



**CONGRESSIONAL BUDGET OFFICE  
COST ESTIMATE**

February 11, 2014

**S. 1593**

**A bill to amend the Servicemembers Civil Relief Act to enhance the  
protections accorded to servicemembers and their spouses  
with respect to mortgages, and for other purposes**

*As ordered reported by the Senate Committee on Veterans' Affairs  
on November 19, 2013*

**SUMMARY**

S. 1593 would amend provisions of the Servicemembers Civil Relief Act (SCRA) that limit interest rates on certain loans, delay foreclosure on mortgages issued to servicemembers, and set penalties for violations of that act. Enacting S. 1593 would affect direct spending and revenues; therefore, pay-as-you-go procedures apply. However, CBO estimates that the net budgetary effects would be insignificant in each year.

The bill would impose intergovernmental and private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) by adding and expanding protections for servicemembers under SCRA. CBO estimates that the cost to state, local, and tribal governments of complying with mandates in the bill would fall below the threshold for intergovernmental mandates (\$76 million in 2014, adjusted annually for inflation). One mandate would prohibit contract provisions that commit the parties in advance to the use of arbitration to resolve disputes involving SCRA protections. Because little information exists about the number of contracts that contain binding arbitration clauses, CBO cannot determine the aggregate cost to private entities to comply with that mandate. Consequently, we cannot determine whether the aggregate costs of the mandates in the bill would exceed the annual threshold for private-sector mandates (\$152 million in 2014, adjusted annually for inflation).

**ESTIMATED COST TO THE FEDERAL GOVERNMENT**

Section 107 would limit to 6 percent the interest rate on loans to servicemembers for the purpose of consolidating student loan debt that was incurred before the borrower entered the military. Limiting the interest rate could increase the subsidy cost for some of those

loans, many of which are guaranteed or issued by the federal government.<sup>1</sup> However, CBO estimates that few borrowers would take advantage of the provision because we expect interest rates on student loans to remain near or below the limit in SCRA. Thus, the increase in subsidy costs for loans issued to borrowers who do would be insignificant.

Section 109 would delay foreclosures on mortgages for housing owned by surviving spouses of servicemembers who die on active duty. Some of those mortgages are guaranteed by the Department of Veterans Affairs (VA) and the Federal Housing Administration (FHA), and delaying foreclosures would increase the subsidy costs on those loans. Such costs are reflected in mandatory appropriations for loans guaranteed by VA and in discretionary appropriations for loans guaranteed by FHA. CBO estimates that few loans would be affected; thus, the effect on those subsidy costs would be insignificant.

Section 303 would increase civil penalties for persons who violate the provisions of Servicemembers Civil Relief Act. Such penalties are recorded as revenues. CBO expects that any additional revenues would not be significant because of the small number of violations likely to occur.

## **INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT**

S. 1593 would impose a number of mandates, as defined in UMRA, on public and private entities, and individuals. CBO estimates that the cost to comply with the mandates for state, local, and tribal governments would fall below the threshold established for intergovernmental mandates (\$76 million in 2014, adjusted annually for inflation). For most of the mandates in the bill, the cost to the private sector would be small. However, because of uncertainty about the number and value of claims that would be affected by the bill's limitation on binding arbitration, CBO cannot determine whether the aggregate costs of mandates in S. 1593 would exceed the annual threshold for private-sector mandates (\$152 million in 2014, adjusted annually for inflation).

### **Mandates that Apply to Both Public and Private Entities**

SCRA provides protections and benefits for servicemembers who enter into contracts for certain purposes such as mortgages, leases, rental agreements, consumer credit, life insurance, and health insurance. Under section 301 such contracts could not include

---

1. Under the Federal Credit Reform Act of 1990, the subsidy cost of a loan guarantee is the net present value of estimated payments by the government to cover defaults and delinquencies, interest subsidies, or other expenses, offset by any payments to the government, including origination fees, other fees, penalties, and recoveries on defaulted loans. The subsidy cost of a direct loan is the net present value of loan disbursement, repayment of principal and interest, and other cash flows. Such subsidy costs are calculated by discounting those expected cash flows using the rate on Treasury securities of comparable maturity. The resulting estimated subsidy costs are recorded in the budget when the loans are disbursed.

clauses that commit the parties in advance to the use of binding arbitration to resolve contractual disputes involving SCRA protections. That prohibition would apply to contracts that are executed, amended, renewed, or extended after the date of enactment of the bill. (Arbitration would be permitted if all parties voluntarily consent in writing after the dispute arises.) The prohibition of such clauses would be a mandate on public and private entities, and would probably result in more court proceedings. Information from industry sources indicates that few contracts between servicemembers and public entities contain clauses requiring mandatory arbitration to resolve disputes regarding the application of SCRA. Consequently, CBO estimates that the cost of the mandate to state, local, and tribal governments, if any, would be small. However, little information exists about the number of contracts that are settled under binding arbitration or the amount of compensation awarded under such agreements between servicemembers and private entities. Consequently, CBO has no basis for estimating the potential increase or decrease in compensation that would be awarded under the bill, if any, or the net cost of the mandate.

The bill also would expand SCRA's protections for servicemembers by:

- Prohibiting public and private lending institutions from denying credit to servicemembers on the grounds that the servicemembers are eligible for credit protection under SCRA;
- Extending the length of stay of civil proceedings relating to real or personal property, mortgages, evictions, and foreclosures for servicemembers and their spouses;
- Prohibiting penalties on prepayment of mortgage obligations by servicemembers if the penalties occur at the time the servicemember is in military service and the reason for the prepayment of the mortgage is that the servicemember receives military orders to relocate;
- Authorizing the Attorney General to issue civil orders to further investigations arising under SCRA; and
- Extending the length of time a servicemember is protected from a rescission or termination of a contract without a court order for a breach of contract.

CBO estimates the mandates listed above would impose minimal costs on public and private entities because the existing practice of affected entities closely adheres to the new requirement or because the provisions would apply in a small number of cases.

## **Mandates that Apply to Private Entities Only**

Section 107 would impose a mandate on lenders by expanding the applicability of a cap on interest rates for certain student loans. Under SCRA, servicemembers are eligible to have the interest rate reduced to 6 percent for student loans incurred before the borrower entered military service. The cost of the mandate for lenders would be the loss of interest income resulting from the rate cap on consolidated loans. Since most servicemembers consolidate such loans before entering the military, CBO expects that any reduction in payments to lenders as a result of the cap would not be significant. Therefore, CBO estimates the cost of the mandate would be small.

In addition, the bill would impose a mandate on residential lessors by prohibiting penalties for early termination of such leases if the renter is a servicemember who moves into military housing. CBO estimates the cost of complying would be small because the provision adds eligibility for military housing to the broad existing protections allowing military members to lawfully terminate a lease without repercussions. Because rental agreements for military members frequently include release clauses, fees for early termination are uncommon and their forfeiture would be negligible.

## **Mandates that Apply to Public Entities Only**

The bill would require a state or local licensing authority to delay for 180 days, the expiration of a license and the continuing education requirements of a servicemember to maintain a license for a trade or profession if such servicemember is receiving special pay for hostile fire or imminent danger. The requirement to delay expiration of such licenses could impose some administrative costs on licensing authorities, but CBO expects those costs would be small considering the limited number of servicemembers who likely would be affected.

### **ESTIMATE PREPARED BY:**

Federal Costs: David Newman

Impact on State, Local, and Tribal Governments: J'nell L. Blanco

Impact on the Private Sector: Elizabeth Bass

### **ESTIMATE APPROVED BY:**

Theresa Gullo

Deputy Assistant Director for Budget Analysis