## Military Lending Act: How LOANLINER® Document Solutions Can Help

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Presented by:





## **Facilitator**



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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?

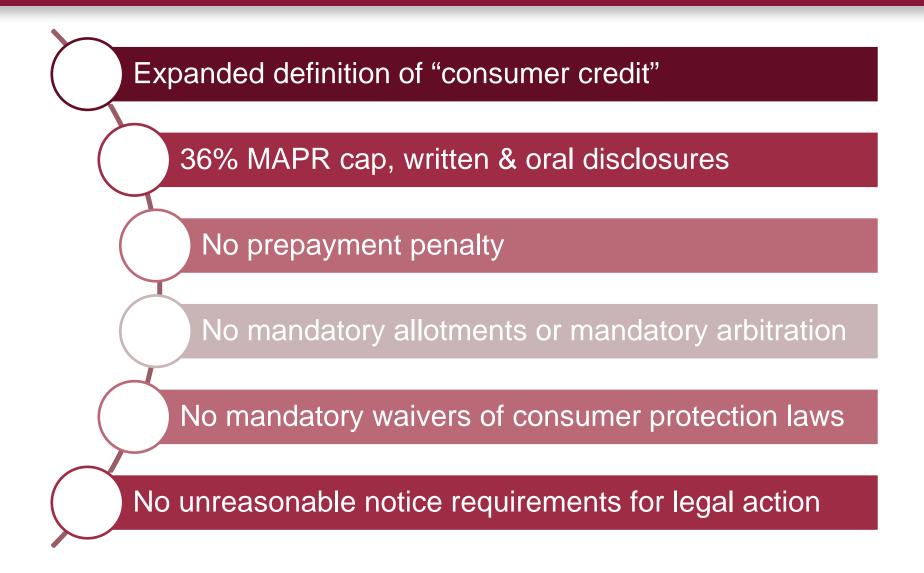
## New Safe Harbor

- 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

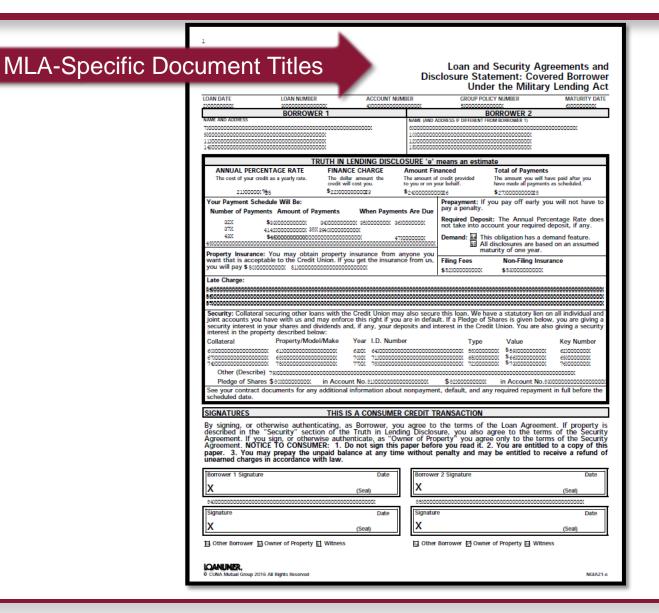
### Based on:

- ➤ 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.



## **MLA Document Title**



## **MLA Disclosures**

Loan and Security Agreements and Disclosure Statement: Covered Borrower Under the Military Lending Act GROUP POLICY NUMBER LOAN DATE ACCOUNT NUMBER BORROWER 1 **BORROWER 2** TRUTH IN LENDING DISCLOSURE 'e' means an estimate ANNUAL PERCENTAGE RATE FINANCE CHARGE The amount you will have paid after you have made all payments as scheduled. The cost of your credit as a yearly rate credit will cost you. to you or on your behalf \$273000000000008 our Payment Schedule Will Be: Prepayment: If you pay off early you will not have to Payment Required Deposit: The Annual Percentage Rate does \$3330000000000 2410000000000 25100000000 26100000000 not take into account your required deposit, if any. 37X 41423000000000 38X 39403000000000 obligation Demand: Harman 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, Filing Fees Non-Filing Insurance \$53300000000000 Security: Collateral securing other loans with the Credit Union may also secure this loan. We have a statutory lien on all individual and joint accounts you have with us and may enforce this right if you are in default. If a Pledge of Shares is given below, you are giving a security interest in your shares and dividends and, if any, your deposits and interest in the Credit Union. You are also giving a security interest in the property described below: Property/Model/Make Year I.D. Number Type Key Number 630X 64X000000000000000000000000000 \$59X0000000X See your contract documents for any additional information about nonpayment, default, and any required repayment in full before the scheduled date. THIS IS A CONSUMER CREDIT TRANSACTION 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. NOTICE TO CONSUMER: 1. Do not sign this paper before you read it. 2. You are entitled to a copy of this paper. 3. You may prepay the unpaid balance at any time without penalty and may be entitled to receive a refund of unearmed charges in accordance with law. orrower 1 Signature Borrower 2 Signature Date Other Borrower Grown Owner of Property Mitness Other Borrower Owner of Property Witness

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You must provide disclosures in writing and orally

Regulation Z

### **MLA Disclosures**

### MAPR Statement

#### ITEMIZATION OF THE AMOUNT FINANCED

Itemization of Amount Financed of Amount Given to You Directly Amount Paid on Your Account Prepaid Finance Charge \$7300000000000 8300000000000 \$10000000000000

