

# LEGISLATIVE RESEARCH UNIT

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PATRICK D. O'GRADY, EXECUTIVE DIRECTOR

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## INTEREST RATE LIMITS FOR VETERANS

You asked whether any laws limit interest rates on loans to veterans. We found no such limits in state or federal law. As described below, both Illinois and federal law limit interest rates for persons on active duty with the military.

### Federal Law

The federal Servicemembers Civil Relief Act<sup>1</sup> (copy enclosed) applies to members of the Army, Navy, Air Force, Marines, and Coast Guard, and to members of the National Guard when called to active service for more than 30 days.<sup>2</sup> Debt incurred by the servicemember, or jointly with a spouse, before entering the military may not bear interest over 6% per year during the military service.<sup>3</sup> Interest beyond 6% that otherwise would accrue must be forgiven, not merely deferred.<sup>4</sup>

Periodic payments must be reduced to reflect the lowered interest rate. A lender may not choose to maintain the existing payment level and use the savings in interest to reduce the principal faster.<sup>5</sup> Servicemembers must provide creditors with written notice and a copy of military orders calling them to service within 180 days after their termination or release from service.<sup>6</sup> A court may grant creditors relief if, in the opinion of the court, the ability of a servicemember to pay interest over 6% per year is not materially affected by the military service.<sup>7</sup>

**LRU**

Military personnel may, during active duty or within 180 days after release, apply to a court for relief from:

- (a) any obligation or liability incurred before entering active duty; or
- (b) any tax liability or assessment that came due before or during active duty.

If the debt is for real estate or is secured by a mortgage, the court may allow the service member to pay it back with interest (but no fine or penalty) over the agreed period plus a period equal to the length of military service. In other cases, the court may prevent the member from being fined or penalized for a period equal to the length of service.<sup>8</sup>

#### Illinois Law

Illinois has provisions substantially similar to the federal law limiting collection of interest above 6% from persons in military service.<sup>9</sup> Violators are subject to a civil penalty of \$1,000.<sup>10</sup>

We hope this information is helpful. Please let us know if we can be of further assistance.

Sincerely,



Kevin Jones  
Research Associate

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Enclosure

Servicemembers Civil Relief Act, Pub. L. 108-189, 117 Stat. 2835 (2003).

#### Notes

1. Pub. L. 108-189, 117 Stat. 2835 (2003).
2. 50 U.S. Code subsec. 511(2).
3. 50 U.S. Code subsec. 527(a)(1).
4. 50 U.S. Code subsec. 527(a)(2).
5. 50 U.S. Code subsec. 527(a)(3).
6. 50 U.S. Code subsec. 527(b)(1).
7. 50 U.S. Code subsec. 527(c).
8. 50 U.S. Code App. sec. 591.
9. 815 ILCS 205/4.05.
10. 815 ILCS 205/4.05(h).