



Consumer Federation of America

FACT SHEET:

Impact of the Financial CHOICE Act on Military Families

June 7, 2017

This week, the House of Representatives is expected to vote on the so-called Financial CHOICE Act, which seeks to dramatically reshape oversight of the activities that led to the Great Recession.

The legislation includes a number of provisions related to the Consumer Financial Protection Bureau (CFPB) and its dedicated military protection office. Senior military leaders and organizations representing servicemembers, veterans, survivors, and their families have voiced support for the CFPB. Experts at the Consumer Federation of America conducted analysis on the proposed legislation's impact on the CFPB's authorities with respect to military families.

The analysis suggests that military families would lose out on valuable protections, if the proposal were to become law, potentially impacting morale, financial readiness, and overall force readiness.

Illegal Conduct by the Financial Services Industry Against Military Families

The American military community, including servicemembers, veterans, survivors, and their families face unique financial challenges, compared to their civilian counterparts. For example, active-duty servicemembers are subject to Permanent Change of Station orders – legal instructions that require them to move to a new post. For military families who are “underwater” on their mortgage, this can create serious financial stress. Given these frequent moves, many military spouses face challenges when looking to secure steady and stable employment.

While surveys show high levels of support for military families from the civilian population, some in the financial services industry have taken advantage of the challenges these families face.

- Many of the largest mortgage servicers in the country were caught engaging in [illegal foreclosures 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.
- After a [report](#) by the CFPB uncovering illegal overcharging schemes in the student loan industry, regulators found that [Sallie Mae and Navient cheated military families on their student loans](#). The companies were ordered to pay \$60 million. The Department of Justice described the student loan giant's conduct as [“intentional, willful, and taken in disregard for the rights of service members.”](#)
- Despite an effort to hide its misconduct by shredding documents and deleting phone call recordings, [Cash America, a payday lender, was found to be overcharging servicemembers](#) in violation of the Military Lending Act. The CFPB fined Cash America and ordered the company to clean up its bad practices.

Financial Readiness is Connected to Force Readiness

The Department of Defense (DOD) has long been concerned about the financial fitness of the force, stating in a [report](#) 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.”

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. 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 over \$57,000.

Praise for the Consumer Financial Protection Bureau from the Military Community

[In testimony submitted to the Senate Armed Services Committee](#), the Consumer Federation of America was joined by other consumer and veterans' advocacy groups. The testimony expressed strong support of the CFPB's robust defense of servicemembers, veterans, survivors, and their families.

The [military's senior enlisted leaders](#) also spoke about the critical role of the CFPB to ensure military families are kept safe from financial harm. Sergeant Major of the Army Daniel A. Dailey noted about the CFPB, "I know they have done great things for our servicemembers."

In letters to Congress and through other public statements, organizations such as the [Veterans of Foreign Wars](#), [National Military Family Association](#), [Student Veterans of America](#), the [Retired Enlisted Association](#), [Veterans for Education Success](#), the [Reserve Officers Association](#), [Iraq and Afghanistan Veterans of America](#), [Vietnam Veterans of America](#), the [Tragedy Assistance Program for Survivors](#), and others have praised the CFPB and its dedicated military protection unit.

Military Protections Removed by the Financial CHOICE Act

According to analysis by the Consumer Federation of America, the current version of the Financial CHOICE Act includes several provisions that negatively impact servicemembers, veterans, survivors, and their families.

- **Inclusion of Payday Lender Loophole.** According to a 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.](#)"

Section 733 of the bill would completely eliminate the CFPB's authority to create competition and sensible safeguards for payday and auto title loans, where lenders have targeted the military community. The CFPB would also be banned from taking any enforcement action when payday lenders break the law.

- **Elimination of Military Protection Office Requirement.** Under current law, the CFPB is required to establish [a dedicated Office of Servicemember Affairs](#) to coordinate consumer financial protection efforts across Federal and State agencies. The office, established by Holly Petraeus, is also required to monitor consumer complaints from military families and provide financial education resources.

Section 725 of the bill would eliminate this requirement, jeopardizing the future of the unit.

- **Military Lending Act Oversight Shut Down.** The CFPB supervises nonbank financial companies, including auto lenders and payday lenders, to ensure they are complying with the [Military Lending Act \(MLA\)](#). The MLA limits excessive interest and fees for active-duty servicemembers, including those on active Guard or active Reserve duty, to a 36% annual percentage rate. The law also forbids financial companies from forcing military borrowers

to waive their rights under other consumer protection laws or to submit to arbitration proceedings against their will. The consumer agency is the only government regulator with authority to supervise these companies.

Section 727 eliminates CFPB's authority to supervise entities for compliance with the Military Lending Act.

- **Other Authorities to Enforce Key Protections Stripped.** According to CFA's analysis of CFPB enforcement actions impacting servicemembers and veterans, the agency heavily relies on its authority to protect consumers from unfair, deceptive, and abusive acts and practices. For example, [CFPB shut down USA Discounters' servicemember fee scam](#), which relied on this critical authority. This law protects members of the military from misrepresentations, bait-and-switches, and other misconduct.

Section 736 of the bill would eliminate this authority, reducing the CFPB's ability to protect military families from these abuses.

- **Forced Arbitration Reform Halted.** Banks and financial companies currently include provisions in the contract fine print that forbid consumers, including veterans and survivors, from taking companies to court if they've been cheated. Current law gives the CFPB the ability to place sensible limits on how financial companies can engage in this practice. After publishing an extensive study, the CFPB [proposed a set of safeguards](#) to ensure greater transparency and fairness in arbitration.

The Military Coalition, a consortium of uniformed services and veterans organizations representing more than 5.5 million current and former servicemembers and their families and survivors, strongly [endorsed the CFPB's proposal in a letter](#), noting that "our nation's veterans should not be deprived of the Constitutional rights and freedoms that they put their lives on the line to protect, including the right to have their claims heard in a trial by a jury when their rights are violated. The catastrophic consequences these clauses pose for our all-voluntary military fighting force's morale and our national security are vital reasons for the CFPB to act quickly to finalize the regulations."

Section 738 would repeal the CFPB's authority to pursue these reforms.

For more information about the Consumer Federation of America's research and analysis on consumer financial services issues, including the Consumer Financial Protection Bureau and its work to protect servicemembers, veterans, survivors, and their families, visit www.consumerfed.org.