

Written Testimony of

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**Before the U.S. Senate Committee on Homeland Security and Governmental Affairs
Subcommittee on Oversight of Government Management, the Federal Workforce, and the
District of Columbia**

**Hearing on "Financial Literacy: Empowering Americans to Make
Informed Financial Decisions"**

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Chairman Akaka, Senator Johnson, and distinguished members of the Committee: thank you for the opportunity to speak with you today about the Office of Servicemember Affairs (OSA) at the Consumer Financial Protection Bureau (CFPB), as well as the importance of financial education for servicemembers and military families.

I. My Background

To tell you a little about my background, I come from a military family, one that has a tradition of service going back to the Revolutionary War. My father served in the Army for over 36 years, fighting in both World War II and Vietnam. Two of my brothers also served in Vietnam, and, of course, my husband is currently serving. And I'm a military mom, as well.

I've been around the military community my entire life, and I've seen the problems that can arise from "too much month and not enough money." I have also seen first-hand the devastating impact financial scams and predatory lending can have on servicemembers and their families. Unfortunately too many young troops still learn about wise spending through hard experience and years of paying off expensive debt rather than through an effective financial education class.

As an Army wife I spent a lot of years – over 20 – as a volunteer on the Army posts where we were assigned. During the first year of the Iraq war, when my husband was the commander of the 101st Airborne Division (Air Assault) at Ft. Campbell, Kentucky, I served as the Division's Senior Family Readiness Group Advisor. In that capacity I saw the unforeseen financial problems that came with deployment and I worked on those issues with Department of Defense (DoD) officials as well as local, state and national legislators.

A year later I was invited to become the Director of BBB Military Line, a program of the Council of Better Business Bureaus providing consumer education and advocacy for servicemembers and their families – a position that I held for six years, from 2004 to 2010. While with the BBB, I made on-site visits to military units all over the country, learning about

the consumer issues that impacted them, giving presentations on consumer scams, and working to establish local BBB-military relationships. I guided development of six teen and adult financial workshops taught to more than 20,000 individuals in military communities around the United States and wrote a monthly consumer newsletter that went out to about 3,000 subscribers addressing issues of interest to the military.

II. The Consumer Financial Protection Bureau and Office of Servicemember Affairs

This January, based on my knowledge of the military community and my experience with military consumer issues, Professor Elizabeth Warren, Treasury Secretary Geithner's designee to set up the new Consumer Financial Protection Bureau, asked me to join the CFPB and set up the Office of Servicemember Affairs. As I'm sure you know, the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), which was signed into law on July 21, 2010, established the CFPB as an independent bureau within the Federal Reserve System and charged it with ensuring that consumers have timely and understandable information to make responsible decisions about financial transactions. One of CFPB's mandates was to establish an Office of Financial Education within the Bureau. That office is required to develop and implement a strategy to improve the financial literacy of consumers, in consultation with the Financial Literacy and Education Commission (FLEC). In addition, the law assigns my office, the Office of Servicemember Affairs, the responsibility to "educate and empower service members and their families to make better informed decisions regarding consumer financial products and services," and the CFPB is authorized to enter into agreements with the Department of Defense to achieve that goal.

III. The Need for Robust Financial Education and Strong Consumer Protections for Servicemembers

I consider this mandate to educate servicemembers and their families to be one of the OSA's highest priorities. In my years working with servicemembers and their families, I have seen them targeted by financial scams and unethical practices that might have been avoided if they knew the costs and the red flags of a bad deal. Earlier in this decade there were so many payday lenders clustered around the gates of military installations that Congress saw fit to include a provision in the National Defense Authorization Act of 2007, the Talent Amendment, to protect military personnel on active duty and their families from the high interest rates associated with these expensive short-term loans. I continue to see military personnel carry more consumer debt than their civilian counterparts as they get in over their heads with expensive car financing, high-priced electronics bought on high-priced credit, other costly loans, and outright scams. And the military has not been immune to the housing crisis, either – in fact, quite the opposite. Many servicemembers who thought home-ownership would be a good thing are now locked into mortgages in some of the worst-hit states, where houses have declined significantly in value. While they may be able to make the payments while living in the house, when they get orders to move they are in deep trouble, as they may not be able to rent the house for enough to cover the mortgage payments and they can't afford to sell the house because they are so far underwater on their loan.

Also, some of them have not gotten the relief they should have through the Servicemembers' Civil Relief Act (SCRA), either through their own lack of knowledge of the law's protections, or because their lender denied them their legal rights.

The financial well-being of our military personnel is not just an issue of dollars and cents. Financial problems can be a dangerous distraction for our troops. As Undersecretary of Defense for Personnel and Readiness Clifford L. Stanley wrote to Michael S. Barr, Assistant Secretary of the Treasury for Financial Institutions, last year, "servicemembers and their families are under increasing stress. When we have asked in surveys about the causes, servicemembers responded that finances were second only behind work and career concerns and ahead of deployments, health, life events, family relationships and war/hostilities." Secretary of the Army John McHugh similarly has argued: "Soldiers who are distracted by financial issues at home are not fully focused on fighting the enemy, thereby decreasing mission readiness."

Financial problems can also lead military personnel to lose their security clearances, which may mean that they are no longer permitted to do the job for which they have been trained. Financial problems are now the number one cause of lost security clearances. As an example, the Department of the Navy reported in 2007 that financial management issues accounted for 78 percent of security clearance revocations and denials for Navy personnel.

