

PUBLICATION

Credit Card Issuers Get Ready – MLA in Full Effect October 3

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Credit card issuers get ready; now is the time to make sure you are in compliance with the new requirements of the Military Lending Act (MLA). The amendments to the MLA expanded both the type of creditors it regulates and the range of credit products it covers. Compliance with the significant amendments to the MLA was required by October of 2016 for covered creditors, except the provisions applying to credit cards, which were given a one-year exemption. Come October 3, 2017, the exemption for credit cards will expire, and compliance will be enforceable by the CFPB.

The MLA was originally enacted to cover a narrowly defined group of credit products that are offered to members of the active military, their spouses and covered dependents. It applies to transactions that originate while the consumer (their spouse or person whom the individual is dependent on) is in active military service. The amendments to the MLA to include additional creditors imposes significant changes to the products these newly covered creditors can offer to active service members. Some of the more important requirements that credit cards must comply with include a limited APR (defined as the MAPR in the MLA) not to exceed 36 percent, including many fees, required military specific disclosures, prohibition against mandatory arbitration and the requirement that the credit card issuer verify the military status of the consumer, including whether the consumer is a spouse or dependent of an active service member.

One of the most important provisions issuers of consumer credit cards must be mindful of is the requirements of the MAPR. As mentioned above, the MAPR is an all-inclusive APR cap rate that calculates many fees credit issuers might consider as ancillary into the rate. For example, application fees, participation fees, charges for voluntary credit insurance and charges for debt suspension agreements, among others, must be included in the calculation of the MAPR. Creditors must comply with the MAPR every billing cycle, so creditors will need to calculate the MAPR each month to ensure compliance. Thus, credit card issuers must be particularly mindful of any initial or annual fees for participation, for example, and must make sure those fees do not cause any monthly bill to exceed the MAPR for the month in which they are charged. If the MAPR rate is exceeded, the creditor can elect to waive all fees or charges that cause the amount billed to exceed the MAPR, but creditors may find implementing procedures to detect and deduct fees that exceed the MAPR on a monthly basis more burdensome to incorporate into their monthly billing process than simply eliminating or reducing fees to ensure that the MAPR will not be exceeded in any month at origination of the credit product offered to the active service member, his or her spouse, or covered dependent.

Creditors should also beware not to confuse the MLA with the SCRA (the Servicemembers Civil Relief Act). The SCRA applies to debts owed by a service member (or dependent, as defined differently than a 'dependent' under the MLA) with protections on certain debts incurred before the service member becomes active. The MLA applies to certain debts originated at the time or during the time the service member is on active duty. Beyond the distinction of the time in which the debt was incurred, the protections under the SCRA and the MLA vary, and therefore it is important to identify what protections are triggered by the consumer's status as an active service member, as well as to remember that compliance with the MLA and the SCRA require different considerations.