

**UNITED STATES OF AMERICA
CONSUMER FINANCIAL PROTECTION BUREAU**

ADMINISTRATIVE PROCEEDING
File No. 2016-CFPB-0029

In the Matter of:

Military Credit Services, LLC

CONSENT ORDER

The Consumer Financial Protection Bureau (Bureau) has reviewed the credit and debt-servicing practices of Military Credit Services, LLC (Respondent, as defined below) and has identified violations of the Electronic Fund Transfer Act (EFTA) and its implementing regulation, Regulation E, 15 U.S.C. §§ 1693c, 1693e, 12 C.F.R. § 1005.10(b); the Truth in Lending Act (TILA) and its implementing regulation, Regulation Z, 15 U.S.C. § 1637(a), 12 C.F.R. § 1026.6(b)(1)-(2); and resulting violations of the Consumer Financial Protection Act of 2010 (CFPA), 12 U.S.C. § 5536(a)(1)(A). The Bureau issues this Consent Order (Consent Order) under §§ 1053 and 1055 of the CFPA. 12 U.S.C. §§ 5563, 5565.

**I
Jurisdiction**

1. The Bureau has jurisdiction over this matter under §§ 1053 and 1055 of the CFPA. 12 U.S.C. §§ 5563, 5565.

**II
Stipulation**

2. Respondent has executed a “Stipulation and Consent to the Issuance of a Consent Order,” dated December 16, 2016 (Stipulation), which is incorporated by

reference and is accepted by the Bureau. By this Stipulation, Respondent has consented to the issuance of this Consent Order by the Bureau under §§ 1053 and 1055 of the CFPB, 12 U.S.C. §§ 5563, 5565, without admitting or denying any of the findings of fact or conclusions of law, except that Respondent admits the facts necessary to establish the Bureau's jurisdiction over Respondent and the subject matter of this action.

III Definitions

3. The following definitions apply to this Consent Order:
 - a. "2015 Order" means the Stipulated Final Judgment and Order entered on January 8, 2015, in *CFPB, et al. v. Freedom Stores, Inc., et al.*, No. 2:14-cv-00643-AWA-TEM, (E.D. Va.).
 - b. "Effective Date" means the date on which the Consent Order is issued.
 - c. "Enforcement Director" means the Assistant Director of the Office of Enforcement for the Consumer Financial Protection Bureau, or his or her delegate.
 - d. "Owners" includes any person or entity with an ownership interest in Military Credit Services, LLC.
 - e. "Related Consumer Action" means a private action by or on behalf of one or more consumers or an enforcement action by another governmental agency brought against Respondent based on substantially the same facts as described in Section IV of this Consent Order.
 - f. "Relevant Period" includes the period from January 9, 2015 to the Effective Date.

- g. “Respondent” means Military Credit Services, LLC, and its successors and assigns.
- h. “Service Provider” means “any person that provides a material service to a covered person in connection with the offering or provision by such covered person of a consumer financial product or service,” as defined by the CFPB, 12 U.S.C. § 5481(26).

IV Bureau Findings and Conclusions

The Bureau finds the following:

- 4. Respondent is a Virginia limited-liability company that is headquartered in Norfolk, Virginia.
- 5. Respondent is a financing company that extends credit to consumers and, through a commonly-owned company, collects debts owed under consumers’ contracts with Respondent.
- 6. Respondent is a “covered person” under the CFPB. 12 U.S.C. § 5481(6)(A).
- 7. Throughout the Relevant Period, Respondent extended revolving credit to consumers who purchased goods from over 400 independent retailers.
- 8. On December 18, 2014, the Bureau and the Attorneys General for the State of North Carolina and the Commonwealth of Virginia jointly filed a civil action against Respondent and others for violations of consumer-protection laws in the United States District Court for the Eastern District of Virginia (2014 Complaint). *CFPB, et al. v. Freedom Stores, Inc., et al.*, No. 2:14-cv-00643-AWA-TEM (E.D. Va.).

9. The 2014 Complaint alleged numerous unfair, abusive, and otherwise illegal business practices by Respondent in connection with the extension of credit and the collection of debts.
10. On January 8, 2015, the district court entered a Stipulated Final Judgment and Order against Respondent and others (the 2015 Order), which, among other things, enjoined Respondent from engaging in certain business practices and required Respondent to take other actions; required Respondent to pay redress to consumers and civil monetary penalties; and subjected Respondent to reporting requirements for five years.
11. The 2015 Order required Respondent to “ensure that all contract provisions related to electronic fund transfers include the disclosure of information required by EFTA, 15 U.S.C. §§ 1693c, 1693e, and Regulation E, 12 C.F.R. § 1005.10(b),” and to “ensure that all contract provisions include the account-opening disclosures required by TILA, 15 U.S.C. § 1631, et seq., in the form required by Regulation Z, 12 C.F.R. pt. 1026.”
12. Respondent knew that full compliance with the 2015 Order required a change to the revolving-credit agreements that consumers executed to obtain financing from Respondent.
13. Respondent did not implement adequate compliance measures to ensure that its contracts were updated, and its employees and management overlooked its failure to comply with the 2015 Order for over a year.
14. Respondent entered thousands of credit agreements since the 2015 Order using the problematic revolving-credit agreements.

