



May 18, 2016

Dear Representative,

Americans for Financial Reform (AFR)<sup>1</sup> appreciates the opportunity to provide this statement for the record of the House Financial Services Subcommittee on Financial Institutions and Consumer Credit. On May 5, the Consumer Financial Protection Bureau (CFPB) proposed a rule to restore consumers' right to join together to hold corporations accountable when they break the law. The CFPB's proposal would limit the financial industry's use of forced arbitration, a tool to shield corporations from accountability by burying fine print in take-it-or-leave-it contracts to block consumers from challenging predatory practices such as hidden fees, fraud, and other illegal behavior.

This rule is a crucial step to limit big banks' and other financial companies' efforts to escape liability if they break the law. Congressional or industry interference with the CFPB's rulemaking process on forced arbitration would undermine consumer protection for critical financial products and services.

In forced arbitration, consumers lose the right to argue their case before an impartial judge and jury. Instead financial companies are able to hire a private arbitration firm of their choosing to decide the dispute, and consumers have little opportunity to develop evidence or appeal a bad decision. Nearly all forced arbitration clauses rip consumers off by prohibiting participation in class actions – which both bars them from talking about their experiences in arbitration and shields corporate misconduct from public scrutiny.

A week before this rule was proposed, AFR and 163 organizations called on the CFPB to take strong action against forced arbitration (see attached). This coalition includes national organizations as well as local groups representing over 35 states – ranging from consumer advocates like Consumers Union and Public Citizen, to civil rights groups like the NAACP and the National Council of La Raza, to small business coalitions like Main Street Alliance. This diverse array of signers represents the various constituencies whose interests CFPB is charged with protecting, and their message was loud and clear: a strong rule limiting forced arbitration is crucial.

In the years since 2011's landmark *AT&T Mobility LLC v. Concepcion* decision, which held that corporations can use forced arbitration to block consumers from joining class actions even if doing so overrides state law, forced arbitration has become increasingly prevalent. In 2014, 99.9% of mobile wireless service agreements, 98.5% of payday loan contracts, 92% of prepaid card agreements, and 53% of credit card loans included forced arbitration provisions, the vast majority of which also banned consumers from joining together to challenge abusive practices as a class. The ubiquity of arbitration clauses make it virtually impossible for consumers to enforce their rights without opting out of the marketplace entirely.

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<sup>1</sup> AFR is a coalition of more than 200 national, state and local groups who have come together to reform the financial industry. Members of our coalition include consumer, civil rights, investor, retiree, community, labor, faith based and business groups.

Before proposing this rule, the CFPB spent three years examining the effect of forced arbitration on consumers in financial services, under the directive of Section 1028(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act. Section 1028(b) further authorized the CFPB to “prohibit or impose conditions or limitations” on the use of forced arbitration clauses under its jurisdiction if the Bureau finds it in the public interest and for the protection of consumers.

The data from the CFPB’s 728-page study make clear that agency action to eliminate forced arbitration and class action bans is not only appropriate but necessary to protect consumers in the financial marketplace. The CFPB’s study represents the most thorough empirical research to date, examining the use of arbitration agreements in a number of financial markets reaching tens of millions of consumers. Some key findings:

- In 2010 and 2011, only 9% of consumers who brought affirmative claims obtained relief in forced arbitration – the 32 consumers who prevailed recovered an average of 12 cents per dollar claimed.
- In contrast, 93% of companies obtained relief in forced arbitration – recovering an average of 98 cents per dollar claimed.
- Without the option to join together in a class action, only 25 consumers with claims of less than \$1,000 pursued arbitration annually.
- In contrast, consumers received \$2.7 billion of gross relief in class actions from 2008-2012 – \$2.2 billion of which went straight to consumers after attorneys’ fees and litigation costs – with 34 million consumers receiving a cash payment.

While the CFPB’s current proposal does not end all forms of forced arbitration, it is a crucial step to limit big banks’ and other financial companies’ efforts to escape accountability for breaking the law. We urge members of Congress to heed the calls of public interest groups and consumer advocates and allow the CFPB to act on its congressional mandate to restrict the abusive practice of forced arbitration in the public interest and for the protection of consumers.

