



Consumer Federation of America

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CFA APPLAUDS NEW DOD PAYMENT PROTECTIONS FOR SERVICEMEMBERS

DoD will no longer directly process payments for high-cost credit providers

CFA urges regulators to monitor lenders targeting servicemembers to put an end to payment abuses

Washington, DC—In response to concerns about the widespread abuse of the military allotment process, DoD today announced a change in policy to prohibit the use of military allotments to purchase jewelry, furniture, appliances and other personal property. The allotment process allows servicemembers to direct a portion of their pay to make certain types of payments. However, too many lenders have relied upon, or even required payment by allotment as a quick way to get paid.

Recent press coverage found that one lender almost always used allotments to collect payments for financing contracts to purchase electronics and other consumer goods at inflated prices and with high add-on fees. In 2010, then-New York Attorney General Andrew Cuomo sued a lender for inflating the purchase price of consumer goods and requiring repayment by allotment.

“This is an important and much-needed change to DoD policies and one that will protect servicemembers from abusive lending practices,” said Tom Feltner, director of financial services at the Consumer Federation of America. “Allotments were designed to make it easy to send money home, save and pay a mortgage, not serve as security for credit transactions.”

The policy announced today would prohibit creditors that finance consumer goods from deducting payment directly from an active-duty servicemember’s pay. Servicemembers will still have the ability to make payments to these creditors through electronic transfer from their bank or by using their bank’s bill pay service – options that often cost less, provide more flexibility and provide better legal protections.

In June 2013, the Consumer Financial Protection Bureau (CFPB) fined one lender for requiring payment by allotment and charging high fees to process the payment—making the processing fee unavoidable in order to get approved for credit. The CFPB found that one servicemember was approved for an auto loan where the lender-required payment by allotment claimed more than 70 percent of his take-home pay.

In July 2014, Senators Jack Reed, Richard Blumenthal, Mark Warner, Jeanne Shaheen, and Tim Kaine sent a letter to Secretary of Defense Chuck Hagel urging the Department of Defense to crack down on allotment abuses.

“These new protections are an important step forward and will ensure that allotments are a convenience for servicemembers and not a substitute for determining a servicemember’s ability to repay a loan,” said Feltner. “However, it is critical that regulators closely monitor the marketplace and put a stop to potential evasions of this new policy.”

The Department of Defense has already prohibited payday lenders and auto title lenders from using the allotment system to collect payments, and recently proposed a sweeping expansion of this prohibition to cover longer-term payday installment loans and expensive lines of credit marketed to servicemembers.

The Consumer Federation of America is a nonprofit association of more than 250 consumer groups that was established in 1968 to advance the consumer interest through research, advocacy, and education.

Additional Materials:

Department of Defense: [Policy on Allotments Fact Sheet](#)

Consumer Financial Protection Bureau: [What you should know about military allotments](#)

Consumer Federation of America: [The Military Lending Act Five Years Later Impact On Servicemembers, the High-Cost Small Dollar Loan Market, and the Campaign against Predatory Lending](#)