**Findings and Conclusions
as to Respondent's Violations of EFTA and Regulation E**

15. The revolving-credit agreements offered by Respondent during the Relevant Period contained an "ACH Pre-Authorization Payments Agreement" (ACH Pre-Authorization). Under the ACH Pre-Authorization, Respondent obtained consumers' bank-account numbers and withdrew monthly payments from consumers' bank accounts throughout the term of the credit agreement. These bank-account withdrawals were in the form of ACH transfers and are pre-authorized "EFTs" under EFTA and Regulation E.
16. EFTA and Regulation E require ACH Pre-Authorization provisions to be clear and readily understandable to consumers. 15 U.S.C. § 1693c; 12 C.F.R. pt. 1005, Supp. I, Official Staff Interpretation, § 1005.10(b)-6.
17. Respondent's ACH Pre-Authorizations contained the following provisions:
 - a. "I (we) hereby authorize [Respondent] to use my Credit Card . . . or my Visa/MasterCard Check Card, or my (our) checking or savings account (identified below) to pull my (our) monthly payment. The depository named below is also authorized to charge the same to my (our) account . . ."; and
 - b. "Payments must be drafted on or before the contractual due date and may be subject to a \$25.00 service charge for all non-sufficient funds"
18. The ACH Pre-Authorization provisions were not clear and readily understandable to consumers because they merely state that the transfer will be made "on or before the contractual due date."

19. Respondent failed to disclose requisite information to consumers in violation of EFTA and Regulation E. 15 U.S.C. §§ 1693c, 1693e; 12 C.F.R. § 1005.10(b).

**Findings and Conclusions
as to Respondent's Violations of TILA and Regulation Z**

20. In the course of extending open-end credit during the Relevant Period, Respondent used revolving-credit agreements that omitted the account-opening disclosures required by TILA in the form specified by Regulation Z.
21. Under TILA, material terms must be disclosed to the consumer before open-end credit is extended. 15 U.S.C. § 1637(a). "Where one or more periodic rates may be used to compute the finance charge, each such rate, the range of balances to which it is applicable, and the corresponding nominal annual percentage rate" must be disclosed. 15 U.S.C. § 1637(a)(4).
22. Regulation Z requires certain account-opening disclosures, including each APR, to be provided "in the form of a table with the headings, content, and format substantially similar to any of the applicable tables in [] appendix G." 12 C.F.R. § 1026.6(b)(1). The APR must be in at least 16-point type. 12 C.F.R. § 1026.6(b)(2)(i).
23. Respondent's credit agreements disclose only a "maximum" APR, and it is not in the required 16-point type. The actual APR is not disclosed at all. The finance charge, range of balances to which the periodic rate is applicable, and corresponding nominal APR are not disclosed in a manner that comports with Regulation Z.
24. Respondent's credit agreements violate TILA and Regulation Z. 15 U.S.C. § 1637(a); 12 C.F.R. § 1026.6(b)(1)-(2).

**Findings and Conclusions
as to Respondent's Violations of the CFPA**

25. The CFPA prohibits any covered person from offering or providing "to a consumer any financial product or service not in conformity with Federal consumer financial law." 12 U.S.C. § 5536(a)(1)(A).
26. During the Relevant Period, Respondent entered into credit agreements with consumers that violated EFTA, Regulation E, TILA, and Regulation Z.
27. Therefore, Respondent violated the CFPA. 12 U.S.C. § 5536(a)(1)(A).

