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DBO Authority to Enforce Compliance With Military Lending Act Updated

A new California bill, SB 266, updates existing laws that give the Department of Business Oversight (“DBO”) authority over California lenders’ compliance with the federal Military Lending Act¹ (“MLA”).

The MLA was enacted by Congress in 2007 to regulate the provision of certain credit to members of the military² and their dependents. The most notable protection is a prohibition against charging these covered borrowers an annual percentage rate of interest greater than 36 percent.³

While the MLA applies to lenders in California, including banks, the state immediately enacted AB 7 (Chapter 358, Statutes of 2007) in 2007 to give the DBO authority to enforce compliance with the MLA by various types of California lenders.

In 2015, Congress strengthened several provisions of the MLA, including by

¹ The MLA is codified at 10 U.S.C. 987.

² These include active duty members of the armed forces or armed forces reserves and full-time members of the National Guard.

³ The military annual percentage rate or “MAPR” is different from the Regulation Z APR. It includes in the calculation fees and charges not recognized in Regulation Z. See 32 CFR 232.4.

covering more types of transactions⁴ and enhancing disclosure requirements.

This year’s SB 266 updates AB 7 in order to reflect the 2015 changes. The new bill amends Financial Code Section 1498 (banks⁵), Section 14960 (credit unions), Section 22345 (finance lenders), Section 23038 (deferred deposit transactions or payday lenders), and Section 394 of the Military and Veterans Code.

See CBA’s Regulatory Compliance Bulletin titled, [“New Department of Defense Database Eases Military Lending Act Compliance” dated March 14, 2016](#) for a summary of the amended MLA. This bill becomes effective on January 1, 2018.

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⁴ The MLA originally focused on refund anticipation loans.

⁵ Section 1498(b) provides that a person that does not market or extend (MLA) covered credit to covered borrowers shall not be in violation of the MLA.