



**Federal Deposit Insurance Corporation**  
550 17th Street NW, Washington, D.C. 20429-9990

**Financial Institution Letter**  
**FIL-65-2016**  
**October 17, 2016**

**Military Lending Act: Interagency Consumer Compliance Examination Procedures, DOD Interpretive Rule, and the FDIC’s Supervisory Expectations**

**Summary:** The FDIC has released revised interagency examination procedures that reflect the Department of Defense’s (DOD) 2015 amendments to the implementing regulations of the Military Lending Act of 2006 (MLA) and its August 2016 interpretive rule that provides guidance on certain questions received regarding compliance with the MLA rule. The release of these examination procedures is part of the FDIC’s ongoing efforts to inform supervised institutions about important bank regulatory developments and to promote transparency in the FDIC’s supervisory program. The examination procedures should be helpful to financial institutions seeking to better understand the areas on which the FDIC will focus as part of the examination process. The FDIC is also providing guidance on its initial supervisory expectations in connection with its examinations of financial institutions for compliance with the MLA rule.

**Statement of Applicability to Institutions Under \$1 Billion in Total Assets:** This Financial Institution Letter applies to all FDIC-supervised institutions.

**Distribution:**

FDIC-Supervised Institutions

**Suggested Routing:**

Chief Executive Officer  
Chief Compliance Officer  
Chief Loan Officer

**Related Topics:**

Military Lending Act Regulation, 32 CFR Part 232

**Attachments:**

[Military Lending Act Examination Narrative and Procedures](#)

[Interpretive Rule: Military Lending Act Limitations on Terms of Consumer Credit Extended to Service Members and Dependents](#)

**Contacts:**

Patience Singleton, Senior Policy Analyst, at (202) 898-6859 or [psingleton@fdic.gov](mailto:psingleton@fdic.gov)

Samuel Jaeger, Examination Specialist, at (202) 898-3534 or [sjaeger@fdic.gov](mailto:sjaeger@fdic.gov)

**Note:**

FDIC financial institution letters (FILs) may be accessed from the FDIC’s Web site at <https://www.fdic.gov/news/news/financial/2016/>.

To receive FILs electronically, please visit <http://www.fdic.gov/about/subscriptions/fil.html>.

Paper copies may be obtained through the FDIC’s Public Information Center, 3501 Fairfax Drive, E-1002, Arlington, VA 22226 (1-877-275-3342 or 703-562-2200).

**Highlights:**

- FDIC examiners will use the updated interagency examination procedures to evaluate financial institutions’ compliance with the amended MLA regulations (32 CFR Part 232), to the extent such evaluations are part of the scope of an FDIC consumer compliance examination.
- On August 26, 2016, DOD published an interpretive rule in the *Federal Register* that provides guidance on certain questions received regarding compliance with the DOD’s July 2015 MLA final rule.
- The updated interagency examination procedures reflect the July 2015 final rule and the August 2016 interpretive rule.
- During early examinations, examiners will evaluate financial institutions’ compliance management systems and overall efforts to come into compliance. Specifically, examiners will consider an institution’s implementation plan, including actions taken to update policies, procedures, and processes; its training of appropriate staff; and its handling of early implementation challenges. The FDIC reminds institutions that they are responsible for ensuring that servicemembers and other eligible consumers receive the consumer protections afforded by the MLA.

## **Interagency Consumer Compliance Examination Procedures for the Military Lending Act**

In July 2015, the Department of Defense (DOD) issued a final rule amending the implementing regulations of the Military Lending Act of 2006 (MLA). The final rule expands specific protections provided to servicemembers and their dependents under the MLA and addresses a wider range of credit products than the DOD's previous regulation.

In addition, the FDIC's Division of Depositor and Consumer Protection (DCP) has released revised interagency consumer compliance examination procedures applicable to the DOD's amended MLA regulations. The procedures were developed in coordination with member agencies of the Federal Financial Institutions Examination Council. The interagency procedures can be accessed in the [FDIC Compliance Examination Manual](#).

### **DOD Interpretive Rule**

In August 2016, DOD published an interpretive rule in the *Federal Register* that provides guidance on certain questions received regarding compliance with the July 2015 Final Rule. The DOD issued its interpretive rule to inform the public of its views. The interpretive rule, comprised of 19 questions and answers, does not substantively change the regulation implementing the MLA, but rather merely states DOD's preexisting interpretation of an existing regulation.

Among other things, the interpretive rule clarifies that:

- Required oral payment obligation disclosures to a covered borrower do not have to reflect the specific terms of a credit agreement or credit transaction;
- Oral disclosures provided through a toll-free telephone system need only be available for a reasonably necessary time;
- Creditors may use "savings clauses" and need not generate special credit agreements for covered borrowers;
- Check and electronic fund transfer payments by covered borrowers are permitted; and
- Borrowers may grant, and creditors may exercise, the right to take a security interest in a covered borrower's checking, savings, or other financial account in connection with a credit transaction.

The interpretive rule also clarifies the types of overdraft products within the scope of the rule's definition of "consumer credit" and addresses issues regarding the calculation and application of the military annual percentage rate.

### **Effective Dates and FDIC Examinations**

The final rule's provisions that apply to new covered transactions are effective beginning October 3, 2016. For credit extended in a new credit card account under an open-end consumer credit plan, the effective date is October 3, 2017.

During early examinations, FDIC examiners will evaluate financial institutions' compliance management systems and overall efforts to come into compliance. Specifically, examiners will consider an institution's implementation plan, including actions taken to update policies, procedures, and processes; its training of appropriate staff; and its handling of early implementation challenges. The FDIC reminds institutions that they are responsible for ensuring that servicemembers and other eligible consumers receive the consumer protections afforded by the MLA.