

Before the
SENATE COMMITTEE ON BANKING, HOUSING & URBAN AFFAIRS

Regarding

Ensuring Financial Protection for Servicemembers, Veterans, and Their Families

Statement on behalf of
Consumer Federation of America

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The CFPB has Taken its Responsibilities to the Military Community Seriously

Each November, America has an opportunity to recognize the sacrifices made by our nation's veterans. It also presents an opportunity to reflect on the progress we have made to protect those that protect our country and to ensure that we do not revert to a time when predatory financial abuses against these heroes were rampant and unchecked. While much progress has been made, it is imperative that we prioritize and preserve the most effective tools we rely on to monitor the unique financial challenges these consumers face. Chief among those tools is the Consumer Financial Protection Bureau.

The significance of financial readiness for our nation's all-volunteer fighting force is paramount. Too often, the military community has been a target for predatory actors. A 2006 report from the Department of Defense comprehensively outlined the ways in which predatory lenders targeted young and financially inexperienced service members due to their steady paycheck (i.e., revenue stream for the lender), limited savings and limited credit history.¹ Predatory actors provided loan products with high interest rates, expensive add-ons, and abusive terms through deceptive and high-pressure conduct that trapped borrowers in a cycle of debt. These traps created and exploited by predatory lenders created a ripple effect on the military community that is difficult

¹ Dept. of Defense, "Report on Predatory Lending Practices Directed at Members of the Armed Forces and Their Dependents," August 9, 2006, available at <https://apps.dtic.mil/sti/pdfs/ADA521462.pdf>.

to overstate. In response to these and other abusive practices, Congress passed the Military Lending Act in 2006 and made significant expansions to its protections in 2015.

When the Consumer Financial Protection Bureau (CFPB or Bureau) was created in 2010, Congress specifically tasked the Bureau with creating an Office of Servicemember Affairs to serve these consumers and address their unique financial challenges. 12 U.S.C. § 5493(e). The CFPB was also provided with enforcement authority over the Military Lending Act (MLA) and the Servicemembers Civil Relief Act (SCRA) to be a “cop on the beat” to monitor these special financial and due process protections for the military community. Recognizing the critical role it plays in this consumer financial protection ecosystem, the Bureau has taken this responsibility seriously and used each of its statutory tools to protect those that protect us.

Enforcement

The CFPB has filed 40 enforcement cases involving harm to servicemembers, veterans and their families, resulting in over \$175 million in monetary relief.² These cases include six specific enforcement actions against predatory lenders for violating the Military Lending Act with high interest rate loans, forced arbitration clauses, and other deceptive conduct.³ One such MLA enforcement case involved repeat-offender Title Max, a large motor vehicle title lender based in Georgia that charged over three times the maximum rate of 36%, imposed expensive and unlawful fees, and tried to “cover its tracks” by falsifying consumer records. Title Max’s illegal conduct affected over 17,000 loans. Earlier this year, the Bureau ordered Title Max to pay a \$10 million penalty and over \$5 million in restitution to consumers.

A key area of concern for servicemembers is their need for motor vehicles. Many young servicemembers take on auto related debt sooner after joining the military and at higher rates than their civilian peers.⁴ This frequently leads to unfair and deceptive conduct by unscrupulous auto dealers, and aggressive debt collection conduct by auto creditors. Auto finance company SNAAC “specialized” in extending credit servicemembers to purchase motor vehicles, then threatened to contact commanding officers when servicemembers became late in their payments. SNAAC also lied to consumers about whether missing payments was a military violation to coerce repayments. In 2015, the Bureau ordered SNAAC to pay \$3.2 million in civil penalties

² Consumer Financial Protection Bureau “Office of Servicemember Affairs Annual Report January – December 2022,” June 2023, Appendix B, available at: https://files.consumerfinance.gov/f/documents/cfpb_osa-annual-report_2022.pdf. (This report cites 39 actions, and does not include the matter against Trans Union filed in October, 2023).

