

CFPB and New York Department of Financial Services Sue Pension Advance Companies for Deceiving Consumers About Loan Costs

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Companies Hid Loan Interest Rates and Fees and Deceived Consumers About Other Terms of the Deal

WASHINGTON, D.C. — Today the Consumer Financial Protection Bureau (CFPB) and the New York Department of Financial Services (NYDFS) filed a lawsuit in federal court against two companies, Pension Funding, LLC and Pension Income, LLC, and three of the companies' individual managers for deceiving consumers about the costs and risks of their pension advance loans. The CFPB and NYDFS allege that the companies duped consumers into borrowing against their pensions by deceptively marketing the product as a sale instead of a loan and failing to disclose high interest rates and fees. The CFPB and NYDFS are seeking to end the illegal practices, to prevent further consumer injury, and to obtain redress for consumers and other monetary relief.

“These companies duped consumers into taking out pension advance loans by deceiving them about the terms of the deal,” said CFPB Director Richard Cordray. “We are working to put a stop to the illegal practices these companies are using to sell their bogus product to military veterans and other pensioners.”

“As outlined in our complaint, the defendants used blatantly deceptive practices to harvest the hard-earned pensions of seniors and military personnel,” said Anthony J. Albanese, Acting New York Superintendent of Financial Services. “This scheme involved false advertising, illegal loans at high interest rates, and other abusive tactics that our Department simply will not tolerate. Together with the Consumer Financial Protection Bureau, we are seeking to deliver relief to the pensioners on whom the defendants preyed. We thank our partners at the CFPB for their outstanding work and cooperation in investigating and pursuing this matter, and the attorneys at the New York Attorney General’s Office for their representation of the Department in this matter.”

From 2011 until about December 2014, Pension Funding and Pension Income, two California-based companies, offered consumers lump-sum cash advances for

agreeing to redirect all or part of their pension payments over a period of eight years. The individual defendants, Steven Covey, Edwin Lichtig, and Rex Hofelter, designed and marketed these loans and were responsible for the companies' daily operations.

The complaint filed by the CFPB and NYDFS alleges that the companies and individuals violated the Dodd-Frank Wall Street Reform and Consumer Protection Act by:

- **Misrepresenting the product as a sale and not a loan:** The CFPB and NYDFS allege that the companies represented to consumers that their product was not a loan, but rather a "sale" of their future pension income. In fact, the CFPB and NYDFS allege, the product was a loan.
- **Failing to disclose or misrepresenting the interest rate and fees for the loans:** The CFPB and NYDFS allege that the defendants, in many cases, misrepresented or failed to inform consumers of the applicable interest rate or fees for the loans. In some cases, the defendants advised consumers that the product was better than a home equity line of credit or a credit card because of lower rates and fees. In fact, the effective interest rate typically was greater than 28 percent, higher than many comparable products available to consumers, such as credit cards and home equity lines. Charges for life insurance and other fees also applied.

The CFPB and NYDFS allege that the companies' misrepresentations deceived consumers, interfered with consumers' ability to understand the risks, costs, and conditions of the transactions, and took advantage of consumers' lack of understanding of the product and inability to protect their interests.

NYDFS also alleges claims against the defendants under New York state law, including that the defendants charged interest rates that violated New York usury laws, that they illegally transmitted money without a license, and that they violated state laws prohibiting deception.

The complaint filed by the CFPB and NYDFS is not a finding or ruling that the defendants have actually violated the law. It has been filed with the U.S. District Court for the Central District of California.

A copy of the complaint filed today can be found at:

http://files.consumerfinance.gov/f/201508_cfpb_complaint-pension-funding-llc-pension-income.pdf

A consumer advisory for older consumers and their advocates on pension advances can be found at:

<http://www.consumerfinance.gov/blog/consumer-advisory-3-pension-advance-traps-to-avoid/>

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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 <http://www.consumerfinance.gov/>.