Consumer Financial Protection Bureau

FOR IMMEDIATE RELEASE:
November 18, 2015

CONTACT:
Office of Communications
Tel: (202) 435-7170

CONSUMER FINANCIAL PROTECTION BUREAU TAKES ACTION AGAINST ONLINE LENDER FOR DECEIVING BORROWERS

Bureau Alleges Integrity Advance Misrepresented the Cost of Loans, Seeks Redress for Borrowers

Washington, D.C. – The Consumer Financial Protection Bureau (CFPB) took action today against an online lender, Integrity Advance, LLC, and its CEO, James R. Carnes, for deceiving consumers about the cost of short-term loans. The Bureau alleges that the company's contracts did not disclose the costs consumers would pay under the default terms of the contracts. The Bureau also alleges that the company unfairly used remotely created checks to debit consumers' bank accounts even after the consumers revoked authorization for automatic withdrawals. The CFPB filed an administrative lawsuit seeking redress for harmed consumers, as well as a civil money penalty and injunctive relief.

Integrity Advance was a Delaware-based online lender which originated and serviced short-term loans to consumers around the country. From May 2008 through December 2012, Integrity Advance offered loans ranging from $100 to $1,000, and consumers typically applied for the loans by entering their personal information into a lead generator website.

Under the default terms of Integrity Advance's contracts, the loans would roll over four times—causing additional charges to accrue with each rollover—before the company applied any of the payments to the principal amounts. However, the costs on the disclosures were based on the assumption that the loans would not roll over and would instead be repaid in full by the first payment. Integrity Advance never informed consumers of the total costs of their loans if those loans were rolled over, even though the contracts were set up to roll over automatically. Under the default terms of the contracts, consumers would end up paying finance charges more than double the amount originally borrowed: $765 in finance charges for a typical $300 loan.

The CFPB alleges that Integrity Advance violated the Truth in Lending Act and the Electronic Fund Transfer Act, and that Integrity Advance and Carnes violated the Dodd-Frank Wall Street Reform and Consumer Protection Act's prohibition against unfair and deceptive acts and practices. The unlawful practices alleged by the CFPB include:

- **Hiding the total cost of loans:** Consumers were given contracts with disclosures based on repaying the loan in a single payment, even though the default terms of the contract called for multiple rollovers and additional finance charges. For example, under Integrity Advance's default payment schedule, a consumer borrowing $300 would ultimately pay $765 in finance charges—$675 more than the $90 finance charge disclosed in Integrity Advance's contract.

- **Requiring repayment by pre-authorized electronic funds transfers:** Integrity Advance violated federal law by requiring consumers to agree to repay their loans via pre-authorized Automated Clearing House (ACH) payments. The Electronic Fund Transfer Act says repayment of loans cannot be conditioned on consumers' pre-authorization of recurring electronic fund transfers.

- **Continuing to debit borrowers' accounts after consumers canceled the authorization:** Integrity Advance's contracts with consumers included a provision allowing the company to use remotely created checks if a consumer successfully canceled his or her authorization for ACH withdrawals. The provision was hidden in the loan agreement, and the company used it to take consumers' funds when consumers believed they did not owe money to Integrity Advance.

A Notice of Charges initiates proceedings in an administrative forum, and is similar to a complaint filed in federal court. This case will be tried by an Administrative Law Judge from the Bureau's Office of Administrative Adjudication, an independent adjudicatory office within the Bureau. The Administrative Law Judge will hold hearings and make a recommended decision regarding the charges, which may be appealed to the Director of the CFPB for a final decision. The Notice of Charges is not a finding or ruling that the respondents have actually violated the law.

The Bureau's Rules of Practice for Adjudication Proceedings provide that the CFPB may publish the actual Notice of Charges ten days after the company is served. If allowed by the hearing officer, the charges will be available on the CFPB website after that date.

###