



**OFFICE OF THE DEPUTY ASSISTANT SECRETARY OF DEFENSE
(MILITARY COMMUNITY AND FAMILY POLICY)**

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DoD-State Liaison Office

**Chair Will Espero, Public Safety, Government Operations, and Military Affairs Committee
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**Testimony of
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HB 2409 Relating to Consumer Protection

The Department of Defense State Liaison Office operates under the direction of the Under Secretary of Defense for Personnel and Readiness, and the Deputy Assistant Secretary for Military Community and Family Policy. Our mission is to be a resource to state policymakers as they work to address quality of life issues of military families.

Testimony

Chair Espero and members of the Senate PGM Committee, on behalf of the Deputy Assistant Secretary of Defense, I would like to thank you for the opportunity to submit testimony today on HB 2409, a bill relating to Consumer Protection in order to explain to you the Department's continuing effort to work with states to limit the terms of consumer credit extended to service members and their dependents. My name is Laurie Crehan. I am with the Department of Defense State Liaison Office which operates under the direction of the Under Secretary of Defense for Personnel and Readiness, and the Deputy Assistant Secretary of Defense for Military Community and Family Policy.

Federal Regulation

Congress gave the DoD unprecedented authority in 2006 to write a regulation that would limit credit terms provided to Service members and their families for any form of credit defined in the regulation. Title 32 of the Code of Federal Regulations, Part 232 implements the federal statute by defining the covered forms of credit -- payday, vehicle title and tax refund anticipation loans. The DoD recognized the need for Federal and State regulators to be the primary enforcers of the regulation -- Federal for tax refund anticipation loans and State for payday and vehicle title loans.

A year after the release of the regulation in August 2007, the Federal Financial Institutions Examination Council (FFIEC) released their tool for Federal and State regulators to use as part of their examinations of the creditors covered by the regulation.

Reason the DoD Supports State Enforcement Authority

Although the regulation has made a dramatic reduction in the use of the covered loans by active duty members and their families, there is evidence that some are still gaining access to these loans. A quick poll in November 2009 of 667 financial counselors working for or contracted by the DoD, along with legal assistance officers who work on military installations, revealed that about half had counseled at least one client in the preceding six months who had gotten a payday, vehicle title or tax refund anticipation loan.

Examination has worked thus far to help gain compliance, but in the event that a creditor continues to violate the regulation, court action would be needed to enforce the criminal penalties specified in the Federal statute – and that may mean through Federal court. DoD believes compliance can be achieved more efficiently if the state credit administrator has authority to enforce the regulation through state statute. Then, the state credit administrator can determine corrective action when violations or deficient policies are identified through examinations and consumer complaints. Providing authority to the State regulator would allow for the due-process and penalties associated with non-compliance of a state rule. The policy in HB 2409 would do just that.

In Hawaii the Office of Consumer Protection is limited in what they can regulate and this concerns the Department of Defense. However, the proposed legislation you are reviewing today would ensure that payday loan establishments would be regulated within the authority provided to the Office of Consumer Protection.

We look forward to Hawaii adopting these vital protections for our Service members and their families. Thank you for your continued support for our military members and families.

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