

1 PRESERVING THE RIGHTS OF SERVICEMEMBERS,
2 VETERANS, AND THEIR FAMILIES IN THE
3 FINANCIAL MARKETPLACE

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5 WEDNESDAY, JULY 31, 2013

6 United States Senate,
7 Committee on Veterans' Affairs,
8 Washington, D.C.

9 The Committee met, pursuant to notice, at 9:55 a.m., in
10 Room SR-418, Russell Senate Office Building, Hon. Bernard
11 Sanders, Chairman of the Committee, presiding.

12 Present: Senators Sanders, Hirono, and Boozman.

13 OPENING STATEMENT OF CHAIRMAN SANDERS

14 Chairman Sanders. The hearing will come to order a
15 little bit early because we have got votes at 10:45 and then
16 the President is coming to a caucus later on that I am going
17 to have to attend. I just want to thank all of our
18 panelists and everybody with us today. Senator Boozman and
19 other Senators will be joining us for the discussion of an
20 issue that many of us feel very strongly about.

21 As everybody knows, as a result of Dodd-Frank, we
22 passed important legislation which essentially says that
23 when men and women go off to war, they are not going to get
24 ripped off at home, not by financial institutions, not by
25 people trying to take advantage of benefits which they have

1 earned. I can tell you firsthand, as you all know, people
2 go off to war, families are left with kids, they are
3 struggling back home, they are vulnerable, and we are not
4 going to allow those people to be taken advantage of.

5 The panelists that we have today have done a wonderful
6 job in trying to protect those service people and we are
7 going to hear from them in a moment.

8 I remain deeply troubled by the violations of the SCRA
9 that occurred within the mortgage lending industry within
10 the past few years. In a 2012 report, the GAO identified
11 over 14,000 instances of financial institutions failing to
12 properly reduce servicemembers' mortgage interest rates, as
13 the law provides, and over 300 improper foreclosures.

14 These violations are completely unacceptable.
15 Unfortunately, the challenges faced by our servicemembers do
16 not end there. The Consumer Financial Protection Bureau has
17 identified similar practices and concerns within the student
18 loan servicing market. This unacceptable behavior also must
19 be ended. We must continue to improve education under
20 protections of the SCRA, industry much improve its
21 compliance with the Act, and finally, aggressive enforcement
22 of these protections must continue when violations occur.

23 I think we all are together in understanding that when
24 men and women put their lives on the line defending our
25 country, they should not be subjected to the types of

1 behavior we have seen in the past, and that is why today's
2 discussion about how we can continue to improve and enhance
3 the SCRA is so terribly important.

4 I am going to end my remarks at that point. Senator
5 Boozman, I want to give the mic over to you and then I would
6 like us to hear from the panel.

7 OPENING STATEMENT BY SENATOR BOOZMAN

8 Senator Boozman. Yes, sir, I want to agree and I want
9 to thank you and Ranking Member Burr for making it such that
10 we can have this very, very important hearing. I think in
11 the interest of time, because we have votes not too far from
12 now, and then also I know the President is coming over and
13 things, so I am going to put my statement in the record.

14 But I do. I agree with you so much in the sense this
15 is so important. Servicemembers--my dad did 20 years in the
16 Air Force. This is a family affair and it is difficult. It
17 is a unique situation. Families are separated, especially
18 with the op temp that we have going on right now, and again,
19 taking care of finances, you know, those discussions that
20 most of us in everyday life take for granted is simply much
21 more difficult in that situation.

22 So we do want to protect our servicemembers. We want
23 to make sure that they are treated right. They have got
24 enough to deal with right now without unscrupulous predators
25 preying on them. So again, thank you for being here, and

1 with your permission, I will put my statement in the record,
2 Mr. Chairman.

3 Chairman Sanders. Absolutely. And thank you very
4 much, Senator Boozman.

5 [The statement of Senator Boozman follows:]

6 / COMMITTEE INSERT

1 Chairman Sanders. We are going to hear now from our
2 very distinguished panel. First we will hear from Mrs.
3 Holly Petraeus, Assistant Director, Office of Servicemember
4 Affairs at the Consumer Financial Protection Bureau. Also
5 with us is Colonel Paul Kantwill, Director of Legal Policy,
6 Office of the Undersecretary for Personnel and Readiness of
7 the Department of Defense. And we will then hear from the
8 final witness on this panel, Eric Halperin, Special Counsel
9 for Fair Lending in the Civil Rights Division at the
10 Department of Justice.

11 With that, Mrs. Petraeus, let us begin with you.

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

4 Ms. Petraeus. Chairman Sanders, Ranking Member
5 Boozman, thank you for the opportunity to speak with you
6 today. The Office of Servicemember Affairs, or OSA, as we
7 call it at the CFPB, has three missions, to educate and
8 empower servicemembers and their families to make better
9 informed consumer decisions, to monitor military complaints
10 to the Bureau and the responses to those complaints, and to
11 coordinate with Federal and state agencies on consumer
12 protection measures for the military.

13 Concerning our education mission, my team worked with
14 DoD to create the financial module for their Transition
15 Assistance Program, or TAP. We are also working on an
16 initiative to offer financial coaching services to recently
17 transitioned veterans.

18 As for complaints, in the last two years, the Bureau
19 received approximately 4,500 complaints from veterans and
20 their family members. About 49 percent of those complaints
21 concerned mortgages, followed by 18 percent credit cards, 13
22 percent bank account servicing issues, and 8 percent credit
23 reporting issues.

24 We have helped veterans who complained to us secure
25 hundreds of thousands of dollars in monetary relief, as well

1 as non-monetary relief. For example, a vet from North
2 Carolina had a bank fee of nearly \$2,000 that should have
3 been waived because he was disabled. Within weeks of his
4 filing a complaint with us, the bank removed the fee and
5 refunded the interest charged.

6 As to coordinating with other Federal and state
7 agencies, OSA has worked with Treasury and the Federal
8 Housing Finance Agency on mortgage issues, with DoJ on SCRA
9 issues, and with the VA on veterans issues, and obviously we
10 talk all the time with DoD.

