

# DOJ Settlement with Car Retailer Highlights SCRA Repossession Risks

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By: Akeela M. White, Brian A. Turetsky

On February 23, 2026, the United States Department of Justice (DOJ) entered into a settlement agreement with CarMax, Inc., resolving allegations that the car retailer violated the Servicemembers Civil Relief Act (SCRA) by repossessing vehicles from servicemembers on active duty without obtaining required court orders.

The settlement, which includes \$420,000 in restitution to affected servicemembers, a \$79,380 civil money penalty, and comprehensive compliance requirements, serves as an important reminder that the SCRA remains a top priority for DOJ and federal regulators.

## The Allegations

The DOJ alleged that CarMax engaged in a pattern or practice of violating the SCRA by repossessing, without court orders, vehicles belonging to at least twenty-eight servicemembers. Under Section 3952(a) of the SCRA, after a servicemember enters military service, a contract with the servicemember for the purchase of real or personal property (including a motor vehicle) may not be rescinded or terminated for a breach of contract, nor may the property be repossessed without a court order.

This protection applies to contracts where a deposit or at least one installment payment was made before the borrower entered military service. The SCRA also grants an additional period of protection for reservists prior to reporting for active duty, beginning from their receipt of military orders, Section 3917.

According to the DOJ, the majority of the alleged violations occurred as a direct result of deficiencies in CarMax's internal policies, which:

1. did not require the company to search the Defense Manpower Data Center (DMDC) website to determine an owner's military status prior to repossessing a vehicle that was in a "charge off" status, and
2. did not prohibit the company from repossessing vehicles owned by members of a reserve component who had received orders to report for military service at a future date.

Additionally, the DOJ alleged that CarMax repossessed some vehicles even after borrowers had informed the company that they were in military service. The alleged violations occurred between March 1, 2018, and at least October 24, 2023.

## Settlement Terms

For each repossession identified as a violation, CarMax must provide:

- a. \$15,000 per servicemember, less any cash payments already made to remediate such repossession;
- b. any lost equity in the repossessed motor vehicle; and
- c. interest accrued on the lost equity from the date of the repossession sale until the date payment is issued.

In addition to payments under this formula (totaling \$420,000 to 28 servicemembers), CarMax is also required to request that credit bureaus delete the tradelines on the account, cease any collections activity, and refund any amounts paid toward any deficiency.

CarMax neither admits nor denies the allegations under the settlement and must pay \$79,380 to the United States Treasury as a civil money penalty. They are also subject to monitoring and reporting for four years.

## Policy and Procedural Requirements

Under the settlement, CarMax is required to implement comprehensive SCRA policies and procedures, subject to DOJ approval, that include the following provisions.

### DMDC Searches

- CarMax must conduct DMDC searches:
  - i. no more than two business days before referring a vehicle for repossession,
  - ii. no more than two business days after obtaining possession of the motor vehicle, and
  - iii. no more than two business days before the vehicle is sold or disposed of. These search requirements apply to all accounts, including accounts in a charge-off status.

### Court Orders or Waiver Prior to Repossession

- If a borrower or co-borrower is identified as an SCRA-protected servicemember, CarMax may not refer the vehicle for repossession or repossess the vehicle without first obtaining a court order or a valid SCRA waiver in the form attached as Exhibit A to the settlement agreement.
- If it determines that a borrower is an SCRA-protected servicemember after a vehicle is repossessed but before it is sold, CarMax must attempt to contact the borrower within one business day and offer to arrange to return the vehicle or obtain a voluntary surrender and waiver of SCRA benefits.

- If contact cannot be made, CarMax must return the vehicle to the location where possession was taken no more than three business days after obtaining possession, subject to limited exceptions relating to risk of damage, impoundment, or abandonment.

## Training

- CarMax must develop SCRA training materials and provide annual training to all employees who provide customer service to borrowers or are involved in the repossession of motor vehicles.
- Any employee who subsequently becomes involved in SCRA compliance or repossession activities must receive training within thirty days of their hiring, promotion, or transfer.