ORDER
V
Conduct Provisions

IT IS ORDERED, under §§ 1053 and 1055 of the CFPA, that:

28. Respondent and its officers, agents, servants, employees, and attorneys who have actual notice of this Consent Order, whether acting directly or indirectly, may not violate §§ 905 and 907 of EFTA, 15 U.S.C. §§ 1693c, 1693e, Regulation E, 12 C.F.R. § 1005.10(b), § 127A of TILA, 15 U.S.C. § 1637(a), Regulation Z, 12 C.F.R. § 1026.6(b)(1)-(2), and § 1053 of the CFPA, 12 U.S.C. § 5536(a)(1)(A), and must take the following affirmative actions:
 - a. ensure that all contract provisions related to Respondent's extension of credit to consumers or servicing of consumer debt comply with the disclosure requirements of EFTA, 15 U.S.C. §§ 1693c, 1693e, and Regulation E, 12 C.F.R. § 1005.10(b); and
 - b. ensure that all contract provisions related to Respondent's extension of credit to consumers comply with the disclosure requirements of TILA, 15 U.S.C. § 1631, et seq., and Regulation Z, 12 C.F.R. pt. 1026.

VI
Independent Consultant's Report and Compliance Plan

IT IS FURTHER ORDERED that:

29. Within 30 days of the Effective Date, Respondent must secure and retain one or more independent consultants, with specialized experience in consumer-finance compliance and acceptable to the Enforcement Director, to conduct an independent review of Respondent's issuance and servicing of credit. The review must include all credit agreements issued since February 2016. The purposes of the review must be to determine:
 - a. whether all of Respondent's contracts and practices have been updated to comply with EFTA, 15 U.S.C. §§ 1693c, 1693e, and Regulation E, 12 C.F.R. § 1005.10(b);
 - b. whether all of Respondent's contracts and practices have been updated to comply with TILA, 15 U.S.C. § 1631, *et seq.*, and Regulation Z, 12 C.F.R. pt. 1026; and
 - c. whether Respondent is in compliance with the 2015 Order.
30. Within 180 days of the Effective Date, the independent consultant must prepare a written report detailing the findings of the review (the "Independent Consultant Report") and provide the Independent Consultant Report to the Owners.
31. Within 20 days of receiving the Independent Consultant Report, the Owners must:
 - a. develop a plan (the "Compliance Plan") to: (i) correct any deficiencies identified and (ii) implement any recommendations or explain in writing why a particular recommendation is not being implemented; and

- b. submit the Independent Consultant Report and the Compliance Plan to the Enforcement Director.
32. The Enforcement Director will have the discretion to make a determination of non-objection to the Compliance Plan or to direct Respondent to revise it. If the Enforcement Director directs Respondent to revise the Compliance Plan, the Owners must make the requested revisions and resubmit the Compliance Plan to the Enforcement Director within 20 days.
 33. After receiving notification that the Enforcement Director has made a determination of non-objection to the Compliance Plan, Respondent must implement and adhere to the steps, recommendations, deadlines, and timeframes outlined in the Compliance Plan.

VII Order to Pay Civil Money Penalties

IT IS FURTHER ORDERED that:

34. Under § 1055(c) of the CFPA, 12 U.S.C. § 5565(c), by reason of the violations of law described in Section IV of this Consent Order, and taking into account the factors in 12 U.S.C. § 5565(c)(3), Respondent must pay a civil money penalty of \$200,000 to the Bureau.
35. Within 10 days of the Effective Date, Respondent must pay the civil money penalty by wire transfer to the Bureau or to the Bureau's agent in compliance with the Bureau's wiring instructions.
36. The civil money penalty paid under this Consent Order will be deposited in the Civil Penalty Fund of the Bureau as required by § 1017(d) of the CFPA, 12 U.S.C. § 5497(d).

37. Respondent must treat the civil money penalty paid under this Consent Order as a penalty paid to the government for all purposes. Regardless of how the Bureau ultimately uses those funds, Respondent may not:
 - a. claim, assert, or apply for a tax deduction, tax credit, or any other tax benefit for any civil money penalty paid under this Consent Order; or
 - b. seek or accept, directly or indirectly, reimbursement or indemnification from any source, including but not limited to payment made under any insurance policy, with regard to any civil money penalty paid under this Consent Order.
38. To preserve the deterrent effect of the civil money penalty in any Related Consumer Action, Respondent may not argue that Respondent is entitled to, nor may Respondent benefit by, any offset or reduction of any compensatory monetary remedies imposed in the Related Consumer Action because of the civil money penalty paid in this action (Penalty Offset). If the court in any Related Consumer Action grants such a Penalty Offset, Respondent must, within 30 days after entry of a final order granting the Penalty Offset, notify the Bureau, and pay the amount of the Penalty Offset to the U.S. Treasury. Such a payment will not be considered an additional civil money penalty and will not change the amount of the civil money penalty imposed in this action.
39. In the event of any default on Respondent's obligations to make payment under this Consent Order, interest, computed under 28 U.S.C. § 1961, as amended, will accrue on any outstanding amounts not paid from the date of default to the date of payment, and will immediately become due and payable.