11 In the states, OSA has had great support from the
12 Attorneys General, with 16 of them joining me at events in
13 military communities, and from the state Directors of
14 Veterans Affairs, and we work with the veteran service
15 organizations, too. We have had a couple of town halls
16 specifically for them.

17 I also did a telephone town hall last year with
18 Senators Rockefeller and Manchin that reached thousands of
19 veterans in West Virginia, and I have just added a veterans
20 outreach specialist to my staff so we can do more.

21 In the last two-and-a-half years, I have traveled to 28
22 states and about 60 military communities in the United
23 States. One issue that has been raised consistently is
24 aggressive marketing to veterans by certain institutions of
25 higher education seeking those with G.I. Bill benefits.

1 There is an extra incentive for for-profit colleges, in
2 particular, to chase after military students because of the
3 90/10 proprietary college Federal funding cap. And I have
4 heard of some very aggressive tactics to recruit them.

5 I spoke with a woman from the VA in Nevada who was
6 overseeing vocational rehabilitation for vets. She told me
7 that she had patients with traumatic brain injury and PTSD
8 who had been persuaded to sign up for college classes and
9 did not even remember it. That did not stop the colleges
10 from pressing them for full payment, even though they were
11 not regularly attending classes.

12 Some schools were also pushing her patients to enroll
13 in master's degree programs, though she believed they were
14 not capable of doing the work. Their tactics were
15 aggressive enough that she described it as, quote,
16 tormenting veterans, unquote.

17 Another area of concern is that of financial
18 institutions failing to provide SCRA protections to those
19 who qualify for them, as you mentioned, and we do work with
20 DoJ on these issues.

21 SCRA compliance problems are not limited to mortgage
22 servicing. In the student loan servicing market, we have
23 heard of lenders giving out incorrect or misleading
24 information or even refusing to grant SCRA protections.

25 Another issue that I have heard about frequently

1 concerns the veteran's benefit known as Aid and Attendance.
2 Individuals and companies use it as a hook to sell their
3 services to elderly veterans.

4 It may involve offering to help them qualify for Aid
5 and Attendance, if they have too much money, by taking
6 control of their assets and moving them into a trust where
7 they cannot access them, as in a recent case in Washington
8 State, or some retirement homes are now using the lure of
9 Aid and Attendance to get veterans to move in on the premise
10 that they will get the benefit and they will pay for
11 everything. If the benefit is denied, this leaves the
12 veteran in the position of being unable to afford to remain
13 in the facility.

14 We have also seen a flood of advertising in the past
15 year urging those with VA home loans to refinance. The
16 Bureau and the FTC did a joint sweep of the ads which
17 resulted in letters to a number of lenders concerning
18 potential violations.

19 One last area of concern is pension advances. Offers
20 to pay military retirees a lump sum in return for their
21 future monthly retirement payments. These offers usually
22 amount to pennies on the dollar and may be in violation of
23 the law regarding assignment of pension benefits.

24 To conclude, the Office of Servicemember Affairs is
25 working hard to fulfill its missions of education and

1 consumer protection. Our veterans have done extraordinary
2 service for our country and it is an honor for us at OSA to
3 serve them and their families. Thank you for the
4 opportunity to testify before the Committee.

5 [The prepared statement of Ms. Petraeus follows:]

1 Chairman Sanders. Finished on military precision with
2 five seconds to go. Okay, thank you. Colonel Kantwill.

1 STATEMENT OF COLONEL PAUL KANTWILL, DIRECTOR OF
2 LEGAL POLICY, OFFICE OF THE UNDERSECRETARY FOR
3 PERSONNEL AND READINESS, DEPARTMENT OF DEFENSE

4 Colonel Kantwill. Good morning, Mr. Chairman, Senator
5 Boozman, and members of the Committee. It is an honor to
6 appear before you and represent the Department of Defense
7 and all of our great men and women. On behalf of the
8 Department, I thank you for your assistance and support in
9 protecting our servicemembers and their families in the
10 consumer financial marketplace, and for the opportunity to
11 address you today regarding financial issues affecting them.

12 I will discuss first the SCRA. I will then discuss
13 other financial challenges confronting servicemembers and
14 their families in today's marketplace, focusing on issues
15 and challenges that fall within or around the Military
16 Lending Act, or the MLA, as the Department sees this as the
17 biggest current financial challenge facing our force.

18 The Department recognizes and appreciates fully the
19 critical importance of the SCRA. No other statute provides
20 the breadth of benefits and protections for servicemembers
21 that the SCRA does, and over its long history of more than
22 70 years, it has lessened some of the very many burdens
23 associated with military service.

24 Congress has continued to play the most critical role
25 in protecting our servicemembers and their families,

1 strengthening the Act and its protections in many ways,
2 especially in recent years. It is with pride, therefore,
3 that we assert that the current status of the SCRA education
4 compliance and enforcement is largely a good news story. We
5 have all read accounts of mortgage foreclosure abuses and we
6 know well the ravages that the economic crisis and the
7 burdens of more than 12 years of deployments have had upon
8 the financial fitness of military families.

9 As these relate to the SCRA, however, we believe we
10 have been very effective in curbing foreclosure abuses
11 against military personnel and their families. This is the
12 result of much sustained and very hard work within the
13 Department and with other Governmental agencies and the
14 financial industry.

15 The Department is fortunate to enjoy a tremendous
16 relationship with other Federal agencies relating to
17 consumer law issues, the Department of Justice and CFPB and
18 the OCC, to name just a few. Federal enforcement actions
19 brought by our colleagues at Justice have been swift and
20 effective. We are pleased to have the CFPB always at our
21 side. State and local compliance and enforcement efforts
22 are critical.

23 There may still be foreclosures out there. We may not
24 be yet out of the economic woods, and we are looking closely
25 at some issues like the reduction of interest rates on

1 student loans under the SCRA, but we are largely encouraged
2 by good progress on the SCRA front.