## Things That Make You Go Hmmm....

The requirement that vehicles be returned to the location where possession was taken if the borrower cannot be contacted is unusual in a go-forward compliance obligation. However, this requirement is conditioned and is not required if there is:

- i. a significant risk of damage to the vehicle,
- ii. a significant risk that the vehicle will be impounded,
- iii. the borrower has said they have abandoned the vehicle, or
- iv. the circumstances indicate the vehicle was abandoned.

Aside from a borrower's express statement of vehicle abandonment, these exceptions are subjective, and it is also unclear whether the DOJ would challenge a company's decision to return a car despite these risks.

Devaluation of collateral due to damage or abandonment is an inherent risk whenever a repossession does not occur because of the SCRA protection. Companies should establish an escalation process for handling abandoned vehicles that includes legal and compliance review and attempts to obtain a valid SCRA waiver from the servicemember.

## Lessons Learned

The CarMax settlement offers the following important compliance lessons:

### **SCRA remains a continued regulatory and enforcement focus.**

- At a time of general retreat by federal regulators and the DOJ on consumer protection matters, the settlement with CarMax and an earlier CFPB settlement of MLA claims with MoneyLion demonstrate that military lending law enforcement remains a priority. Protecting servicemembers has long been a bipartisan commitment, and we expect this focus to continue, particularly given heightened US military engagement in the Middle East and the increased number of servicemembers who may be deployed abroad.

## DMDC checks should be performed throughout the repossession process.

- CarMax’s alleged failure to search the DMDC database for accounts in charge-off status was a central basis for the DOJ’s claims. SCRA policies and procedures should require military status verification before referring a vehicle for repossession, after obtaining possession, and before sale or disposition.
- Additionally, take note of the requirement in the settlement to conduct the checks within two days of an event triggering a check. We recommend that dealers and auto finance companies review their SCRA policies and procedures to make sure they meet this expectation.

## Don’t forget that reservists get a longer protection period.

- The SCRA’s protections extend to members of reserve components who have received orders to report for military service at a future date. We refer to this as the “early alert period” or the “call-to-date.” Make sure your policies and procedures account for this additional protection period, and accounts are SCRA-coded prior to the active duty report date that is otherwise used as the protection start date.

## Make sure you review for other indications of military service.

- The DOJ alleged that CarMax repossessed vehicles even after borrowers informed the company of their military service. This underscores that companies bear the burden of identifying eligible servicemembers before repossessing their vehicle.
- Because this protection imposes strict liability with no safe harbor for good-faith due diligence efforts, companies should implement multiple methods for identifying active duty status beyond DMDC search results, including:
  - **Customer Communications:** Companies should include language in collection notices, right-to-cure letters, and similar communications instructing servicemembers to contact the company regarding SCRA eligibility. Servicing systems should be updated to capture customer communications and other indications of military status, regardless of DMDC results. Customer service representatives and collections personnel should be trained to escalate military service claims immediately and halt repossession activity pending verification.
  - **State Active Duty Orders:** Many companies extend SCRA protections to servicemembers on state active duty ordered by a governor. Because state duty is not captured in the DMDC, companies must establish additional controls to identify these individuals.

## Have a remediation playbook ready in the event of an unlawful repossession.

- The settlement sets strict timeframes to return repossessed vehicles to servicemembers if CarMax learns a customer was protected after taking repossession. Companies should have clear protocols in place to

quickly reverse course if a repossession is discovered to have violated the SCRA, including procedures for returning vehicles, reversing fees, and correcting credit reporting.

## Give SCRA complaints heightened attention.

- Complaint management is a critical component of SCRA compliance. Companies should implement processes to identify, escalate, and resolve complaints from servicemembers and their families separately from general consumer complaints. A single complaint can trigger a regulatory inquiry, making it essential to address SCRA-related concerns promptly and conduct root cause analysis to identify and correct any underlying compliance gaps.

## Training, training, training.

- Companies should ensure that SCRA training is incorporated into onboarding for all relevant personnel and refreshed annually, with documentation maintained to demonstrate compliance. This avoids potential compliance failures and reduces the risk that any violations that do occur are considered systemic.

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## Authors



**Brian A. Turetsky**

Partner

📞 212-471-6240



**Akeela M. White**

Partner

 312-704-3090

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