

## **Paul Leonard, Senior Vice President, Housing Policy Council, the Financial Services Roundtable**

Chairman Sanders, Ranking Member Burr and Members of the Committee thank you for holding this important hearing today focused on the unique financial services issues affecting Servicemembers and their families. We thank you for the invitation to participate.

My name is Paul Leonard and I am the Senior Vice President of Government Affairs for the Housing Policy Council (HPC) of The Financial Services Roundtable (FSR). The Housing Policy Council is part of The Financial Services Roundtable and our members are thirty-one of the leading national mortgage finance companies in America. HPC members originate, service and insure mortgages.

Since early 2011, the members of the Housing Policy Council and members of The Financial Services Roundtable, both individually and collectively, have been intensely focused on strengthening their ability to comply with the Servicemembers Civil Relief Act (SCRA) and in broadening and improving their customer service and support for military service personnel, veterans and their families.

As part of this focused effort, HPC has worked closely with Colonel Paul Kantwill and his team at the Department of Defense (DOD); Mrs. Holly Petraeus and her team at the Consumer Financial Protection Bureau's (CFPB) Office of Servicemember Affairs; the Congress, and the industry to increase understanding of, and find solutions to, the unique financial challenges that Servicemembers and military families face. I want to thank Colonel Kantwill and Mrs. Petraeus for their leadership and for working closely with us on addressing these important issues.

The Housing Policy Council has a Servicemember Affairs working group and one of the key goals of this group is to improve compliance with the SCRA. My testimony today will focus on three important points about industry efforts to improve compliance with SCRA:

- (1) Our members are working diligently to fully comply with all elements of SCRA and provide assistance to military customers on their financial needs;
- (2) While elements of the statute, most notably the 6% interest rate cap, provides that the service member must notify their financial services company and submit official military orders for liability to be imposed, a service member's failure to notify does not remove the risk to the lender should it foreclose on a property when proper notification would have prevented that; and
- (3) As Congress considers whether to expand SCRA to new consumer classes such as the spouse of a deceased service member killed while on active duty, we ask that consideration also be given to improving the ability of industry participants to better utilize the Defense Manpower Data Center (DMDC) at DOD to supplement the notification process with the goal of insuring that benefits and protections are applied to protected classes in the most timely and efficient manner possible.

## 1) Industry efforts to comply with SCRA:

FSR and HPC member companies continue to expand their personnel and resources dedicated to serving their military customers. Many companies continue to hire military veterans, and in some cases their spouses, to staff customer service units as well as internal compliance and military liaison positions that are trained and certified in SCRA. Several of our companies have instituted specific programs and services to meet the financial needs of our men and women in uniform as well. Company efforts to improve communication, collaboration, compliance and training across business lines to better service military customer accounts, and to ensure protections such as SCRA have come a long way in the last several years. This progress has occurred with the leadership and cooperation of the Department of Defense, CFPB, the Department of Justice and the commitment of the companies that we work with at the Housing Policy Council and The Financial Services Roundtable.

One resource that has been utilized to help reach more military customers is the HOPE NOW Alliance, of which HPC is a founding member. HOPE NOW is a voluntary industry and non-profit foreclosure prevention and home preservation effort that works closely with the Treasury Department on the Making Home Affordable programs. HOPE NOW holds in-person outreach events and other efforts to contact distressed homeowners across the country and provide information and assistance to them on home retention and other mortgage workout options that are available to them.

HOPE NOW has expanded its outreach model to conduct outreach events for military families on and near military bases across the United States to the extent the Department of Defense permits it to do so. The on-base meetings permit mortgage servicers and non-profit counselors to reach more service men and women and educate them on workout options available to them in situations such as when their loans are underwater or when they face a Permanent Change of Station. In addition, the HOPE NOW events also help to improve service members' awareness of their SCRA protections. According to exit surveys taken by HOPE NOW at military outreach events since 2011, more than 80% of active-duty members of the military who participated in a HOPE NOW sponsored event were not aware of their protections under SCRA and had not taken any action to activate the protections. In other words, for many service members, they learned about their SCRA protections for the first time when they sat down, face to face with their lender to discuss options on their mortgage situation.

There is a real need to continue efforts to educate military personnel about the SCRA protections that are available to them and that they understand the process to activate the protections. The HOPE NOW Alliance is continuing military outreach events and will be in two military markets in August, one in San Antonio Texas on August 17 and a second in San Bernardino California on August 24. We want to continue and work with all other stakeholders to improve education on SCRA and to better serve our men and women in uniform.

