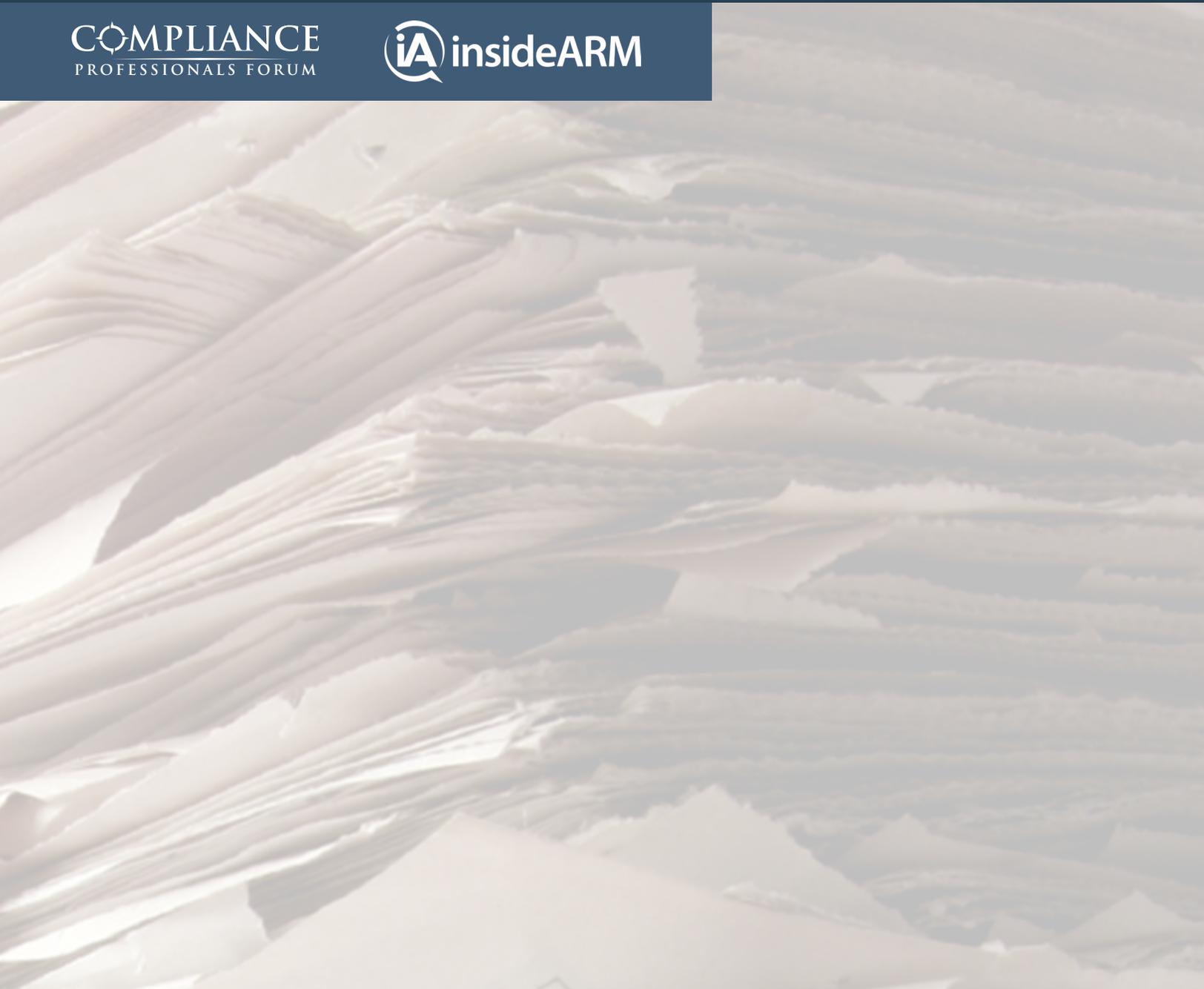


REPORT

The CFPB's Consent Orders Regulating the ARM Industry

COMPLIANCE
PROFESSIONALS FORUM

iA insideARM



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Table of Contents

Introduction	5
2012-CFPB-0002 – American Express Centurion Bank.....	7
2012-CFPB-0003 – American Express Bank FSB.....	8
2012-CFPB-0004 – American Express Travel Related Services.....	10
2013-CFPB-0008 – Cash America International, Inc.....	11
2014-CFPB-0007 – Synchrony Bank, f/k/a GE Capital Retail Bank	12
2014-CFPB-0008 – ACE Cash Express, Inc.	13
2014-CFPB-0012 – First Investors Financial Services Group, Inc.....	15
2014-CFPB-0013 – U.S. Bank National Association.....	16
2014-CFPB-0017 – DriveTime Automotive Group, Inc. and DT Acceptance Corp..	17
2015-CFPB-0012 – Syndicated Office Systems, LLC	20
2015-CFPB-0013 – Chase Bank, USA N.A. and Chase Bankcard Services, Inc.	21
2015-CFPB-0015 – Citibank, N.A.; Department Stores National Bank; and Citicorp Credit Services, Inc.....	25
2015-CFPB-0016 – Discover Bank, The Student Loan Corporation, and Discover Products, Inc.	27
2015-CFPB-0022 – Encore Capital Group, Inc.; Midland Funding, LLC; Midland Credit Management, Inc; and Asset Acceptance Capital Corp.....	28
2015-CFPB-0023 – Portfolio Recovery Associates, LLC	31
2015-CFPB-0026 – Westlake Services, LLC.....	34
2015-CFPB-0027 – Security National Automotive Acceptance Company, LLC.....	36
2015-CFPB-0030 – Clarity Services, Inc and Timothy Ranney	37
2015-CFPB-0031 – EZCORP, Inc.	39
2015-CFPB-0033 – Eric V. Sancho d/b/a Lead Publisher	42
2016-CFPB-0003 – Citibank, N.A.	43
2016-CFPB-0004 – Citibank, N.A., Department Stores National Bank, and CitiFinancial Servicing, LLC	44
2016-CFPB-0005 – Solomon & Solomon, P.C.....	45
2016-CFPB-0006 – Faloni & Associates, LLC.....	46

