
INFORMATIONAL MEMORANDUM



February 6, 2017

To: Chief Executive Officer
All Farm Credit System Institutions

From: Samuel R. Coleman, Director and Chief Examiner
Office of Examination

Subject: Military Lending Act

This Informational Memorandum provides information about the Military Lending Act (MLA). The MLA was enacted in 2006 to protect active duty members of the military, their spouses, and their dependents from certain lending practices.

The MLA is implemented by Department of Defense (DoD) regulations. These regulations generally apply to “consumer credit” extended to “covered borrowers” by “creditors.” Under these regulations, “consumer credit” means consumer credit as defined in the Truth in Lending Act (TILA) – credit offered or extended to a consumer primarily for personal, family, or household purposes – but with exceptions discussed below. “Covered borrowers” means active duty service members and their spouses, children, and certain other dependents, and “creditors” means, in pertinent part, persons in the business of extending consumer credit.

The regulations were published in the Federal Register at 80 FR 43560 on July 22, 2015, and they were codified at 32 CFR Part 232. The DoD also published interpretive guidance at 81 FR 58840, on August 26, 2016. Compliance with the regulations was required beginning on October 3, 2016.

Exceptions to “Consumer Credit” Coverage

As discussed above, the TILA generally applies to credit offered or extended to a consumer primarily for personal, family, or household purposes. The kinds of loans that are considered “consumer credit” under the TILA but that are not covered by the MLA are:

- Residential mortgages (any credit transaction secured by an interest in a dwelling), including transactions to finance the purchase or initial construction of a dwelling, any refinance transaction, a home equity loan or line of credit, or a reverse mortgage;
- Credit transactions expressly intended to finance the purchase of a motor vehicle when the credit is secured by the motor vehicle being purchased; and,
- Credit transactions expressly intended to finance the purchase of personal property when the credit is secured by the property being purchased.

However, a transaction where a creditor simultaneously extends an additional cash advance beyond the purchase price of the securing personal property or motor vehicle does not fall under these exceptions and is therefore covered by the MLA.

MLA Requirements

If a loan is subject to the MLA:

- The creditor must make specified written and oral disclosures in addition to those required by the TILA;
- The loan must not contain certain terms, such as prepayment penalties, mandatory arbitration clauses, and certain unreasonable notice requirements;
- The Military Annual Percentage Rate (MAPR, which includes charges that are not included in the finance charge or APR disclosure under the TILA) may not exceed 36 percent; and,
- Certain other restrictions on creditors apply.

You can find additional guidance in the CFPB's [MLA Examination Manual](#).

Consistent with the CFPB and other Federal banking regulatory agencies, FCA's early examinations will evaluate System institutions' compliance management systems and overall efforts to follow the rule's requirements. Examiners will consider an institution's implementation plan, including actions taken to update policies, procedures, and processes; its training of appropriate staff; and its handling of early implementation challenges.

CFPB Compliance-Related Information

The language of all of the CFPB's rules, together with information about implementation of and compliance with the rules, can be found on the CFPB's website. The CFPB is constantly updating its website to provide information about these rules, and institutions should refer to it frequently to ensure they have the latest information. System institutions can sign up on the website to receive updates about these rules.

We are providing this information as a courtesy to keep you informed of issues that may affect your institution. This information should not be seen as a replacement for reviewing the full regulation or for management's due diligence in monitoring issues that may affect your institution.

If you have any questions about this Informational Memorandum, please contact Jennifer A. Cohn, Senior Counsel, Office of General Counsel, at (703) 883-4028, or by email at cohnj@fca.gov; or Dan Fennewald, Director, Examination Policy Division, Office of Examination, at (952) 259-0432, or by email at fennewaldd@fca.gov.