Amounts Paid to Others on Your Behalf: (If an amount is marked with an asterisk (\*) we will be retaining a portion of the amount.) 14\$170000000000 19\$21300000000000 20\$ 2300000000000 25\$260000000000 28\$2900000000000 34\$3100000000000 35\$330000000000 39<sup>®</sup> 40000000000000 38\$410000000000 47\$4500000000000 

#### MILITARY LENDING ACT DISCLOSURES

Federal law provides important protections to members of the Armed Forces and their dependents relating to extensions of consumer credit. In general, the cost of consumer credit to a member of the Armed Forces and his or her dependent may not exceed an annual percentage rate of 36 percent. This rate must include, as applicable to the credit transaction or account: The costs associated with credit insurance premiums, fees for ancillary products sold in connection with the credit transaction; any application fee charged (other than certain application fees for speci credit transactions or accounts); and any participation fee charged (other than certain participation fees for a credit card accour

#### LOAN AGREEMENT

In this Loan Agreement ("Agreement") all references to "Credit Union," "we," "our," or "us," mean the Credit Union whose name appears above and anyone to whom the Credit Union assigns or transfers this Agreement. All references to "you," or "your" mean each person who signs, or otherwise authenticates, this Agreement as a borrower.

- 2. PAYMENTS You promise to make payments of the lien means we have the right under federal and/or state law amount and at the time shown in the fruth in Lending to claim an interest in your accounts. Unless otherwise Disclosure. You may prepay any amount without penalty. If prohibited by federal and/or state law, we can enforce a you prepay any part of what you owe, you are still required statutory lien against your shares and dividends and, if any, to make the regularly scheduled payments, unless we have interest and deposits, in all individual and joint accounts you to make the regularly scheducile payments, unless we have interest and deposits, in all individual and joint accounts you agreed to a change in the payment schedule. Because this have with us to satisfy any outstanding financial obligation is a simple interest loan, if you do not make payments that is due and payable to us. The statutory lien and any exactly as scheduled, your final payment may be more or Pledge of Shares you have fiven us will allow us to apply the less than the amount of the final payment that is disclosed. funds in your account(s) to what you owe when you are in If you elect voluntary payment protection we will either default. Shares or deposits in an Individual Retirement include the premium or program fee in your payments or Account or any other account that would lose special tax extend the term of your loan. If the term is extended, you treatment under state or federal law are not subject to our will be required to make additional payments of the statutory lien or any Pledge of Shares you have given. will be leduled to hinder additional payments of the sacracy near of any reage of control of the scheduled amount, until what you owe has been paid. You promise to make all payments to the place we choose. If 5. DEFAULT - You will be in default under this Agreement if this loan refinances another loan we have with you, the you do not make a payment of the amount required within other loan will be canceled and refinanced as of the date of ten days of the date it is due. You will be in default if you fail
- are mailed to you, interest on this loan begins on the date Agreement the loan proceeds are mailed to you.
- Lending Disclosure. Property securing other loans you have the entire unpaid balance under this Agreement. If we with us also secures this loan, unless the property is a demand immediate payment, you will continue to pay dwelling or otherwise prohibited by federal and/or state interest at the rate provided for in this Agreement, until what law. In addition to other collateral securing this loan, we you owe has been repaid. We may also exercise any other may also have what is known as a statutory lien on all rights given by law when you are in default. individual and joint accounts you have with us. A statutory

- this loan. Unless otherwise required by law, payments will to comply with any term of this Agreement and your failure be applied to amounts owed in the manner we choose.

  Tights in any property that is security for this loan or materially impairs your ability to pay amounts due under this
- 6. ACTIONS AFTER DEFAULT When you are in default and 
  4. SECURITY FOR LOAN This Agreement is secured by all after you have been given any right you have under state law 
  property described in the "Security" section of the Truth in to cure your default, we can require immediate payment of

You must provide disclosures in writing and orally

> Toll-free phone number

## Purchase money loan disclosures

1. Total Sale Price disclosure

### **Total Sale Price**

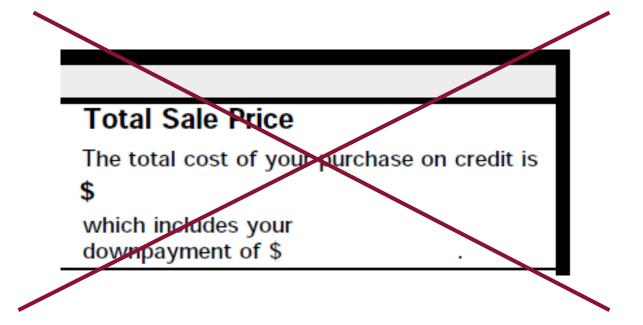
The total cost of your purchase on credit is

\$

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.

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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.

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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

- Documents are offered in electronic format
- 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
- 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
- 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 <a href="mailto:dodmla@cunamutual.com">dodmla@cunamutual.com</a>.

For LOANLINER® document questions, email <a href="mailto:loanliner@cunamutual.com">loanliner@cunamutual.com</a>

Access additional MLA resources at <a href="https://www.cunamutual.com/MLA">www.cunamutual.com/MLA</a>

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/resourcecenters/lending/secure/loanliner-compliance



## Common Purpose. Uncommon Commitment.

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