3 Despite the successes that we can cite on the SCRA, we
4 have concerns regarding small dollar lending and related
5 products and services. Since significant departmental,
6 interagency, and Congressional action resulted in the
7 Military Lending Act more than seven years ago, we have
8 stamped out the majority of abuses in the areas regulated.

9 Several years removed from its enactment, however, many
10 parties from servicemembers to state Attorneys General
11 express concerns that the industry, including some
12 unscrupulous lenders, have sought and are seeking to create
13 products and services which fall outside the MLA.

14 This has not escaped our, or Congress's attention, and
15 at your direction, the Department is studying changes in the
16 credit marketplace and their effects on servicemembers and
17 their families. The Department's advance notice of proposed
18 rulemaking was published in June of 2013.

19 While many groups apprise us that our concerns are
20 well-advised, the Department is undertaking its own
21 extensive surveys to gather even more information. A survey
22 of DoD legal assistance personnel around the world closes
23 out tomorrow. A similar survey has been distributed to DoD
24 financial counselors. Lastly, a larger survey is being sent
25 to our servicemembers, the boots on the ground, if you will.

1 The Department has assembled the prudential regulators
2 and the CFPB to explore potential revisions to the
3 regulation. We have assembled a team of skilled economists,
4 analysts, and drafters to assist us in this initial
5 rulemaking. We will analyze our responses to the Federal
6 Register notice in order to obtain a broad basis of feedback
7 from consumer advocates, the financial industries, Federal
8 and state regulators, and engaged citizens in order to
9 determine the potential benefits, pitfalls, and consequences
10 of extending the definitions of the regulation to cover
11 additional forms of credit.

12 We remain committed to balancing regulation with
13 education and assistance to maintain financial readiness,
14 and the Department plans to maintain a steady approach to
15 implementing the regulation to balance the protections
16 offered through the regulation, while sustaining access to
17 helpful, financial products.

18 In response to these challenges and in support of our
19 servicemembers and their families, the Department remains
20 proactive and vigilant, employing multifaceted education and
21 training programs and leveraging all available resources.
22 On behalf of the Department, I thank you for your assistance
23 and support. It is my privilege to appear before you and I
24 look forward to your questions.

25 [The prepared statement of Colonel Kantwill follows:]

- 1 Chairman Sanders. Colonel, thank you very much. Mr.
- 2 Halperin.

1 STATEMENT OF ERIC HALPERIN, SPECIAL COUNSEL FOR
2 FAIR LENDING, CIVIL RIGHTS DIVISION, DEPARTMENT OF
3 JUSTICE

4 Mr. Halperin. Good morning, Chairman Sanders, Senator
5 Boozman, and members of the Committee. Thank you for
6 holding this hearing on preserving the rights of
7 servicemembers, veterans, and their families in the
8 financial marketplace. It is a privilege to speak with you
9 today about our shared priority of protecting the rights of
10 our men and women in uniform.

11 Over the past four years, the Department of Justice has
12 made enforcement of the Servicemember Civil Relief Act, or
13 SCRA, a top priority. I am pleased to share with you today
14 some of the recent successes we have had in ensuring that
15 servicemembers' homes and credit are protected while they
16 serve our nation. We have also learned some important
17 lessons from our enforcement efforts and have been reviewing
18 ways to strengthen the SCRA.

19 The Civil Rights Division enforces several laws
20 designed to protect the rights of members of the military,
21 one of which is the SCRA. The SCRA's protections are
22 important because servicemembers should not have to worry
23 that their family could lose their home while they are on
24 deployment, or that their cars will be repossessed while
25 they are on the front lines overseas, or suffer financial

1 penalties from landlords because they have been ordered to
2 move to a different duty station.

3 Members of the military who made great personal
4 sacrifices on behalf of this country should not be required
5 to transition to civilian life only to find their credit
6 ruined and their home sold off. That is why, over the past
7 four years, the Department has filed more SCRA enforcement
8 actions than ever before.

9 For example, during one of our investigations, we
10 discovered a servicemember who was severely injured by an
11 improvised explosive device while serving in Iraq, breaking
12 his back and causing traumatic brain injury. His servicer
13 foreclosed on him improperly, despite receiving notice on
14 multiple occasions that he was serving in Iraq. That should
15 never happen.

16 Behind our enforcement actions are countless other
17 stories of hardship experienced by servicemembers and their
18 families as a result of failures of lenders and servicers to
19 comply with the law. In 2012, the Division reached
20 settlements with the nation's five largest mortgage loan
21 servicers who agreed to compensate all servicemembers they
22 improperly foreclosed on or charged unlawfully high interest
23 rates.

24 This settlement, along with three other wrongful
25 foreclosure settlements reached by the Division in 2011 and

1 2012 will ensure that the vast majority of foreclosures
2 against servicemembers will be subject to court-ordered
3 review.

4 Most servicemembers illegally foreclosed on will
5 receive \$125,000 plus any equity lost in their home. In
6 addition, these settlements require servicers to submit
7 their SCRA policies and procedures to the Department for
8 review and approval, and to submit to ongoing monitoring by
9 the Department.

10 As you know, the SCRA's protections extend well beyond
11 mortgages. In July 2012, we resolved our complaint against
12 Capital One and filed one of the most comprehensive SCRA
13 settlements ever obtained by the Government agency or any
14 private party. The case involved allegations of a variety
15 of violations, including wrongful foreclosures, improper
16 repossessions of motor vehicles, wrongful court judgments,
17 and improper denials of the 6 percent interest rate that the
18 SCRA guarantees to servicemembers on pre-service credit card
19 and other loans.

20 As a result of our enforcement over the last four
21 years, servicers and lenders are required to pay more than
22 \$50 million in monetary relief to servicemembers and that
23 number will increase once the foreclosure reviews of the
24 five largest servicers are completed.

25 The Civil Rights Division enforcement actions have

1 addressed the full range of protections under the SCRA,
2 including a number of cases that do not involve the
3 financial services industry, such as wrongful charges by
4 landlords. In enforcing the SCRA, we have worked closely
5 with our Federal and state partners.

