

Military Lending Act: How LOANLINER[®] Document Solutions Can Help

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Presented by:

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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.
- Understand the modifications made to LOANLINER[®] documents to comply with the rule and the Department of Defense's new guidance.

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, with loan amounts less than \$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

Examples of Covered Credit

Unsecured closed-end loans

Unsecured lines of credit

Overdraft lines of credit

Debt consolidation loans

Private education loans

Credit cards (October 3, 2017)

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?

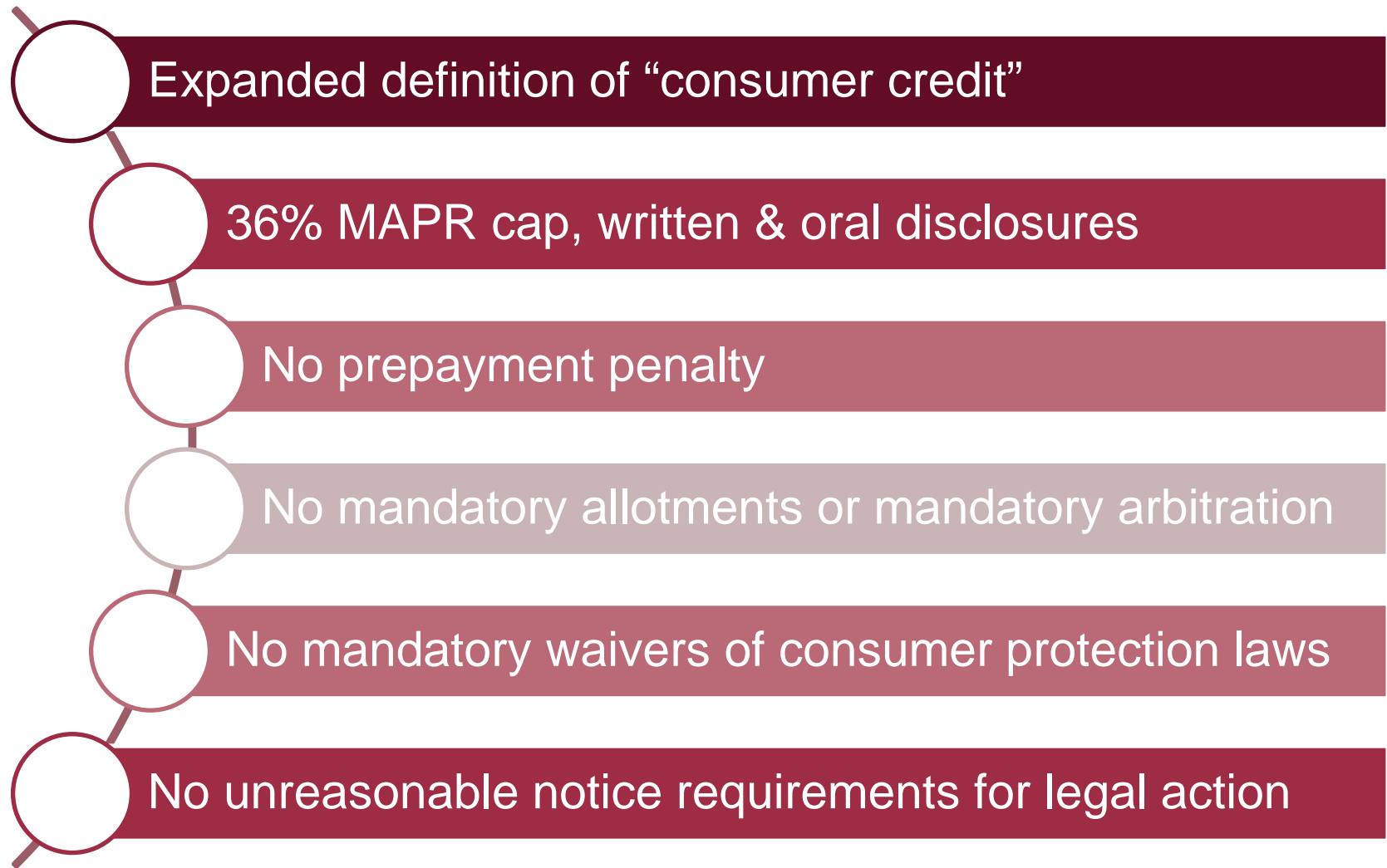
New Safe Harbor

- 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



Military Annual Percentage Rate Calculation (MAPR)



MAPR cannot exceed 36%.

The calculation includes:

- “finance charges” under Regulation Z
 - most application fees
 - premiums for credit insurance
- fees for debt cancellation contracts
 - fees for “credit-related ancillary products”

DOD Issues New Guidance

These clarifications will help credit unions as they prepare to comply with the Final Rule:

1. Credit Unions have the right to impress a statutory lien.
2. The Guidance provides clarification that credit unions have flexibility to comply with the requirement of providing the oral disclosure of the member's payment obligation for an open end loan.
3. The Guidance also provides more clarification on how to prevent the Military Annual Percentage Rate (MAPR) from exceeding 36% on open end credit.
4. Purchase Money ambiguity

This Guidance does not substantively change the regulation implementing the Final Rule, but rather merely states the DOD's preexisting interpretations of an existing regulation.

LOANLINER[®] Compliance Solution

Based on:

- Consequences for violating the final rule
- Prohibited contract terms
- Limited security interest in shares

**LOANLINER created separate documents intended for use for covered credit extended to a covered borrower.*

The logo for LOANLINER is displayed in a large, bold, black, stylized font with a white outline. The letters are thick and blocky, with a registered trademark symbol (®) at the end.

