Servicemembers Civil Relief Act (SCRA) of 2003

Background:

The SCRA was signed into law on December 19, 2003, amending and replacing the Soldiers’ and Sailors’ Civil Relief Act of 1940, and is codified at 50 U.S.C. App. 501 et seq. It was further amended December 10, 2004, by the Veterans Benefits Improvement Act of 2004. The law protects members of the Army, Navy, Air Force, Marine Corps and Coast Guard, including members of the National Guard, as they enter military service (active duty¹), as well as commissioned officers of the Public Health Service and the National Oceanic and Atmospheric Administration engaged in active service. Some of the benefits accorded to service-members by the SCRA also extend to service-members’ spouses, dependents and other persons subject to the obligations of servicemembers. The Housing and Economic Recovery Act of 2008 (HERA) amended several sections of this law by extending the availability of certain protections. The Helping Heroes Keep Their Homes Act of 2010 extended expiring HERA amendments until December 31, 2012. Major relief provisions of the SCRA include the following:

Maximum Rate of Interest on Loans, Including Mortgages

- Upon receiving a written request for relief and a copy of the servicemember’s military orders, creditors must, for the duration of the service-member’s military service, reduce the interest² rate on debts³ incurred by the servicemember, or a servicemember and spouse jointly, prior to entry into military service to no more than 6 percent per year. (This applies to the individual servicemember’s debt or joint debt with a spouse.)
- Creditors must maintain the interest rate reduction for the period of military service, except in the case of a mortgage, trust deed, or other security in the nature of a mortgage, where the interest rate reduction extends for one year after the end of the servicemember’s military service.⁴
- Creditors who reduce the interest rate on the obligations of a servicemember must forgive interest in excess of 6 percent.
- The reduced interest rate provision applies unless a court finds the ability of the servicemember to pay interest on the debt at a higher interest rate is not materially affected by his or her military service. In such cases, the court may grant a creditor relief from the interest rate limitations of the Act.

Residential and Motor Vehicle Purchases and Leases

- Contracts for the purchase of real or personal property, for which the servicemember has paid a deposit or made a payment before the servicemember enters military service, may not be rescinded or terminated after the servicemember’s entry into military service for a breach of the terms of the contract occurring before or during their military service, or the property repossessed because of the breach without a court order.
- Termination of certain residential or motor vehicle leases may be made at the option of the lessee servicemember if the servicemember provides to the lessor or the lessor’s agent written notice of the request for termination along with a copy of the military orders.
  - Automobiles leased for personal or business use by the servicemember or their dependent may be terminated if the servicemember, after the lease is executed, enters military service program. Nonetheless, the other provisions of the SCRA, including those providing for a stay of proceedings and reopening default judgments, remain available to servicemembers.
  - The extension of the interest rate reduction for mortgages for an additional one year period after the end of military service was added by Section 2203(b) of HERA, which was signed into law on July 30, 2008. Section 2203(a) of HERA extends the stay, adjustment, sale, foreclosure, and seizure provisions from 90 days to 9 months following the end of the servicemember’s period of military service. Unlike Section 2203(b), the amendment described in Section 2203(a) now expires on December 31, 2012.

¹. In the case of servicemembers who are members of the Army, Navy, Air Force, Marine Corps, or Coast Guard, active duty is defined as “full-time duty in the active military service of the United States. Such term includes full-time training duty, annual training duty, and attendance, while in the active military service, at a school designated as a service school by law or by the Secretary of the military department concerned. Such term does not include full-time National Guard duty.” 10 USC § 101(d). Note the term “military service” under the SCRA also includes National Guard members under a call of duty authorized by the President or the Secretary of Defense for more than 30 consecutive days and servicemembers who are commissioned officers of the Public Health Service and the National Oceanic and Atmospheric Administration engaged in “active service.” 50 U.S.C. app. 511(2)(B).
². “Interest” is defined in the SCRA to include service and renewal charges or any other fees or charges, except for charges for bona fide insurance. 50 U.S.C. App. 527(d).
³. Section 207 of the SCRA, 50 U.S.C. App. 527, applies to “an obligation or liability incurred by the servicemember, or the servicemember and the servicemember’s spouse jointly, before the servicemember enters military service.” No distinction is made between personal versus business credit. However, according to a U.S. Department of Education memorandum, the SCRA limitation on interest rates does not apply to federally insured student loans based on 20 U.S.C. § 1078(d), which states that no provision of any Federal or state law that limits the interest rate on a loan, will apply to loans made under a government student loan

Consumera Compliance Handbook  SCRA • 1 (11/11)
for a period of 180 days or more.

