

LAW REVIEW 1114

Student Loans Are Now Subject to SCRA 6% Interest Rate Cap

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4.1—SCRA Right to Interest Rate Reduction upon Mobilization

Q: I graduated from college two years ago and was commissioned a Second Lieutenant in the Army Reserve. I have a massive student debt, but I am making good progress in paying it off. I have an excellent job with a six-figure income, and I am making maximum payments on the student debt. But now I am being called to active duty, and I will suffer a significant loss in income—my Army pay will be substantially less than my civilian pay.

I read with great interest your Law Review 112 (Jan. 2004), about section 527 of the Servicemembers Civil Relief Act (SCRA). Like the reservist you discussed in that article, I can certainly say that my entry on active duty will materially affect my ability to meet my financial obligations. I applied to the bank that services my student loan to have the interest rate cut to 6% during my active duty period. The loan officer told me that the SCRA 6% interest rate cap does not apply to federally guaranteed student loans. Is the loan officer correct?

A: Not any longer. What the loan officer told you was correct until Aug. 14, 2008, but it is no longer correct.

On Aug. 14, 2008, President Bush signed into law Public Law 110-315. Among other changes made by that Public Law, it amended 20 U.S.C. 1078(d) to read: "No provision of any law of the United States (other than this chapter *and section 527 of the Appendix to title 50*) ... which limits the rate or amount of interest payable on loans shall apply to a [federally guaranteed student] loan." (Emphasis supplied.)

The purpose and effect of this 2008 amendment was to make the SCRA 6% interest rate cap applicable to student loans, just as it applies to credit cards, automobile loans, and other financial obligations. This is a very important change. For many junior officers in the National Guard and Reserve, the student loan debt will be the most significant financial obligation for which the member will need relief upon call to active duty.