

MILITARY FAMILIES DESERVE A STRONG CONSUMER AGENCY TO PROTECT THEM FROM UNFAIR FINANCIAL PRACTICES

Today, Treasury Secretary Geithner hosted a roundtable discussion at the Treasury Department to hear from military advocacy groups and Department of Defense personnel about the core consumer protection issues facing service members and their families. To view remarks from the Secretary and David Julian, Director, Office of Personal Finance, Department of Defense, following the meeting, visit [link](#).

“We recognize Service members and their families are under increasing stress. When we have asked in surveys about the causes, Service members responded that finances were second only behind work and career concerns and ahead of deployments, health, life, events, family relationships and war/hostilities.”

– Undersecretary of Defense for Personnel and Readiness Clifford L. Stanley, February 26, 2010, in a letter to Michael S. Barr, Assistant Secretary for Financial Institutions, U.S. Treasury Department

Military Families Have Too Often Been Hit With Abusive Practices

- Financial needs attract predatory lenders. Military families have been a target of unscrupulous lenders because of their demographic characteristics. Often, recently enlisted soldiers and sailors have their first steady paycheck and their first chance to be lured into easy credit offers. But there are also many experienced military families struggling with daily expenses such as child care and medical bills in the face of deployments and frequent moves.
- Threatens military readiness. Undersecretary Stanley’s letter states that the “personal financial readiness of our troops and families equates to mission readiness.” He reports that 72 percent of financial counselors surveyed had counseled Service members on auto abuses in the past six months.

The Administration Believes Military Families Deserve a Consumer Agency that Will:

- Write rules under existing federal consumer financial laws and be authorized to prohibit unfair, deceptive, and abusive practices by all bank and nonbank participants in the consumer financial services market. Auto dealers act as lenders, originating 80 percent of car loans.^{[i][i]} They make nearly half of their profits from finance and insurance.^{[ii][iii]} They should have to follow the same rules as community banks and credit unions.
- Review and enforce compliance with these rules. The new consumer agency would review compliance on a risk basis, taking into account complaints and other risk indicators.

Military Families Deserve a Consumer Agency that Will Crack Down on Abusive Auto Lending Practices

- Wrong incentives: Like mortgage brokers, auto dealer-lenders are paid more to sell loans with higher rates and fees than borrowers qualify for. This gives dealers a perverse incentive to charge higher rates.
- Bait and switch financing. Sometimes a dealer-lender sends the buyer home with a “purchased” car and calls a few days or weeks later to say that the financing “fell through.” The borrower then is trapped into paying a higher interest rate.
- “Packing” loans. Dealers also receive commissions to sell expensive add-ons to the loans, such as extended warranties. Dealer-lenders frequently obscure the cost of add-ons, which can be thousands of dollars, by emphasizing that they only moderately increase the monthly loan payment.^{[iii][iii]}
- Discriminatory lending. Among consumers who obtain dealer financing, African Americans are almost twice as likely as whites to pay dealer mark-ups (54.6 percent of blacks versus 30.6 percent of whites),^{[iv][iv]} and African Americans are 70 percent more likely than white men to finance at the dealer rather than a bank or a credit union.^{[v][v]}

The Department of Defense Believes a New Consumer Agency Would Help Protect Troops from Abuses

- Undersecretary Stanley writes, “Since auto financing represents the most significant financial obligation for the majority of Service members, particularly in the junior enlisted grades, we believe the intervention of the CFPB in overseeing auto financing and sales for Service members will help protect them and will assist us in reducing the concerns they have over their financial well-being.”

The New Consumer Agency Would Better Protect Military Families in the Following Areas as Well:

- For Mortgages. The piles of forms needed for a regular mortgage can be overwhelming and many brokers have taken advantage of that confusion to sell borrowers loans they couldn’t afford. The new consumer agency would be required to consolidate and simplify two overlapping and sometimes inconsistent federal mortgage forms.
- For Credit cards. The new agency would enforce the new credit card law that bans rate hikes on existing balances and other unfair practices. Military families that sometimes use credit cards to get by when times are tight will benefit from strong protections.
- For Overdrafts. The new consumer agency would help enforce new rules that give consumers a real choice as to whether to join expensive overdraft programs.
- In the Nonbank Financial Sector. For the first time, a federal agency whose mission is to protect consumers for financial products and services would oversee financial providers such as check cashers, credit bureaus, debt collectors, and mortgage brokers.

###

[i][i] Consumer Bankers Association, “2008 Automotive Finance Study: An Analysis of 2007 Year-End Data,” analysis performed by Benchmark Consulting International.

[ii][ii] F&I Management & Technology, “2009 F&I Statistic,” December 30, 2008, citing CNW Market Research (44% of profits from finance and insurance departments over the past 10 years, and share has been trending upwards).

[iii][iii] Delvin Davis & Joshua M. Frank, Center for Responsible Lending, “Car Trouble: Predatory Auto Loans Burden NC Consumers,” April 2009.

[iv][iv] Mark A. Cohen, “Imperfect Competition in Auto Lending: Subjective Markup, Racial Disparity, and Class Action Litigation,” December 2006.

[v][v] Ian Ayres, “Discrimination in Consummated Car Purchases,” 2005, available at islandia.law.yale.edu/ayers/abf%20conference.pdf.