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Director Cordray remarks on MILES Enforcement Press Call

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Prepared Remarks of Richard Cordray Director of the Consumer Financial Protection Bureau

MILES Enforcement Press Call

Washington, D.C.

June 27, 2013

Today, the Consumer Financial Protection Bureau is ordering U.S. Bank and one of its nonbank partners, Dealers' Financial Services, to return approximately \$6.5 million to servicemembers across the country. We have determined that these two companies developed a joint program that engaged in deceptive marketing and lending practices while providing subprime auto loans to tens of thousands of active-duty military members.

U.S. Bank and DFS created the Military Installment Loans and Educational Services program, better known as MILES, to sell subprime auto loans to active-duty servicemembers. This program operates near military bases and communities across the country. A CFPB examination of the program found that MILES used the military discretionary allotment system to its advantage – requiring that servicemembers pay straight from their paycheck before the money hit their personal bank accounts – without properly disclosing all associated fees and the way the program worked. Specifically, MILES failed to accurately disclose the finance charge, annual percentage rate, payment schedule, and total payments for the loans. The examination also found that the MILES program deceived servicemembers by understating the cost and scope of certain add-on products, such as a service contract, marketed and sold in connection with the loans.

One of the first ways the Consumer Bureau heard about potential problems with the MILES program was from a servicemember's father. Harry, from Massachusetts, wrote to us about his son's auto loan through our online "Tell Your Story" feature. Harry said that his son, Ari, a 21-year-old infantry soldier with good credit, financed a used Dodge Ram through MILES. In addition to the \$20,000 price tag on the truck, Ari was sold add-on products, including a warranty, costing thousands of dollars. With a five-year loan at an 18 percent interest rate, the loan payments and upkeep cost Ari more than \$700 a month or more than 70 percent of his take-home pay. Harry wanted to know how a program claiming to educate its customers – the word "educational" is in its title – could saddle such a loan on a young soldier on his way to Iraq.

Stories like this led the Bureau to look more carefully at the MILES program. Through the course of our oversight examinations, we learned that the MILES program was failing to properly disclose costs associated with both the military allotments system, which it required servicemembers to use in order to participate in the program, and the expensive add-on products being sold to servicemembers. We learned that the MILES program had touched tens of thousands of soldiers, sailors, marines, and airmen stationed around the country and the world. So today, we are ordering U.S. Bank to return the undisclosed fees and costs that servicemembers paid as a result of the allotments they were required to use, which is estimated to be at least \$3.2 million, and we are ordering DFS to return approximately \$3.3 million to servicemembers related to the cost of the add-on products. Notably, we are imposing no civil monetary penalties in this instance in part because of the manner in which U.S. Bank and DFS cooperated with the Bureau to resolve these matters.

These orders are part of the Consumer Bureau's larger efforts to protect servicemembers. The Dodd-Frank Act recognized that servicemembers deserve special attention when it comes to the consumer financial protection laws. Today's action reflects our determination to act to protect servicemembers against harmful practices in the consumer financial marketplace. The Consumer Bureau's Office of Servicemembers Affairs, under the leadership of OSA Assistant Director Holly Petraeus, and everyone at the Bureau will continue to stand side-by-side with our military and veterans.

Today’s action also underscores the importance of the Bureau’s ability to act comprehensively by holding both banks and nonbanks accountable under the consumer financial laws. This helps create a fairer, more transparent market for consumers and allows us to more comprehensively address consumer harm.

Before I end, I would like to thank the Department of Defense and the Judge Advocate General Corps of each of the service branches. We could not have achieved this result without their collaboration and assistance. I am also very pleased that the Department has formed a working group with federal regulators, including the CFPB, to look at the use of military discretionary allotments. We are committed to working with the Department to ensure servicemembers are protected in the consumer financial marketplace.

Thank you.

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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 www.consumerfinance.gov.



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