



National Association
of Federally-Insured
Credit Unions



DCUC
DEFENSE CREDIT UNION COUNCIL

January 31, 2018

The Honorable J. Mark McWatters
Chairman
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314

RE: Notification of NAFCU-DCUC Petition to the Defense Department to Amend the
MLA Interpretive Rule to Rescind Question and Answer #2

Dear Chairman McWatters:

On behalf of the National Association of Federally-Insured Credit Unions (NAFCU) and the Defense Credit Union Council (DCUC), we are writing to bring to your attention a request made by our organizations to the Department of Defense (Department) related to the Military Lending Act (MLA) Rule.

As you are aware, credit unions have a long history of helping active duty members of the armed forces and their families avoid the kinds of debt traps that necessitated the passage of the MLA by Congress. Both NAFCU and DCUC support the intent of the MLA and our members have gone to great lengths to ensure compliance with the rule. However, the Department's December 14, 2017 amendments to its 2016 Interpretive Rule created additional confusion and compliance difficulties. Specifically, Question and Answer #2 (Question #2) virtually prohibits access to Guaranteed Acceptance Protection (GAP) insurance should an MLA covered borrower desire to finance the GAP insurance with the loan used to purchase the vehicle. This de facto restriction has the potential to cause significant financial hardship as GAP insurance is protection against situations when the purchased vehicle is destroyed or stolen when the value of the car is less than the remaining loan balance.

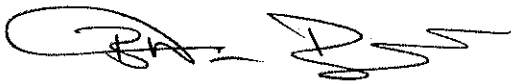
For the reasons outlined in our January 30, 2018 letter (attached), our organizations have recommended the Defense Department rescind Question #2 from its 2016 Interpretive Rule and the subsequent amendment. Such action by the Department would deliver much-needed regulatory certainty to credit unions providing and/or facilitating vehicle loans. Notably, the MLA statute expressly requires the Department to consult with the federal banking regulators, including the National Credit Union Administration (NCUA or agency), when prescribing any regulations under the MLA statute. Should the Department approach the agency for consultation in how to proceed with amending the MLA Rule or its interpretive guidance, we believe the NCUA should also strongly recommend the Department rescind Question #2. If the Department has yet to reach out to the agency, we respectfully request the NCUA proactively urge the

The Honorable J. Mark McWatters
National Credit Union Administration
January 31, 2018
Page 2 of 2

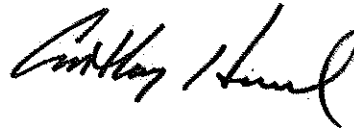
Department to reconsider its approach to the MLA Rule, rescind Question #2, and consider other ways the rulemaking can be amended to facilitate regulatory compliance.

We look forward to continuing our work with the Department and the agency to ensure the MLA is effectively implemented. Should you have any questions or if you would like to discuss these issues further, please feel free to contact us or Alexander Monterrubio, NAFCU's Director of Regulatory Affairs, at (703) 842-2244 or amonterrubio@nafcu.org.

Sincerely,



B. Dan Berger
President and CEO
NAFCU



Anthony R. Hernandez
President and CEO
DCUC

cc: NCUA's Office of Consumer Financial Protection

Enclosure: *NAFCU-DCUC joint letter to the Department of Defense, December 30, 2018*



National Association
of Federally-Insured
Credit Unions



DCUC
DEFENSE CREDIT UNION COUNCIL

January 31, 2018

The Honorable Robert L. Wilkie, Jr.
Under Secretary for Personnel and Readiness
Department of Defense
1400 Defense Pentagon
Washington, DC 20301

RE: Petition for the Defense Department to Amend the MLA Interpretive Rule to Rescind Question and Answer #2

Dear Mr. Wilkie:

On behalf of the National Association of Federally-Insured Credit Unions (NAFCU) and the Defense Credit Union Council (DCUC), we are writing to you regarding the Military Lending Act (MLA) Rule.

Credit unions, as member-owned, not-for-profit cooperatives, have a strong track record of helping active duty members of the armed forces and their families avoid the kinds of debt traps that necessitated the passage of the MLA by Congress. This history is why both NAFCU and DCUC continue to support the Department of Defense (the Department) in its objective of protecting servicemembers and their families from financial exploitation.

As we have both expressed to the Department on several occasions, credit unions have undertaken substantial efforts to comply with the MLA Rule, and they will continue to do so. Credit unions, especially those with fields-of-membership closely tied to the service branches and/or military facilities, have a strong commitment to ensuring servicemembers have access to high-quality financial products and services. However, the compliance challenges presented by the MLA Rule are substantial and many credit unions continue to grapple with the parameters of the rule due to ambiguous regulatory text and muddled guidance.

The Department's recent (December 14, 2017) amendments to its 2016 Interpretive Rule only created additional compliance challenges. Specifically, Question and Answer #2 (Question #2) virtually prohibits access to Guaranteed Acceptance Protection (GAP) insurance should the MLA covered borrower desire to finance the GAP insurance with the loan used to purchase the vehicle. This de facto restriction has the potential to cause significant financial hardship as GAP insurance is protection against situations when the purchased vehicle is destroyed or stolen when the value of the car is less than the remaining loan balance. Unlike other forms of insurance coverage, there is no equivalent to GAP insurance protection provided to active duty servicemembers or their dependents by mere virtue of their service status.

The Honorable Robert L. Wilkie, Jr.
U.S. Department of Defense
January 31, 2018
Page 2 of 2

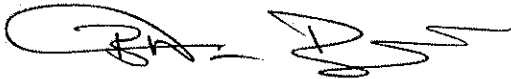
In the event the situation highlighted above happens to a servicemember without GAP coverage, it is likely the unexpected financial burden will have a negative impact on the servicemember's overall financial health. Such financial stress could also have a cascading effect through their personal finances and life, resulting in a decreased credit score or other negative repercussions. Although some individuals may choose to decline GAP insurance coverage, accepting the risks involved in such a decision, each individual should have the opportunity to make their own choice. NAFCU and DCUC continue to hear from our members that many third-party vendors are no longer providing the option for a servicemember to obtain GAP insurance. This outcome, which is byproduct of the Department's promulgation of Question #2, has resulted in choice being taken away.

Due to the increased regulatory confusion originally created by Question #2 and its continued potential to have a negative impact on the financial health of servicemembers, NAFCU and DCUC respectfully recommend the Defense Department rescind Question #2 from its 2016 Interpretive Rule and the subsequent amendment. Such action would deliver much-needed regulatory certainty to credit unions providing and/or facilitating vehicle loans.

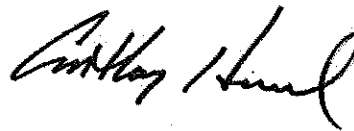
Conclusion

NAFCU and DCUC recognize the important purpose the MLA serves in protecting those who protect us. We look forward to continuing our work with the Department to ensure the MLA is effectively implemented. Should you have any questions or if you would like to discuss these issues further, please feel free to contact us or Alexander Monterrubio, NAFCU's Director of Regulatory Affairs, at (703) 842-2244 or amonterrubio@nafcu.org.

Sincerely,



B. Dan Berger
President and CEO
NAFCU



Anthony R. Hernandez
President and CEO
DCUC

cc: Andrew H. Cohen, Director, Financial Readiness