40. Respondent must relinquish all dominion, control, and title to the funds paid to the fullest extent permitted by law and no part of the funds may be returned to Respondent.
41. Under 31 U.S.C. § 7701, Respondent, unless it already has done so, must furnish to the Bureau its taxpayer-identifying numbers, which may be used for purposes of collecting and reporting on any delinquent amount arising out of this Consent Order.
42. Within 30 days of the entry of a final judgment, consent order, or settlement in a Related Consumer Action, Respondent must notify the Enforcement Director of the final judgment, consent order, or settlement in writing.

VIII Reporting Requirements

IT IS FURTHER ORDERED that:

43. Respondent must notify the Bureau of any development that may affect compliance obligations arising under this Consent Order, including but not limited to a dissolution, assignment, sale, merger, or other action that would result in the emergence of a successor company; the creation or dissolution of a subsidiary, parent, or affiliate that engages in any acts or practices subject to this Consent Order; the filing of any bankruptcy or insolvency proceeding by or against Respondent; or a change in Respondent's name or address. Respondent must provide this notice, if practicable, at least 30 days before the development, but in any case no later than 14 days after the development.
44. Within 7 days of the Effective Date, Respondent must:

- a. designate at least one telephone number and email, physical, and postal address as points of contact, which the Bureau may use to communicate with Respondent;
 - b. identify all businesses for which Respondent is the majority owner, or that Respondent directly or indirectly controls, by all of their names, telephone numbers, and physical, postal, email, and Internet addresses;
 - c. describe the activities of each such business, including the products and services offered, and the means of advertising, marketing, and sales.
45. Within 90 days of the Effective Date, and again one year after the Effective Date, Respondent must submit to the Enforcement Director an accurate written compliance-progress report (Compliance Report) which, at a minimum:
- a. describes in detail the manner and form in which Respondent has complied with this Consent Order; and
 - b. attaches a copy of each Order Acknowledgment obtained under Section IX, unless previously submitted to the Bureau.

IX Order Distribution and Acknowledgment

IT IS FURTHER ORDERED that:

46. Within 30 days of the Effective Date, Respondent must deliver a copy of this Consent Order to each of its Owners and executive officers, as well as to any managers, employees, Service Providers, or other agents and representatives who have responsibilities related to the subject matter of the Consent Order.
47. For 5 years from the Effective Date, Respondent must deliver a copy of this Consent Order to any business entity resulting from any change in structure

referred to in Section VIII, any future Owners and executive officers, as well as to any managers, employees, Service Providers, or other agents and representatives who will have responsibilities related to the subject matter of the Consent Order before they assume their responsibilities.

48. Respondent must secure a signed and dated statement acknowledging receipt of a copy of this Consent Order, ensuring that any electronic signatures comply with the requirements of the E-Sign Act, 15 U.S.C. § 7001 et seq., within 30 days of delivery, from all persons receiving a copy of this Consent Order under this Section.

X Recordkeeping

IT IS FURTHER ORDERED that:

49. Respondent must create, or if already created, must retain for at least 5 years from the Effective Date, the following business records:
 - a. all documents and records necessary to demonstrate full compliance with each provision of this Consent Order, including all submissions to the Bureau; and
 - b. all credit agreements related to Respondent's provision of credit to consumers or servicing of debt.
50. Respondent must retain the documents identified in Paragraph 49 for at least 5 years.
51. Respondent must make the documents identified in Paragraph 49 available to the Bureau upon the Bureau's request.

XI
Notices

IT IS FURTHER ORDERED that:

52. Unless otherwise directed in writing by the Bureau, Respondent must provide all submissions, requests, communications, or other documents relating to this Consent Order in writing, with the subject line, "In re Military Credit Services, LLC, File No. 2016-CFPB-0029," and send them either:

a. by overnight courier (not the U.S. Postal Service), as follows:

Anthony Alexis
Assistant Director for Enforcement
Consumer Financial Protection Bureau
ATTENTION: Office of Enforcement
1625 Eye Street, N.W.
Washington, D.C. 20006; or

b. by first-class mail to the below address and contemporaneously by email to:

Anthony Alexis
Assistant Director for Enforcement
Consumer Financial Protection Bureau
ATTENTION: Office of Enforcement
1700 G Street, N.W.
Washington, D.C. 20552
Enforcement_Compliance@cfpb.gov

XII
Cooperation with the Bureau

IT IS FURTHER ORDERED that:

53. Respondent must cooperate fully with the Bureau in this matter and in any investigation related to or associated with the conduct described in Section IV. Respondent must provide truthful and complete information, evidence, and testimony. Respondent must cause Respondent's Owners, officers, employees,

representatives, or agents to appear for interviews, discovery, hearings, trials, and any other proceedings that the Bureau may reasonably request upon 5 days written notice, or other reasonable notice, at such places and times as the Bureau may designate, without the service of compulsory process.

