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CFPB orders auto lenders to refund approximately \$6.5 million to servicemembers

MILES Program Engaged in Deceptive Marketing and Lending Practices

WASHINGTON, D.C. — Today, the Consumer Financial Protection Bureau (CFPB) ordered U.S. Bank and one of its nonbank partner companies, Dealers' Financial Services (DFS), to end deceptive marketing and lending practices targeting active-duty military. The two companies must return about \$6.5 million to servicemembers for failing to properly disclose all the fees charged to participants in the companies' Military Installment Loans and Educational Services (MILES) auto loans program, and for misrepresenting the true cost and coverage of add-on products financed along with the auto loans.

"The CFPB has a special mission to protect servicemembers," said CFPB Director Richard Cordray. "The MILES program failed to properly disclose costs associated with repaying auto loans through the military allotments system and the expensive auto add-on products sold to active-duty military. We will continue our work to ensure that servicemembers are treated fairly."

U.S. Bank, headquartered in Minneapolis, Minn., and DFS, headquartered in Lexington, Ky., created the MILES program to finance subprime auto loans to active-duty military. While the program has expanded beyond U.S. Bank being its only lender, today U.S. Bank is still responsible for financing the substantial majority of the MILES program loans. DFS is responsible for managing the consumer-facing aspects of the MILES program. This includes: marketing the program; recruiting and maintaining the 700 participants in the MILES auto dealer network; managing the MILES website; and processing the loan applications before they are passed on to U.S. Bank.

The MILES program required servicemembers to repay their auto loans using the military allotment system, which deducts payments directly from a military member's paycheck before that salary is deposited in his or her bank account. The allotment system was created decades ago to help deployed servicemembers send money home to their families and pay their creditors at a time when automatic bank payments and electronic transfers were not yet common bank services.

Today, the military allotment system may be vulnerable to misuse. When servicemembers pay by allotment, the lenders often require servicemembers to use third-party processors that charge one or more fees. If lenders require payments by allotment, military consumers could be left with no choice but to pay this additional processing fee in order to qualify and pay for the loan. This can cost servicemembers more in fees than alternatives like online banking, which are often free.

U.S. Bank Violations

CFPB examinations found that U.S. Bank, which is responsible for financing the MILES loans, violated the Truth in Lending Act and the Dodd Frank Wall Street Reform and Consumer Protection Act's prohibition on deceptive acts or practices by:

- **Failing to properly inform servicemembers about fees associated with the loan:** Servicemembers were charged a monthly processing fee for their automatic payroll allotments. However, this fee was not properly disclosed as part of the finance charge, annual percentage rate, and total payments for the loans. Over the life of a typical 60-month MILES loan, a borrower would pay approximately \$180 in these fees.
- **Failing to properly disclose schedule of payments:** Since U.S. Bank required servicemembers to pay by military allotments, which they knew would be deducted from servicemembers' paychecks twice a month, U.S. Bank should have informed servicemembers that they had to make payments twice per month. However, the bank told servicemembers that payments were due only once a month and only credited their accounts once a month. The lag between when the payment was deducted and when it was credited cost servicemembers additional interest—an extra \$75 over the life of a typical MILES loan.

U.S. Bank, which helped create the MILES program with DFS, is also responsible for the illegal marketing of a vehicle service contract discussed below.

Dealers' Financial Services Violations

CFPB examinations found that DFS misrepresented the costs and coverage of add-on products sold in conjunction with MILES loans. Specifically, DFS deceptively marketed two optional add-on products that were sold to, and typically financed by, servicemembers – a vehicle service contract and an additional GAP insurance policy, which is a special kind of insurance that only applies to a car that has been stolen or declared a total loss and where the payment from the primary insurer does not cover the balance due on the car loan. DFS's deceptive practices included:

- Understating the costs of the vehicle service contract: DFS claimed in marketing materials that the vehicle service contract would add just "a few dollars" to the customer's monthly payment when it actually added an average of \$43 per month.
- Understating the costs of the insurance: Similarly, DFS told some customers that the insurance policy would cost only a few cents a day, when the true cost averaged 42 cents a day, or more than \$100 a year.
- Misleading consumers about product benefits: The MILES marketing materials also deceptively suggested that the vehicle service contract would protect servicemembers from all expensive car repairs, when many basic parts were not covered.

Remedies

Under the CFPB orders issued today, the companies have agreed to:

- Stop deceptive practices: U.S. Bank and DFS are required to end deceptive marketing and lending practices and will be prohibited from making misleading claims or omissions when marketing add-on products through MILES or similar programs in the future.
- Pay restitution to servicemembers: U.S. Bank has agreed to pay at least \$3.2 million and DFS has agreed to pay \$3.3 million to over 50,000 servicemember victims for violating the Truth in Lending Act and federal laws that prohibit deceptive marketing and lending practices. Servicemembers who had outstanding MILES loans between January 1, 2010 and today may receive restitution under today's orders.
- Provide refunds or credits without any further action by consumers: Servicemembers are not required to take any action to receive their reimbursement. U.S. Bank and DFS will provide the reimbursements to the victims as an account credit or as a check in the mail.
- Stop requiring the use of allotments: U.S. Bank and DFS have also agreed to modify the MILES program so that servicemembers are not required to use allotments in order to participate.
- Improve disclosures: The companies will take steps to improve their disclosures to servicemembers regarding the cost and other material terms of add-on products.
- Required reporting: Under the orders, both companies will be required to submit a redress plan that the CFPB must approve. They must also provide reports to the Bureau to demonstrate their compliance with the orders.

Earlier this week, the Bureau released a [bulletin](#) discussing its expectations regarding "responsible conduct" by those subject to Bureau enforcement actions. By proactively altering problematic aspects of the MILES program and readily working with the Bureau to provide refunds to servicemembers harmed by this conduct, both companies in this action engaged in the sort of conduct the CFPB expects from companies found to have violated consumer financial laws. This was one of several factors the Bureau considered when choosing not to impose a civil money penalty in this matter.

The Department of Defense and the Judge Advocate General (JAG) Corps of each of the service branches assisted the CFPB in this matter. The CFPB and the Department of Defense have been also working closely on issues related to the military discretionary allotment system. The Department of Defense has convened an interagency work group to improve the allotment system in which the CFPB will participate.

To see a blog by Assistant Director for Servicemember Affairs Holly Petraeus on what servicemembers should know about military allotments, go to: <http://www.consumerfinance.gov/blog/what-you-should-know-about-military-allotments/>

The U.S. Bank Consent Order is available at: http://files.consumerfinance.gov/f/201306_cfpb_enforcement-order_2012-0340-02.pdf

The DFS Consent Order is available at: http://www.consumerfinance.gov/f/201306_cfpb_enforcement-order_2013-0589-02.pdf

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The Consumer Financial Protection Bureau is a 21st century agency that helps consumer finance markets work by making rules more effective, by consistently and fairly enforcing those rules, and by empowering consumers to take more control over their economic lives. For more information, visit consumerfinance.gov



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