Congressman Sherman Responds to CFPB’s Decision to Ban Arbitration Clauses that Prevent Consumers from Joining Together to Combat Fraud

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Washington, D.C. – Today, the Consumer Financial Protection Bureau (CFPB) announced that financial institutions, such as Wells Fargo, will no longer be allowed to force consumers to use arbitration to settle group disputes. Currently, banks and credit card companies insert arbitration clauses in their contracts to prevent customers from filing class-action lawsuits in the case of wrongdoing. This practice often discourages consumers from filing lawsuits because of the necessary expense of time, money, and effort.

On March 7, Congressman Brad Sherman (D-CA), a senior member of the Financial Services Committee, and Senator Sherrod Brown (D-OH) Ranking Member on the Senate Banking Committee introduced the Justice for Victims of Fraud Act. The legislation would prevent Wells Fargo from using forced arbitration clauses in the fine print of contracts of legitimate accounts to stop customers from suing over fraudulently opened accounts.

From at least 2011 to 2015, Wells Fargo opened millions of fake accounts in its customers' names. Now, Wells Fargo is using mandatory arbitration clauses to prevent these customers from getting their day in court.

“The CFPB’s arbitration rule is great news for consumers looking to open a bank account in the future. But, to ensure that millions of defrauded Wells Fargo customers have their day in court, Congress must pass the Justice for Victims of Fraud Act,” said Congressman Sherman. “If customers did not authorize the opening of a phony credit card or checking account, there is no reason they should be bound by an arbitration agreement they signed when they set up a legitimate account.”

Issues: Consumer Protection