- Additionally, an automobile lease entered into while the servicemember is on active duty may be terminated if the servicemember receives military orders for a permanent change of station (PCS) outside of the continental United States (this would include a PCS to Hawaii or Alaska) or deployment for a period of 180 days or more.

- Termination of an automobile lease also includes the return of the automobile to the lessor within 15 days after delivery of the written notice of termination.

- Termination is permitted of pre-service “residential, professional, agricultural or similar” leases occupied or intended to be occupied by a servicemember or a dependent as well as those leases executed during military service where the servicemember subsequently receives orders for a PCS or a deployment for a period of 90 days or more.

Foreclosure, Eviction from Bank-Owned Property

- Real or personal property owned by a servicemember before the servicemember’s military service that secures a mortgage, trust deed, or similar security interest cannot be sold, foreclosed upon, or seized based on a breach of such a secured obligation during the period of military service or nine months thereafter without a court order. Additionally, in an action filed during or within nine months after a servicemember’s military service, a court may, after a hearing on its own, or shall, upon application by a servicemember, stay a proceeding to enforce an obligation as described above or adjust the debt, when the member’s ability to comply with the obligation is materially affected by reason of the member’s military service.5

- A landlord may not evict a servicemember or the dependent of a servicemember from premises that are occupied or intended to be occupied as a primary residence during a period of military service except by court order.6

Life Insurance Assigned as Security

- If a life insurance policy on the life of a servicemember is assigned before military service to secure the payment of an obligation, the assignee of the policy (except the insurer in connection with a policy loan), may not exercise, during the period of the servicemember's military service or within one year thereafter, any right or option obtained under the assignment, absent compliance with a court order or other specified requirement.

Adverse Action

- The fact that a servicemember applies for or receives a stay, postponement, or suspension of his or her obligations or liabilities pursuant to the SCRA may not in itself provide the basis for the following:

  - a determination by a lender or other person that the servicemember is unable to pay the obligation or liability in accordance with its terms

  - a creditor’s denial or revocation of credit, change in terms of an existing credit arrangement, or refusal to grant credit to the servicemember in substantially the amount or on substantially the terms requested

  - an adverse report relating to the creditworthiness of the servicemember by or to a consumer reporting agency

  - a refusal by an insurer to insure the servicemember

  - an annotation in a servicemember’s record by a creditor or a person engaged in the practice of assembling or evaluating consumer credit information identifying the servicemember as a member of the National Guard or a reserve component

  - a change in the terms offered or conditions required for the issuance of insurance

Relief for Other Obligors

- Whenever a court grants a stay, postponement, or suspension to a servicemember on an obligation, it may likewise grant a person primarily or secondarily liable such a stay, postponement or suspension.

5. These provisions were extended until December 31, 2012. On January 1, 2013, the SCRA will revert to the 90-day limit per HERA, which was amended by the Helping Heroes Keep Their Homes Act of 2010.

6. The law as originally passed by Congress applied to only those dwellings with monthly rents of $2,400 or less. Accordingly, evictions involving residences with monthly rents of $2,400 or less require a court order. This amount is adjusted yearly and is published in the Federal Register by the Department of Defense. The figure as of January 1, 2011, is $2,975.54.
EXAMINATION OBJECTIVES

1. Determine the institution’s compliance with the provisions of the SCRA, as applicable, to the institution’s product offering and operations, including management of other real estate owned, where a servicemember or his/her dependents may be tenants.

2. Assess the quality of the institution’s compliance risk management systems and its policies and procedures for implementing the SCRA.

