

**Statement for the Record of
Rohit Chopra**

Before the

**United States Senate Committee on Armed Services
Subcommittee on Personnel
Hearing on
Department of Defense
Single Servicemember and Military Family Readiness Programs**

Submitted on behalf of

**National Military Family Association
Veterans for Education Success
National Consumer Law Center (on behalf of its low-income clients)
National Association of Consumer Advocates
Public Citizen
Americans for Financial Reform
Consumer Federation of America**

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On behalf of organizations representing military families, students, and consumers, thank you for the opportunity to offer this statement for the record on financial readiness and the importance of vigorous enforcement of consumer protection laws protecting servicemembers and their families.

My name is Rohit Chopra, and I am a Senior Fellow at the Consumer Federation of America.¹ I previously served as Assistant Director of the Consumer Financial Protection Bureau, where I directed the agency's efforts on behalf of students and young consumers. I also served as Special Adviser to the Secretary of Education. In both of these roles, I had the fortune of working with the Department of Defense, the Department of Veterans Affairs, and federal and state law enforcement agencies to address student debt stress faced by servicemembers and veterans.

As the Senate further examines military family readiness, it will be critical to identify ways to bolster and protect the Consumer Financial Protection Bureau (CFPB) on behalf of servicemembers, veterans, and their families, through its Office of Servicemember Affairs, established by Congress in 2010.

¹ The Consumer Federation of America has long been dedicated to promoting financial readiness of military families. CFA has published research on military lending issues and coordinates the Military Saves campaign, which is dedicated to helping servicemembers and their families save money, reduce debt, and build wealth.

Importance of Military Financial Readiness

In 2006, at the request of Congress, the Department of Defense published a report on predatory lending practices directed at members of the armed forces and their dependents. It found that “predatory lending undermines military readiness, harms the morale of troops and their families, and adds to the cost of fielding an all volunteer fighting force.”²

Many servicemembers bear greater financial responsibilities compared to their civilian counterparts of the same age. According to a 2015 demographic profile of members of the military,³ servicemembers are a predominantly young group with one-half of servicemembers aged 25 years old or younger. The active-duty junior enlisted ranks (E1-E4) comprise 44 percent of the military force. Roughly one-third of servicemembers in these ranks are married, and 15% have children.

According to Department of Defense analysis of involuntary separations that were due to legal or standard-of-conduct issues—an average of 19,893 per year—the Department estimates that approximately half are attributable to a loss of security clearance, and, of these, 80 percent are due to financial distress. The Department estimates that each of these separations costs taxpayers \$57,333.⁴

Addressing financial misconduct by bad actors that target military families can both contribute to overall military readiness and reduce the costs to taxpayers of involuntary separations.

Targeting Military Families

Both advocates for military families and experts in consumer financial services have noted how certain industries, such as proprietary colleges and payday lenders, specifically target military families.

According to a 2005 study that examined the density of payday lenders in 20 states, researchers found that even when considering other variables such as income and ethnicity, the counties and zip codes that had the greatest overrepresentation of payday lenders tended to a common characteristic: a close proximity to military installations. The authors noted that “payday lenders crowd around the gates of military bases like bears on a trout stream.”⁵

² Department of Defense: Report on Predatory Lending Practices Directed at Members of the Armed Forces and Their Dependents (2006), available at http://www.defense.gov/pubs/pdfs/report_to_congress_final.pdf

³ Department of Defense: 2015 Demographics Profile of the Military Community, available at <http://download.militaryonesource.mil/12038/MOS/Reports/2015-Demographics-Report.pdf>

⁴ Department of Defense: Limitations on Terms of Consumer Credit Extended to Service Members and Dependents (2014), available at <https://www.federalregister.gov/documents/2014/09/29/2014-22900/limitations-on-terms-of-consumer-credit-extended-to-service-members-and-dependents>

⁵ Steven M. Graves & Christopher L. Peterson: Predatory Lending and the Military: The Law and Geography of “Payday” Loans in Military Towns, 66 OHIO ST. L.J. 653, 672 (2005).

Laws such as the Military Lending Act, enacted by Congress almost a decade ago, and the Servicemembers Civil Relief Act have helped to address concerns about military family targeting and financial distress, but recent law enforcement activity suggests that continued vigilance is needed.

The Consumer Financial Protection Bureau's Office of Servicemember Affairs

In 2010, Congress established the Consumer Financial Protection Bureau and its Office of Servicemember Affairs, a dedicated unit focused on servicemembers, veterans, and their families. The office opened in 2011 under the direction of Holly Petraeus, a widely-respected expert in financial issues facing military families.

The consumer agency's military protection unit has an impressive record. It has worked to secure \$120 million in refunds for military families harmed by financial companies. The agency has also handled more than 70,000 complaints from military families and visited 145 military installations and units. The unit has also launched financial education initiatives to assist military families and veterans with making financial choices, forming education partnerships with other federal and state agencies.

Financial Institution Misconduct

One of the most important functions of the CFPB's dedicated military protection unit is to coordinate consumer protection efforts across government, as required by its authorizing statute. Recently, law enforcement activity by CFPB and other agencies to address misconduct against military families has accelerated. Examples of serious infractions of law that this oversight has recently uncovered include:

Sallie Mae and Navient's Years-Long Military Overcharging Scheme. While less known to the public, a substantial portion of active-duty servicemembers are repaying student loans⁶ and many of them note this goal as a reason for enlistment, according to Department of Defense surveys.