³ Press Release “CFPB Orders TitleMax to Pay a \$10 Million Penalty for Unlawful Title Loans and Overcharging Military Families,” Feb. 23, 2023, available at: <https://www.consumerfinance.gov/about-us/newsroom/cfpb-orders-titlemax-to-pay-a-10-million-penalty-for-unlawful-title-loans-and-overcharging-military-families/>

⁴ James V. Marrone and Susan P. Carter, CFPB, “Financially Fit? Comparing the credit records of young servicemembers and civilians,” July 14 2020, available at: https://files.consumerfinance.gov/f/documents/cfpb_financially-fit_credit-young-servicemembers-civilians_report_2020-07.pdf

and restitution.⁵ Two years later, the CFPB learned that SNAAC ignored that order, prompting the Bureau to impose an additional \$1.25 fine in 2017.⁶

The CFPB's enforcement cases have also brought much needed relief to veterans. In 2023, the Bureau permanently banned repeat-offender RMK Financial from the mortgage lending industry after years of lying about its affiliation with the Department of Veterans Affairs and providing false information about key loan terms and benefits.⁷ Additionally, the Bureau commenced an investigation and enforcement sweep against nine mortgage companies for targeting servicemembers, veterans and their families with deceptive advertisements about their mortgage loans.⁸ The Bureau brought a historic action against the nation's largest student loan servicer, Navient, for a multitude of unfair, deceptive and abusive conduct, including causing significant harm to severely disabled veterans.⁹ These veterans qualified for discharge because of the severity of their disability and because it resulted from their military service. Rather than discharging their loans, Navient reported them as delinquent and in default, jeopardizing the credit of these consumers.

Credit reports are the top complaint by servicemembers and veterans by a wide margin (54% of all complaints filed by servicemembers). Most recently, the Bureau entered into an administrative consent order with TransUnion for failing to handle "active duty alert" requests from servicemembers.¹⁰ These alerts are intended to require businesses to verify the consumer's identity before issuing credit, and to require TransUnion to remove the consumer's name from marketing lists for unsolicited offers of credit/insurance for two years. This is particularly problematic for active duty service members, who are at a much higher risk of identity theft due to frequent moves and handling financial transactions online.¹¹ TransUnion's failures resulted in an \$8 million penalty from the Bureau.

⁵ Press release, "CFPB Orders Servicemember Auto Loan Company to Pay \$3.28 Million for Illegal Debt Collection Tactics," Oct. 28, 2015, available at: <https://www.consumerfinance.gov/enforcement/actions/security-national-automotive-acceptance-company/>

⁶ Press release, "CFPB Issues \$1.25 Million Fine to Servicemember Auto Lender for Violating Consent Order," April 26, 2017, available at: <https://www.consumerfinance.gov/about-us/newsroom/cfpb-issues-125-million-fine-servicemember-auto-lender-violating-consent-order/>

⁷ Press release, "CFPB Shuts Down Mortgage Loan Business of RMK Financial for Repeat Offenses Against Military Families," Feb. 27, 2023, available at: <https://www.consumerfinance.gov/about-us/newsroom/cfpb-shuts-down-mortgage-loan-business-of-rmk-financial-for-repeat-offenses-against-military-families/>

⁸ Press release, "Consumer Financial Protection Bureau Settles with Ninth Mortgage Company to Address Deceptive Loan Advertisements Sent to Servicemembers and Veterans," Oct. 26, 2020, available at: <https://www.consumerfinance.gov/about-us/newsroom/consumer-financial-protection-bureau-settles-ninth-mortgage-company-address-deceptive-loan-advertisements-sent-servicemembers-and-veterans/>

⁹ Press release, "CFPB Sues Nation's Largest Student Loan Company Navient for Failing Borrowers at Every Stage of Repayment," Jan. 18, 2017, available at: <https://www.consumerfinance.gov/about-us/newsroom/cfpb-sues-nations-largest-student-loan-company-navient-failing-borrowers-every-stage-repayment/>