6 The Department of Defense has been invaluable to our
7 enforcement efforts, especially our ability to bring large
8 pattern and practice cases, and the CFPB has been a critical
9 source of information about the financial challenges facing
10 servicemembers and potential SCRA violations in the
11 marketplace.

12 While vigorous enforcement of the SCRA is critical, we
13 recognize that to maximize compliance with the law, we also
14 need to engage at outreach and education to industry and the
15 military community to inform people of their rights and
16 responsibilities. That is why the Department engages
17 directly in outreach, as do our partners at other agencies.

18 Although we have achieved great successes on behalf of
19 servicemembers, we have also identified ways that the SCRA
20 could be strengthened. In September 2011, the
21 Administration formally transmitted to Congress a package of
22 proposals for strengthening all three servicemember civil
23 rights statutes that the Division enforces, including the
24 SCRA.

25 We were gratified to see that this Committee considered

1 many of our proposals in the last Congress. We are actively
2 considering additional improvements and we look forward to
3 working with you in this Congress to strengthen the SCRA,
4 and we hope to see these proposals enacted into law.

5 Our recommendations include codifying the rule that a
6 party seeing a default judgment against a servicemember must
7 check the Department of Defense records to determine whether
8 the servicemember is on active duty, and granting the
9 Department the authority to compel the production of
10 existing documents during our SCRA investigations.

11 The Department appreciates the opportunity to report on
12 the SCRA and we stand ready to work with the Committee in
13 strengthening this important law. Thank you for the
14 opportunity to testify today and I look forward to answering
15 your questions.

16 [The prepared statement of Mr. Halperin follows:]

1 Chairman Sanders. Thank you all very much. We have
2 been joined by Senator Hirono. I just learned that we are
3 going to have votes at 10:55, so we are going to take
4 questions now, move to the next panel, and we will be out of
5 here at that time.

6 Let me start with you, Mrs. Petraeus. A law is as good
7 as the people know about it. So we can have the best laws
8 in the world, but if people do not know about it, it does
9 not do us all that much good. In your judgment, do the men
10 and women who serve in the military, in fact, know what
11 protections they have?

12 Ms. Petraeus. Well, I think that might be a question
13 that Colonel Kantwill could answer better. I can tell you
14 that some of the people who answer the phone at loan
15 servicers do not know the law and do not apply it properly.
16 We continue to have real concerns about what we have seen in
17 that area. We just saw a complaint come in this past week
18 where someone told a servicemember that in order to be
19 eligible for the SCRA, they needed to have been on active
20 duty on or after September 11th, 2001, which, of course, was
21 completely incorrect.

22 So I think there is an awareness of the law, but again,
23 people are misapplying its provisions, giving out the wrong
24 information. I think the Department of Defense--I cannot
25 speak for them, but I think they are trying hard to raise

1 awareness about that among servicemembers before they go
2 onto active duty so they know what they have.

3 Many of them enter the military with loans, student
4 loans, some with mortgages, some with other debt, and it is
5 important that they know that they can reduce--ask to have
6 that interest rate reduced.

7 Chairman Sanders. Let me ask Colonel Kantwill that
8 same question, because that is within your jurisdiction.
9 Are we doing a decent job so that members of the military
10 know what their rights are?

11 Colonel Kantwill. I think we are, sir, and I think we
12 are doing a much, much better in recent years. And I would
13 answer that in two parts, if I may. On the active duty side
14 of the house, the legal community has been absolutely
15 essential in our outreach programs. We now have legal folks
16 who are briefing folks when they reach the installation
17 level, when they leave the installation, in-processing and
18 out-processing, as it were.

19 In pre-deployment briefings and in post-deployment
20 briefings as well, and we found that that has been very,
21 very effective.

22 Chairman Sanders. And that information is getting back
23 to the folks at home as well so the wife knows?

24 Colonel Kantwill. Absolutely, sir. We have family
25 support groups and other sort of mechanisms on the

1 installations that invite the family support groups in, the
2 individual family members as well. They get the same
3 briefings. Preventive law articles in the community
4 newspapers, on the community channels on the installations,
5 et cetera. The news gets out very, very well.

6 A bigger challenge has been on the Reserve component
7 side of the house, admittedly, particularly when we have got
8 a smaller window of boots on the ground time, as you know
9 well, that has pushed into the home station training a lot
10 more that we were able to do at the mobilization stations in
11 the past. But once again, I think we have met that
12 challenge, and we have been able to do it largely through
13 the legal community, both in pre-mobilization briefings and
14 in post-mobilization briefings, and through the use of the
15 legal assets that are habitually assigned to those
16 organizations in regard to--

17 Chairman Sanders. Let me get to Mr. Halperin. You
18 indicated in your testimony a number of some of the largest
19 financial institutions in this country have been involved in
20 ripping off men and women in the armed forces. Have we been
21 as aggressive in going after these financial institutions?
22 Are you happy with the settlement that was reached?

23 Mr. Halperin. The settlement we reached with the five
24 largest financial institutions, we think, is a fair, good,
25 strong settlement on several fronts. So on front, in terms

1 of compensating our servicemembers, it ensures that every
2 single servicemember who was improperly foreclosed on
3 between 2006 and April of 2012 will be compensated at a
4 minimum level of \$125,000.

5 And there is no cap on that. The financial firms that
6 we reached a settlement with agreed to compensate every
7 single person we found. There is no limitation.

8 Chairman Sanders. Are there any criminal penalties
9 involved here?

10 Mr. Halperin. This settlement was a civil settlement.
11 The Civil Rights Division enforces the civil provisions of
12 the SCRA. The criminal provisions are enforced by our
13 colleagues in the Criminal Division and at U.S. Attorney's
14 Offices. And although there is no criminal element of this
15 civil settlement, I do know that our colleagues have brought
16 criminal indictments in other cases and I would be happy to
17 have them provide that information to you.

