

Military Lending Act

Issue: Credit unions have a strong track record of helping active duty members of the armed forces and their families avoid the predatory lending practices which precipitated Congress's enactment of the *Military Lending Act* (MLA). NAFCU supports efforts to protect servicemembers and their families from financial exploitation and has urged the Department of Defense (DoD) to provide clear rules that make sense from a compliance standpoint and do not unduly restrict access to financial products or services. However, the compliance challenges presented by uncertainties in the MLA rule remain substantial and can threaten access to credit for men and women in the armed forces.

Secured Loans: Many credit unions are concerned about how the DoD's interpretation of when a vehicle purchase loan may be a covered loan under the MLA impacts their auto lending and indirect loan programs. If a vehicle loan is a MLA covered loan, this can be problematic for many auto loans originated through indirect lending programs, particularly where the dealer originates the loan, because the MLA prohibits most lenders from taking a security interest in a motor vehicle. The uncertain status of secured vehicle loans originated by a dealer and sold to a credit union has been left unaddressed by the DoD.

Guaranteed Acceptance Protection (GAP) Insurance: In 2017, in an attempt to provide clarification, the DoD amended Question and Answer #2 (Question #2) of its 2016 Interpretive Rule in such a way that it virtually prohibits access to GAP insurance when the MLA-covered borrower tries to finance the GAP insurance with the loan used to purchase the vehicle. By limiting the availability of GAP insurance, Question #2 has the potential to cause significant financial hardship as GAP insurance is a protection against situations where a borrower's vehicle is destroyed or stolen and the value of the car is less than the remaining loan balance. The MLA Interpretive Rule has caused many credit unions and their vendors to no longer offer this product to servicemembers and their families. NAFCU has recommended that the DoD rescind Question #2 from the MLA Interpretive Rule to alleviate regulatory confusion and help credit unions provide vehicle loans to servicemembers.

MLA Supervision: The Bureau of Consumer Financial Protection (Bureau) is reconsidering its statutory authority to conduct routine supervisory examinations for MLA compliance. The Bureau has said it will be suspending MLA exams until Congress passes legislation amending the MLA to expressly permit supervisory examinations. However, the Bureau will continue to exercise its enforcement powers for violations of the MLA based on complaints received through the Bureau's website and consumer response channels. The National Credit Union Administration (NCUA) also examines credit unions for MLA compliance. In 2017, the NCUA made high-level reviews of MLA policies and procedures a supervisory priority.

NAFCU Ask: We urge the DoD to address regulatory confusion regarding secured vehicle loans and GAP insurance. We also ask that the NCUA and the Bureau work to reduce compliance burdens associated with MLA supervision at credit unions, while ensuring that bad actors are not able to dodge critical protections granted to our nation's servicemembers.