



B-327241

August 11, 2015

The Honorable Johnny Isakson
Chairman
The Honorable Richard Blumenthal
Ranking Member
Committee on Veterans' Affairs
United States Senate

The Honorable Jeff Miller
Chairman
The Honorable Corrine Brown
Ranking Member
Committee on Veterans' Affairs
House of Representatives

Subject: *Department of Defense, Office of the Secretary: Limitations on Terms of Consumer Credit Extended to Service Members and Dependents*

Pursuant to section 801(a)(2)(A) of title 5, United States Code, this is our report on a major rule promulgated by the Department of Defense (DOD), Office of the Secretary entitled "Limitations on Terms of Consumer Credit Extended to Service Members and Dependents" (RIN: 0790-AJ10). We received the rule on July 27, 2015. It was published in the *Federal Register* as a final rule on July 22, 2015. 80 Fed. Reg. 43,560.

The final rule amends the regulation that implements the Military Lending Act (MLA). DOD states that among other protections for Service members and their families, MLA limits the amount of interest that a creditor may charge on consumer credit to a maximum annual percentage rate of 36 percent. This rule extends the protections of MLA to a broader range of closed-end and open-end credit products. Among other amendments, this rule modifies the provisions relating to the optional mechanism a creditor could use when assessing whether a consumer is a covered borrower, modifies the disclosures that a creditor must provide to a covered borrower, and implements the enforcement provisions of MLA.

Enclosed is our assessment of DOD's compliance with the procedural steps required by section 801(a)(1)(B)(i) through (iv) of title 5 with respect to the rule. Our review of the procedural steps taken indicates that DOD complied with the applicable requirements.

If you have any questions about this report or wish to contact GAO officials responsible for the evaluation work relating to the subject matter of the rule, please contact Shirley A. Jones, Assistant General Counsel, at (202) 512-8156.

signed

Robert J. Cramer
Managing Associate General Counsel

Enclosure

cc: Patricia Toppings
OSD Federal Register Liaison Officer
Department of Defense

REPORT UNDER 5 U.S.C. § 801(a)(2)(A) ON A MAJOR RULE
ISSUED BY THE
DEPARTMENT OF DEFENSE,
OFFICE OF THE SECRETARY
ENTITLED
“LIMITATIONS ON TERMS OF CONSUMER CREDIT
EXTENDED TO SERVICE MEMBERS AND DEPENDENTS”
(RIN: 0790-AJ10)

(i) Cost-benefit analysis

The Department of Defense (DOD) quantified three effects of the regulation. With respect to costs, DOD anticipates that, absent a grant of relief, this rule may impose costs of approximately \$106 million during the first year, as creditors adapt their systems to comply with the requirement. When the relief afforded to creditors for the general exemption for credit card accounts is included, the anticipated approximate costs are significantly lower during the first year. DOD estimates the annual ongoing costs to be \$30 million. After the first year and on an ongoing basis, in a sensitivity analysis, the annual benefits to DOD may be between approximately \$14 million and \$133 million. DOD also estimates the potential savings that could result if the rule reduces the involuntary separations of Service members where financial distress is a contributing factor in sensitivity analyses. At some points in the range of estimates DOD has used to assess the proposal, these savings are estimated to exceed the compliance costs that would be borne by creditors. DOD also has developed a transfer payment analysis that estimates between \$100 million and \$119 million in transfer payments per year from creditors to Service members and their dependents.

(ii) Agency actions relevant to the Regulatory Flexibility Act (RFA), 5 U.S.C. §§ 603-605, 607, and 609

DOD certified that this final rule would not have a significant economic impact on a substantial number of small entities.

(iii) Agency actions relevant to sections 202-205 of the Unfunded Mandates Reform Act of 1995, 2 U.S.C. §§ 1532-1535

DOD certified that this final rule does not contain a federal mandate that may result in the expenditure by state, local, and tribal governments, in the aggregate, or by the private sector of \$100 million (\$155 million, adjusted for inflation) in any one year.

(iv) Other relevant information or requirements under acts and executive orders

Administrative Procedure Act, 5 U.S.C. §§ 551 et seq.

On September 29, 2014, DOD published a proposed rule. 79 Fed. Reg. 58,602. DOD later extended the comment period through December 26, 2014. 79 Fed. Reg. 70,137 (Nov. 25, 2014). DOD received hundreds of comments from a range of individuals and groups, including over 21,000 individuals; nearly 200 consumer or civil rights organizations; 40 U.S. Senators;

attorneys general of 22 states; 350 groups, trade associations, and businesses; and 50 financial institutions. DOD responded to the comments in the final rule.

Paperwork Reduction Act (PRA), 44 U.S.C. §§ 3501-3520

DOD determined that this final rule contains information collection requirements that have been submitted to the Office of Management and Budget (OMB) for review. DOD estimates that the requirement entitled "Mandatory Loan Disclosure and Covered-Borrower Check as Part of Limitations on Terms of Consumer Credit Extended to Service Members and Their Dependents" will have 37,500 respondents providing 238 million responses for a burden of 3,375,000 hours in the first year and an ongoing burden of 2 million hours each year.

Statutory authorization for the rule

DOD promulgated this final rule under the authority of section 987 of title 10, United States Code.

Executive Order Nos. 12,866 and 13,563 (Regulatory Planning and Review)

DOD determined that this final rule is a significant regulatory action, as defined in the Orders as this rule may have an annual effect on the economy of \$100 million or more. Accordingly, this regulation has been reviewed by OMB.

Executive Order No. 13,132 (Federalism)

DOD determined that this final rule does not affect in any manner the powers and authorities that any state may have or affect the distribution of power and responsibilities between federal and state levels of government. Therefore, DOD determined that the final rule does not have any federalism implications that warrant the preparation of a federalism assessment under the Order.