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Thank you for the opportunity to express AFR’s views on the Consumer Financial Protection Bureau’s proposed arbitration rule. If you have additional questions on these issues, please contact Amanda Werner, Arbitration Campaign Manager with AFR and Public Citizen, at [awerner@ourfinancialsecurity.org](mailto:awerner@ourfinancialsecurity.org) or 202-973-8004.

Sincerely,

Americans for Financial Reform

April 27, 2016

The Honorable Richard Cordray  
Director  
Consumer Financial Protection Bureau  
1275 First Street NE  
Washington, DC 20002

Dear Director Cordray:

The undersigned organizations commend the Consumer Financial Protection Bureau (“CFPB” or “Bureau”) for moving forward on a rulemaking to address the widespread harm resulting from forced arbitration, which blocks consumers from joining together to seek justice and forces them into individual arbitration. Lenders and other financial services companies use forced arbitration to push consumers out of court and into a private arbitration system that they tilt to favor large financial interests. The CFPB’s empirical findings in its comprehensive and evidence-based report on the use of arbitration clauses unequivocally demonstrate that forced arbitration imposes conditions that restrict consumers’ rights and block their access to courts, giving lenders an effective license to steal.

Few practices are as fundamentally contrary to the public interest as the increasingly widespread use of these “ripoff clauses” that impose forced arbitration in most consumer financial contracts, including credit cards, student loans, debt settlement, credit repair, auto financing, and payday loans. These clauses force consumers into a secretive, unfair system set up by corporations to protect and hide harmful and unlawful corporate behavior. Not only does forced arbitration eliminate the right to jury trial in a civil action, limit discovery, restrict or prohibit publicity, and make meaningful appeal impossible; these clauses also often prohibit consumers from banding together in a class action to hold the company responsible.

The proposed prohibition of class action bans, currently under consideration by the CFPB, is a crucial step to protect consumers against abusive practices. While we urge the Bureau to go further by prohibiting forced arbitration in individual cases as well, we support the proposal to begin shining a light on individual arbitrations through reporting requirements. We also encourage the Bureau to finalize its rule on arbitration as quickly as possible and ensure that the final rule applies to all products and services within its authority.

The CFPB’s “Arbitration Study: Report to Congress, pursuant to Dodd-Frank Wall Street Reform and Consumer Protection Act § 1028(a)” verified the prevalence of forced arbitration clauses – including class action bans – in consumer financial contracts and found that this practice impacts tens of millions of consumers. CFPB data leave no doubt that forcing consumers into arbitration effectively eradicates claims, shielding corporate wrongdoers from liability. This data further revealed that only about 600 consumers filed a claim in arbitration each year, while millions more received redress from class actions.

Class action bans in forced arbitration clauses prevent consumers from bringing claims of fraud or other abusive or deceptive practices in financial services, as such claims are often too small for an individual consumer to afford to bring alone. Class actions provide a practical way for consumers who have suffered the same kind of abuse from the same corporate wrongdoer to join together in attempting to hold the financial institution accountable. This kind of action is critically important, not only for enabling those already victimized to obtain justice, but also for deterring bad behavior and preventing harm to other victims.

Consistent with the study's findings, the ability of consumers to seek justice in court, and particularly when they can join their claims together, benefits millions of Americans and also complements public enforcement efforts. Private legal actions by consumers supplement government enforcement under a wide range of consumer protection statutes, such as the Servicemembers Civil Relief Act, the Fair Debt Collections Practices Act, the Fair Credit Reporting Act, the Sherman and Clayton Antitrust Acts, the Truth in Lending Act, and the Equal Credit Opportunity Act. Government enforcers have limited resources, and without the prospect of class action, financial service companies can evade the law far more easily.

It is also clear that consumers typically have no idea they are signing away their right to sue in court when they obtain financial services. As empirical research shows, most consumers are not aware of these clauses, which are buried in the fine print of standard-form contracts. The Bureau's report determined that more than 75 percent of consumers surveyed did not know whether they were subject to forced arbitration in their consumer financial contracts. The CFPB study further confirms that, even when consumers are aware of the clauses, they do not meaningfully understand them. Fewer than 7 percent of those surveyed that are covered by arbitration clauses realized that the clauses restricted their ability to sue in court.