18 Chairman Sanders. Are you reasonably confident that
19 the banks will end this type of behavior?

20 Mr. Halperin. Well, so the second part of--the second
21 component of the settlement is the going forward piece which
22 is vitally important to ensuring compliance going forward.
23 So under the settlement, all their policies and procedures
24 around the SCRA needed to be submitted to us and were
25 approved by us. And then the settlement includes, for a

1 period of years, direct monitoring by the Civil Rights
2 Division, and provisions in place that, in the event any
3 servicemember's SCRA rights are violated, automatic remedies
4 kick in.

5 And hopefully, the goal of those compliance policies
6 is, if, for some reason, anyone slips through the cracks, it
7 is caught quickly and quick enough so the foreclosure does
8 not happen, because money is good, but it is not an adequate
9 remedy to replacing someone's home.

10 Chairman Sanders. Thank you. Senator Boozman, Senator
11 Hirono, as I understand, has to preside at 10:30. Is that
12 the case? Would you mind if she jumped the line? Senator
13 Hirono.

14 Senator Hirono. Thank you, Mr Chairman, and thank you,
15 Senator Boozman. I want to commend all of you for your
16 commitment in helping our servicemembers, veterans and their
17 families because they are very much, based on the testimony
18 and the information I get from the calls, that my office
19 gets, that they are often targeted for all kinds of,
20 whatever it is called, predatory practices.

21 Ms. Petraeus, I note in your testimony that you made
22 reference to a Florida law that provided enhanced
23 protections against various kinds of practices that target
24 veterans and servicemembers, enhanced unfair trade practices
25 kind of laws. Do you consider that kind of an approach

1 effective at the state level?

2 Ms. Petraeus. I think the states can certainly build
3 on and enhance what is done here at the Federal level. In
4 this case, the State of Florida chose to provide extra
5 penalties to those who ripped off veterans, and it also put
6 the veterans who had been injured ahead of others in the
7 queue for any damages that resulted from the suits. So I
8 think it can enhanced protection. So yes, a multifaceted
9 approach like that is great.

10 Senator Hirono. Have other states followed suit with
11 these kinds of enhanced protective laws?

12 Ms. Petraeus. I think there are a number of them. I
13 would have to do some research to specify, but there are
14 many states that, I think, have real concern for the
15 military families that live and work there and have provided
16 extra protections for them.

17 Senator Hirono. And certainly, Hawaii is a state where
18 there is a huge military presence as well as many veterans.
19 I want to focus on the educational parts, because that is
20 really where a lot of abuses occur. There is the 90/10
21 Rule. You are very familiar, all of you, with the fact that
22 for-profit colleges are restricted from receiving more than
23 90 percent of their revenues from Federal sources, but 10
24 percent can come from those receiving or using G.I.
25 benefits. Do you consider that a loophole that should be

1 closed?

2 Ms. Petraeus. I think it provides a real incentive to
3 chase after servicemembers and use unscrupulous tactics to
4 sign them up. And I mentioned in my statement one I heard
5 about from a VA representative in Nevada who was doing rehab
6 for vets with brain injuries and basically was appalled at
7 the tactics where they were being pursued to sign up, not
8 only for undergrad degrees, but master's degrees.

9 Senator Hirono. So if we pursue a remedy such as
10 requiring that the G.I. Bill kinds of loans be included in
11 the 90 percent, that would take away the incentive for some
12 of these bad actors from targeting veterans?

13 Ms. Petraeus. Yes, I think it would remove some of the
14 incentive that is there now.

15 Senator Hirono. Would the other panel members agree
16 that that might be a fruitful approach?

17 Colonel Kantwill. That is a bit outside of my purview,
18 ma'am, but I can tell you that the Department is absolutely
19 committed to protecting our servicemembers in every respect,
20 and we would be happy to work with the Congress in this
21 regard.

22 Mr. Halperin. Yes, Senator, that is also outside of
23 our purview under the SCRA, but I will note that under the
24 SCRA, we are concerned with loans that are taken out while
25 not on active duty, and then when someone becomes activated,

1 whether they get the full benefits of the 6 percent
2 reduction when they request it. And we do have active
3 investigations in that area, looking into a failure to
4 provide servicemembers the full benefits under the SCRA.

5 Senator Hirono. So even if these areas are not within
6 your purview, you do collaborate and work together so that
7 we are all going to the same goal of protecting our active
8 duty servicemembers and veterans and their families. And
9 with that, I want to thank the Chair and Senator Boozman.
10 Thank you so much.

11 Chairman Sanders. Thank you, Senator Hirono. Senator
12 Boozman, I think you very much for your courtesy.

13 Senator Boozman. Thank you all so much for being here
14 and we really do appreciate your advocacy and hard work,
15 again, protecting our servicemembers. Colonel Kantwill, you
16 mentioned that things seem to be going well as far as the
17 education process. Do we have any metrics in place that we
18 could perhaps measure that to make sure that, you know,
19 rather than just being anecdotal evidence, that we really do
20 know what is going on?

21 Colonel Kantwill. I can certainly take that back, sir,
22 and see if we can provide some metrics for you. I can tell
23 you that we do have indications such as the Military Saves
24 campaign, which we have unprecedented participation in the
25 past couple of years, are indicative of that, but we will be

1 happy to come back to the Committee with more specific
2 information. Thank you.

3 Senator Boozman. I think that would be really helpful,
4 if--again, I am not saying that we are not doing a good job
5 of that, and yet, I do think it is important to measure
6 things.

7 Mrs. Petraeus, you mentioned the incident with the
8 unscrupulous for-profits in the hospital, and again, we can
9 argue the appropriateness of that or not. I think if you go
10 through the--you know, so many members of the service,
11 because they have a lot of leeway in how they get the
12 education program through, a lot of for-profits, you know,
13 many people have benefitted from that. And yet, as you
14 indicated earlier in your testimony, I guess my concern is,
15 is why, if you have a situation like that, is the commanding
16 officer not aware as to what can be done, maybe working with
17 Mr. Halperin or Colonel Kantwill, to remedy that?

