Military Lending Act: Get Ready to Comply

By Jennifer Torbeck

The Department of Defense (DOD) issued a final rule in July 2015 to amend the regulation that implements the Military Lending Act (MLA). Credit unions must comply with the rule for closed-end and open-end consumer credit other than credit card accounts by October 3, 2016. For credit cards, the mandatory compliance date is October 3, 2017. There are a number of questions to answer as you prepare to comply.

1. Do you offer credit products that meet the definition of “consumer credit”?
   - “Consumer credit” includes essentially all credit offered to consumers, with four important exceptions: transactions secured by dwellings, purchase money credit secured by a motor vehicle, purchase money credit secured by personal property, and credit exempt from Regulation Z.
     - Examples of consumer credit are unsecured loans, vehicle refinance loans, unsecured lines of credit, debt consolidation loans and private student loans.
   - Will you offer those products to “covered borrowers”?
     - “Covered borrowers” include active duty military members and their dependents.

2. How will you determine whether an applicant is a covered borrower?
   - Will you use one of the following methods, which provide a safe harbor for the determination of an applicant’s covered borrower status?
     - The Defense Manpower Data Center online database
     - Information from a nationwide consumer reporting agency (i.e., Equifax, TransUnion, Experian)
   - How will you document the applicant’s status?
     - You must keep a record of the information obtained in order to receive safe harbor status.

3. How will you provide the required oral disclosures?
   - Will you have the conversation with the member at the loan closing, or provide a toll-free phone number the member may call to receive the oral disclosures?
   - Who will be responsible for providing the oral disclosures? All lenders? A designated MLA expert?

4. Can your data processor or loan origination system complete the Military Annual Percentage Rate (MAPR) calculation?

5. How will you track the MAPR for open-end credit?
   - For closed-end credit, the MAPR must be calculated at consummation. For open-end credit, it must be calculated each billing cycle.

6. What action(s) will you take if the MAPR exceeds 36% in a given billing cycle?
   - The DOD’s final rule discusses waiving fees or other charges to reduce the MAPR below 36%. Is this the approach your credit union will take?

7. Do you send firm offers of credit to members? How will you ensure the covered borrower determination is made within 60 days of the member accepting the offer of credit?
   - Will you set an expiration date on the offer?
   - Will you check the member’s covered borrower status again if he or she responds more than 60 days after the offer is made?

8. How will you ensure that you collect only those shares you are authorized to access if an MLA-covered loan is in default?
   - The DOD’s final rule limits the security interest you may take in a member’s shares to only those shares deposited after the extension of credit into an account opened in connection with the credit transaction.
   - Will you forego the security interest in shares for covered transactions, to avoid the operational complexities of tracking which shares you can take?
As you prepare to comply, remember that CUNA Mutual Group has created a number of resources to help, including recorded webinars and frequently asked questions and answers, available at [www.cunamutual.com/MLA](http://www.cunamutual.com/MLA). The LOANLINER® consumer lending document portfolio has been expanded to include documents that comply with the Military Lending Act.

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