

Use Extreme Caution: The Dangers of Allotment Loans for Federal Employees



Allotment loans were created as a convenience for federal employees, but unregulated and costly lenders are taking advantage of the federal payroll system.

Fortunately for active military personnel and their families, the Military Lending Act is in place to protect them from paying more than 36% APR interest and also features other loan protections.

However no such protection exists for other federal employees and they can therefore be charged triple-digit rates.

Employers Should be Aware of the Following Disadvantages of Allotment Loans.



A Lot of Allotments: Often employees have multiple allotment loans at the same time and are therefore unable to meet their day-to-day expenses. This is a result of being allowed to have up to six allotments in a paycheck.



Cycle of Debt: By taking out multiple allotment loans at high interest rates, federal employees continue to borrow to cover their normal expenses. Borrowers then get trapped into a cycle of debt, paying hundreds in interest out of their paychecks.



Who's Your Lender? Most allotment loans are not made by banks or credit unions but rather by fintech or pseudo lenders. These groups have a limited relationship with a financial institution and are not well regulated.



Ability to Repay: There are no clear standards for determining a borrower's ability to repay their loan. This is made worse by federal employees taking multiple allotment loans, decreasing the likelihood of being able to juggle their debt.



Collection Challenges: If an employee quits or is fired from a federal job, they are still required to repay the loan. The lender will also have to be notified of the change in position.

“Some of the worst abusers like payday lenders are exploiting loopholes to trap our troops in a vicious cycle of crushing debt.”

~President Barack Obama on expanding the 2006 Military Lending Act to cover all loans



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At the Coalition for Safe Loan Alternatives, we believe the Military Lending Act should not just include active military personnel, but should be extended to United States veterans and all federal employees. Any short-term loan, especially allotment loans where multiple loans can be taken out in each paycheck, should have an ability-to-repay standard.

Public sector employees serve our country honorably, yet they do not currently have the financial protection they need. All federal employees deserve easy access to affordable, safe and transparent loans.

“In protecting service members from predatory lenders, the U.S. military has served to remind Americans something about what freedom means at home. Borrowers that are suffering in a high-interest, financial debt trap are not free—they are trapped. The Military Lending Act has shown that we can protect active-duty service members and their families against abhorrent, predatory lending practices and products.”

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The Coalition for Safe Loan Alternatives can help you find a safe and affordable financial support program.

Check out cfsla.org for presentations on products.



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