



## Consumer Federation of America

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### **AS ABUSIVE FINANCIAL PRACTICES MOUNT, SENATE COMMITTEE ACTS ON LEADER FOR NEW CONSUMER PROTECTION AGENCY**

Washington, DC – As the Senate Banking Committee prepares to vote on Thursday on the nomination of Richard Cordray to lead the new Consumer Financial Protection Bureau (CFPB), the Consumer Federation of America (CFA) identified a number of financial practices that harm American families that the CFPB will need strong leadership to address.

“The list of financial tricks and traps that consumers are forced to deal with keeps growing,” said Travis Plunkett, CFA’s Legislative Director. “Fourteen months after Congress created the CFPB, the agency needs a permanent leader so it can move forcefully and use all of its powers to address mounting problems in the financial services marketplace.”

The list of questionable and abusive practices that consumers are coping with includes:

- **Predatory Practices Targeted at Military Service Members:** J.P. Morgan Chase disclosed that they have foreclosed on 14 active-duty military families and overcharged 4,000 others in wrongful fees or improper interest rates. Also, a growing number of banks make payday loans to their customers, called direct deposit advances that cost \$10 per \$100 borrowed or 365 percent APR based on a typical loan term of ten days. These bank payday loans carry the same high cost, short term, debt-trap features as non-bank payday loans. Military service members are also subject to pay high overdraft fees at on-base and off-base banks. Recently, CFA found that over 80 percent of banks with branches on military bases ask consumers to opt in to pay overdraft fees that range from \$18 to \$38.50 per overdraft for single debit card purchases and/or ATM withdrawals. Although the Military Lending Act banned payday, car title, and tax refund loans to active-duty service members, lenders are finding ways to continue making similar loans that result in debt traps. **Military service members need to have abusive financial practices documented to build a case to protect them from unlawful foreclosure and abusive payday-loan type bank products.**

“Military service members are vulnerable to abusive financial practices,” said CFA’s Jean Ann Fox, Director of Financial Services. “Documentation of Military service member complaints will enable the Consumer Financial Protection Bureau to enforce laws meant to protect service members and to curb abusive practices.”

- **Mortgage Foreclosure and Servicing Abuses.** In the wake of the housing crisis, some mortgage servicing companies have illegally sped up foreclosures and generated unjustifiable fees at homeowners’ expense. Default and foreclosure rates are higher than they have been

since the Great Depression, while millions of consumers are currently subject to illegal actions by mortgage servicing companies, including misapplied payments, botched taxes, robo-signing and other fraudulent actions. **Consumers need rules to ensure that mortgage servicing companies follow legal procedures when foreclosing on a home.**

- **Unfair Bank Overdraft Loans:** Despite a new Federal Reserve requirement that banks get consumers to consent to paying for debit card overdrafts, only the FDIC has issued comprehensive guidelines for bank overdraft programs at the banks it supervises. Banks continue to charge steep and multiple fees for overdraft loans, require immediate repayment, and take payment first out of the account holder's next pay deposit before other debits are paid. Some banks also continue to manipulate the order in which they pay debits so that they can increase overdrafts and the fees that consumers must pay. **Consumers need comprehensive protections to ensure that banks do not manipulate the order of payments to increase fees. Banks should also provide information that allows consumers to make the best choices when considering overdraft options.**
- **Plentiful Fees and Few Protections for Pre-paid Cards:** As bank fees increase, prepaid debit cards are increasingly becoming substitutes for bank accounts. However, prepaid cards come with a dizzying array of fees and with fewer protections than consumers get with other forms of plastic. **Consumers need simple and transparent fees. Prepaid cards must be covered by the same consumer protections that apply to bank account debit cards. Prepaid cards should not rack up overdraft fees or become vehicles for payday lending.**
- **Internet Payday Lending:** Internet payday lenders are marketing loans online at rates and terms that mire cash-strapped consumers in repeat borrowing at extremely high rates. Finance charges to borrow \$100 range from \$15 (390% APR) to \$30 (780% APR). Many of these loans have built in loan flipping, with finance charge-only payments withdrawn from borrowers' accounts every payday without reducing the loan itself. Internet payday lenders often attempt to bypass state usury laws, licensing requirements and consumer protections by locating offshore, by locating in states with weak laws or by claiming affiliation with Native American tribes. Electronic payday loans exploit a loophole in federal law that must be closed to safeguard borrowers' bank accounts. **Consumers need strong, consistent state and federal protections from abusive practices and unsustainable loans.**
- **Bank payday lending.** A growing number of banks are offering "direct deposit advances" that have the same dangerous features as traditional payday loans that make them an unaffordable debt trap for many consumers. In addition, bank payday loans evade protections for Social Security, disabled and unemployment benefits and other laws designed to ensure that creditors do not take income needed for food, rent, medicine and other essential purchases. **Consumers need federal protections from this growing threat to their financial stability.**

*The Consumer Federation of America is an association of nearly 300 nonprofit consumer organizations that was established in 1968 to advance the consumer interest through research, advocacy, and education.*