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National Association of Federal Credit Unions | www.nafcu.org

September 26, 2014

The Honorable Debbie Matz, Chairman
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314

RE: The Department Of Defense's Proposed Military Lending Act Cap Expansion

Dear Chairman Matz:

On behalf of the National Association of Federal Credit Unions (NAFCU), the only trade association that exclusively represents federal credit unions, I am writing to you regarding the Department of Defense's (DOD) proposed changes to the regulations implementing the Military Lending Act (MLA). NAFCU has significant concerns about the potential unintended consequences to credit unions based on the proposed changes.

First and foremost, we greatly appreciate your statements regarding the proposal and your commitment to working with the DOD to ensure that credit unions can continue to serve their military members and provide them access to affordable credit. However, we urge the National Credit Union Administration (NCUA) to consider revising its approach to the definition of "finance charge" as it relates the credit union interest rate ceiling and short-term, small amount loans (STLs), which are now known as "payday alternative loans."

There are several important aspects of the DOD's proposed rule, including the proposed amendment to the definition of "consumer credit" to align with Regulation Z. This amendment would expand the scope of the MLA's protections to other credit products not currently covered by the regulations. NAFCU strongly supports consumer financial protections for our nation's servicemembers, and credit unions have a proven track record of protecting the interests of their members. However, NAFCU will work to ensure that there are no unintended consequences with the changes proposed to the definition of consumer credit which would prevent credit unions from providing essential credit products to members who serve in the military.

One unintended consequence of the proposed rule relates to the DOD's proposed amendment of the definition of "finance charge" to align with the definition of finance charge in Regulation Z.

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This proposed amendment, if finalized, could impact credit unions' ability to provide credit products to servicemembers due to the interest rate restrictions already imposed on credit unions.

As you noted, the Federal Credit Union Act (FCUA) imposes a statutory limit on the interest rate that credit unions may charge. Currently, NCUA's regulations cap the annual percentage rate (APR) at 18 percent, inclusive of all finance charges. 12 C.F.R. § 701.21(c)(7). NAFCU is concerned that, if the DOD moves forward with its proposal, the changes might prove problematic given the NCUA's reliance on the definition of the finance charge in Regulation Z. Specifically, if the DOD's proposed definition of finance charge is finalized, this will impact the credit union's military APR calculations for credit products to servicemembers, and might result in credit unions being unable to offer existing valuable products to their military members.

Accordingly, NAFCU requests that NCUA begin examining options it might pursue if the DOD moves forward with its proposal. Specifically, NAFCU encourages NCUA to examine how it defines "finance charge" in relation to the interest rate ceiling to ensure that credit unions can continue to provide the credit products that their military members utilize and depend upon.

Thank you for your attention to this matter. Should you have any questions or would like to discuss these issues further, please contact me by telephone at (703) 842-2244 or by email at mcoleman@nafcu.org.

Sincerely,



Michael Coleman
Director of Regulatory Affairs
National Association of Federal Credit Unions

Cc: The Honorable Rick Metsger, Vice Chairman
The Honorable Mark McWatters, Board Member