
WHAT ABOUT MY 6% INTEREST RATE CAP?

People often times have misconceptions about the protections of the Servicemember's Civil Relief Act, especially when it comes to the six percent interest rate cap. The cap on interest rates is not automatic. The interest rate cap only applies to debts that were incurred prior to the time the service member was placed on active duty orders and only when the service member's ability to repay a debt is materially affected by being ordered to active duty.

The purpose of the cap is to protect, primarily, reserve component Soldiers whose financial situations are negatively impacted by being called to active duty. For example, a family made a large purchase on a credit card at 18% interest figuring that they could afford it because the spouse had a part time job. However, before the debt could be paid off, the service member was deployed and the spouse had to quit her/his part time job. The once manageable debt is now a hardship due to the deployment. The six percent interest rate cap protection then becomes an entitlement to the family assuming that the service member's deployment pay is less than the spouses lost income. If a call to active duty does not create a financial hardship for an individual or family, the six percent interest rate cap is not available; some creditors may still be willing to lower a service member's interest rate, but it's not guaranteed by law.

The burden of proof, to show that a hardship exists, is on the creditor. Many times, creditors will reduce the interest rate without considering the hardship issue. You should not represent, to your creditor, that a financial hardship has been created solely due to a deployment if it is not true.

People often believe that they are locked into the six percent interest rate cap for the duration of the active duty orders. However, it is imperative to understand that only debts that existed prior to the service member entering active duty are covered by the six percent interest rate cap protection. Any debt that is incurred while on active duty is not protected by the cap. Federally Guaranteed Student loans are not protected by the six percent cap; although, you may be able to forebear or defer payments.

In order to obtain the six percent interest rate cap, the service member must make a written request to the lender with a copy of the active duty orders attached. Upon return, it is the Soldier's responsibility to inform the lender that their active duty orders have ended so that the lender can reinstate the pre-deployment interest rate.