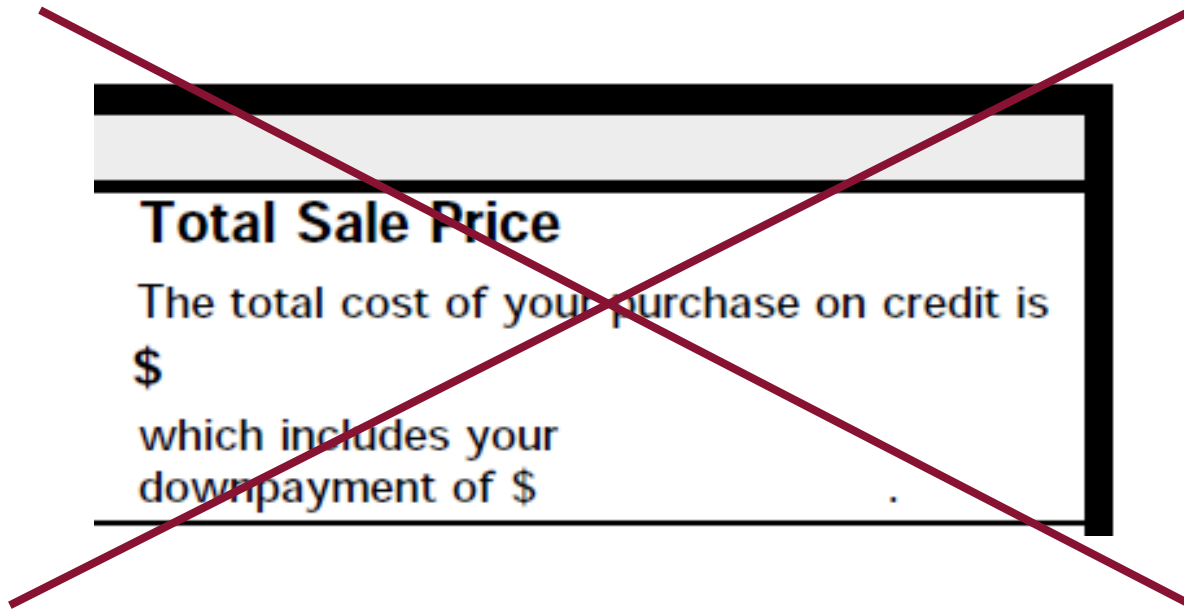
Purchase money loan disclosures

1. Total Sale Price disclosure

Total Sale Price	
The total cost of your purchase on credit is	
\$	
which includes your	
downpayment of \$.

Purchase money loan disclosures

1. Total Sale Price disclosure



Purchase money loan disclosures

2. Consumer Claims and Defenses notice

The following notice applies ONLY when the box at left is marked.

14. NOTICE: ANY HOLDER OF THIS CONSUMER CREDIT CONTRACT IS SUBJECT TO ALL CLAIMS AND DEFENSES WHICH THE DEBTOR COULD ASSERT AGAINST THE SELLER OF GOODS OR SERVICES OBTAINED PURSUANT HERETO OR WITH THE PROCEEDS HEREOF. RECOVERY HEREUNDER BY THE DEBTOR SHALL NOT EXCEED AMOUNTS PAID BY THE DEBTOR HEREUNDER.

Purchase money loan disclosures

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Purchase money language

3. Security Agreement language on buying property with loan proceeds

3. OWNERSHIP OF THE PROPERTY - You promise that you own the Property or, if this Loan is to buy the Property, you promise you will use the Loan proceeds for that purpose. You promise that no one else has any interest in or claim against the Property that you have not already told us about. You promise not to sell or lease the Property or to use it as security for a loan with another creditor until the Loan is repaid. You promise you will allow no other security interest or lien to attach to the Property either by your actions or by operation of law.

Purchase money loan disclosures

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Waivers of state or federal law rights

6. ACTIONS AFTER DEFAULT - When you are in default, we may demand immediate payment of the entire unpaid balance under this Agreement. You waive any right you have to receive demand for payment, notice of intent to demand immediate payment and notice of demand for immediate payment. If we demand immediate payment, you will continue to pay interest at the rate provided for in this Agreement, until what you owe has been repaid. We will also apply against what you owe any shares and/or deposits given as security under this Agreement. We may also exercise any other rights given by law when you are in default.

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Other Provisions Prohibited by MLA

Prepayment
penalties

Mandatory
arbitration

Mandatory
allotments

Mandatory
waivers of
consumer
protection laws

Unreasonable
notice
requirements for
legal action

Ordering LOANLINER[®] MLA Documents

1. Documents are offered in **electronic** format
2. Email alert will identify your affected documents and corresponding MLA documents, with pricing information and attached order form
3. Please specify whether you will add a toll-free phone number to comply with the oral disclosure requirement
4. Logo and language on your current consumer lending documents will be used on MLA documents unless you instruct otherwise
 - ✓ Late charge
 - ✓ Collection costs
 - ✓ Other provisions
5. Addendum used with Multi-Featured Open-End Lending documents will be updated to include MLA disclosures

Thank you for attending today's webinar!

We're pleased to make this no-cost webinar available to you as part of the added value you receive for being a LOANLINER® customer.

For MLA questions, email dodmla@cunamutual.com.

For LOANLINER® document questions, email loanliner@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>



CUNA MUTUAL GROUP

Common Purpose. Uncommon Commitment.

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