

For Immediate Release

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Defense Department Rescinds GAP Restriction

NIADA Applauds Decision as a 'Great Day When Common Sense Prevails'

Arlington, Texas (Feb. 27, 2020) – The Department of Defense announced it is rescinding its controversial interpretation of the Military Lending Act Rule that effectively prevented auto finance providers from financing guaranteed asset protection coverage on auto purchases by military servicemembers.

In an interpretive rule issued by DoD in December 2017 in question and answer format, question and answer number 2 classified GAP as a “credit-related cost,” and ruled that financing GAP along with a servicemember’s vehicle purchase would cause the entire transaction to fall under the restrictions of the MLA.

The compliance risk and concerns surrounding perfection of security interests if GAP was included in a covered transaction led many dealers and finance companies to stop offering those products to individuals covered by the MLA.

That effectively eliminated servicemembers’ ability to adequately protect themselves from financial loss through GAP coverage in the event of an accident resulting in the vehicle being declared a total loss.

The National Independent Automobile Dealers Association applauded DoD’s decision.

“The removal of this rule is a huge win for the military community and the auto dealers who serve their transportation and automotive finance needs,” NIADA CEO Steve Jordan said. *“Further, NIADA is thrilled that revoking Q&A #2 signals a continued interest in disavowing inherited bad policy in favor of reasonability and fair thought by the agencies that have operational oversight of the automotive industry.”*

“It’s a great day when common sense prevails for the driving public, especially those serving our nation in the military.”

In its interpretive rule withdrawing Q&A #2, DoD said it “finds merit” in creditors’ concerns that they would be “unable to technically comply with the MLA” on such purchases because “the regulation would prohibit creditors from taking a security interest in the vehicle in those circumstances and creditors might not extend credit if they could not take a security interest in the vehicle being purchased.”

While the department did not take a position on that issue, it did agree “additional analysis” is needed.

NIADA, which has been advocating for the withdrawal of Q&A #2 for more than two years, looks forward to working with the department as it conducts future analysis.

“NIADA worked tirelessly along with other industry organizations to impress on DoD the importance of removing this unnecessary restriction,” NIADA senior vice president of legal and government affairs Shaun Petersen said. *“The withdrawal allows military servicemembers and their families to have access to these much-needed credit-related products.”*

About NIADA

The National Independent Automobile Dealers Association (NIADA) is among the nation’s largest trade associations, representing the used motor vehicle industry comprised of more than 38,000 licensed used car dealers. Since 1946, NIADA has represented the voice and interests of used car dealers at the federal level in Washington D.C. Coupled with its state association network across the country, NIADA’s grass-roots framework provides a dual layer of advocacy unmatched in the used motor vehicle industry.

For more than 70 years, NIADA has engineered programs and leveraged technology to fulfill its mission to advance, educate and promote the independent used car dealer. NIADA members subscribe to a strict Code of Ethics of duty, honor and integrity, and believe in the advancement of small business in support of the free-market system. More information about NIADA programs and educational opportunities is available at www.niada.com and www.niada.tv.