3. Determine the reliance that can be placed on the institution’s internal controls and procedures for monitoring the institution’s compliance with the SCRA.

4. Determine corrective action when violations of law are identified, or when the institution’s policies or internal controls are deficient.

EXAMINATION PROCEDURES

General

1. Through discussions with management and review of available information, determine whether the institution’s internal controls are adequate to ensure compliance with the SCRA. Consider:
   - policies and procedures
   - account documentation
   - checklists
   - computer program documentation, including any computer program testing and validation

2. Determine the extent and adequacy of the training received by individuals whose responsibilities relate to compliance with the regulation. Review any training materials pertaining to the Act and determine whether the training is comprehensive and covers the various aspects of the provisions that apply to the creditor’s offerings and operations.

3. Review compliance reviews or audit materials, including work papers and reports, to determine if
   - the scope of any audits address all provisions of the SCRA, as applicable
   - transaction testing includes samples covering relevant product types and decision centers (for example, both mortgage and credit card processing centers)

Interest Rate Reduction for Loans, Including Mortgages

6. Determine how the institution handles requests for interest rate reductions under the SCRA on an obligation incurred by a servicemember or by a servicemember and spouse jointly, before the servicemember entered military service.

7. Determine how the institution calculates the reduced interest rate. Does the institution include all service and renewal charges, as well as other fees and charges, with the exception of charges for bona fide insurance?

8. Determine whether the institution applies the interest rate reduction effective as of the date the servicemember was called to military service.

9. Determine whether the institution applies the interest rate reduction throughout the term of the servicemember’s military service, for all credit products. In the case of a mortgage, the institution must continue to apply the interest rate reduction for a one year period following the termination of military service.

Residential and Motor Vehicle Leases

10. Determine, in the case of a residential lease entered into before the servicemember entered into military service or executed by the servicemember while in military service but who subsequently receives orders for a permanent change of station or for a deployment of at least 90 days, that the institution permits the service-
member to terminate the lease.

11. Determine if the institution permits the service-member to terminate a motor vehicle lease where
   • the motor vehicle lease is for personal or business use by the service-member or his/her dependent and
     – the lease is executed by the service-member before he/she enters military service for a period of 180 days or more or,
     – the service-member, while in military service, executes the lease and subsequently receives military orders for a PCS outside of the continental United States (this include a PCS to Hawaii or Alaska), or deployment with a military unit for a period of 180 days or more

Foreclosure, Eviction from Bank-Owned Property

12. Determine, in the case of an institution acting as a landlord, that the institution does not evict a service-member or his/her dependents' from a residence covered by the Act occupied primarily as a residence during a period of military service except by court order.

13. Determine whether, in the case of real or personal property owned by a service-member before the service-member’s military service and is secured by a mortgage, trust deed, or similar security interest, the institution obtains a court order before initiating the sale, foreclosure, or seizure based on a breach of such a secured obligation during the period of military service or nine months thereafter.

Installment Contracts

14. Determine, in the case of an institution that finances or purchases installment contracts for the purchase of real or personal property, that where a service-member has paid a deposit or made a payment before entering military service, that the contract was not rescinded or terminated by the institution after the service-member’s entry into service, absent a court order for a breach of the terms of the contract occurring before or during the military service, or the property repossessed because of the breach.

Insurance Assigned as Security for a Loan

15. Determine, in the case of an insurance policy on the life of a service-member that is assigned before the service-member’s military service as security for an obligation, that the institution does not exercise, during a period of military service or within one year thereafter, any right or option obtained under the assignment, absent a court order. This prohibition does not apply
   • if the assignee has written consent of the insured service-member, obtained during his/her military service
   • when the premiums on the policy are due and unpaid
   • upon the death of the insured

Adverse Action

16. Determine, in the case of an application from or receipt by a service-member of a stay, postponement, or suspension of an obligation, that the institution does not use such action as a basis of
   • a determination that the lender is unable to pay the obligation or liability in accordance with its terms
   • denial or revocation of credit, change in terms of an existing credit, or refusal by the creditor to grant credit to the service-member in substantially the same amount or terms
   • an adverse credit report or reference

Examination Conclusions

17. Conclude the examination after taking the following actions:
   • Fully address identified deficiencies and violations, if any.
   • Attach appropriate supporting work-paper documentation.
   • Discuss findings with management and board of directors.
   • Write comments, as applicable, in the Report of Examination.
   • Include appropriate violation write-ups.
   • Discuss proposed enforcement action, if needed.

