAA Federal Bank and The USAA Foundation distributed more than $3.4 million to nonprofit organizations that support the military and their families. Examples of organizations funded include the American Red Cross, the Fisher House Foundation, National Military Family Association, Tragedy Assistance Program for Survivors, the Military Aid Societies, Intrepid Fallen Heroes Fund, Armed Services YMCA and Our Military Kids. Distributions for 2011 are projected to be at a similar level. Neither the USAA Educational Foundation nor The USAA Foundation endorses or promotes any commercial supplier, product, or service.

3. USAA Offers a Military Friendly Workplace

USAA works hard to recruit military spouses and former servicemembers to our employee team. We strongly believe that employing veterans and military family

members improves our capacity to serve our unique customer base. We have endeavored to hire employees with military knowledge and expertise at ALL levels of the organization—from the member service representative that takes member calls to our CEO, who began his career as an Army Private and retired as a Major General. USAA has over 22,000 employees globally. Employees deployed in the Guard and Reserve continue to receive USAA paychecks that make up the difference between their military and civilian pay. About one in five of our employees is actively serving in the U.S. military, has served, or is a military spouse. Many more employees are the children, siblings, or parents of servicemembers. We review employment applications from veterans and military spouses before any other applications, and we also make a special effort to hire wounded veterans. This hiring strategy has improved our capacity to serve those who serve this Nation and to ensure a basic understanding of the military lifestyle throughout our organization.

Beyond our focus on military hiring, we also work to ensure that all our employees are indoctrinated into, and fully understand, the military lifestyle. Each employee at USAA attends training and educational programs designed to help him or her understand the specialized needs of servicemembers and their families. As a result, when a servicemember calls USAA, he or she will work with an employee who not only understands the current financial product the member needs, but is also trained to understand that extra stress that the member faces because of his/her career in the military.

In 2011, *GI Jobs* magazine, CivilianJobs.com and *Military Times EDGE* all ranked USAA among the best employers for veterans. USAA was also ranked high on the *Fortune Magazine* list of "100 Best Companies to Work For"[1] and was named by *Computerworld* as the "No. 1 Best Place to Work in IT" for the second year in a row.[2] As an employer of choice for military families, we offer resources to support the transition from military to civilian life and provide ongoing professional development for veterans.

4. Our Members' Success Is Our Success

USAA is committed to doing the right thing because it is the right thing to do. And consistently doing the right thing is not only what our members expect and deserve; it is consistently good for our members AND our business. Despite the difficult economic landscape, after meeting our financial obligations last year we were able to give back $1.3 billion to our members in dividends, distributions, bank rebates, and rewards. That figure represents a 12 percent increase over the previous year.

Focusing on our core values of service, honesty, loyalty, and integrity, USAA offers best-in-class financial services and products to servicemembers, veterans, and their families. We appreciate and share the Committee's commitment to empowering and protecting servicemembers in the consumer financial marketplace. We are proud of our efforts and successes to date, but we continue to look for new ways to serve the Nation's military families.

Thank you again for the opportunity to testify today. I look forward to answering any questions that the Committee may have.

PREPARED STATEMENT OF FRANK POLLACK

PRESIDENT AND CHIEF EXECUTIVE OFFICER, PENTAGON FEDERAL CREDIT UNION

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 servicemembers to better manage their money. Too many servicemembers 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

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[1] "100 Best Companies to Work For", CNNMoney: A Service of CNN, Fortune, and Money, available at *http://money.cnn.com/magazines/fortune/bestcompanies/2011/full_list/*.

[2] "100 Best Places to Work in IT 2011", Computerworld, available at *http://www.computerworld.com/s/article/9216935/Best_Places_to_Work_in_IT_2011.*

member owned, not-for-profit cooperatives, we can create unique programs to meet the financial needs the military servicemember.

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 servicemember 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 3 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 percent 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 percent. 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 8 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 percent 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.