

Why GAO Did This Study

SCRA protects servicemembers whose active duty military service prevents them from meeting financial obligations, by allowing interest rates on certain debts to be reduced and requiring a court order before certain foreclosures on their homes can occur. With foreclosures rising, reports surfaced of instances in which financial institutions failed to comply with SCRA. GAO examined the (1) eligibility for SCRA protections and extent of SCRA mortgage-related violations by depository institutions, (2) SCRA compliance oversight by prudential regulators and other federal agencies, and (3) the military services' efforts to educate servicemembers on SCRA. GAO collected data on populations eligible for SCRA from DOD and SCRA violations from banking and law enforcement agencies and reviewed a stratified random sample of prudential regulators' examinations of banks and credit unions. GAO also interviewed regulators, law enforcement and military officials, and military service organizations.

What GAO Recommends

Prudential regulators should conduct more extensive loan file testing for SCRA compliance. Regulators and other agencies that oversee mortgage activities should also explore opportunities for information sharing on SCRA compliance oversight, and VA should expand its SCRA compliance monitoring efforts. Finally, DOD and DHS should assess the effectiveness of their efforts to provide SCRA information to servicemembers. The agencies generally agreed and noted actions responsive to GAO's recommendations.

View [GAO-12-700](#). For more information, contact Mathew Scire at (202) 512-8678 or sciremj@gao.gov.

MORTGAGE FORECLOSURES

Regulatory Oversight of Compliance with Servicemembers Civil Relief Act Has Been Limited

What GAO Found

Certain protections under the Servicemembers Civil Relief Act (SCRA) only apply to those servicemembers who obtained mortgages prior to becoming active duty, but at least 15,000 instances of financial institutions failing to properly reduce servicemembers' mortgage interest rates and over 300 improper foreclosures have been identified by federal investigations and financial institutions in recent years. Additional independent reviews of financial institutions' compliance are under way, and staff from some of these institutions told GAO that they have implemented improved practices—such as creating single points of contact familiar with military issues for borrowers—to better comply with SCRA.

Federal regulators' oversight of SCRA compliance has been limited. GAO estimates that from 2007 through 2011 prudential depository institution regulators—the Federal Deposit Insurance Corporation, Federal Reserve Board, National Credit Union Administration, and Office of the Comptroller of the Currency—reviewed 48 percent of all banks and credit unions for SCRA compliance. Of these institutions that were reviewed for SCRA compliance, only about half received examinations that involved testing of compliance by reviewing loan files. Further, GAO found that examiners had only reviewed loans identified by the institution as involving servicemembers and had not independently selected a statistical sample of loan files, which would have provided greater assurance of SCRA compliance. Without more testing, which examination and auditing guidance suggest provides increased verification, regulators are less likely to detect SCRA violations. Various other federal agencies are involved in SCRA compliance oversight. The Department of Justice has explicit SCRA enforcement authority and since 2007 has brought three cases against mortgage servicers for violations. The Department of Veterans Affairs (VA), Federal Housing Administration, and Federal Housing Finance Agency—which regulates the government-sponsored enterprises—all obtain information about SCRA compliance at the servicers that participate in the mortgage programs they administer or regulate, but the agencies and the prudential regulators do not share such information among themselves. Collaboration among these agencies could lead to more effective supervision and improve their awareness of potential problems with SCRA compliance. Further, VA oversight of mortgage servicers does not specifically review for SCRA compliance. By increasing its SCRA compliance monitoring efforts, VA could better ensure that servicemembers with VA loans are better protected.

SCRA requires that the Department of Defense (DOD) and Department of Homeland Security (DHS)—which oversees the Coast Guard—inform servicemembers of their SCRA rights. The military services provide this information in various forms, such as briefings and websites. However, some military officials said that servicemembers—particularly members of the National Guard and reserve—often receive SCRA information as part of briefings with numerous other topics prior to deployment and do not always retain the necessary awareness when they need it later. DOD and DHS do not assess the effectiveness of their SCRA education methods, such as by using focus groups of servicemembers or testing to reinforce retention of SCRA information. Without such assessment, they may not be able to ensure that they are informing servicemembers of their rights in the most effective manner.