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New proposal to ban companies from using arbitration clauses as a free pass to avoid accountability

BY [ERIC GOLDBERG](#)

Remember the last time you signed up for a credit card or student loan? You could be one of the millions of consumers who have signed away the right to join together with other consumers in a group lawsuit to get compensation from a company when it breaks the law and harms you. Buried in many contracts for consumer financial products are arbitration clauses that block consumers from seeking relief through class action lawsuits.

[INFOGRAPHIC: Consumers are signing away their legal rights](#)

Today, we're releasing proposals under consideration that would stop companies from using these clauses to avoid accountability to their customers .

How do group lawsuits help consumers?

A “class action” is a type of group lawsuit in which a few people, standing in for a much larger group, believe that they have been harmed by the same product or practice that violates the law. These group lawsuits allow consumers to band together to seek relief for harms that may be hidden from some consumers or are too small to be practical to sue over in an individual court case or arbitration. [The Bureau's March 2015 study of arbitration agreements in contracts for consumer financial products and services](#) found that about 6.8 million consumers received \$220 million in payments from class action settlements per year.

Currently, tens of millions of consumers have arbitration clauses in the contracts for the products they use, from credit cards to private student loans. These clauses typically states that either the company or the consumer can require that disputes that arise about that product be resolved by privately appointed individuals (arbitrators), rather than through the court system.

Almost all such clauses expressly ban consumers from grouping together to seek relief for improper conduct. Most consumers are unaware of the existence and effect of these clauses. The Bureau's study included survey results showing that more than 75 percent of credit card consumers were unaware that they were subject to an arbitration clause in their agreements with their financial service providers. The presence of such a clause means that if you want to claim financial relief from a company that has wronged you, you must proceed individually. That's true, no matter how small your claim and no matter how many customers may have been harmed by exactly the same wrongdoing. And even if you win your claim and receive compensation for your wrong, the company may continue the illegal and harmful behavior toward other consumers. [Our March study](#) found that very few consumers individually seek relief through arbitration or the courts.

Companies would no longer be able to evade accountability

Through the Dodd-Frank Act, Congress required the CFPB to study the use of contract clauses that allow the company to require that any future dispute raised by the consumer be resolved in arbitration, not in the court system. Congress also gave us the power to issue regulations for the protection of consumers, in the public interest, and consistent with the results of that study.

Today, we are issuing [proposals under consideration addressing arbitration clauses in consumer financial contracts](#). These proposals would make it illegal for contracts for many types of consumer financial products to have an arbitration clause that deprives consumers of the opportunity to participate in a class action lawsuit. These proposals would apply to products and services including credit cards, checking and deposit accounts, prepaid cards, money transfer services, certain auto loans, auto title loans, small dollar or payday loans, private student loans and installment loans.

Lifting this barrier to group lawsuits will empower consumers to hold companies accountable and seek relief for harms suffered. Moreover, we believe it will encourage companies to comply with the law. [Read more about our study on arbitration agreements in our March 2015 report to Congress.](#)

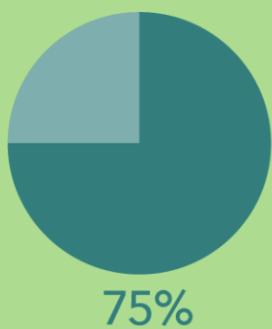
We are presenting these proposals as part of the [Small Business Review Panel process](#) . Through this process, representatives of small business will be able to comment on the potential impact of these proposals and will provide this feedback to a panel that will include Bureau staff.

If you have had an experience with arbitration or class actions related to consumer financial products, [tell us your story.](#)



Consumers are signing away their legal rights

Companies use arbitration clauses in consumer financial product and service contracts to get a “free pass” to block consumers from suing in groups to obtain relief for wrongdoing.

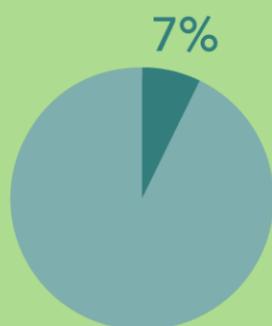


More than 75% of consumers surveyed in the credit card market did not know whether they were subject to an arbitration clause in their financial service agreements.

About **6.8 million consumers** received

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in payments from class action settlements per year.



Fewer than 7% of those covered by arbitration clauses realized that the clauses restricted their ability to sue in court.

CFPB proposal would end the free pass companies use against group lawsuits

“Consumers should not be asked to sign away their legal rights when they open a bank account or credit card,”

–CFPB Director Richard Cordray