18 I mean, that is so cut-and-dried. I mean, that is a
19 blatant thing that we simply should not be tolerating. One
20 of the frustrations I have had a little bit, and I would
21 like to broaden this a little, is that sometimes it is
22 really hard to figure out in this area, and not particularly
23 this law, but just protecting servicemembers, veterans in
24 general.

25 It is really difficult to figure out who is the agency

1 that we direct them to so that they can get after folks.
2 But in this case, to me, it seems like we have got a little
3 bit of a breakdown, perhaps Colonel Kantwill, Mrs. Petraeus,
4 Mr. Halperin, in the sense that the commanders have the
5 ability to know who can put the fear in whoever is doing
6 that.

7 Ms. Petraeus. Well, I would mention that these are
8 veterans, so they are no longer in the active duty military
9 and they would not have a chain of command like that.

10 Senator Boozman. But you have got somebody who--you
11 have got a chain of command in the hospital.

12 Ms. Petraeus. Yeah, and I think one concern has been,
13 really, the lack of sort of a central complaint portal to
14 actually report issues like this, and that has been
15 addressed by the President in his Executive Order and also
16 Congress as well has looked at it. And they are working
17 hard to have one place to go where you can do these
18 complaints. And we look forward to having that database up
19 and running.

20 I was testifying last week with the folks from the VA
21 and they said they hope to have that going by the fall. So
22 we hope that when the word gets out about that, that people
23 will know where they can go with complaints and then they
24 can addressed more effectively.

25 Senator Boozman. It is really difficult, you know, if

1 you do not know where to complain to and where to enforce.
2 Talk to me a little bit about, right now I guess we have
3 come out with a short form as far as complaining. Do people
4 know about that? Is that being used? Can you talk a little
5 bit about the frequency that--I know one of the problems
6 was, that things were pretty complex. We have made that
7 simpler with a short form. Can you talk a little bit about
8 that?

9 Colonel Kantwill. Yes, Senator. The short form
10 relates more to the servicemembers' ability to apprise the
11 financial institution that they wish to avail themselves of
12 protections. We developed that form with our colleagues at
13 the Financial Services Roundtable in the Housing Policy
14 Council. It has been distributed to the force and it looks
15 like it is working very, very well.

16 In short, it makes military orders, which can be very
17 complicated and difficult to read, much easier to use by the
18 financial institutions. So that has helped. On the
19 complaint front, sir, two of the biggest settlements that my
20 colleagues have discussed were begun by individual
21 servicemembers making complaints through legal assistance
22 attorneys. So we think we are doing very well in this
23 regard as well.

24 Senator Boozman. Good. That is excellent. Thank you,
25 Mr. Chairman.

1 Chairman Sanders. Thank you, Senator Boozman. Let me
2 just thank the panel for their excellent work on this very,
3 very important issue and we look forward to working with you
4 all in the future. Thanks very much for being with us this
5 morning.

6 I want to welcome Mr. Paul Leonard who is the Senior
7 Vice President at the Housing Policy Council of the
8 Financial Services Roundtable. I want to thank you very
9 much for being with us today. Mr. Leonard, if you would
10 like to begin, we would love to hear from you.

1 STATEMENT OF PAUL LEONARD, SENIOR VICE PRESIDENT,
2 HOUSING POLICY COUNCIL, THE FINANCIAL SERVICES
3 ROUNDTABLE

4 Mr. Leonard. Thank you, Chairman Sanders and Senator
5 Boozman. Is the mic on? Oh, now it is. Thank you, Mr.
6 Chairman and Senator Boozman, for holding this important
7 hearing today. I am Paul Leonard, Senior Vice President
8 Government Affairs for the Housing Policy Council, which is
9 part of the Financial Services Roundtable. Our members are
10 the leading national mortgage finance companies.

11 Our President, John Dalton, was unable to testify today
12 and sends his apologies to the Committee. Secretary Dalton
13 served as the Secretary of the Navy for five years and has a
14 strong personal interest in this issue. I know this is an
15 important issue for the Chairman and members of the
16 Committee.

17 Our members are intensely focused on strengthening
18 their ability to comply with the Servicemembers Civil Relief
19 Act and to improve their customer service for military
20 personnel, veterans, and their families. We appreciate the
21 leadership of Colonel Kantwill, the Department of Defense,
22 Mrs. Petraeus and the CFPB, and the Congress in this effort.

23 My testimony will focus on industry efforts to improve
24 their SCRA compliance and other efforts to assist veterans
25 and military personnel. On SCRA, our member companies are

1 working diligently to fully comply with all elements of
2 SCRA. While the SCRA requires that a servicemember notify
3 their financial services company to activate certain
4 benefits such as the 6 percent cap, lenders recognize they
5 have responsibilities, liability, and reputational risks
6 should they foreclose on a property, regardless of whether
7 notification was provided.

8 As Congress considers expanding SCRA to cover new
9 consumers, we also ask that you examine improving the
10 Defense Manpower Data Center, the DMDC, to help ensure that
11 benefits and protections can be applied in the most
12 efficient manner possible.

13 On industry efforts to improve compliance with the
14 SCRA, our members are expanding personnel, adding resources,
15 improving communication and training across business lines
16 to better serve military customers, for example, while one
17 company has added an additional 490 personnel focused solely
18 on SCRA and military customer assistance.

19 Companies have created military advisory committees led
20 by senior executives, often with a military background, to
21 spearhead efforts to improve service to military customers.
22 A joint resource that we have been using to help reach more
23 military families is the Hope Now Alliance, which is a
24 voluntary industry, non-profit foreclosure prevention effort
25 that works closely with Treasury on the Making Home

1 Affordable program.

2 Hope Now now holds in person outreach events to contact
3 and assist the stressed homeowners on their mortgage
4 problems. Hope Now is now holding outreach events for
5 military families on or near military bases. Since 2011,
6 Hope Now has conducted nine on-base military outreach
7 events. There are two non-base events scheduled, one in San
8 Antonio, Texas on August 17th, and one in San Bernardino,
9 California on August 24th.