Further, when consumers learn what forced arbitration actually does to their rights, they are outraged by this abusive practice. Last year, 100,000 consumers signed a petition against the five largest banks that use forced arbitration clauses, demanding that they stop.<sup>2</sup>

The CFPB's rulemaking is in keeping with other recent federal government actions that curb the use of forced arbitration. The CFPB itself implemented a provision of the Dodd-Frank Act that prohibits forced arbitration of disputes related to most mortgage and home equity loans. Congress also banned forced arbitration in transactions with military servicemembers with respect to payday loans, vehicle title loans, and tax refund anticipation loans; auto dealers and automobile and truck manufacturers; livestock and poultry growers; and employees of government defense contractors with Title VII and sexual assault tort claims. In the federal agency context the Centers for Medicare and Medicaid Services is currently considering a ban on forced arbitration in long-term care facility contracts. Most recently, in March, the Department of Education introduced proposals to deny Title IV funding to colleges using forced arbitration as part of its negotiated rulemaking process.

We believe the findings of the CFPB arbitration study offer concrete proof that forced arbitration is causing widespread harm to consumers, and therefore, that it is in the public

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<sup>2</sup> Chris Morran, *Marching Band Delivers Petition To Citi Asking Banks To "Revoke License To Steal,"* CONSUMERIST, Jan. 28, 2015, <http://bit.ly/1wBs3mc>.

interest and in the interest of consumer protection to prohibit or strictly curtail the use of forced arbitration clauses in consumer financial contracts. We commend the CFPB for moving forward on a rulemaking to address the public harm caused by forced arbitration, and we urge the Bureau to use its full statutory authority to restore consumers' right to choose how to resolve disputes with financial institutions under the law.

If you need additional information regarding this letter, please contact Amanda Werner, Arbitration Campaign Manager with Americans for Financial Reform and Public Citizen, at [awerner@ourfinancialsecurity.org](mailto:awerner@ourfinancialsecurity.org) or (202) 973-8004.

Thank you for considering our views.

### **National Signatories**

AFL-CIO  
AFSCME  
Alliance for a Just Society  
Alliance for Justice  
American Association for Justice  
American Association of State Colleges and Universities  
American Family Voices  
Americans for Financial Reform  
The Bazelon Center for Mental Health Law  
Center for Economic Integrity  
Center for Economic Justice  
Center for Global Policy Solutions  
Center for Justice & Democracy  
Center for Popular Democracy  
Center for Progressive Reform  
Center for Responsible Lending  
Citizen Works  
Committee to Support the Antitrust Laws  
Constitutional Accountability Center  
Consumer Action  
Consumer Federation of America  
Consumer Watchdog  
Consumers for Auto Reliability and Safety  
Consumers Union  
Demos  
Economic Analysis and Research Network (EARN)  
The Employee Rights Advocacy Institute for Law & Policy  
Generation Progress  
Higher Ed, Not Debt  
Homeowners Against Deficient Dwellings

The Institute for College Access & Success (TICAS)  
Institute for Science and Human Values, Inc.  
Jobs with Justice  
Justice in Aging  
The Leadership Conference on Civil and Human Rights  
League of United Latin American Citizens  
Main Street Alliance  
NAACP  
National Association for College Admission Counseling  
National Association of Consumer Advocates  
National Center for Law and Economic Justice  
National Center for Lesbian Rights  
National Center for Transgender Equality  
National Consumer Law Center (on behalf of its low-income clients)  
National Consumer Voice for Quality Long-Term Care  
National Consumers League  
National Council of Jewish Women  
National Council of La Raza  
National Employment Lawyers Association  
National Employment Law Project  
National Fair Housing Alliance  
National LGBTQ Task Force  
National Legal Aid and Defender Association  
National Women's Law Center  
Other 98%  
Privacy Rights Clearinghouse  
Public Citizen  
Public Justice  
Rootstrikers  
SEIU  
Southern Poverty Law Center  
U.S. PIRG  
United Policyholders  
The Woodstock Institute  
Workplace Fairness  
Young Invincibles  
9to5, National Association of Working Women