After a referral from the Consumer Financial Protection Bureau, the Department of Justice and the Federal Deposit Insurance Corporation fined the student loan giants for cheating 78,000 servicemembers on their student loans, ordering \$60 million in restitution.⁷ The Department of Justice noted that the companies' conduct was "intentional, willful, and taken in disregard for

⁶ See the remarks of Secretary of Defense Leon Panetta on Efforts to Enhance the Financial Health of the Force (2012), available at: <http://archive.defense.gov/transcripts/transcript.aspx?transcriptid=5139>

⁷ Department of Justice: Nearly 78,000 Service Members to Begin Receiving \$60 Million Under Department of Justice Settlement with Navient for Overcharging on Student Loans (2015), available at <https://www.justice.gov/opa/pr/nearly-78000-service-members-begin-receiving-60-million-under-department-justice-settlement>

the rights of servicemembers.”⁸

Santander’s Illegal Repossessions of Motor Vehicles Owned by Servicemembers. The Servicemembers Civil Relief Act provides protections to active-duty servicemembers, including a rate cap of 6% on pre-service obligations and a requirement that creditors obtain a court order before repossessing a car or foreclosing on a home.

According to a complaint filed in federal court, US Army Specialist Joshua Davis notified his auto lender, Santander, that he would be heading off to basic training and sought relief on his obligation. Specialist Davis, then 19-years old, did not receive relief. Instead, Santander seized his car in the middle of the night, sold it at auction, and sent Specialist Davis a bill to pay a deficiency balance of over \$9,000 (including nearly \$800 in repossession fees). Santander also reported him to the major credit bureaus, and sold the deficiency balance to a third-party debt buyer. Santander ignored a complaint letter from the U.S. Army’s Legal Assistance Program.⁹

As of 2014, Santander held \$14 billion in auto loans with an average interest rate of 16.4%. After an investigation, the Department of Justice determined that Specialist Davis was not alone. Santander would pay over \$9 million to provide relief to 1,100 servicemembers that were victims of illegal repossession.¹⁰

Payday Lender Military Lending Act Violations. In 2013, the Consumer Financial Protection Bureau identified serious violations of law by Cash America, a publicly-traded financial services company.

Cash America was not only engaging in “robo-signing,” which refers to improper preparation of legal documents that may involve tampering with signatures and notarizing documents using unauthorized procedures, but also for exceeding the 36% interest rate cap as required by the Military Lending Act on certain loans given to servicemembers.

Cash America was ordered to pay up to \$14 million in refunds and a \$5 million fine for violating the law and for destroying records in advance of the CFPB’s examination.¹¹

Wrongful Military Family Foreclosures. The Servicemembers Civil Relief Act prohibits non-

⁸ United States of America v. Sallie Mae, et al. The full text of the complaint is available at: <https://www.justice.gov/sites/default/files/crt/legacy/2014/05/14/salliecomp.pdf>

⁹ United States of America v. Santander Consumer USA. The full text of the complaint is available at: <https://www.justice.gov/file/344751/download>

¹⁰ Department of Justice: Justice Department Reaches Settlement with Santander Consumer USA to Resolve Allegations Concerning Over 1,100 Illegal Car Repossessions Against Service Members (2015), available at: <https://www.justice.gov/opa/pr/justice-department-reaches-settlement-santander-consumer-usa-resolve-allegations-concerning>

¹¹ Consumer Financial Protection Bureau: Cash America to Refund up to \$14 Million for Robo-Signing and Illegally Overcharging Servicemembers (2013), available at <https://www.consumerfinance.gov/about-us/newsroom/consumer-financial-protection-bureau-takes-action-against-payday-lender-for-robo-signing/>

judicial foreclosures against active-duty servicemembers, as long as they originated their mortgages before their period of military service began. This is a particularly important protection for military personnel serving on overseas deployments while their families remain at home.

Collectively, some of the largest mortgage servicers in the country were caught illegally foreclosing on the homes of more than 2,400 military families. This stunning violation of the law by Bank of America, Citi, JPMorgan Chase, Wells Fargo, and Ally Financial likely resulted in deep emotional and financial pain for these families.

As part of a settlement, the institutions would collectively pay over \$300 million.¹²

The Consumer Financial Protection Bureau has also taken other actions against institutions that target servicemembers and veterans. The consumer agency sued Corinthian Colleges and ITT Educational Services for misconduct related to private student loan programs. Both institutions have heavily marketed their programs to the military community. When the institutions shut down due to mismanagement and misconduct, thousands of military students, including recipients of the GI Bill and Military Tuition Assistance program, were impacted.¹³

Conclusion

Financial readiness is a crucial part of family readiness and force readiness. There is a clear and compelling public interest that Congress continue to support vigorous enforcement of laws that protect military families from wrongful financial practices, including the Military Lending Act and the Servicemembers Civil Relief Act. Adequate enforcement not only protects these consumers and their families, but also the law-abiding companies that are disadvantaged by having to compete with bad actors.

Importantly, the strong record of the Consumer Financial Protection Bureau and its Office of Servicemember Affairs underscores the need for Congress to resist efforts that seek to hamstring this work. Tampering with the agency's authorities, structure, and independence would be harmful to military families and honest companies across the country.

We must work to ensure that federal agencies, such as the Department of Defense, and industry continue to support the CFPB and its dedicated military protection unit.

¹² Department of Justice: Service Members' Compensation for Unlawful Foreclosures Under the Servicemembers Civil Relief Act Rises to \$311 Million (2015), available at <https://www.justice.gov/opa/pr/service-members-compensation-unlawful-foreclosures-under-servicemembers-civil-relief-act>

¹³ See, for example, USA Today: Thousands of Student Veterans Affected by Closure of ITT Technical Institute. October 7, 2016. <http://college.usatoday.com/2016/10/07/itt-tech-closure-veterans/>