

Military Lending Act: More than the 36% Cap

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Presented by:



Facilitator



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Webinar Basics

The screenshot displays a webinar interface. On the left, a presentation slide is shown with the following text: "Military Lending Act: More than the 36% Cap", "Presented by: Jennifer Torbeck, Compliance Manager", the "LOANLINER" logo, and the "CUNA MUTUAL GROUP" logo with the tagline "Common Purpose. Uncommon Commitment." Below the slide are controls for "Raise Hand" and "Audio". On the right, a sidebar contains a "Participants" list. The list shows "Speaking:" followed by "Kellyl (me)" and "KELLY ZIMMER (Host)". A red arrow points to the "Chat" icon in the top navigation bar, which is located between the "Participants" and "Notes" icons.

Objectives

At the end of this session, you will be able to:

- Recognize the new Military Lending Act requirements and their impact.
- Recall the date on which compliance with the new requirements is mandatory.
- Prepare to make changes in your lending functions to comply with the new requirements.

What is the Military Lending Act (MLA)?

The MLA has been in effect since 2007 to protect our service men and women from predatory credit practices.

The Department of Defense recently expanded the scope of the MLA to cover more types of consumer credit. The rule limits the Military Annual Percentage Rate (MAPR) on a covered loan to 36%, but there are many other impacts of the rule.



Why do we need to be concerned with MLA?



Members of the military can lose their security clearances for accumulating large amounts of personal debt or falling behind in payments.

Creditors face severe consequences for violating MLA:

- Contract is void from inception
- Fine and/or imprisonment for knowing violation
- Civil liability
- CFPB's Office of Servicemember Affairs
- Reputational harm

When is compliance required?

October 3, 2016 for open-end and closed-end consumer credit

October 3, 2017 for credit cards

The rule applies to credit extended on or after these dates.

Which consumer loans are covered?



Existing Rule

Definition of “consumer credit” only covers:

- Closed-end payday loans with terms of 91 days or less >\$2,000
- Closed-end vehicle title loans with term of 181 days or less
 - Closed-end tax refund anticipation loans



Amended Rule

Definition of “consumer credit” is consistent with Regulation Z:

Credit offered or extended to a covered borrower primarily for personal, family or household purposes, and that is:

1. Subject to a finance charge, or
2. Payable by a written agreement in more than four installments

EXCLUDES: residential mortgages, purchase money credit secured by motor vehicle or personal property, credit exempt from Regulation Z

Who is covered?

“Covered Borrower” means:

- a member of the armed forces who is on active duty, or active guard or reserve duty, at the time credit is extended (“covered member”)
- a dependent of a covered member, at the time credit is extended



How do we determine who is covered?

