

IMPORTANT NOTICE

Subject: New Interpretive Rule Regarding the Military Lending Act

December 19, 2017

The purpose of this notice is to draw your attention to a recent rule that was published by the Department of Defense that places limitations on the terms of consumer credit extended to military service members and their dependents. This directly impacts vehicle financing provided by an automotive dealer to active service members and their dependents.

The Department of Defense (DOD) published an amendment to its interpretive rule for the Military Lending Act (MLA) that became effective December 14, 2017.

As you are aware, the Military Lending Act Rule contains an exemption for credit which is expressly extended for the purchase of a motor vehicle or personal property. There was confusion as to whether the inclusion of an ancillary protection product within the financing would mean that the extension of credit was no longer expressly for the purchase of the motor vehicle and therefore the exemption would no longer apply.

The interpretation clarifies that “A credit transaction that finances the object itself, as well as any cost expressly related to that object, is covered by the exception(s)...provided it does not also finance any credit-related product or service.” The interpretation finds that a service contract is expressly related to the motor vehicle and its inclusion in the financing will not disqualify the extension of credit from the exemption. However, GAP is seen as related to the credit transaction and not the motor vehicle and therefore financing the cost of GAP would disqualify the extension of credit from the exemption.

The MLA prohibits creditors from extending covered credit with a military active duty service member and their dependents that includes an annual percentage rate (“MAPR”) greater than 36%. Among other items, debt cancellation products such as GAP waiver are required to be included within the calculation of the 36% MAPR. For your review, please see the links provided below for both the original rule and the recently published interpretation.

Important Links:

[DOD Interpretation of MLA Rule](#) - published 12/14/2017

[DOD Final MLA Rule](#) - published 7/22/2015

Questions or concerns?

Please contact Client Services at 800-849-9559 or email ClientServices@WiseFandI.com.

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