XIII Compliance Monitoring

IT IS FURTHER ORDERED that:

54. Within 14 days of receipt of a written request from the Bureau, Respondent must submit additional Compliance Reports or other requested information, which must be made under penalty of perjury; provide sworn testimony; or produce documents.
55. For purposes of this Section, the Bureau may communicate directly with Respondent, unless Respondent retains counsel related to these communications.
56. Respondent must permit Bureau representatives to interview any employee or other person affiliated with Respondent who has agreed to such an interview. The person interviewed may have counsel present.
57. Nothing in this Consent Order will limit the Bureau's lawful use of civil investigative demands under 12 C.F.R. § 1080.6 or other compulsory process.
58. For 5 years from the date of the Consent Order, Respondent agrees to be subject to the Bureau's supervisory authority under 12 U.S.C. § 5514. Consistent with 12 C.F.R. § 1091.111, Respondent may not petition for termination of supervision under 12 C.F.R. § 1091.113.

XIV
Modifications to Non-Material Requirements

IT IS FURTHER ORDERED that:

59. Respondent may seek a modification to non-material requirements of this Consent Order (*e.g.*, reasonable extensions of time and changes to reporting requirements) by submitting a written request to the Enforcement Director.
60. The Enforcement Director may, in his or her discretion, modify any non-material requirements of this Consent Order (*e.g.*, reasonable extensions of time and changes to reporting requirements) if he or she determines good cause justifies the modification. Any such modification by the Enforcement Director must be in writing.

XV
Administrative Provisions

61. The provisions of this Consent Order do not bar, estop, or otherwise prevent the Bureau, or any other governmental agency, from taking any other action against Respondent, except as described in Paragraph 62.
62. The Bureau releases and discharges Respondent from all potential liability for law violations that the Bureau has or might have asserted based on the practices described in Section IV of this Consent Order, to the extent such practices occurred before the Effective Date and the Bureau knows about them as of the Effective Date. The Bureau may use the practices described in this Consent Order in future enforcement actions against Respondent and its affiliates, including, without limitation, to establish a pattern or practice of violations or the continuation of a pattern or practice of violations or to calculate the amount of any penalty. This release does not preclude or affect any right of the Bureau to

determine and ensure compliance with the Consent Order, or to seek penalties for any violations of the Consent Order.

63. This Consent Order is intended to be, and will be construed as, a final Consent Order issued under § 1053 of the CFPA, 12 U.S.C. § 5563, and expressly does not form, and may not be construed to form, a contract binding the Bureau or the United States.
64. This Consent Order will terminate 10 years from the Effective Date or 10 years from the most recent date that the Bureau initiates an action alleging any violation of the Consent Order by Respondent. If such action is dismissed or the relevant adjudicative body rules that Respondent did not violate any provision of the Consent Order, and the dismissal or ruling is either not appealed or upheld on appeal, then the Consent Order will terminate as though the action had never been filed. The Consent Order will remain effective and enforceable until such time, except to the extent that any provisions of this Consent Order have been amended, suspended, waived, or terminated in writing by the Bureau or its designated agent.
65. Calculation of time limitations will run from the Effective Date and be based on calendar days, unless otherwise noted.
66. Should Respondent seek to transfer or assign all or part of its operations that are subject to this Consent Order, Respondent must, as a condition of sale, obtain the written agreement of the transferee or assignee to comply with all applicable provisions of this Consent Order.
67. The provisions of this Consent Order will be enforceable by the Bureau. For any violation of this Consent Order, the Bureau may impose the maximum amount of

civil money penalties allowed under § 1055(c) of the CFPA, 12 U.S.C. § 5565(c). In connection with any attempt by the Bureau to enforce this Consent Order in federal district court, the Bureau may serve Respondent wherever Respondent may be found and Respondent may not contest that court's personal jurisdiction over Respondent.

68. This Consent Order and the accompanying Stipulation contain the complete agreement between the parties. The parties have made no promises, representations, or warranties other than what is contained in this Consent Order and the accompanying Stipulation. This Consent Order and the accompanying Stipulation supersede any prior oral or written communications, discussions, or understandings.
69. Nothing in this Consent Order or the accompanying Stipulation may be construed as allowing the Respondent, its Owners, officers, or employees to violate any law, rule, or regulation.

IT IS SO ORDERED, this 20th day of December, 2016.



Richard Cordray
Director
Consumer Financial Protection Bureau