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Handbook: **Examination**
Subject: **Servicemembers Civil Relief Act**

Section 1357

Servicemembers Civil Relief Act

Summary: This Regulatory Bulletin transmits new Examination Handbook Section 1357, Servicemembers Civil Relief Act.

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Summary of Changes

OTS is issuing new Examination Handbook Section 1357, Servicemembers Civil Relief Act of 2003 (SCRA). This section provides examiners with a program to examine an institution's compliance with the SCRA, which replaced the Soldiers' and Sailors' Civil Relief Act of 1940. The examination program reflects amendments to the SCRA that were enacted in 2004 and 2008.

Background

The SCRA protects members of the Army, Navy, Air Force, Marine Corps, and Coast Guard, including members of the National Guard, as they enter active duty in the military service. The law also protects commissioned officers of the Public Health Service and the National Oceanic and Atmospheric Administration who are engaged in active service. Finally, the SCRA protects the dependants of servicemembers.

Pursuant to the SCRA, military personnel who are on active deployment receive reduced interest rates on debts incurred before entering into military service. In addition, covered individuals receive protection from foreclosure or eviction during military service or during nine months thereafter. The SCRA also prohibits lenders from repossessing vehicles purchased prior to active military service without a court order. Under the law, lenders may not take adverse action against a service member who invokes SCRA protection.

The procedures were developed on an interagency basis. They reflect a risk-focused approach to compliance examinations.

Timothy T. Ward
—Timothy T. Ward
Deputy Director

Examinations, Supervision, and Consumer Protection

Servicemembers Civil Relief Act of 2003

PURPOSE

To provide uniform procedures for reviewing financial institutions' compliance with the Servicemembers Civil Relief Act (SCRA or Act) during comprehensive examinations.

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 USC App. 501 *et seq.* It was further amended

L I N K S

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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 servicemembers by the SCRA also extend to servicemembers' spouses, dependents and other persons subject to the obligations of servicemembers. The Housing and Economic Recovery Act of 2008 (HERA) recently amended several sections of this law, extending the time period for certain activities. Major relief provisions of the SCRA include the following:



¹ In the case of servicemembers who are members of the Army, Navy, 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 USC app. 511(2)(B)).

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 servicemember'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 six 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 six 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

- Where the servicemember has paid a deposit or made a payment on a contract for the purchase of real or personal property before entering military service, the contract may not be terminated for a breach of the terms of the contract after the servicemember's entry into military service without a court order. Similarly, the property underlying such a contract may not be repossessed without a court order.

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 USC app. 527(d)).

³ Section 207 of the SCRA, 50 USC app. 527, applies to "an obligation or liability . . . incurred by the servicemember, or the servicemember and the servicemember's spouse jointly, before the service member 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 USC § 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 program. Nonetheless, the other provisions of the SCRA, including those providing for a stay of proceedings and reopening default judgments, remain available to servicemembers.

⁴ 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) expires on December 31, 2010. On January 1, 2011, the SCRA will revert to the provisions in effect before the date of enactment.

- Certain residential or motor vehicle leases may be terminated 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 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, farm 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 Institution-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 his or her dependents from certain residences⁶ occupied primarily as a residence during a period of military service except by court order.

⁵ Section 303 of the SCRA, 50 USC app. 533, as amended by section 2203(a) of HERA.

⁶ The law as originally passed by Congress applied to dwellings with monthly rents of \$2,400 or less. Accordingly, evictions involving residences with monthly rents of \$2,400 or less needed 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, 2008, is \$2,831.13. This annual adjustment is generally announced in February.

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 any of 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 Obligor

- 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.

REFERENCES

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

Veterans Benefits Improvement Act of 2004, Pub. L. 108-454

Housing and Economic Recovery Act of 2008, Pub. L. 110-289

United States Code (USC)

20 USC § 1078(d), Federal payments to reduce student interest costs

Servicemembers Civil Relief Act of 2003 Program

EXAMINATION OBJECTIVES

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

Assess the quality of the institution's compliance risk management systems and its policies and procedures for implementing the provisions.

