U.S. Treasury Must Protect Stimulus Payments From Garnishment by Debt Collectors

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Washington, D.C. – The U.S. Department of the Treasury must act immediately to ensure that the stimulus payments about to go out to millions of Americans are available for food and necessities and are not grabbed by debt collectors, according to advocates at the National Consumer Law Center.

“People nationwide have suffered a dramatic loss of income and desperately need the stimulus payments that Congress just authorized for food, rent, utilities and health care. But if Treasury does not take immediate steps to protect the stimulus payments, debt collectors could grab the money out of the bank accounts of the families who most need the funds for their basic survival,” said Lauren Saunders, associate director of the National Consumer Law Center.

“The Treasury Department has a simple mechanism to protect stimulus payments from debt collectors: It can code them as exempt federal benefits in the same way that it protects Social Security and other federal benefits. Treating stimulus payments as federal benefits will allow banks to use their systems already in place to preserve the money for necessities, not debt collectors,” said Margot Saunders, senior counsel at the National Consumer Law Center.

The Coronavirus Aid, Relief, and Economic Security (CARES) Act provides for payments to individuals up to $1,200 so that people can pay for food, rent, utilities, medicine, and other basic necessities. The CARES Act protects stimulus checks from being reduced to pay certain debts owed to federal and state governments but does not specifically address garnishment or bank offsets for other debts. Instead, it gives Treasury the authority to issue rules and guidance to carry out the purposes of the stimulus payments.

Coding the payments as federal benefits will serve these important purposes:

- The payments will be available for food, medicine, utilities, and rent as Congress intended and will not be seized by debt collectors, depriving recipients of the ability to pay for essentials.
- Banks already have systems in place that will automatically protect the payments so there is no need to develop additional procedures.
- Banks will not have to deal with irate customers when desperately needed funds disappear.
- State governments and courts will not have to issue emergency orders to protect these payments, or handle disputes about them, putting banks in the middle.
- People can provide direct deposit information to the Treasury Department without fear of losing their funds so they can receive their payments quickly and safely. Otherwise, consumer advocates, legal services offices, credit counselors, and others will be forced to counsel struggling families to avoid direct deposit and wait for a paper check.
- The Treasury Department will have far fewer requests for paper checks to deliver stimulus payments.
“Clearly the purpose of the individual payments authorized by the CARES Act is to give individuals critically needed funds for necessities, not to line the pockets of debt collectors and debt buyers,” Lauren Saunders added.