## 2) Weaknesses in the notification process for SCRA benefits:

In practice, the process to initiate SCRA benefits and protections often fails because the service member does not provide notification of their active-duty status to their financial services company. The industry recognizes that there are a number of challenges that a service member faces which may prevent timely submission of military orders or other documentation to their financial service provider. The industry supports exploring alternatives to help improve the process for identifying and providing benefits to SCRA eligible individuals.

We want to work with Congress, the Department of Defense and other stakeholders to develop new tools and improve current processes and procedures for applying SCRA protections. In 2011 industry, working cooperatively with DOD, developed an “Active Duty Status” short form designed to improve communication of active duty orders from service members to their financial services company. The form was approved by DOD and implementation began in January of 2012. Although the use of the form is not yet as broad as we would like, it is an example of cooperative work between key stakeholders to improve the SCRA notification process and enhance compliance capabilities by the industry. We want to expand the use of the “Active Duty Status” short form and are prepared to work with key stakeholders to improve its use as an additional tool for compliance with the law. We are also exploring ideas with our member companies through our Servicemember Affairs working group to develop new tools to enhance compliance with SCRA.

## 3) Defense Manpower Data Center Database (DMDC):

The Defense Manpower Data Center has become the primary tool used by the financial services industry for strengthening compliance with SCRA. The use of the DMDC system has been recognized by federal and state regulators such as the OCC and the Department of Justice in various agreements as an important tool to enhance compliance with SCRA. Since the DMDC was designed for other purposes separate from its use as a SCRA verification tool, cooperation between the industry and the Department of Defense is essential to enable its effective use in identifying service members and other individuals who qualify for SCRA protections. We continue to work closely with DOD to suggest enhancements and improvements to the DMDC system that have improved the efficiency of the database. DMDC has made improvements to the system in the last year that our members have welcomed as positive enhancements, and we thank the Department of Defense for making those adaptations.

There remains much to do to improve the system. These improvements are especially needed as Congress considers expanding SCRA protections to new consumer classes. The database needs additional changes and capabilities to enable it to provide identification of spouses, disabled veterans or other classes Congress may designate.

Many of the ongoing data integrity and data accuracy issues are documented in a report to Congress titled “Accuracy of Data in the Defense Enrollment Eligibility Reporting System (DEERS)”, which was required by section 595 of the National Defense Authorization Act for Fiscal Year 2013. Specific issues that our member companies continue to encounter with DMDC include:

- Unreliable data associated with National Guard and Reservists, particularly those individuals with Title 32 orders for state duty that transition to Title 10 status for federal duty. From a compliance perspective, it can be challenging to capture date-eligible benefits of a service member that routinely changes status.
- Use of unique identifiers when retrieving data from DMDC.
- For example, the system requires both a surname and SSN. This can lead to false negatives (which leads banks, creditors and other users to falsely believe that the person of interest is not a member of the military). This error often occurs when a service member has changed his or her last name, such as in the case of marriage, or where the DOD’s record of the servicemember’s surname differs from other official records. We believe that such errors would be eliminated if the system required only a valid SSN/Tax ID identifier.

We recognize Congressional interest in expanding SCRA to new consumer classes, but we urge that Congress consider enhancing the DMDC database system to provide accurate and reliable access to data that would enable the timely identification of new categories of individuals protected under the law. We invite Members of Congress to work with all key stakeholders here today to help improve the data integrity and accuracy of the DMDC system and identify the appropriate methods to achieve this goal.

One final note I would like to make in closing today is about a joint effort by the Housing Policy Council and the HOPE NOW Alliance on what we call our Project Patriotism Homes for Veterans initiative. In June of this year HPC issued a white paper on industry efforts to transition refurbished Real-Estate Owned or distressed properties to veterans, wounded warriors and military families. Our findings indicate that over the coming years thousands of these homes will have been transferred to deserving patriots and their families. A top recommendation from the paper was to convene a “Homes for Veterans” summit with key stakeholders engaged in this space, which we did last week. There are a number of actionable next steps we have taken from that summit that we believe can better enhance these Homes for Veterans programs, inter-connect stakeholders in this space, and enhance these models to a larger, more national scale. This initiative by the industry, in partnership with non-profits and third party groups, is a great example of ongoing efforts by the financial services industry to address the unique needs of the U.S. military and veteran populations.

I thank the Committee for the opportunity to testify today and look forward to working with you to address the unique financial services issues affecting service members, veterans and military families.