



Legal Briefs

From the Fort Knox Legal Assistance Office

THE MILITARY LENDING ACT

What is the Military Lending Act?

The Military Lending Act (MLA), 10 U.S.C. §987, is a federal law that protects active-duty servicemembers, servicemembers on active Guard or Reserve duty, and their dependents from predatory lending practices regarding certain types of loans.

Does the MLA protect me?

- The MLA only protects “covered borrowers.” Covered borrowers are:
 - Active-duty servicemembers;
 - Servicemembers on active Guard or Reserve duty;
 - Servicemembers “called to duty” for more than 30 days;
 - Dependents, including:
 - Spouses and children under age 21;
 - Children under age 23 enrolled full-time at an approved institution of higher learning that are dependent on the servicemember for over one half of their support;
 - Children of any age incapable of self-support due to mental or physical incapacity that are dependent on the servicemember for over one half of their support.
- The creditor may verify that you are a covered borrower by conducting a search in the DOD database (<https://mla.dmdc.osd.mil/mla/>) or by using a consumer credit reporting service.

Does the MLA apply to my loan?

- The MLA applies only to credit or loans for **personal, family, or household use made at the time you are on active duty**. Credit or loans taken out before you entered into active-duty service are not protected under the MLA.
- The MLA covers credit transactions and loans like:
 - Credit cards;
 - Payday loans;
 - Tax refund anticipation loans;
 - Vehicle title loans;
 - Private student loans;
 - Federal student loans not made under Title IV of the Higher Education Act.
 - These are rare – many federal student loans are Title IV loans, like Pell Grants, Direct Loans, and Work Study Loans.
- The MLA does not apply to:
 - Business loans;
 - Home mortgages;
 - Vehicle loans.

How does the MLA assist covered borrowers like me?

- **36% interest cap-** You (or your dependents) cannot be charged more than a 36% Military Annual Percentage Rate (MAPR). To calculate the MAPR, the creditor should include the cost of the loan as well as additional fees and charges like:
 - Credit insurance premiums and fees;
 - Debt cancellation contract fees;
 - Debt suspension agreement fees.
- **Creditor must provide statement of MAPR-** Upon extending credit or a loan, the creditor must provide a statement of the MAPR both orally and in writing. They should provide the statement to you before or at the time you take out the loan.
- **Creditor must provide description of obligations-** The creditor must also provide a description of your obligations (i.e., what you owe) both verbally and in writing.
- **No mandatory allotments-** The creditor cannot require you to set up an allotment.
- **No access to bank accounts-** The creditor generally cannot use a check or other method to access your deposit, savings, or other financial accounts. However, there are some exceptions – for example, the creditor may require electronic fund transfers.
- **No prohibition on prepayment and no prepayment penalties-** The creditor cannot prohibit or penalize you if you choose to pay off your loans early.
- **No mandatory arbitration-** Because arbitration agreements may prevent you from suing the creditor for damages, the creditor cannot require you to submit to arbitration in case of a dispute involving the loan.
- **Certain creditors may not use title of vehicle as security-** To secure a loan, only licensed banks and credit unions can hold the title to your vehicle. This means most payday lenders cannot hold title to your vehicle in exchange for a loan.

What happens if my loan violates the MLA?

- If your loan does not comply with the MLA and you are a covered borrower, the creditor cannot give you the loan by law. Any contract you signed with that creditor is void (i.e., you are not bound by the terms of the contract).
- You may also file a complaint with the Consumer Financial Protection Bureau at <https://www.consumerfinance.gov/complaint>.
- The creditor may be subject to federal criminal charges for violations of the MLA, and may be civilly liable to you for damages that result from intentionally violating the MLA.

Alternatives to high-interest loans

- Alternatives to payday loans and high-interest installment loans may be available through Military Aid Societies. For example, Army Emergency Relief (AER) provides financial assistance on a case-by-case basis. You can find additional information at <https://www.armyemergencyrelief.org/assistance/>.
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If you have additional questions about whether a loan or line of credit complies with the MLA, contact the Legal Assistance Office for an appointment at (502) 624-2771, or visit our website at <https://home.army.mil/knox/index.php/about/Garrison/legal-assistance-office/legal-assistance-division>. Our hours of operation are Monday, Tuesday, Wednesday, and Friday, 0900 – 1600, and Thursday, 1300 – 1600. The Fort Knox Legal Assistance Office is located in Building 1310, Pike Hall, at the corner of Knox and Third Street.