

The material in this handout represents general legal principles – this is not legal advice. Each individual's situation is unique and the law is continually changing. It is always best to consult an attorney about your legal rights and responsibilities regarding your particular case.

6% CAP ON LOAN INTEREST

Possible for ACTIVATED RESERVISTS & NEW SERVICE MEMBERS

If you are paying more than 6% interest on debts incurred before entry on active duty, you may qualify to have your interest rate reduced to 6%. To qualify, two conditions must be present:

1. The debt or obligation must have been incurred prior to the service member coming on active duty; and
2. The service member's ability to pay such debt or obligation has been materially affected by reason of military service (i.e., reduced income as a result of entering active duty).

If both of the above conditions are present, you qualify for the protection of the Servicemembers' Civil Relief Act (SCRA). This SCRA protection requires the creditor to reduce your interest rate to 6% for the period of your military service unless the creditor can prove in court that your ability to pay the higher interest rate is not "materially affected" by your military service. This protection begins on the date of entering active duty service and generally ends upon termination of service. For mortgage obligations, the protection extends to one year following termination of service. The interest over 6% must be forgiven, not just deferred and your monthly payments must be reduced by the reduction in the interest rate.

To obtain an interest rate reduction under SCRA, contact your loan servicer. You will need to send a written request to your servicer, and will also need to provide your servicer with a copy of your orders calling you on to active duty. You can submit your request anytime during your active duty service and up to 180 days after leaving service. If you are unsure of whether you qualify for the SCRA interest rate cap at 6%, visit your local legal office to speak with an attorney. If you are confident that you do qualify for the rate cap, see reverse side of this paper for a sample letter to your creditor requesting reduction of your interest rate. Furthermore, please consult your local legal office if your servicer refuses to honor or fails to respond to your written request.

The material in this handout represents general legal principles – this is not legal advice. Each individual's situation is unique and the law is continually changing. It is always best to consult an attorney about your legal rights and responsibilities regarding your particular case.

SAMPLE LETTER

DATE

SERVICEMEMBER NAME
ADDRESS

NAME OF CREDITOR
ADDRESS

RE: YOUR NAME AS IT APPEARS ON YOUR STATEMENT, ACCOUNT NO.

Dear Sir on Madam:

This letter is to advise you that I have been ordered to active duty service with the United States Armed Forces. The Servicemembers' Civil Relief Act (SCRA), 50 U.S.C., Section 3937, sets a six percent (6.0 %) per annum ceiling on interest charges (including service charges, renewal charges and fees) during the period of a servicemember's military service for obligations made prior to the date of entry onto active duty when the active duty materially affects the ability to pay. This letter is my formal written request to reduce the rate of interest to 6.0% for the above referenced account.

Enclosed is a copy of my orders. I am currently serving on active duty with the [**Branch of Armed Forces**]. I entered active duty on [**Date**], which was after the time I incurred the above referenced debt. My entry into military service has substantially affected my ability to make the payments that I agreed to make while a civilian.

Under the SCRA, any interest in excess of 6.0% per year shall be forgiven. Please ensure that your records reflect this statutory ceiling and that any excess charge is withdrawn. The interest over 6% must be forgiven, not just deferred and my monthly payments must be reduced by the reduction in the interest rate.

Please contact me at the above address with a revised payment schedule. Thank you for your understanding and support in this matter.

Sincerely,

John Smith, Rank, USAF

**** ENCLOSE A COPY OF YOUR ORDERS THAT BROUGHT YOU ON ACTIVE DUTY.**