

**Military Allotments for Auto Loan Payments  
Now Prohibited  
By ADR Staff**

*Changes are a direct result of alleged unfair and deceptive auto lending abuses.*

The Department of Defense (DoD) recently directed a policy change in new paycheck allotments to prevent unscrupulous commercial lenders from taking advantage of troops and their families. The change to the military's Financial Management Regulation, effective January 1, 2015, prohibits service members from allotting pay to buy, lease, or rent personal property. The amendment prohibits allotments for the following specific items:

- Vehicles (e.g., automobiles, motorcycles, boats);
- Appliances or household goods (e.g., washer, dryer, furniture);
- Electronics (e.g., laptop, tablet, cell phone, television); or
- Other consumer items that are tangible and movable.

According to the Department of Defense, this policy change eliminates that aspect of the allotment system most prone to abuse by unscrupulous lenders that prey on service members. The change is intended to significantly improve protections for all service members and their families, while not significantly reducing the flexibility to use allotment for a number of legitimate purposes, such as making deposits to savings accounts or to pay mortgages.

The changes are a direct result of a major enforcement action by the Consumer Financial Protection Bureau (CFPB) against Minnesota-based U.S. Bank and its partner, Dealers Financial Services of Lexington, Kentucky. In June 2013, the lenders agreed to end deceptive marketing and lending practices targeting military personnel in which they failed to disclose all of the fees charged in the companies' Military Installment Loans and Educational Services, or MILES, auto loans program. The CFPB also charged the companies with misrepresenting the true cost and coverage of add-on products that they financed with the auto loans. The MILES program required service members to repay their auto loans using the military allotment system, which deducts payments directly from a military member's paycheck before that salary is deposited in a bank account.

Following the settlement between the companies and the CFPB and DoD, the DoD ordered a review of the military's allotment system. The review focused on the potential misuse of the allotment system by lenders. The CFPB was one of multiple participants in the ensuing review of the allotment system, and so had input into the prohibition on auto loan allotments.

NOTE: This article is intended for informational purposes only. For its application to you and your business, please consult your counsel.