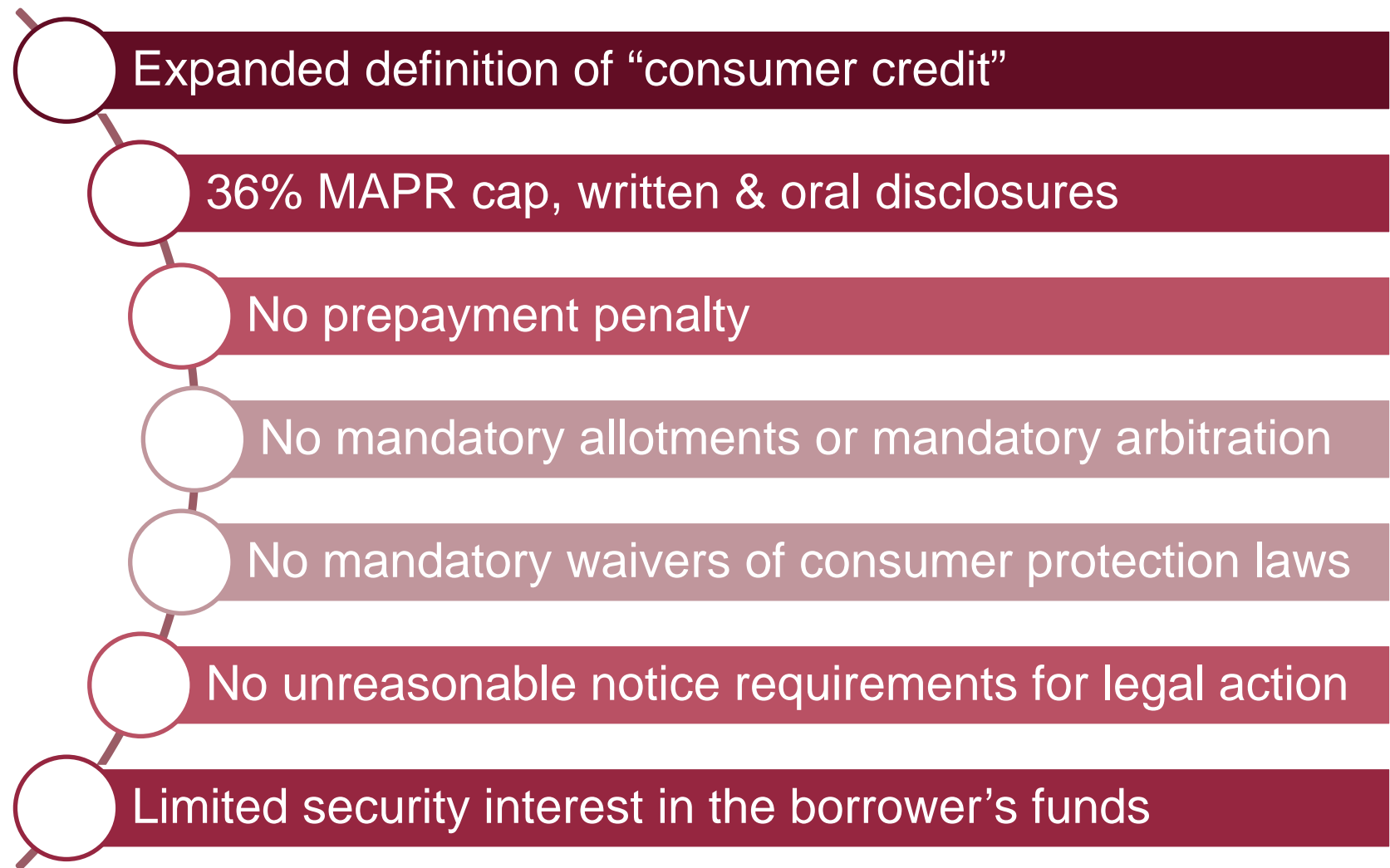
New Safe Harbor

- Credit Union can use information either
 - ✓ (1) directly or indirectly from MLA database; or
 - ✓ (2) in a consumer report from a nationwide consumer reporting agency (or reseller)
- Legally conclusive determination if credit union maintains record of info obtained

Timing

- When consumer initiates transaction or up to 30 days prior;
- At application or up to 30 days prior;
- When the creditor develops or processes a firm offer of credit (as long as the consumer responds within 60 days of the offer being provided)

2015 Final Rule's Effects



Rules for Disclosures

LOANLINER

Loan and Security Agreements and Disclosure Statement

<input type="checkbox"/> FIXED RATE	LOAN DATE	LOAN NUMBER	ACCOUNT NUMBER	GROUP POLICY NUMBER	MATURITY DATE
<input type="checkbox"/> VARIABLE RATE	BORROWER 1		BORROWER 2		
NAME AND ADDRESS			NAME (AND ADDRESS IF DIFFERENT FROM BORROWER 1)		

You must provide disclosures in writing and orally

Regulation Z

Payment obligation

TRUTH IN LENDING DISCLOSURE 'e' means an estimate						
ANNUAL PERCENTAGE RATE	FINANCE CHARGE	Amount Financed	Total of Payments	Total Sale Price		
The cost of your credit as a yearly rate. %	The dollar amount the credit will cost you. \$	The amount of credit provided to you or on your behalf. \$	The amount you will have paid after you have made all payments as scheduled. \$	The total cost of your purchase on credit is \$ which includes your downpayment of \$		
Your Payment Schedule Will Be:			Prepayment: If you pay off early you will not have to pay a penalty.			
Number of Payments	Amount of Payments	When Payments Are Due	Required Deposit: The Annual Percentage Rate does not take into account your required deposit, if any.			
\$	\$		Demand: <input type="checkbox"/> This obligation has a demand feature. All disclosures are based on an assumed maturity of one year.			
Property Insurance: You may obtain property insurance from anyone you want that is acceptable to the Credit Union. If you get the insurance from us, you will pay \$			Filing Fees	Non-Filing Insurance		
Late Charge:			\$	\$		
Security: Collateral securing other loans with the Credit Union may also secure this loan. You are giving a security interest in your shares and dividends and, if any, your deposits and interest in the Credit Union; and the property described below:						
Collateral	Property/Model/Make	Year	I.D. Number	Type	Value	Key Number
					\$	
					\$	
					\$	
Other (Describe)	Pledge of Shares \$		in Account No.	\$		in Account No.
Variable Rate:						
See your contract documents for any additional information about nonpayment, default, and any required repayment in full before the scheduled date.						

SIGNATURES

By signing, or otherwise authenticating, as Borrower, you agree to the terms of the Loan Agreement. If property is described in the "Security" section of the Truth in Lending Disclosure, you also agree to the terms of the Security Agreement. If you sign, or otherwise authenticate, as "Owner of Property" you agree only to the terms of the Security Agreement.

CAUTION: IT IS IMPORTANT THAT YOU THOROUGHLY READ THE AGREEMENT BEFORE YOU SIGN IT.

<input checked="" type="checkbox"/> (SEAL)	<input checked="" type="checkbox"/> (SEAL)
BORROWER 1	BORROWER 2
DATE	DATE
<input checked="" type="checkbox"/> (SEAL)	<input checked="" type="checkbox"/> (SEAL)
<input type="checkbox"/> OTHER BORROWER <input type="checkbox"/> OWNER OF PROPERTY <input type="checkbox"/> WITNESS	<input type="checkbox"/> OTHER BORROWER <input type="checkbox"/> OWNER OF PROPERTY <input type="checkbox"/> WITNESS
DATE	DATE

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Military Annual Percentage Rate Calculation (MAPR)



**MAPR cannot exceed
36%.**

The calculation includes any charge that is a “finance charge” under Regulation Z, premiums for credit insurance, fees for debt cancellation contracts, and fees for “credit-related ancillary products”.

