

## Takeaways From Military Member Complaints At CFPB

By **Jeffrey Naimon, Benjamin Olson, Sasha Leonhardt and Christina Smith** (February 6, 2019)

The Consumer Financial Protection Bureau's Office of Servicemember Affairs recently released a report highlighting issues facing military consumers based on complaints submitted by service members, veterans and their families. This report identifies categories and trends among the approximately 48,800 military complaints received by the OSA between April 1, 2017, and Aug. 31, 2018. For creditors this is particularly valuable data as regulators continue to focus on service member issues, and this report identifies the likely areas where they will direct their attention in the coming year.



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Military service poses unique financial challenges to consumers, and by extension the creditors who serve them. Members of the military are often required to travel great distances with little notice, and in many instances they have forgone more lucrative opportunities in the private sector in service to their country. Similarly, military families must adapt to the emotional and financial stress of travelling to accompany a military spouse or having a military spouse overseas. Creditors should be sensitive to all of these challenges as well as the enhanced protections that members of the military enjoy under the federal Military Lending Act, the federal Servicemembers Civil Relief Act, and various state laws that afford certain benefits to members of the federal military and individuals on state National Guard service.



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### The OSA Report

In its review of service member complaints, the CFPB's OSA report highlighted the following key areas of concern:

- **Credit Reporting:** This category represented 37 percent of all service member complaints. The report noted that new processes at the U.S. Department of Defense increase the likelihood that a service member's poor credit score could result in losing a security clearance, and by extension being separated from the military.
- **Debt Collection:** This category was second to credit reporting among service member complaints. Most of these complaints alleged that the service member did not owe the debt or that the debt collector failed to respond to written requests for information. The report also said that some debt collectors inappropriately contacted service members' chains of command in an attempt to obtain payment.
- **Mortgage Loans:** The most complaints in this category related to challenges in the payment process — in particular, issues related to loan modifications, collections,



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communicating with the service member's "single point of contact," escrow, and servicing transfers. These process-focused complaints were closely followed by overall difficulty in making monthly mortgage payments.

- **Credit Cards:** The greatest concentration of complaints in this category focused on purchases on statements (e.g., fraudulent/unauthorized charges, billing frustrations, and difficulties in challenging charges directly with the credit card issuer). Notably, while the report acknowledged the Military Lending Act's October 2017 compliance date for credit card issuers, it did not specifically break out MLA-related complaints; rather, the report noted that the CFPB has received "some complaints from service members demonstrating confusion with respect to how and when creditors are applying the MLA's protections to credit card accounts."
- **Automobile Lending:** For service members with motor vehicle loans, the leading category of complaints arose from issues managing the loan or lease, including application of payments and late fees. Unique to service members, the OSA report highlighted that products like GAP insurance can become void if a service member takes a car overseas (for example, to use while on station).
- **Student Lending:** For student lending, two-thirds of complaints arose from challenges in making payments and enrolling in payment plans, in particular issues with enrolling and recertifying eligibility for income-driven repayment. Additionally, the CFPB continued to receive complaints from student borrowers on active duty who face obstacles when seeking protections under the Servicemembers Civil Relief Act, such as the 6 percent interest rate cap.
- **Payday Lending:** Finally, for payday loans, the OSA report noted that since 2016, service member complaints have decreased drastically and are now equal with nonservice member complaints (as a percentage of total complaint volume); previously, service members were almost twice as likely to complain about payday loan products.

## **Best Practices**

The CFPB's OSA report provides financial institutions with valuable information to benchmark their performance against trends and issues that are common to the entire industry. But identifying these areas of concern is only the first step — this information is most valuable as a tool to identify weaknesses and address problems before they turn into complaints to the CFPB and other banking regulators.

In light of the OSA report, financial institutions may want to consider implementing some of the following best practices when handling service member accounts:

- Maintain detailed written policies, procedures and training materials to ensure the proper underwriting of new credit and servicing of existing accounts for customers who are eligible for SCRA and MLA protections.
- Review and respond to service member complaints promptly, both because regulators investigate complaints for potential enforcement actions and because consumer complaints can serve as a valuable early warning system for compliance weaknesses.
- Identify opportunities to use technology to reduce the risk of human error and streamline SCRA and MLA processes (for example, by engaging in proactive checks for active duty status under the SCRA, using consumer reporting agency checks for covered borrowers under the MLA, and implementing system coding to prevent prohibited collection activities against service members).
- Recognize how even generally applicable consumer protection laws can have unique consequences for service members (for example, negative credit bureau reporting can lead to loss of security clearance and mission capability for service members, GAP protection can be voided if a service member takes a car overseas, and contacting a service member's command regarding unpaid debt can have significant repercussions for the service member's advancement).
- Remain sensitive to service members as a class and how certain advertising, servicing, and collection practices that may not be harmful to other consumers could raise claims of unfair, deceptive, or abusive acts or practices against those in military service.
- Consider creating a group of military specialists — including veterans or family members of those who have served and understand military culture — that is familiar with both the legal protections that apply to service member accounts as well as the unique financial, logistical and personal challenges that service members and their families encounter.
- Regularly confirm current addresses for service member accounts through email, phone, and written letters — military families often relocate every two to three years as a result of receiving permanent change of station orders.

- Perform internal — and if necessary external — reviews for compliance with service member financial protections, and where appropriate engage in regular oversight of third-party service providers to measure their compliance with the SCRA, MLA and other laws that protect service members.

As it has in the past, we expect the CFPB to use the OSA report to guide its regulatory and enforcement priorities in the coming year. While institutions with a significant military consumer base should pay particular attention to the lessons contained in this report, all financial institutions are likely to have some portion of their consumer base in military service. By focusing on these issues now, financial institutions can avoid future compliance problems.

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