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CFPB Takes Action to Stop Illegal Debt Collection Lawsuit Mill

Order Would Bar Georgia Law Firm from Churning Out Illegal Collections Lawsuits and Require $3.1 Million Penalty

WASHINGTON, D.C. — Today, the Consumer Financial Protection Bureau (CFPB) filed a proposed consent order in federal court that would resolve a lawsuit against Frederick J. Hanna & Associates, a Georgia-based law firm, and its three principal partners, for operating an illegal debt collection lawsuit mill. The CFPB lawsuit had alleged that the defendants rely on deceptive court filings and faulty evidence to churn out lawsuits. The order, if approved by the court, would bar the firm and its principal partners from illegal debt-collection practices, including filing lawsuits without being able to verify the consumers' debt is owed, and intimidating consumers with deceptive court filings. The order would also require the firm and its principals to pay $3.1 million to the Bureau's Civil Penalty Fund.

"The Hanna firm relied on deception and faulty evidence to coerce consumers into paying debts that often could not be verified or may not be owed," said CFPB Director Richard Cordray. "Debt collectors that use the court system for purposes of intimidation should reconsider how their practices are harming consumers."

The Hanna law firm focuses exclusively on debt collection litigation, and its three principal partners, Frederick J. Hanna, Joseph Cooling, and Robert Winter, play an active role in the company's business strategies and practices. The firm performs debt collection activities on behalf of clients that include banks, credit card issuers, and companies that purchase and sell consumer debt. The Hanna law firm typically files lawsuits if its efforts do not lead to collections.

In July 2014, the CFPB filed suit against the firm and its principal partners in federal court in the Northern District of Georgia. The proposed consent order filed today would

resolve the case. In its complaint, the CFPB charged the law firm with violating the Dodd-Frank Wall Street Reform and Consumer Protection Act's prohibition on deceptive practices as well as the Fair Debt Collection Practices Act by:

- **Intimidating consumers with deceptive court filings:** The CFPB alleged that the firm filed collection suits signed by attorneys when, in fact, there was no meaningful involvement of attorneys. The lawsuits were the result of automated processes and the work of non-attorney staff. The resulting lawsuits misrepresented to consumers that they were "from attorneys." This process allowed the firm to generate and file hundreds of thousands of lawsuits. One attorney at the firm, for example, signed over 130,000 debt collection lawsuits over a two-year period.

- **Introducing faulty or unsubstantiated evidence:** The CFPB alleged that the firm used sworn statements from its clients attesting to details about consumer debts to support its lawsuits. The firm filed these statements with the court even though in some cases the signers could not possibly have known the details they were attesting to. In a substantial number of cases, when challenged, the firm dismissed lawsuits. Between 2009 and 2014, the firm dismissed over 40,000 suits in Georgia alone, and the CFPB believes it did so frequently because it could not substantiate its allegations.

Enforcement Action

Under the Dodd-Frank Act, the CFPB has the authority to take action against institutions or individuals engaging in unfair, deceptive, or abusive acts or practices, or that otherwise violate federal consumer financial laws. The CFPB's proposed order, if approved by the court, would:

- **End illegal collection and intimidation tactics:** The Hanna law firm and its principal partners would be prohibited from filing lawsuits or threatening to sue to enforce debts unless they have specific documents and information showing the debt is accurate and enforceable.

- **Clean up attorney practices:** Under the proposed order, the Hanna law firm and its partners would be prohibited from filing or threatening lawsuits unless

they or their attorneys have reviewed specific documentation related to the consumer's debt. The law firm would also be required to create a record of that review.

- **Prohibit deceptive court filings:** The CFPB alleged that the firm files sworn statements from its clients with the court even though in some cases the signers could not possibly know the details they are attesting to. Under the proposed order, the defendants would not be permitted to use affidavits as evidence to collect debts unless the statements specifically and accurately describe the signer's knowledge of the facts and the documents attached.

- **Pay a $3.1 million penalty:** The firm and its principal partners would be jointly required to pay a $3.1 million penalty to the CFPB's Civil Penalty Fund.

This action is part of the Bureau's work to address illegal debt collection practices across the consumer financial marketplace, including companies who sell, buy, and collect debt. For instance, in separate enforcement actions, the CFPB has ordered three of the Hanna law firm's clients, JPMorgan Chase, Portfolio Recovery Associates, and Encore Capital Group, to overhaul their debt collection practices and to refund millions to harmed consumers. The Bureau will continue working to ensure all players in the collections market treat consumers fairly.

The proposed consent order filed today can be found at:http://files.consumerfinance.gov/f/201512_cfpb_proposed-stipulated-final-judgment-and-order-hanna-frederick-j-hanna.pdf
The CFPB's complaint in the lawsuit can be found at:http://files.consumerfinance.gov/f/201407_cfpb_complaint_hanna.pdf

The proposed consent order filed today follows an earlier court order issued in July 2015 that rejected the defendants' motion to dismiss the case. Among other things, that court ruling held that attorneys have an obligation to meaningfully review the facts of a lawsuit before filing it and that the CFPB has the authority to take action against attorneys engaged in illegal consumer debt-collection practices.

The court's July 2015 ruling can be found at:
http://files.consumerfinance.gov/f/201512_cfpb_order-frederick-j-hanna.pdf

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