Determine the reliance that can be placed on the institution's internal controls and procedures for monitoring the institution's compliance with the provisions.

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

EXAMINATION PROCEDURES

WKP, REF.

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
 - Documentation that confirms that computer systems have been programmed to meet SCRA requirements. Such documentation should also confirm that computer programs have been tested and validated.
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2. 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.

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Information Technology Risks and Controls Program

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- Transaction testing includes samples covering relevant product types and decision centers (for example, both mortgage and credit card processing centers).
 - The work performed is accurate.
 - Significant deficiencies and their causes are included in reports to management or to the Board of Directors.
 - Management has taken corrective actions to follow-up on previously identified deficiencies.
 - The frequency of review/audit is appropriate.
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3. If any complaints based on the SCRA have been filed against the institution, determine:

- Why were they filed, and
 - How they were resolved.
-

4. If the institution has received any actual requests for relief under the SCRA, determine whether appropriately trained staff reviewed the requests and if appropriate records are maintained.

Interest Rate Reduction for Loans, Including Mortgages

5. 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.

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6. 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?
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7. Determine whether the institution applies the interest rate reduction effective as of the date the servicemember was called to military service.
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8. 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

9. 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 servicemember to terminate the lease.
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10. Determine if the institution permits the servicemember to terminate a motor vehicle lease where:

- The motor vehicle lease is for personal or business use by the servicemember or his/her dependent; and
 - The lease is executed by the servicemember before he/she enters military service for a period of 180 days or more, or
 - the servicemember, while in military service, executes the lease and subsequently receives military orders for a PCS outside of the continental

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United States (this includes 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

11. Determine, in the case of an institution acting as a landlord, that the institution does not evict a servicemember or his/her dependents¹ from a residence covered by the Act occupied primarily as a residence during a period of military service except by court order.
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12. Determine whether, in the case of real or personal property owned by a service member before the servicemember'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.
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Installment Contracts

13. Determine that the institution obtains a court order before attempting to rescind or terminate a contract for the purchase of real or personal property when a servicemember paid a deposit or made a payment on such a contract before entering military service. Determine that the institution obtains a court order before attempting to repossess real or personal property subject to such a contract.
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¹ Dependents are defined in the SCRA as (a) the servicemember's spouse, (b) the servicemember's child, or (c) an individual for whom the servicemember provided more than one-half of the individual's support for 180 days preceding an application for relief under the SCRA.

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Insurance Assigned as Security for a Loan

14. Determine, in the case of an insurance policy on the life of a servicemember that is assigned before the servicemember'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 in the following situations:
- If the assignee has written consent of the insured servicemember, obtained during his/her military service.
 - When the premiums on the policy are due and unpaid.
 - Upon the death of the insured.

Adverse Action

15. Determine, in the case of an application from or receipt by a servicemember of a stay, postponement, or suspension of an obligation, that the institution does not use such action as a basis of any of the following:
- 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 servicemember in substantially the same amount or terms.
 - An adverse credit report or reference.

Examination Conclusions

16. Conclude the examination after taking the following actions:
- Fully address identified deficiencies and violations, if any.

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- 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.
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EXAMINER'S SUMMARY, RECOMMENDATIONS, AND COMMENTS

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Servicemembers Civil Relief Act of 2003

Questionnaire

Yes No NA

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 USC App. § 518)?

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 six percent during the period of military service upon receipt of written notice and a copy of the servicemember's military orders (527(a)(1))? Note that in the case of a mortgage, the six 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 six percent (527(a)(2))?

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))?

If No, cite a violation of Section 527(a)(3).

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Questionnaire

Yes No NA

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))?

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))?

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))? Note that HERA sunsets the nine months extension on December 31, 2010, and the SCRA reverts to the original statutory provision of 90 days.

If No, cite a violation of Section 533(c).

Servicemembers Civil Relief Act of 2003

Questionnaire

Yes No NA

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))?

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))?

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))?

If No, cite a violation of Section 536(a).

COMMENTS

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