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MILITARY LENDING ACT FAQ

Common Questions About the Military Lending Act and the MAPR Calculation

1. How do I know if the requirements of the Military Lending Act Apply to my operation?

- The MLA requirements apply to “consumer credit” extended by a creditor to a covered borrower. In the 2015 MLA amendment, 232.2(f)(1), the Department of Defense provided the definition of “Consumer Credit.” The definition includes credit offered or extended to a covered borrower primarily for personal, family, or household purposes, and that is:
 - Subject to a finance charge; or
 - Payable by a written agreement in more than four installments.
- There were also certain exceptions to the rule defined in 232.2 (f)(2), the rule itself can be viewed at this website location:

<https://www.gpo.gov/fdsys/pkg/CFR-2016-title32-vol2/xml/CFR-2016-title32-vol2-part232.xml>

2. I am in the automotive finance business, am I exempt from the Military Lending Act requirements?

- It depends. The MLA exempts any credit transaction that is expressly intended to finance the purchase of a motor vehicle when the credit is secured by the vehicle being purchased is exempt.

- However, DOD guidance in 2016 cast doubt on the all-inclusive nature of that provision. On December 14, 2017, the DOD issued an interpretive rule aimed at addressing the qualifications for certain exceptions. The interpretive rule followed the same question and answer format as the previous guidance issued in 2016.

One answer provided by the DOD stated **“Generally, financing costs related to the object securing the credit will not disqualify the transaction from the exceptions, but financing credit-related costs will disqualify the transactions from the exceptions.”**

- Specific examples cited by the DOD were:
 - The inclusion of financing for optional leather seats and an extended warranty for service **would not** disqualify the transaction from the exception.
 - The inclusion of financed Guaranteed Asset Protection (GAP) or credit insurance **would** disqualify the transaction from the exception.
- In its explanation, the DOD also states:
 - “A credit transaction that finances the object itself, as well as any costs expressly related to that object, is covered by the exceptions in **Sec. 232.3(f)(2)(ii) and (iii).**”

3. Do I need to disclose the MAPR for qualifying transactions to a covered borrower?

- No. There is no requirement to disclose the MAPR. The rule is implying that the MAPR cannot exceed 36%. Essentially, this is a separate calculation computed in the background.
- The MLA does require a disclosure of a “statement of the MAPR”. The DOD Rule contains a model statement that may be used as is.

4. What “ancillary products” and other fees are included in the MAPR calculation that wouldn’t be included in the TILA APR calculation?

- Unlike the TILA APR, the cost of optional credit insurance, debt suspension/debt cancellation fees, credit related ancillary products and, under certain scenarios, application fees will have to be included in the MAPR calculation.

5. How do I ensure we are passing fees into CarletonCalcs Modules the right way?

- The CarletonCalcs Origination Module used by your organization may already calculate the Military APR. If not, please contact your Carleton representative who will assist in providing an update.
- The CarletonCalcs Origination module is highly configurable to meet your institutions compliance needs. Each fee that is passed to the module has an indicator that can be

set to determine whether the fee is included or excluded from the Military Interest. Credit insurance, debt protection and computed GAP are automatically included in Military Interest.

- It is important that fees are not aggregated into the loan amount/selling price passed to the CarletonCalcs Origination Module. Each individual fee needs to be passed in the fee structure for configuration purposes with regards to accurate calculation of the Military APR.
- A Military APR is computed on all transactions run through the CarletonCalcs module. It is up to the originating system to determine when it is used based on borrower status.

6. How do I add or exclude individual fees from the MAPR calculation from the CarletonCalcs Modules?

- Please refer to your module documentation regarding your specific implementation. Based on whether your system leverages a .NET wrapper, web service, or calls the Carleton DLL directly, your implementation will be different. For each fee, there is a field that designates whether the fee will be included or excluded from the Military Interest amount.
- It will be important for your compliance team to review the results of the Military APR calculations to ensure all fees were designated correctly and produce an accurate MAPR.

7. Will Carleton automatically compute a Military APR no matter what?

- A Military APR is computed on all transactions computed by the CarletonCalcs module. It is up to the originating system to determine when it is used based on borrower status.