

## **Servicemembers Deserve a Strong Consumer Bureau to Protect them from Unfair Financial Practices**

Too many servicemembers have paid the price for an outdated regulatory system that has left our financial system vulnerable to collapse and our families without adequate protections. In the summer of 2010, Congress passed and President Obama signed the Wall Street Reform and Consumer Protection Act to rein in excessive risk on Wall Street and preserve economic opportunity on Main Street. This comprehensive financial reform, which put in place the strongest consumer financial protections in history, included the creation of a new, dedicated Consumer Financial Protection Bureau (CFPB).

The CFPB has one mission: to make the market for consumer financial products and services work for American consumers, responsible providers, and the economy as a whole. The Bureau seeks to promote transparency and consumer choice while preventing unfair, deceptive, abusive, and discriminatory practices. It uses a wide range of tools—from rule writing and enforcement to financial education and empowerment—to achieve these goals and protect consumers from the harmful practices that contributed to the financial crisis.

### **Servicemembers and the Financial Crisis**

- **Servicemembers are disproportionately targeted by predatory lenders:** Recently enlisted servicemembers often have their first steady paycheck and their first chance to be lured into easy credit offers. Forty-eight percent of enlisted servicemembers are less than 25 years old, have little experience managing their finances, and have little in savings to help them through emergencies. [Department of Defense (DoD), "[Report on Predatory Lending Practices Directed at Members of the Armed Forces and Their Dependents](#)" (August 9, 2006)] But there are also many experienced military families struggling with daily expenses such as child care bills and travel costs in the face of deployments and frequent moves. Geographic concentrations at military installations make this a particularly lucrative market. Even on the Internet, predatory lenders will target this community with affinity marketing. [DoD (2006)]
- **Servicemembers have been hit by the collapse of the real-estate market:** The collapse of the real-estate market has not only caused a marked foreclosure crisis, but has also resulted in a severe decline in home equity for military families. The average home equity for active-duty servicemembers dropped from 28.1 percent in April 2006 to 17.8 percent in April 2008 to 12.1 percent in June 2010. [Defense Management Data Center, "[June 2010 Status of Forces Survey of Active Duty Members – Topic: Financial Health](#)" (March 2011)]
- **The financial crisis and abusive practices of financial providers have undermined the mission readiness of our troops:** In surveys conducted by the Department of Defense, personal finances ranked second on the list of the causes of stress for servicemembers, behind only work/career concerns. In addition, financial problems are now the top cause of revocation of military security clearances.

### **Servicemembers and their Families Deserve Clear Rules and Strong Enforcement**

#### ***Credit Cards***

- Servicemembers and their families are heavily in debt to credit-card issuers, with more than one in four reporting more than \$10,000 in credit card debt. [FINRA Investor Education Foundation, "[Financial Capability in the United States – Military Survey – Executive Summary](#)" (October 2010)]

#### ***Mortgages***

- "More than 20,000 veterans, active-duty troops and reservists who took out special government-backed mortgages lost their homes last year (2010) — the highest number since 2003." The foreclosure rates in 163 zip codes near military bases has risen 32 percent since 2008, compared to a national increase of 23 percent (as

reported by RealtyTrac, a foreclosure research firm). According to Mike Frueh, VA assistant director for loan and property management, the VA helped another 66,000 servicemembers and veterans avoid foreclosure in 2010. "The number of foreclosures could have been much higher without that help," Frueh said. [Gregg Zoroya, "20,000 Servicemembers, Vets Lost Homes in 2010" *Army Times*, (February 3, 2011)]

### ***Student Loans***

- For-profit universities target servicemembers and their spouses in order to capitalize on their post 9/11-GI Bill and Tuition Assistance benefits, which do not count towards the 90 percent allowed as federal student assistance. These schools have been reported to have misrepresented accreditation status, salaries upon graduation, and graduation rates. [Government Accountability Office, "Undercover Testing Finds Colleges Encouraged Fraud and Engaged in Deceptive and Questionable Marketing Practices" (November 30, 2010)]

### ***Payday Lending***

- The Military Lending Act went into effect on October 1, 2007, and restricted the amount of interest charged to active-duty military personnel and their dependents on payday loans, auto title loans, and tax refund anticipation loans to an effective 36 percent annual percentage rate. In response to this law, however, some lenders targeting the military morphed their products into ones that would skirt the new regulation. [Department of Defense, "Report on Implementation of Limitations on Terms of Consumer Credit Extended to Service Members and Dependents" (July 22, 2008) (discussing reports by consumer groups)]

### ***Buy Here/Pay Here Used Car Dealers***

- Buy Here/Pay Here used-car dealers often sell older automobiles at a substantial mark-up and finance all purchases at above-market rates of interest. These dealers routinely target servicemembers by choosing locations close to the gates of military installations or through military-friendly Internet marketing.

### ***Debt Collection***

- Servicemembers can be targets of abusive debt collection practices, putting their status, rank, and security clearance in jeopardy. In February of 2011, the New York Attorney General settled legal actions against several Buffalo/Fort Drum area debt collection agencies for practices such as falsely threatening incarceration and posing as attorneys, which are illegal practices according to the Fair Debt Collection Practices Act.

### ***Debt Consolidation, Credit Repair and Mortgage Modification Scams***

- While servicemembers and their families have a menu of free financial assistance and education resources at their fingertips, many still fall prey to debt consolidation, credit repair, and mortgage modification scams which charge large fees up front and often take the money and run, providing no actual service or assistance. [Elaine Wilson, "Confront Financial Issues Early, Expert Advises" *American Forces Press Service*, (April 7, 2010)]

## **How the Consumer Financial Protection Bureau Benefits Servicemembers**

- **For servicemembers with credit cards:** The CFPB will prevent evasion of the Credit CARD Act of 2009, which bans arbitrary rate hikes on existing balances and other unfair practices. The law will give clarity on the interest rates being charged to servicemembers who have used credit cards to get by when times are tight.
- **For servicemembers who want to buy a home:** The CFPB is taking steps to consolidate and simplify with plain language two overlapping and sometimes inconsistent federal mortgage forms. The CFPB will, for the first time, provide ongoing federal oversight of both nonbank companies and banks in the mortgage market, and protect borrowers from unfair, deceptive or other illegal mortgage lending practices. In addition, the CFPB will work with the Department of Defense and the Department of Justice to ensure compliance with the Servicemembers Civil Relief Act as it relates to mortgage lending and other forms of debt incurred by servicemembers prior to active-duty service.
- **For servicemembers with student loans:** The CFPB will have the ability to regulate private student lenders and fight unfair, deceptive, and abusive acts or practices aimed at servicemembers and their spouses.

August 2011

- **For servicemembers caught by unexpected overdraft fees:** The CFPB will prevent evasion of rules that give consumers a real choice as to whether to join expensive debit overdraft programs so that they are not unknowingly charged unnecessary fees.
- **For servicemembers using alternative financial services:** The CFPB will establish robust federal supervision and oversight over payday lenders and larger participants in other financial service markets, such as check cashers. The CFPB will combat abusive practices that harm consumers, helping young people avoid hidden fees and keep more money in their wallets.
- **Empowering servicemembers to make smart financial choices by promoting financial literacy and financial capability:** The CFPB promotes consumer financial literacy and capability with a dedicated office focused on ensuring that the CFPB's expertise and research are used to help raise awareness, educate and empower consumers to avoid unfair practices, and make the best financial choices for themselves.