Those who serve in the military should be able to focus on their jobs and their families without having to worry about getting trapped by abusive financial practices. As Undersecretary Stanley wrote, the "personal financial readiness of our troops and families equates to mission readiness." And a vital component of personal financial readiness is a sound financial education.

IV. Office of Servicemember Affairs: Efforts to Date

In the three months since I joined the CFPB team, in addition to setting up the Office of Servicemember Affairs and beginning to hire staff, I have taken a number of steps to begin a dialogue with the military community about financial education, and to prepare the ground within the CFPB to ensure strong enforcement and consumer response capabilities to protect servicemembers and their families.

A significant part of my time as Director of OSA has been spent reaching out to servicemembers, their spouses, and military service providers to get their advice and recommendations on how to make financial education work best for them. In late January, Professor Warren and I went to Joint Base San Antonio, Texas, where we had two roundtable discussions. We will be conducting a town hall meeting April 13th with Secretary Geithner at Joint Base Myer-Henderson Hall in Arlington, Virginia. And I've also made separate trips to Naval Base San Diego, California, Joint Expeditionary Base Little Creek, Virginia, and the Army Judge Advocate General's Legal Center & School in Charlottesville, Virginia, with more trips to military bases planned in the coming months.

To go into a little more detail on the roundtable at Joint Base San Antonio, we first met with military service providers, including lawyers, financial counselors, mental health professionals, and chaplains, as well as the base's leadership. We asked questions about what scams and other financial problems these service providers were seeing, and how they thought those financial problems might be dealt with. We heard from them that "payday" loans were still an issue in Texas, where they fall outside the 36 percent military cap imposed by the Talent Amendment because they are now offered for more than 91 days. The attendees also were concerned about military indebtedness, telling us that the average trainee arrives at Lackland Air Force Base (part of Joint Base San Antonio) over \$10,000 in debt¹, some of it incurred during the waiting period between recruitment and entry into the service, when they get out there and buy that car, phone, and computer in anticipation of their military salary. The providers also had strong feelings about the necessity of follow-up financial education after basic training.

The second roundtable was with military personnel and spouses from the Air Force, Army, and Navy. They too felt strongly about the need for mandatory financial training, not just in basic training, where it is not well absorbed by tired, stressed trainees, but on a continuing basis. A number of attendees suggested continuing education throughout the various professional development schools, such as the Basic Noncommissioned Officer Course and the Advanced Noncommissioned Officer Course, both for their own personal education and to help them be better leaders for their soldiers. One suggested that it be a quarterly mandatory requirement for all personnel, like Equal Opportunity training, and the entire group raised their hands when asked if they thought that sort of continuing financial training should be mandatory.

I agree with those servicemembers and military service providers that continuing financial education must have a central role in protecting the financial future of military families, and I have had very productive meetings on the subject already with Robert Gordon, the Deputy Assistant Secretary of Defense for Military Community and Family Policy, who oversees financial literacy programs within the Department of Defense. The OSA plans to work with the Pentagon, veterans service organizations, the larger military community, and industry to identify and help provide the most timely and effective financial education for servicemembers and their families. No amount of prosecutors or government agencies can stop every scammer or predatory lender out there, so we must do more to provide the right tools and information to military personnel and their families so that they recognize the red flags of a bad deal or scam and make sound financial choices.

I am committed to ensuring that the OSA's educational component does not "reinvent the wheel" or duplicate what our counterparts at the Pentagon or in the private sector are already doing. My office is not interested in simply creating more reports that grow dusty on a bookshelf or end up in a large pile of similar documents. Instead, we plan to work closely with the Department of Defense and both the public and private sectors to identify what techniques and materials work best and then apply them to the education of military families.

¹ The Lackland Airman & Family Readiness Center (802d Force Support Squadron) gathered debt information on airmen arriving at the Technical Training Group at Lackland Air Force Base following Basic Military Training from 1997 to 2009. The average debt increased from \$7,565 in CY 1997 to \$10,431 in CY 2008, the last full year the data was collected. A total of 109,048 airmen were surveyed during the period.

We need to capitalize on the “teachable” moments, which may vary at different times in a military career. What’s pertinent to a new soldier shopping for his first car may not be relevant to a 20-year “lifer” contemplating buying a house. We will work on fielding curricula that hit those teachable moments and are taught in a way that is engaging to the students, and we will develop metrics to gauge the effectiveness of what we have taught. And we will keep tweaking it until we get it right.

I should add that I think that the educational strategies we develop at OSA can make an important contribution to the financial literacy of all American families. History has shown us that best practices developed in support of the military can translate to the larger US community. For that reason, we believe that the military can be a great test bed for innovative financial education products that could have an application to the population at large. And like the OSA, the CFPB’s Office of Financial Education plans to leverage the good work that is already being done out there, rather than starting from scratch.

V. Conclusion

In conclusion, the Office of Servicemember Affairs (OSA) is already working hard to ensure that servicemembers and their families, who devote their lives to protecting our nation, will have a strong advocate to help protect them from financial threats. We will work with the military, the rest of the public sector, and the business community towards the goal of every military family being a financially-educated family, armed with knowledge of how to avoid scams and poor financial decisions, and willing and able to invest towards long-term financial goals.

Thank you for the opportunity to testify before the Committee.