

Testimony of Admiral Steve Abbot, USN (Ret)
President, Navy-Marine Corps Relief Society
Before the Senate Committee
On Banking, Housing and Urban Affairs
November 3, 2011

***“Empowering and Protecting Service Members, Veterans and their Families
In the Consumer Financial Marketplace”***

Mr. Chairman, Senators, good morning, and thank you for the opportunity to appear before the committee to discuss the conditions which military service members face in the financial marketplace. The information which I provide to the committee comes from my perspective as President of the Navy-Marine Corps Relief Society, a private, non-profit charity which supports active duty and retired Marines and Sailors, and has been doing so for over one hundred years. Last year, in 2010, we saw 73,000 individual Sailors and Marines in our offices around the world, some of them more than once. When you count the repeat clients, it adds up to a total of 100,000 cases in 2010, and we are on that same pace this year. That amounts to almost one out of every five active duty Sailors and Marines, or twenty percent of the force in just a single year.

Although it is always great to wear a military uniform, being a junior enlisted man or woman in these recessionary times, especially if you have a family, is tough sledding. While the servicemember's employment may be stable, many military spouses have lost jobs in the civilian economy. These families are turning to the Society in record numbers. The financial assistance we provided in 2010 is the greatest since 1993 when the size of the force was significantly larger.

The Military Lending Act (MLA), which became effective in October 2007, has dramatically curtailed payday loans to active duty service members – our annual assistance to those stuck in the payday loan trap went from a high of \$1.4 million in 2006 to just \$168K thus far in 2011. That is very good news, and we credit the MLA, and improved personal financial management education and training. But the Military Lending Act was implemented on a limited scope. Financial institutions have found loopholes in the regulations and new predatory lending practices have arisen which continue to victimize our clients. Before my visit this morning, I contacted all 51 of the Society's Directors around the world to ask what practices they are seeing that send their clients into a downward spiral of debt.

Examples Illustrate the Problems:

- Fort Worth, Texas. Assisted a retired Navy E-5 with rent, food and utilities because he used his retirement check to repay a payday loan. He had borrowed \$950 at an APR of 277.65%. His finance charge was \$216.80.
- Camp Lejeune, NC. Helped a Marine Lance Corporal with food and utilities since his paycheck had been withheld due to overdrafts and associated fees.
- Newport, RI. Assisted a Navy E-5 seven times with loans totaling \$3,652. Most recently he got a high interest loan from one of the on line lenders to repair his car “because it was available, quick and immediate.”
- Norfolk, Virginia. Helped a Navy E6 suffering from a 365% motor vehicle line of credit with a title loan company in Virginia Beach. Sailor had title to the 1998 Nissan Maxima, was paying \$200 per month on a \$1,000 loan and had recently filed Chapter 13 Bankruptcy.
- Quantico, Virginia. A Navy E2, seen one month after his 21st Birthday, with a wife and one child, had overdraft protection payments due after every payday. When seen by our office, the member had six credit cards, one loan consolidation debt and one personal loan. Society helped

with a loan for food, gas and diapers, as well as financial education and referrals for more in-depth counseling.

- Corpus Christi, Texas. An active Duty E-5 with a wife and two small children was in a cycle of overdraft that he had been unsuccessful in resolving following a high interest internet loan. The family went into their overdraft when his child required medical care at a facility in another town, but the distance was not far enough for Tricare to cover travel expenses. By the time the couple sought assistance, they had suffered four back to back paydays on which \$500 was taken by the bank to zero overdraft funds and fees. We helped the family with basic living expense and provided financial counseling.

Most Egregious Trends

- Banks and credit unions on and near military bases continue to charge exorbitant and multiple fees associated with overdraft protection and direct deposit advance loans. With an overdraft, the bank agrees to cover a transaction despite lack of funds in the account, charges a fixed fee and takes payment out of the next deposit to the service member's account before other banking transactions. This problem is compounded by the common practice of processing checks from largest amount to smallest in order to charge additional fees. Common non-sufficient (overdraft) fees range from \$25 to \$35 per transaction.
- On-line predatory lending is hard to monitor. Many evade state regulation by being off shore, hide behind anonymous domain registrations and have no physical address.
- By structuring loans for a longer payback period and making them open-ended instead of close-ended, and for a larger amount, banks and other lending institutions offer installment loans that avoid the 36 APR cap instituted with the Military Lending Act and legally charge as much as 500% APR.
- Today's young military families are technically savvy but not necessarily financially savvy. A military lifestyle adds additional challenges with frequent family separations and relocations. This can impact spouse employment and education opportunities.

Recommendations

- Continue to improve financial education and consumer awareness. .
- Plug loopholes in the laws and regulations governing predatory lending practices.
- Stimulate additional reasonable cost alternatives to predatory loans.
- Direct local senior military leaders to urge local banking and credit union executives to alter abusive banking practices.
- Extend the protections of the Military Lending Act to retirees and to veterans.
- Banks and credit unions located on military installations should be held to a higher standard of service, offering military families, including military retirees, lower fees and better protection from predatory lending practices. They should also offer financial education to inexperienced consumers before they commit to loan contracts and agreements. Adopting better business practices would go a long way toward ameliorating if not fixing the problems that these servicemembers are experiencing. Some institutions are moving in that direction and I applaud those steps. I appreciate this opportunity to meet with you today and thank you for the work you do to empower and protect service members, their families, and veterans in the consumer financial marketplace.