MAPR Calculation Examples



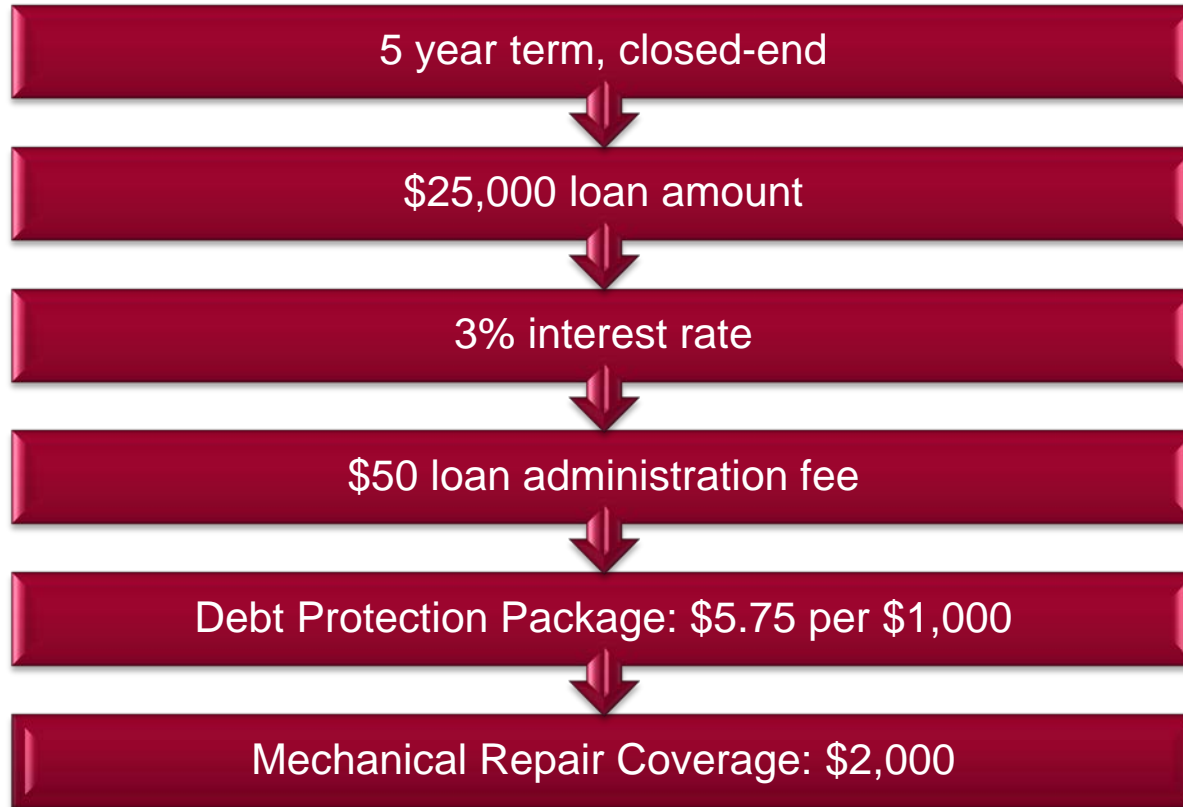
The Popes

Keith and Cheryl are married and have a son named Ben. Keith is a member of the Army National Guard serving on Active Duty.

Keith and Cheryl are applying for consumer loans with their local credit union.

MAPR Calculation Example #1

Keith and Cheryl apply to refinance a loan secured by their car.



MAPR: **13.3765%**

MAPR Calculation Example #2

- Closed-end vehicle refinance loan
- \$15,000 loan amount, 60 month term

- 10% interest rate
- \$50 loan administration fee

- Life, Disability & Involuntary Unemployment debt protection: \$5.75 per \$1,000
- Mechanical Repair Coverage: \$2,000

$$\text{MAPR} = 23.0636\%$$

MAPR Calculation Example #3

Cheryl and Keith apply for a personal loan to consolidate existing debts.

\$500 loan amount
12 month term
18% interest rate
\$50 loan administration fee

MAPR = **36.8129%**

Creating MLA-Specific Documents

- Minimize the compliance risk
- One document for standard loans, one document for MLA-covered loans

Spring 2016

- Upcoming exclusive webinar for LOANLINER[®] customers
- An alert will be sent to LOANLINER[®] customers when the MLA documents are available for order.



Thank you for attending today's webinar!

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For questions, email dodmla@cunamutual.com.

Access additional MLA resources at www.cunamutual.com/MLA

LOANLINER® Documents customers have access to additional resources to help you manage compliance in the Lending Resource Center at:

<https://www.cunamutual.com/resource-library/resource-centers/lending/secure/loanliner-compliance>



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