¹⁰ Enforcement Actions, "TransUnion, Trans Union LLC and TransUnion Interactive, Inc." available at: <https://www.consumerfinance.gov/enforcement/actions/transunion-trans-union-llc-and-transunion-interactive-inc/>

¹¹ Issue Spotlight, "Servicemember reports about identity theft are increasing," Jan. 12, 2023, available at: <https://www.consumerfinance.gov/consumer-tools/educator-tools/servicemembers/servicemember-reports-about-identity-theft-are-increasing/>

Complaint Handling

The Office of Servicemembers' approach to protecting the military community is informed by its comprehensive consumer complaint database. Since its inception, the CFPB has handled over 320,000 complaints from servicemembers, veterans and their families, including 66,000 in 2022 alone.¹² The number of complaints has steadily increased since 2011 and has more than doubled just since 2021. It is clear that servicemembers, veterans and their families rely on this public service provided by the Bureau. The CFPB's complaint system was designed to facilitate a response and resolution for consumers, rather than simply a way to "file away" information solely for the Bureau's use. The military community increasingly relies on this service, oftentimes resolving the dispute quickly, efficiently and without the need for prolonged litigation.

The Bureau also gains valuable information from these complaints, including a representative picture of the most pressing problems for servicemembers, veterans and their families. Based on complaint data, the Bureau has learned that payment apps are a growing problem for servicemembers.¹³ Payment apps can be convenient, especially for servicemembers who move frequently and need fast access to payment methods, but they are often a source of fraud and scams, and servicemembers report difficulties in resolving disputes.

The Bureau has also learned from its complaints that credit reporting inaccuracies drive the highest number of complaints and of those, a significant portion have to do with inaccuracies in medical billing.¹⁴ Armed with this complaint data, the Bureau can make well-informed policy and strategy decisions about where to devote resources and what will have the greatest impact.

Research and Market Monitoring

The Bureau's research about consumer financial issues affecting servicemembers, veterans and their families is crucial. In 2022, the CFPB published a report about the utilization rates of the Servicemembers Civil Relief Act (SCRA).¹⁵ The SCRA provides extra protections for servicemembers when they are called to active duty, including reducing the interest rate on any pre-service loans to a maximum of 6%.¹⁶ The CFPB's report showed, however, that activated Reserve and National Guard members pay millions of dollars in extra interest each year because they are not always receiving these SCRA benefits.

The Bureau is also amplifying its research and data about auto financing. Auto purchasing and financing is both critical for servicemembers to survive but also rife with the opportunity for

¹² See FN 2.

¹³ See FN 2, 2022 OSA Annual Report at pp. 15-30.

¹⁴ Consumer Financial Protection Bureau "Office of Servicemember Affairs Annual Report January – December 2021," June 2022 at pp. 14-20, available at: https://files.consumerfinance.gov/f/documents/cfpb_osa-annual-report-2021.pdf

¹⁵ Charles A. Goldman and Yael Katz, CFPB, "Protecting Those Who Protect Us," December 2022, available at: https://files.consumerfinance.gov/f/documents/cfpb_servicemembers-usage-of-scra-credit-protections_2022.pdf

¹⁶ CFPB Educator Tools "The Servicemembers Civil relief Act (SCRA)," available at: <https://www.consumerfinance.gov/consumer-tools/educator-tools/servicemembers/the-servicemembers-civil-relief-act-scra/>

abuse. Auto prices and auto financed debt continue to rise to historic levels, generating concern about what may happen if consumers cannot afford to continue to make these payments and how creditors will treat servicemembers that have added layers of protection vis-à-vis the MLA and SCRA. Despite its outsized significance in the economy, the public knows very little about auto debt. Recognizing this dearth, the Bureau has undertaken an initiative to expand its auto financing data portfolio, including issuing orders to nine large auto creditors about their portfolios and conduct.¹⁷ Additionally, in 2022, the Bureau issued a compliance bulletin and policy guidance about heightened concern regarding auto repossession practices generally¹⁸, and Director Chopra sent a joint letter with the Department of Justice to auto creditors reminding them of their financial and due process obligations to servicemembers.¹⁹