10 At these events, Hope Now also seeks to inform
11 servicemembers about their SCRA protections. Anecdotally,
12 according to exit surveys taken by Hope Now at military
13 events, more than 80 percent of the active duty members who
14 participated in an event were not aware of their SCRA
15 protections. Obviously, those are families that are in
16 difficulty.

17 At these events, personnel can also learn about their
18 mortgage options and receive counseling from independent,
19 non-profit agencies. At a recent event at Joint Base Lewis-
20 McChord, a homeowner said they were very pleased with the
21 outcome. They are going to be able to address their
22 mortgage situation, and it met and exceeded their
23 expectations.

24 Now, I mentioned that there are some weaknesses in the
25 SCRA benefits notification process, and one is that military

1 personnel often do not notify their financial services of
2 their status. We recognize that servicemembers face many
3 other challenges in their lives which may cause them not to
4 notify their financial services company of their status.
5 They are being called up, they are getting briefings on many
6 other issues, and sometimes they just do not do it.

7 One of our member companies reports that out of their
8 military customer base who are date-eligible for SCRA
9 benefits, only 31 percent have submitted military orders to
10 them to activate their benefits. So we support alternatives
11 to help improve the process for proactively identifying SCRA
12 individuals.

13 We want to work with Congress and the Department of
14 Defense to improve procedures for applying SCRA. As Colonel
15 Kantwill mentioned in his discussion with Senator Boozman,
16 in 2011 and 2012, our members worked with DoD to develop an
17 active duty status short form to improve communication of
18 active duty orders from servicemembers for their financial
19 services company.

20 While it is improving, the penetration of the form is
21 not as broad as we would like it to be, but it is an example
22 of the cooperation between the industry and DoD. The DMDC
23 has become a critical tool for the financial services
24 industry to strengthen compliance with SCRA. Cooperation
25 between industry and DoD is essential to enable DMDC to

1 identify individuals who qualify for SCRA protections. We
2 have worked with DoD on improvements to the DMDC system and
3 we thank the Department for making these changes.

4 Additional improvements will be needed, particularly if
5 Congress considers adding additional populations, because
6 the database will have to be able to provide identification
7 of spouses, disabled veterans, or other classes Congress may
8 choose to designate.

9 In closing, I just want to note another joint effort by
10 the Housing Policy Council and the Hope Now Alliance called
11 Project Patriotism, Homes for Veterans. Attached to my
12 testimony is a white paper on industry efforts to transfer
13 REO properties to veterans and military families. We
14 believe that thousands of these homes will be transferred to
15 deserving veterans and families in the coming years, and it
16 is a good example of the industry and non-profit cooperation
17 to assist military personnel, veterans, and their families.

18 Thank you for the opportunity to testify and I look
19 forward to working with you and answering any questions.

20 [The prepared statement of Mr. Leonard follows:]

1 Chairman Sanders. Thank you very much, Mr. Leonard.
2 Mr. Leonard, let me begin by asking you this. In a 2012
3 report, the Government Accountability Office identified over
4 14,000 instances of financial institutions failing to
5 properly reduce servicemembers' mortgage interest rates and
6 over 300 improper foreclosures. How did this happen?

7 Mr. Leonard. Senator, as was documented by the
8 previous witnesses, there were shortcomings across the
9 industry, I think, throughout the crisis from 2007. Now we
10 are coming out of it, but I think many financial service
11 companies were overwhelmed by the number of consumers in
12 distress. I think there were--I do think that companies did
13 not have integrated systems to identify military personnel
14 promptly.

15 As I said, oftentimes the covered individuals do not
16 identify proactively, so the companies need to do it. That
17 is one reason since 2011 we have been working with DoD on
18 making the DMDC more useful in proactively identifying, so
19 we do not have to rely on--put the burden on the
20 servicemember.

21 Chairman Sanders. Do you anticipate that there will be
22 a reduction in these types of occurrences?

23 Mr. Leonard. I think there already has been a
24 reduction. If you look at the agreements, I think since
25 companies--these problems were called to their attention

1 beginning in 2010, 2011. As I said, our member companies
2 have dedicated tremendous amounts of resources, hired new
3 staff often with a military background, and also integrated
4 product lines so that they know if there is an SCRA issue in
5 mortgage. They are going to find out if that also applies
6 to credit cards or auto loans. So I think there has been a
7 dramatic improvement and effort over the last several years.

8 Chairman Sanders. So what I am hearing you say is you
9 do not anticipate the kind of problems that we have seen in
10 the past?

11 Mr. Leonard. I can tell you that our companies, the
12 major national and regional companies, are very focused on
13 this issue. They are doing everything they can to make sure
14 that mistakes or problems do not occur again.

15 Chairman Sanders. I am glad to hear that. Senator
16 Boozman.

17 Senator Boozman. Thank you, Mr. Chairman. I think one
18 of the ways that we can do that, Mr. Chairman, is to make it
19 such that the statistic you gave that 80 percent essentially
20 are not aware of their rights with the law. Am I correct?

21 Mr. Leonard. Yes. And that was--

22 Senator Boozman. That you surveyed. And that is not
23 an official survey perhaps, or whatever, but a pretty good
24 indicator that, you know, there is a problem. But I think
25 as we do a better job in telling our servicemembers--and I

1 think particularly our commanding officers because that is
2 where you go to when you are having a problem, making sure
3 that they understand and that there is, you know, how you go
4 about doing that, I think, is really important and really
5 will be our best bet for eliminating problems in the future
6 or, you know, dealing with these companies that are being
7 unscrupulous.

8 Tell me about the short form and the long form. Now,
9 the long form, does the short form replace that?

10 Mr. Leonard. The short form is intended to replace--
11 you know, as you know, orders are many pages and very
12 detailed.

13 Senator Boozman. Right.

14 Mr. Leonard. But the key thing to initiate benefits is
15 the dates of active duty service. So the short form has the
16 key information that the financial service company needs to
17 initiate benefits and make sure that they are applied to
18 when the servicemember is entitled to it. So the short form
19 is one method to try to speed up the process so there is not
20 a gap in that servicemember getting their benefits.

