



FEDERAL RESERVE BANK *of* KANSAS CITY

July 2, 2012

**Mortgage Servicing Practices Concerning Military Homeowners with  
Permanent Change of Station Orders**

- Attention:** Chief Executive Officer of Each Tenth District State Member Bank, Bank Holding Company, and Savings and Loan Holding Company:
- Subject:** On June 21, 2012, the Board of Governors of the Federal Reserve System issued guidance to mortgage servicers regarding supervisory expectations when institutions are notified that a military homeowner has received Permanent Change of Station (PCS) orders.
- Highlights:** The guidance discusses practices that may mislead or harm homeowners with PCS orders as well as controls to ensure compliance with applicable consumer laws and regulations. The guidance is consistent with the Servicemembers Civil Relief Act as well as guidance and examination procedures previously issued by the Federal Reserve.
- Attachments:** A copy of CA Letter 12-8 and interagency guidance is attached.
- Contact:** Questions regarding CA Letter 12-8 may be directed to Consumer Affairs Manager Jeff Legette at (800) 333-1010, ext. 16712.
- Internet:** A copy of CA Letter 12-8 is available on the Board's web site at:  
<http://www.federalreserve.gov/bankinfo/reg/caletters/caltr1208.htm>





BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON, D. C. 20551

SANDRA F. BRAUNSTEIN  
DIRECTOR  
DIVISION OF CONSUMER  
AND COMMUNITY AFFAIRS

CA 12-8

June 21, 2012

**TO THE OFFICERS AND MANAGERS IN CHARGE OF CONSUMER AFFAIRS  
SECTIONS AND TO EACH DOMESTIC AND FOREIGN BANKING ORGANIZATION  
SUPERVISED BY THE FEDERAL RESERVE:**

**SUBJECT: Mortgage Servicing Practices Concerning Military Homeowners with  
Permanent Change of Station Orders**

On June 21, 2012, the Federal Reserve, along with the Consumer Financial Protection Bureau, Federal Deposit Insurance Corporation, National Credit Union Administration, and Office of the Comptroller of the Currency, issued the attached guidance to address mortgage servicing practices that may pose risks to homeowners who are serving in the military. Specifically, the guidance addresses risks related to military homeowners who have informed the servicer that they have received Permanent Change of Station ("PCS") orders and may seek assistance with their mortgage loans.

This guidance is consistent with guidance and examination procedures previously issued by the Federal Reserve, including guidance regarding working with homeowners who are financially unable to continue to meet their mortgage payments (SR Letter 07-61/CA Letter 07-01), examination procedures regarding the Servicemembers Civil Relief Act (CA Letter 11-06), and guidance and examination procedures regarding unfair or deceptive acts or practices (CA Letters 04-02 and 07-08).

Federal Reserve Banks are asked to distribute this letter and the accompanying statement to state member banks and bank holding companies, as well as to supervisory and examination staff. If you have any questions concerning this guidance, please contact Lanette Meister at (202) 452-2705.

Sincerely,

A handwritten signature in black ink, appearing to read "Sandra F. Braunstein".

## Cross References:

- CA Letter 11-06, "Revised Examination Procedures for the Servicemembers Civil Relief Act"
- CA Letter 07-08, "Consumer Compliance Examination Procedures for the Unfair or Deceptive Acts or Practices Provisions of Section 5 of the Federal Trade Commission Act"
- SR Letter 07-61/CA Letter 07-01, "Working with Mortgage Borrowers"
- CA Letter 04-02, "Unfair or Deceptive Acts or Practices by State-Chartered Banks"

## **Interagency Guidance on Mortgage Servicing Practices Concerning Military Homeowners with Permanent Change of Station Orders**

The Board of Governors of the Federal Reserve System, the Consumer Financial Protection Bureau, the Federal Deposit Insurance Corporation, the National Credit Union Administration, and the Office of the Comptroller of the Currency (“the Agencies”) are issuing this guidance to mortgage servicers as part of their supervisory programs. This guidance is being issued to address mortgage servicer practices that may pose risks to homeowners who are serving in the military and to ensure compliance with applicable consumer laws and regulations. Specifically, this guidance addresses risks related to military homeowners who have informed the servicer that they have received military Permanent Change of Station (PCS) orders (hereafter, “homeowners with PCS orders”).

For military homeowners, PCS orders to move to a new duty station present unique challenges. Although PCS orders are non-negotiable and operate under short, strict timelines, homeowners with PCS orders remain obligated to honor their financial obligations, including their mortgages. If their homes have declined in value, they may be unable to sell the home and obtain sufficient funds to pay off the mortgage debt and may continue to be obligated to make monthly payments after relocating to the new duty station.

The Agencies have particular concerns about the following practices which have the potential to mislead or otherwise cause harm to homeowners with PCS orders:

- Failing to provide homeowners with PCS orders who notify their servicers of such orders with accurate, clear, and readily understandable information about available assistance options for which the homeowner may qualify based on the information known to the mortgage servicer. The options should be consistent with the servicer’s public representations and agreements with government agencies and others regarding the servicer’s intent to offer such assistance to all qualified homeowners. These options include the Making Home Affordable Program and programs offered by or through Fannie Mae, Freddie Mac, the Federal Housing Administration (FHA), the Department of Veterans Affairs (VA), and the Department of Agriculture-Rural Development (USDA-RD).<sup>1</sup>

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<sup>1</sup> This guidance does not obligate servicers to offer any particular loss mitigation programs.

- Asking homeowners with PCS orders to waive their legal rights under the Servicemembers Civil Relief Act (SCRA)<sup>2</sup> or any other law as a prerequisite to the mortgage servicer either providing information to the homeowner about available options or evaluating the homeowner's eligibility for assistance.
- Advising homeowners with PCS orders who are current on their loans and able to make the monthly payment to intentionally skip making payments in order to create the appearance that they are having financial difficulties in order to obtain assistance for which they would not otherwise qualify. Providing accurate, factual information to a homeowner about available loss mitigation programs for delinquent homeowners is not a practice that raises this concern.
- Failing to provide a reasonable means for homeowners with PCS orders to obtain information on the status of their request for assistance.
- Failing to timely communicate the servicer's decision regarding requests for assistance from homeowners with PCS orders and failing to include an explanation of the reason for the denial, where required, so that the homeowner has an opportunity to address any deficiencies, if applicable. Timeliness will be judged on all of the facts and circumstances.

Mortgage servicers should ensure that their employees are adequately trained about the options available for homeowners with PCS orders. Information provided to homeowners with PCS orders regarding any available assistance options, such as the Making Home Affordable Program and other programs offered by or through Fannie Mae, Freddie Mac, the FHA, the VA, and the USDA-RD, should be accurate and readily understandable. The Agencies expect the institutions they supervise will maintain mortgage servicing policies and procedures appropriate to achieve these objectives, commensurate with the institution's customer base and the size and the complexity of its operations.

If the Agencies determine that a servicer has engaged in any acts or practices that are unfair, deceptive, or abusive, or that otherwise violate Federal consumer financial laws and regulations, the agencies will take appropriate supervisory and enforcement actions to address violations that harm consumers and seek all appropriate corrective actions, including requiring the mortgage servicer to strengthen its programs and processes.

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<sup>2</sup> 50 U.S.C. app. §§ 501-597b. Among the protections under SCRA are restrictions on foreclosures of servicemembers' property securing pre-military-service mortgages for which the servicemember is still obligated, while the servicemember is in "military service," as that term is defined in § 511(2), or within nine months thereafter. The period of nine months will revert to 90 days after December 31, 2012.