---

7. Dependents are defined in the SCRA as: (a) the service-member’s spouse, (b) the service-member’s child, or (c) an individual for whom the service-member provided more than one-half of the individual’s support for 180 days preceding an application for relief under the SCRA.
Applicable Laws and Regulations

Servicemembers Civil Relief Act, Pub. L. 108-189
(codified at 50 U.S.C. App. 501 et seq.)

20 U.S.C. § 1078(d), Federal payments to reduce student interest costs
Servicemembers Civil Relief Act (SCRA) of 2003
Examination Checklist

Section 518—Exercise of Rights Under Act Not to Affect Certain Future Financial Transactions
1. Does the creditor refrain from taking adverse action against a servicemember solely because the servicemember exercised rights under the Act? (50 U.S.C. App. § 518) Yes No NA
If No, cite a violation of Section 518.

Section 527—Maximum Rate of Interest on Debts Incurred Before Military Service
1. Did the creditor reduce the interest rate on obligations of a servicemember, or of a servicemember jointly with the servicemember’s spouse, incurred prior to military service, to no more than 6 percent during the period of military service upon receipt of written notice and a copy of the servicemember’s military orders? (527(a)(1)) Yes No NA
Note that in the case of a mortgage, the 6 percent cap extends to one year following the end of military service. Interest under the SCRA includes all service, renewal or other charges and fees with the exception of bona fide insurance charges.
If No, cite a violation of Section 527(a)(1).

2. Did the creditor forgive interest in excess of 6 percent? (527(a)(2)) Yes No NA
If No, cite a violation of Section 527(a)(2).

3. Did the creditor reduce any periodic payment due by the servicemember by the amount of the interest forgiven? (527(a)(3)) Yes No NA
If No, cite a violation of Section 527(a)(3).

4. Upon receipt of the written notice from the servicemember and a copy of the military orders, did the creditor apply the interest rate reduction retroactively to the date on which the servicemember is called to military service? (527(b)(2)) Yes No NA
If No, cite a violation of Section 527(b)(2).

Section 532—Protection Under Installment Contracts for Purchase or Lease
1. Did the creditor obtain a court order before rescinding or terminating contracts by a servicemember for the purchase, lease or bailment of real or personal property (including a motor vehicle) for any breach of terms occurring before or during military service, provided a deposit or installment had been paid prior to entry into military service? Similarly, did the creditor obtain a court order before repossessing property due to breach of terms? (532(a)) Yes No NA
If No, cite a violation of Section 532(a).

Section 533—Mortgages and Trust Deeds
1. Did the creditor obtain a court order before selling, foreclosing or seizing real or personal property due to a breach of an obligation by a servicemember during the period of military service or within nine months after without a court order? (533(c)) Yes No NA
Note that HERA sunsets the nine-month extension on December 31, 2012, and the SCRA reverts to the original statutory provision of 90 days on January 1, 2013.
If No, cite a violation of Section 533(c).
Section 535—Termination of Residential or Motor Vehicle Lease
1. Did the creditor terminate the lease within the stipulated timeframe once the requirements for termination were met by the servicemember lessee? (535(d))
   Yes  No  NA
   If No, cite a violation of Section 535(d).

2. Did the creditor refund the lease amounts paid in advance for a period after the effective date of termination within 30 days of the effective date of the termination of the lease? (535(e))
   Yes  No  NA
   If No, cite a violation of Section 535(e).

Section 536—Protection of Life Insurance Policy
1. Did the creditor obtain a court order before exercising any right or option obtained under an assignment of the servicemember’s life insurance policy made before the servicemember’s military service during the period of military service or within one year thereafter? (536(a))
   Yes  No  NA
   If No, cite a violation of Section 536(a).