



KLA Dealer Memo

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For Immediate Release

Contact: Holly Jones
6021 Wallace Rd Ext., Ste. 100
Wexford, PA 15090
724-934-3394 • Fax 724-934-3382
www.keystonelendingalliance.com

Compliance With the Military Lending Act

Background:

On December 14, 2017, the U.S. Department of Defense amended its interpretation of the Military Lending Act (MLA) and how it affects indirect automobile transactions. Under this recent interpretation, any retail contract that provides financing of credit related products or services (Credit Life, Credit Disability, GAP or other debt cancellation type services) to an MLA covered borrower which includes active service members and their dependents, must now comply with the additional disclosures (including MAPR) required by the MLA.

What you need to know:

KLA supports our nation's military and we of course plan to work with applicable trade associations and compliance leaders to come up with a long-term solution. Until that time, KLA will not be able to accept any Retail Installment Contracts that do not comply with the Military Lending Act. What this means is that it will be up to your dealership to confirm that the applicant(s) are not covered borrowers under the MLA. If the applicant(s) are covered borrowers under the MLA, you would either NOT be able to sell these products; or, you must be able to provide the proper disclosures including a retail installment contract that includes the MAPR.

Effective immediately, if KLA receives a contract with any of the above mentioned products from your dealership, we must also receive confirmation that the applicant(s) are NOT covered borrowers under the MLA. You can do this at no charge at:

<https://mla.dmdc.osd.mil/mla/#/single-record> The confirmation must be included in the funding packet or there will be significant funding delays. As recommended by NADA in its notification last month (attached), we suggest that you consult with legal counsel on the best method for dealing with this new interpretation.

Questions:

If you have questions or need additional information, please contact your Dealer Representative or the KLA Offices.

Excerpt from NADA Press Release, January 8, 2018

“NADA is urging all dealers who sell to members of the military to immediately review new DOD interpretation of federal law and consult with legal counsel

A Department of Defense (DOD) interpretation of the Military Lending Act (MLA) issued today could have severe implications for all dealers who sell or have sold vehicles to members of U.S. armed forces.

According to the new interpretation of the MLA, if, as part of a vehicle financing transaction with a military consumer or his or her dependent, a creditor (i) extends financing for a credit-related product or service (such as GAP insurance or credit insurance), or (ii) provides cash out financing, the creditor must comply with the full range of duties and restrictions imposed by the MLA. The interpretation is in effect today and applies to all transactions since October 3, 2016.

As a result, it is essential that dealers immediately consult with their legal counsel to determine -

(i) whether to continue offering such products to military consumers and their dependents, and

(ii) if the dealer intends to continue offering such products, the actions dealers must immediately implement to comply with the MLA requirements.”... *Please refer to the entire bulletin for additional information.*



The Pennsylvania Automotive Association (PAA) highlighted the Military Lending Act in their News Bulletin No. 1 – January 5, 2018. The excerpts below are just a few key points pulled from their very detailed article. Please refer to the actual bulletin for the entire article.

“Who is a “covered borrower”?

A covered borrower is a “covered member” or a “dependent of a ‘covered member’”. A covered member is anyone on Active Duty (as long as the period of Active Duty is not specified as 30 days or fewer), and Active Guard and Reserve Duty. The MLA also applies to dependents. A dependent is the spouse, children meeting the requirements of a dependent, and dependent parents or parents-in-law.

What does the MLA require?

For example, under MLA the creditor must disclose not only the APR, but also the MAPR. The MAPR cannot exceed 36% and must include as a part of the finance charge any fees for GAP, credit insurance, etc. Because MAPR includes additional items from the APR, it should be calculated and disclosed separately.

In addition to the MAPR, the creditor must make all required Regulation Z disclosures and must provide a clear description of the payment obligation (i.e. a payment schedule). In connection with the MAPR, a creditor must also make a detailed disclosure at or before the credit transaction. The MAPR disclosures and the repayment obligations must be made both in writing and orally. To satisfy the oral requirement, the creditor can establish a toll-free telephone number. The telephone number must be provided on the credit application, and available prior to completing the credit sale. The MLA also prohibits the following practices relevant to a dealership: The same creditor and same borrower rolling over or refinancing consumer credit; Restricting or waiving the covered borrower’s legal rights under any State or Federal law (i.e., participating as members of a class action); Requiring the covered borrower to sign an arbitration agreement.

What are the penalties for violating MLA?

Any contract that violates MLA is void from inception. Penalties are severe. There are criminal penalties for violating MLA and any person injured by a violation of the MLA can bring a civil action for actual damages, punitive damages and attorney’s fees.

Dealers are encouraged to immediately review the new DOD interpretation of federal law and consult with legal counsel. The interpretation can be accessed online at: <https://www.gpo.gov/fdsys/pkg/FR-2017-12-14/pdf/2017-26974.pdf>.