



June 7, 2022

Senator Susan Talamantes Eggman
California State Senate, Assistant Majority Leader
1021 O Street, Suite 8530
Sacramento, CA 95814

**RE: California Senate Bill 1311 – OPPOSE UNLESS AMENDED
Military and Veteran Consumer Protection Act of 2022**

Honorable Senator Eggman:

The undersigned organizations, representing the majority of the lenders and stakeholders providing consumer voluntary protection products, strongly oppose Senate Bill 1311 unless Section 5, that adds Section 408.1 is eliminated.

The legislation, in its current form, would create unnecessary financial hardships and restrictions on military and veteran purchasers in securing a vehicle loan and would essentially render loans that fund “the purchase of a credit insurance product or credit-related ancillary product” unable to meet the requirements of the Military Lending Act and as such could not be “perfected” making such loans unacceptable in the lending marketplace.

The bill includes the following “new” Section 5 that should be stricken in its entirety:

SEC. 5.

Section 408.1 is added to the Military and Veterans Code, to read:

408.1.

- a) For purposes of this section, “covered member” has the same meaning as in the Military Lending Act pursuant to Section 987 of Title 10 of the United States Code.
- b) A security interest in personal property other than a motor vehicle is void, and cannot be perfected, if it would cause a loan procured by a covered member in the course of purchasing the personal property to be exempt from the requirements of Section 987 of Title 10 of the United States Code.

- c) A security interest in a motor vehicle is void, and cannot be perfected, if it would cause a loan procured by a covered member in the course of purchasing the motor vehicle to be exempt from Section 987 of Title 10 of the United States Code, and the loan also funds the purchase of a credit insurance product or credit-related ancillary product.

The bill as written prevents military personnel or veterans to avail themselves of a mainstream consumer product – voluntary protection products (“VPPs”) -- just because they serve our country. Congress saw fit to pass the Military Lending Act to exempt securitized loans for personal property, such as water sport vehicle and trailers, and motor vehicles, enabling service members to purchase and finance VPPs. This bill should not override their intent.

When consumers take on debt, they take on more financial risk. During the loan process, consumers may purchase VPPs like credit insurance, debt protection and Guaranteed Asset Protection (GAP) as a financial safety net. For example, GAP products are designed to protect consumers from what can be a large financial loss when their vehicle is, due to damage or theft, considered a total loss and the consumer owes a lender more than the value of the vehicle. When this occurs, the physical damage protection provided by an auto insurance policy will pay the depreciated value of the vehicle. That amount may not be adequate to pay-off the loan. Given the high cost of motor vehicles, the difference (or “gap”) between these two amounts can be substantial, and this unique product provides a consumer with the security and protection needed to avoid having to continue to pay for a vehicle that they no longer own.

Consider the following should 408.1.(c) go into effect, a scenario occurring often with a young service member lacking fundsⁱ for a down payment taking out the maximum loan amount to purchase the vehicle they desire, the most common car loan now reaching 72 monthsⁱⁱ, with rapid vehicle depreciation considering the current inflated purchase prices for vehicles:

- service member borrows \$30,000 to purchase a vehicle
- service member still owes \$22,000 at the time their vehicle is destroyed
- the insurer values the vehicle at \$17,000 at the time of the claim
- service member now owes \$5,000 for a vehicle they can no longer use
- GAP coverage would waive the \$5,000 balance and allow the service member to replace the vehicle
- 408.1.(c) would leave the service member owing \$5,000 because they had no access to GAP coverage

Approximately 28 million U.S. households hold some form of VPPⁱⁱⁱ and received \$1.2 billion in benefits in 2020. It’s no surprise then that academic research fielded by the highly regarded University of Michigan Survey Research Center shows that:

- 85% of installment loan borrowers indicated credit insurance and debt protection products are a good idea -- *a consistently high rating over a 40-year span of similar surveys.*^{iv}
- About 90% of GAP purchasers would purchase it again and recommend it to others.^v

With almost 40% of American households saying an unforeseen \$400 expense would be challenging to handle (pay off in the same month)^{vi}, coupled with inflationary trends and an expected downward correction in used car values, borrowers need access to affordable financial protection products now more than ever.

Clearly the intent of this legislation is not to single out and create more financial hardships for the almost two (2) million veterans and active duty military personnel living, working and borrowing in California^{vii} by preventing them from accessing these optional products that protect their financial well-being.

We share the same goals of supporting service members and their families and helping them achieve and sustain financial stability. Section 5 of this legislation runs counter to those goals and we look forward to working with your office to amend the bill by removing the operative language. **If the language is not removed, we are unfortunately compelled to oppose passage of SB-1311 and would strongly urge Senate members to do the same.**

Respectfully submitted by the following organizations:

American Financial Services Association (AFSA)
American Property Casualty Insurance Association (APCIA)
California Credit Union League (CCUL)
Consumer Credit Industry Association (CCIA)
Defense Credit Union Council (DCUC)
Guaranteed Asset Protection Alliance (GAPA)
Independent Auto Dealers Association of California (IADAC)
National Independent Auto Dealers Association (NIADA)

Cc:

California Attorney General and Chief of Staff
Governor's Legislative Unit
Republican Caucus
Assembly Judiciary Staff
Committee on Military and Veteran's Affairs

ⁱ In the first 2.5 years of active duty, 83% of service members have a less than prime credit score (below 659). See "Financially Fit? Comparing the credit records of young servicemembers and civilians," CFPB, July 2020.

ⁱⁱ Edmonds, "How Long Should a Car Loan Be?", April 1, 2022

ⁱⁱⁱ CCIA member data.

^{iv} Durkin, Thomas A., and Gregory Elliehausen (2017). "New Evidence on an Old Unanswered Question: Why Some Borrowers Purchase Credit Insurance and Other Debt Protection and Some Do Not," Finance and Economics Discussion Series 2017-122. Washington: Board of Governors of the Federal Reserve System, <https://doi.org/10.17016/FEDS.2017.122>.

^v See "Consumers and Guaranteed Asset Protection ("GAP Protection") on Vehicle Loans and Sales-Financing Contracts: A First Look," by Thomas A. Durkin, Senior Economist, Board of Governors of the Federal Reserve System (retired), Gregory Elliehausen, Principal Economist, Board of Governors of the Federal Reserve System, and Thomas W. Miller, Jr., Professor and Jack R. Lee Chair in Financial Institutions and Consumer Finance, Mississippi State University, Senior Research Fellow, Consumers' Research, September 2021.

^{vi} Board of Governors of the Federal Reserve System, "Report on the Economic Well-Being of U.S. Households in 2020, May 2021

^{vii} 1.8 million veterans plus 162,362 active duty military personnel. Veterans data from California Census 2020 at <https://census.ca.gov/resource/veterans/>, Active duty data from Governing at <https://www.governing.com/now/2021-military-active-duty-personnel-civilians-by-state>