Current Economic Challenges Highlight the Need for a CFPB Watchdog

The Bureau has been a remarkably effective consumer protection agency that continues to fulfill its unique Congressional mandate to protect those who protect our country and their families. Certain financial challenges in our economy will always have an outsized impact on the military community, and it is crucial to have a nimble, well-informed agency that can be responsive and capable of taking decisive action. The country is currently facing significant economic challenges that require the CFPB to maintain its efficacy and a sharp eye toward the impact on military communities:

Student Loans

In short, the return to repayment has been an utter disaster. It is clear that servicers were not prepared for hundreds of millions of accounts to be reactivated at once, and it is highly likely that we will see the lasting impacts for years to come. Servicemembers and veterans need the Bureau to be the “cop on the beat” to police these student loan servicers and the manner in which they handle servicemember and veteran student loan protections. Had the Bureau not stepped in to be a voice for severely disabled veterans in the Navient enforcement case, it is entirely possible this conduct would have gone unaddressed.

Auto Financing Debt

Auto debt is higher than ever, and it is currently the highest non-mortgage debt obligation for American consumers.²⁰ Cars are extremely expensive, and contract repayment terms are routinely extending out to eight or nine years, with average monthly payments of \$500-700 (and increasingly up to \$1,000). Even if vehicle prices and interest rates decrease, consumers will be

¹⁷ Chris Kukla, Richard Landau, and Ashwin Vasan, “Our auto finance data pilot,” Feb. 23, 2023, available at: <https://www.consumerfinance.gov/about-us/blog/our-auto-finance-data-pilot/>

¹⁸ Consumer Financial Protection Bureau Bulletin 2022-04, “Mitigating Harm from Repossession of Automobiles,” 87 FR 11951, March 3, 2022, available at: <https://www.federalregister.gov/documents/2022/03/03/2022-04508/bulletin-2022-04-mitigating-harm-from-repossession-of-automobiles>

¹⁹ Notification Letter re: “Auto Lending and Leasing Protections for Servicemembers,” July 29, 2022, available at: https://files.consumerfinance.gov/f/documents/cfpb_auto-industry-servicemember-protections_joint-letter_2022-07.pdf

²⁰ Federal Reserve Bank of New York, Center for Microeconomic Data “Household Debt And Credit Report (Q2 2023),” available at <https://www.newyorkfed.org/microeconomics/hhdc.html>.

locked into these oppressive contract terms for nearly a decade. More expensive obligations over longer terms mean the Bureau will need to be on high alert to ensure that auto creditors comply with the SCRA's military consumer protections pertaining to repossessions, lease terminations, and interest rate benefits. These longer auto contract terms also implicate a host of other consumer financial protection laws that the Bureau enforces, and we will rely on a strong watchdog to police these practices.

Medical Debt

Medical debt and billing practices are a problem for each facet of the military community. Active duty servicemembers and their family members may receive bills despite having health insurance through the government which are then provided to debt collectors and reflected on their credit reports. Veterans may be confused about their medical debt obligations and the claims process, and protections for Reservists and National Guard members are frequently mishandled. The military community can suffer disastrous and widespread consequences when navigating these complex issues, and they generate a significant percentage of complaints to the CFPB from servicemembers, veterans and their families. The Bureau has proposed a series of rulemakings which would eliminate medical debt from credit reports altogether. These rules would bring significant relief to the military community, but they require an ongoing dedicated effort by the Bureau to finalize and enforce such rules.

Conclusion

Thank you to Chairman Brown, Ranking Member Scott and Committee Members for holding this important hearing to recognize the unique financial challenges faced by servicemembers, veterans and their families. These individuals make the ultimate sacrifice to serve our country and deserve the highest levels of dedication to ensuring that predatory financial abuses against them go unchecked. America's military community deserves a strong, effective CFPB that will continue to use its resources to protect them from unfair, deceptive and abusive consumer financial acts and practices.