### **State and Local Signatories**

Arkansans Against Predatory Payday Lending, AR  
Arizona Community Action Association, AZ  
Center for Economic Integrity, AZ  
California Reinvestment Coalition, CA  
California State Student Association, CA  
Center for Public Interest Law, CA

Children's Advocacy Institute, CA  
Consumer Attorneys of California, CA  
Consumer Federation of California, CA  
CourageCampaign.org, CA  
Greenlining Institute, CA  
Housing Resource Center of Monterey County, CA  
Law Foundation of Silicon Valley, CA  
The Utility Reform Network (TURN), CA  
Community Capital Fund, CT  
CT Center for Patient Safety, CT  
Legal Assistance Resource Center of Connecticut, Inc., CT  
The Legal Aid Society of the District of Columbia, DC  
Fair Housing Center of the Greater Palm Beaches, FL  
Florida Alliance for Consumer Protection, FL  
Jacksonville Area Legal Aid, Inc., FL  
Progress Florida, FL  
Habitat for Humanity West Hawaii, GA  
Georgia Watch, GA  
Idaho Art and Graphics, ID  
Center for Economic Progress, IL  
Chicago Consumer Coalition, IL  
Illinois Association for College Admission Counseling, IL  
Catholic Charities of North Louisiana, LA  
Consumer Federation of the SE, LA  
PREACH, LA  
Solomon Temple MB Church, LA  
Consumer Assistance Council, Inc., MA  
Consumer World, MA  
Massachusetts Consumer Council, MA  
Mayor's Office of Consumer Information, MA  
Maryland Consumer Rights Coalition, MD  
Public Justice Center, MD  
Veterans Education Success, MD  
Maine Women's Lobby, ME  
Michigan Association for College Admission Counseling, MI  
Michigan Disability Rights Coalition, MI  
Global Green Initiative, MI  
Ironworkers Local 25 -Detroit, MI  
Michigan Forward, MI  
Progress Michigan, MI  
Minnesota Association for College Admission Counseling, MN  
Communities Creating Opportunity, MO  
Consumers Council of Missouri, MO  
Missourians Organizing for Reform and Empowerment, MO  
Missouri ProVote, MO  
North Carolina Justice Center, NC

Reinvestment Partners, NC  
North Dakota Economic Security and Prosperity Alliance, ND  
Granite State Organizing Project, NH  
Affordable Housing Alliance, NJ  
New Jersey Citizen Action, NJ  
Center for Economic Integrity - New Mexico Office, NM  
Albany County Rural Housing Alliance, Inc., NY  
Bankruptcy Law Center, NY  
Brooklyn Housing and Family Services, Inc., NY  
Central New York Citizens in Action, Inc., NY  
Empire Justice Center, NY  
Hudson River Housing, NY  
JASA Legal Services for the Elderly in Queens, NY  
JEM, Inc., NY  
Keuka Housing Council, Inc., NY  
Long Island Housing Services, Inc., NY  
MFY Legal Services, Inc., NY  
National Coalition for Asian Pacific American Community Development, NY  
New York Lawyers for the Public Interest, NY  
New York Public Interest Research Group, NY  
Pratt Area Community Council, NY  
COHHIO, OH  
Miami Valley Fair Housing Center, Inc., OH  
Neighborhood Housing Services of Greater Cleveland, OH  
Ohio Poverty Law Center, OH  
Policy Matters Ohio, OH  
Oregon Consumer League, OR  
Integra Home Counseling, Inc., PA  
Keystone Progress, PA  
Columbia Consumer Education Council, SC  
South Carolina Appleseed Legal Justice Center, SC  
Tennessee Citizen Action, TN  
New Level Community Development Corp, TN  
Home Owners for Better Building, TX  
Take Back Your Rights PAC, TX  
Texas Consumer Association, TX  
Texas Watch, TX  
Virginia Organizing, VA  
Columbia Legal Services, WA  
Lynch Family Trust, WA  
H & R Properties, WI  
Mountain State Justice, WV  
WV Citizen Action Group, WV  
Potomac and Chesapeake Association for College Admission Counseling  
Western Association for College Admission Counseling