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RESERVES AND NATIONAL GUARD UNDERUTILIZE SCRA BENEFITS, CFPB REPORTS

The Consumer Financial Protection Bureau (“CFPB”) released a [report](#) revealing that Reserve and National Guard members of the armed forces are not always receiving the benefit of their right to rate reductions under the federal Servicemembers Civil Relief Act (“SCRA”). The CFPB would like creditors to be more proactive in helping servicemembers obtain SCRA benefits.

The SCRA provides various legal and financial protections to active duty servicemembers, including (i) the ability to reduce interest rates on pre-service obligations, (ii) the ability to terminate certain residential housing and automobile leases early and (iii) protections against (a) repossession of certain property without a court order, (b) default judgments in civil cases and (c) certain home foreclosures without a court order. 50 U.S.C. § 3931-3959. Of these benefits, the CFPB suggests that the interest rate reduction and protection against repossession in particular seem to be underutilized, although information on utilization rates is limited. The report, which is limited to members of the Reserves and the National Guard serving in active federal duty status, seeks to quantify the use of the interest rate reduction benefit and the effect of repossession protection. The report also identifies approaches to increase benefit utilization.

The CFPB analyzed data from two sources to determine the utilization rate of interest reduction benefits: (i) the CFPB’s Consumer Credit Panel (“CCP”) and (ii) the Department of Defense’s SCRA website. The CCP collects data on tradelines (including when loans are opened and closed, the payment status and the required and actual monthly payment amounts) which allowed the CFPB to impute interest rates on loans by using the original principal amount, term length and required monthly payment for auto and personal loans. The SCRA website reports the activation status of servicemembers.

By comparing the activation status timeline from the SCRA website with the tradeline and imputed interest information from the CCP, the CFPB estimated that for the period from 2007 to 2018, only 13% to 16% of auto and personal loans with rates greater than 6% made to active duty Reserves and National Guard had rate reductions to below 6%. Auto and personal loans that do not show evidence of SCRA interest rate reductions represent about \$100

million in estimated foregone savings over the period of 2007 to 2018. While it is more difficult to calculate the rate reduction utilization for credit cards and mortgage loans, the report indicates there is evidence that members of the reserves infrequently benefit from rate reduction on these types of loans. The report notes that Reservists are more likely to obtain a reduced interest rate during longer periods of active service; however, the rates remain below 16% for auto and personal loans.

The CFPB suggests several approaches to increasing servicemember access to SCRA protections, including: (i) applying SCRA interest rate reductions for all applicable accounts held at an institution if a servicemember invokes protections for a single account, (ii) exploring ways to automatically apply SCRA interest rate protections where possible (noting that creditors can access database data) and (iii) developing comprehensive and periodic indicators of SCRA benefit utilization to help inform and evaluate future efforts to expand servicemembers’ financial protections.

While the CFPB’s report specifically addresses utilization rates with regard to the federal SCRA, states also offer benefits which may likewise be underutilized. State benefits may be greater and apply to larger populations other than just active Reservists and National Guard. The steps that the CFPB suggests would help increase utilization of federal SCRA benefits could increase utilization of state SCRA benefits as well.

The CFPB’s authority to require proactive monitoring is questionable, but its suggestions may merit consideration as a matter of best practice in response to competitors’ practices in different markets and situations. We routinely provide advice on federal and state SCRA benefits and their applicability to servicemember customers and will continue monitor further CFPB efforts. □

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