

MLA Fact Sheet

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BACKGROUND

The Military Lending Act was initially implemented in 2007, but its protections applied only to three narrowly defined consumer credit products:

- Closed-end payday loans for no more than \$2,000 and with a term of 91 days or less.
- Closed-end auto title loans with a term of 181 days or less.
- Closed-end tax refund anticipation loans.

In July 2015, the Department of Defense issued a final rule, amending the MLA's protections. The rule took effect on October 1, 2015, but did not immediately require action by financial institutions. The final rule outlined two specific dates on which MLA protections will become effective: October 3, 2016 and October 3, 2017.

EFFECTIVE DATES

October 3, 2016 for Consumer Loan Products, EXCEPT credit cards. The provisions for credit cards went into effect on **October 3, 2017**. Applications for consumer credit received on or after October 3, 2016 are covered by the new provisions.

COVERAGE

MLA protections apply to all forms of payday loans, vehicle title loans, refund anticipation loans, deposit advance loans, installment loans, unsecured open-end lines of credit and credit cards.

SERVICEMEMBER RIGHTS UNDER THE MLA¹

Active duty service-members of the armed forces or those on active Guard or Reserve duty are covered by the MLA and as such, you must ensure you have controls in place to comply with the following.

¹ <http://www.consumerfinance.gov/askcfpb/1783/what-are-my-rights-under-military-lending-act.html>

- ⊛ **36% Interest Cap:** Active-duty members of the armed forces or those on active Guard or Reserve duty may not be charged more than a 36% Military Annual Percentage Rate (MAPR), which includes the following:
 - Interest.
 - Fees.
 - Credit service charges.
 - Credit renewal charges.
 - Credit insurance premiums.
 - Other fees for credit-related products sold in connection with the loan.
- ⊛ **Written and Oral Disclosure:** You must tell active duty service-members of the armed forces or those on active Guard or Reserve duty the interest rates and other fees they owe, both orally and in writing, before a loan is issued. Section §232.6(a) requires you to provide three categories of information to a covered borrower at the time the borrower becomes obligated on the transactions or establishes an account for the consumer credit:
 - A statement of the MAPR applicable to the extension of consumer credit.
 - Any disclosure required by Regulation Z applicable to the transaction.
 - A clear description of the payment obligation of the covered borrower.

When orally providing disclosures, you may elect to provide the disclosures in person or to provide a toll-free number that the borrower can use to obtain disclosure information.

- ⊛ **No Roll-Over Loans:** You cannot “roll-over” or refinance the same loan unless the new loan results in more favorable terms for the service-member. This rule helps to ensure an active-duty service-member does not get stuck with a loan that becomes more expensive to repay.
- ⊛ **No Mandatory Waivers of Consumer Protection Laws:** You cannot require active duty servicemembers to waive any state or federal law including the Service-members Civil Relief Act, which protects servicemembers from being sued while on active duty.
- ⊛ **No Mandatory Arbitration:** You cannot require active duty servicemembers to submit to arbitration (i.e. when an outside party decides how a dispute should be resolved instead of a court).
- ⊛ **No Mandatory Allotments:** You cannot require an active-duty service-member to create a voluntary allotment in order to obtain a loan (i.e. an automatic amount of money taken from the service-member’s paycheck to repay the loan).
- ⊛ **No Prepayment Penalty:** You cannot charge a prepayment penalty when the service-member pays back all or part of a loan early.

DETERMINING SERVICEMEMBER STATUS

The MLA permits you to use two methods to ascertain whether a consumer is a covered borrower for purposes of the Act’s protection. You are granted a safe harbor under the final rule if you use the two methods below.

- 1) The MLA Database maintained by the DoD.
- 2) Consumer reports from a nationwide credit reporting agency.

You can rely upon an initial determination of servicemember status when a consumer initiates a transaction or 30 days prior; when a consumer applies to establish an account or 30 days prior; or when you process a firm offer of credit and the servicemember responds within 60 days. If the servicemembers fails to respond within 60 days, you may no longer rely upon that initial determination.

CALCULATING THE MILITARY ANNUAL PERCENTAGE RATE (MAPR)

The MAPR is the cost of the consumer credit transaction expressed as an annual rate, much like the annual percentage rate currently required to be disclosed under Regulation Z. However, it includes other fees and charges that are not currently required to be disclosed to a consumer under the Truth-in-Lending Act definition of an annual percentage rate.

CLOSED-END CREDIT	OPEN-END CREDIT
<p>APR is calculated in the same way you currently calculate an APR under Regulation Z, but the MAPR must also include:</p> <ul style="list-style-type: none"> - Application fee. - Credit insurance premiums or fees. - Debt cancellation or debt suspension fees. - Fees for other credit products offered with the transaction (e.g. default insurance, debt suspension plans, etc.). - Finance charges. 	<p>APR is calculated in the same way you currently calculate an APR under Regulation Z, but the MAPR must also include:</p> <ul style="list-style-type: none"> - Application fee. - Credit insurance premiums or fees. - Debt cancellation or debt suspension fees. - Fees for other credit products offered with the transaction (e.g. default insurance, debt suspension plans, etc.). - Finance charges.

If there is no balance in the billing cycle, you may not charge any fee except for a participation fee. The participation fee cannot exceed \$100 per year regardless of the billing cycle in which it is assessed.