21 The other method we would like to see is, what our
22 companies do is they go to the Defense Manpower Data Center,
23 they run their customer base against the database, and find
24 out who is on active duty. Now, we recognize that there
25 are--DMDC is used for a variety of other purposes by the

1 Department. It is not just for identifying SCRA benefits,
2 but that has become a very important role for it.

3 So we would like to work with the Department and the
4 Congress to make additional improvements. For example, you
5 know, in a secure manner, using a Social Security number to
6 identify the covered individual, because often the names can
7 be slightly different. If it is a maiden name or hyphenated
8 name, it may come back as a false negative.

9 The major companies, the national companies, we are
10 talking about tens of thousands of files that they need to
11 check against the database. But as you said, we think the
12 Department, with the help of CFPB, is very focused on the
13 financial education part of it. Our members are focused on
14 it, both individually through outreach, and the addendum to
15 our testimony talks about some of the individual efforts
16 companies have made on financial education with their
17 military customers.

18 Senator Boozman. Can you follow up on that? Because,
19 I guess, my final question would be, you know, people are
20 working very, very hard on this issue and we have got a good
21 law in place. What else do we need to do? Can you give
22 some examples of what--you know, you said--give some
23 examples there and then again, where else do we need to
24 focus?

25 Mr. Leonard. I think what we are seeing is that the

1 efforts that the Department has underway with the advice of
2 CFPB on financial education, as you noted, it is very
3 important to have the buy-in of the commanding officer, that
4 he or she identifies it as a priority. For example, at the
5 recent outreach event that Hope Now had at Joint Base Lewis-
6 McChord in Washington, the CO said, This is something we
7 should do. We should have this event so that both military
8 and base civilian personnel and veterans could come in and
9 talk with either a non-profit counselor or their financial
10 services provider.

11 I think our companies and the industry in general is
12 getting more focused on it and I think some of the material
13 we provided in the testimony shows that there is an
14 increased attention, that this is a unique consumer segment.
15 As Chairman Sanders said at the beginning of the hearing,
16 they have got a lot going on in their lives, even much--you
17 know, other families have a lot of stresses, but military
18 families have probably the most stress.

19 So that is one reason why we think enabling companies
20 in a secure manner to use the database more effectively, to
21 say, Okay, we have identified this person, they should be
22 getting the coverage from the state.

23 Senator Boozman. Okay. Thank you, Mr. Chairman.

24 Chairman Sanders. John, if I could, I would like to
25 ask another question. I understand that the financial

1 industry is involved in a project, Patriotism Homes.
2 Homelessness among veterans has been a very serious problem
3 in this country for decades. I think in recent years, we
4 have begun to maybe make a little bit of progress in that
5 area. Can you explain to us what the financial industry
6 intends to do to help the VA and all of us address the
7 problem of veterans' homelessness?

8 Mr. Leonard. Well, Mr. Chairman, this particular
9 effort is focused on--as you know, one of the effects of the
10 financial crisis was that there was an increasing amount of
11 distressed properties that were foreclosed on. Many of the
12 were vacant and in disrepair. And a number of our companies
13 and non-profits started talking about, Well, could we use
14 some of these REO properties to provide home for veterans
15 and military personnel?

16 So companies individually began working with non-
17 profits to say, How can we identify potential REO properties
18 that could be transferred to the non-profit and the non-
19 profit could identify veterans and servicemembers who would
20 be able to take over the home, either in a straight
21 donation, some type of sweat equity, or a reduced mortgage?

22 And that is what the project Patriotism paper is about.
23 It is to document the different efforts that are underway.

24 Chairman Sanders. What kind of numbers are we talking
25 about? How many homes have been transferred?

1 Mr. Leonard. In the last year, I think there were 500
2 homes, but we expect that to climb into the thousands. The
3 problem is, is that there are a number of factors involved.
4 You have to find a home in an area where a veteran wants to
5 live.

6 Chairman Sanders. I do understand the complexity of
7 it, but at this point, you are saying there are about 500
8 vacant homes and now they are occupied by veterans and their
9 families?

10 Mr. Leonard. Yes.

11 Chairman Sanders. And you expect that number to
12 continue?

13 Mr. Leonard. Yes, and we can provide the Committee
14 with an update on the number.

15 Chairman Sanders. I would love to see that. And is
16 this project taking place across the country?

17 Mr. Leonard. Yes. Most of our members and major
18 national lenders are involved and they work with different
19 non-profits. In the paper, it documents the types of non-
20 profits. Each of the non-profits may have a slightly
21 different approach, either straight donation or sweat
22 equity.

23 Chairman Sanders. So it is going from the bank to the
24 non-profit to the veteran?

25 Mr. Leonard. Exactly. The bank provide the property

1 and some of the funding, but the selection of the veteran
2 and working with them to make sure that they can be a
3 successful homeowner is done through the non-profit so that
4 they understand, does the veteran need to be near medical
5 facilities, are they going to be near family, that type of
6 thing.

7 Chairman Sanders. If you can get as much information
8 on that effort as you can to my staff, I would be
9 appreciative. Senator Boozman.

10 Senator Boozman. Thank you, Mr. Chairman. Again, we
11 appreciate your efforts and we really look forward to
12 working with you. Hopefully you can help us strengthen
13 things. And then also, as importantly, help us in providing
14 the outreach.

15 I think that is really what we lack more than anything,
16 is just making the servicemember aware of the significant
17 protections that they have. And right now, that seems to be
18 a challenge and that is just going to take everybody working
19 together to do a better job for that. So thank you for
20 being here.

21 Mr. Leonard. Thank you, Senator. Thank you, Mr.
22 Chairman.

23 Chairman Sanders. Mr. Leonard, thank you very much.
24 With that, the meeting is adjourned.

25 [Whereupon, at 10:48 a.m., the hearing was adjourned.]