2016-CFPB-0008 – Student Aid Institute, Inc. 47
2016-CFPB-0009 – Pressler & Pressler, LLP..... 49
2016-CFPB-0010 – New Century Financial Services, Inc. 50
Appendix A – Consent Order Chart 52

Introduction

Since its inception, the Consumer Financial Protection Bureau (CFPB) has penalized a wide variety of companies and people for violating federal consumer financial protection laws. The CFPB most often issues penalties through the use of consent orders settled in federal court. The penalized parties agree to the consent orders through a “stipulation” that allows them to resolve the dispute and agree to the penalty without admitting guilt.

The CFPB intends for its consent orders to set industry-wide precedents. In March 2016, CFPB Director Richard Cordray [referred to consent orders](#) as a guide “to all participants in the marketplace to avoid similar violations and make an immediate effort to correct any such improper practices,” telling the Consumer Bankers Association that any company not following the precedents set by the CFPB’s consent orders is committing “compliance malpractice.”

The Bureau has the authority to issue penalties for violations of a range of laws, but they focus most often on violations of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010. In relation to this, the main thing Account Receivables Management (ARM) companies are penalized for are so-called “unfair, deceptive, or abusive acts and practices” (UDAAPs), which are prohibited by Sections 1031 and 1036 of Dodd-Frank.

What is a UDAAP? Detailed definitions can be found in this [CFPB bulletin published on July 10, 2013](#):

- An act or practice is considered **unfair** if it causes or is likely to cause substantial injury to consumers, the injury is not reasonably avoidable by consumers, and the injury is not outweighed by countervailing benefits to consumers or competition.
- An act or practice is considered **deceptive** if it is material, if it is likely to mislead a consumer, and if the consumer’s interpretation is reasonable under the circumstances.
- An act or practice is considered **abusive** if it materially interferes with a consumer’s understanding of or ability to understand a product/service; or takes unreasonable advantage of a consumer.

When the CFPB penalizes a company or individual, the Bureau's order stipulates that the penalized party act differently in some way. Additionally, most consent orders involve a financial penalty. The CFPB issues two main types of fines when announcing their enforcement actions – redress and civil penalties. The largest fines assessed by the CFPB are usually redress penalties. Redress penalties are typically distributed by the penalized party directly to consumers, and civil penalties are put into the federal Civil Penalty Fund established by the Dodd-Frank Act. The total amount of fines and penalties can vary widely.

The CFPB says they will be “closely” monitoring the following specific unfair, deceptive, or abusive acts and practices in the collection of consumer debts:

- Collecting or assessing a debt and/or any additional amounts in connection with a debt not expressly authorized by the agreement creating the debt or permitted by law.
- Failing to post payments timely or properly or to credit a consumer's account with payments that the consumer submitted on time and then charging late fees to that consumer.
- Taking possession of property without the legal right to do so.
- Revealing the consumer's debt, without the consumer's consent, to the consumer's employer and/or co-workers.
- Falsely representing the character, amount, or legal status of the debt.
- Misrepresenting that a debt collection communication is from an attorney.
- Misrepresenting that a communication is from a government source or that the source of the communication is affiliated with the government.
- Misrepresenting whether information about a payment or non-payment would be furnished to a credit reporting agency.
- Misrepresenting to consumers that their debts would be waived or forgiven if they accepted a settlement offer, when the company does not, in fact, forgive or waive the debt.
- Threatening any action that is not intended or the covered person or service provider does not have the authorization to pursue, including false threats of lawsuits, arrest, prosecution, or imprisonment for non-payment of a debt.

As long as you and your company avoid these sorts of acts and practices, you will go a long way toward avoiding penalties from the CFPB. In the rest of this paper,

we'll look at the consent orders already issued by the CFPB and their implications for the ARM industry.

2012-CFPB-0002 – American Express Centurion Bank

Allegations

- AECB **misled consumers about debt collection**, deceptively convincing consumers that there were certain benefits to paying off old debt.
- AECB **failed to report certain consumer disputes** to the consumer reporting agencies.

Factual Findings

- **Consumers were wrongly told that if they paid off old debt, the payment would be reported to credit bureaus and could improve their credit scores.** In fact, AECB was not reporting the payments and the debts were so old that even if they had tried to report them, many of the payments would not have affected consumers' credit scores.
- Certain **debt settlement letters from AECB stated that after settlement, a consumer's remaining debt would be "waived" or "forgiven."** This was misleading, because AECB did not prominently disclose that the consumer must pay the full debt balance before any future credit or charge card application would be processed by the bank.
- The Fair Credit Reporting Act requires a creditor to report to CRAs if a consumer disputes information it reported to the CRAs. **AECB failed to report such disputes, either asking the CRAs to delete disputed information or reporting the information to CRAs without mentioning the dispute.**

Laws Violated

- Dodd-Frank Wall Street Reform and Consumer Protection Act
- Fair Credit Reporting Act

Remedial Actions

The CFPB ordered the following changes to AECB's business practices:

- The bank must correct all law violations and implement procedures to prevent their recurrence, including taking all steps necessary to eliminate all deceptive acts and practices.