Enforcement Alert from Hudson Cook; CFPB Takes Action Against Indirect Auto Lender for Alleged Illegal Scheme Impacting Borrowers.

November 21st, 2023 | Michael A. Goodman and Mark D. Metrey

HIGHLIGHTS:
• The Consumer Financial Protection Bureau ("CFPB") issued a Consent Order against an indirect auto lender ("Company") that provides automobile financing to consumers for allegedly operating an illegal scheme preventing borrowers from cancelling product bundles, which improperly increased car loan payments.
• CFPB mandated that the Company pay $48 million in consumer redress and a $12 million penalty into the victims relief fund.
• The Company must also cease certain challenged practices and improve cancellation processes for bundled products.

CASE SUMMARY:
On November 20, 2023, the CFPB imposed a $60 million penalty on an indirect auto lender for allegedly hindering borrowers from cancelling product bundles, elevating their monthly car loan payments. The Company is also alleged to have withheld refunds or issued incorrect amounts on bundled products, and failed to correct false consumer information sent to consumer reporting agencies.
The Company, a U.S.-based auto-financing arm of an automobile manufacturer, heavily involved in financing vehicles sold through its dealerships, offered optional bundled products alongside car loans. These included Guaranteed Asset Protection (GAP), Credit Life and Accidental Health (CLAH) coverage, and vehicle service agreements, significantly inflating loan amounts, monthly payments, and finance charges.
The Consent Order further alleged that, despite the Company being alerted that its refund system incorrectly calculated refund amounts for some consumers who cancelled their Vehicle Service Agreements during the contractual "free look" period, the Company failed to resolve the flaws and properly remediate the affected consumers. The CFPB further alleged that this course of action included directing consumers to a convoluted cancellation hotline, delaying refunds by applying them to principal payments, and withholding or miscalculating refunds, violating the Consumer Financial Protection Act's provision prohibiting unfair, deceptive, or abusive acts and practices, as well as the Fair Credit Reporting Act's unlawful furnishing activities.
The Company, without admitting the allegations, agreed to pay $48 million in restitution to affected consumers, halt unlawful practices, revamp cancellation procedures, and pay a $12 million fine to the CFPB's victims relief fund. Furthermore, the Company must now refrain from tying employee incentives to product retention, enhance cancellation accessibility, monitor dealerships, and inform consumers of their cancellation options.

RESOURCES:
You can review all of the relevant court filings and press releases at the **CFPB's Enforcement Page**.

- **Consent Order**
- **CFPB Press Release**

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