Consumer Financial Protection Bureau
ALERT
MARCH 2014



## CFPB Sues For-Profit College Giant ITT, Alleging Strategy of Abusive Lending Practices

After signaling its intention to crack down on deceptive marketing and predatory lending practices by for-profit colleges, the Consumer Financial Protection Bureau has filed its first enforcement action in this arena. The CFPB filed suit against ITT Educational Services, one of the largest for-profit educational institutions in the United States. The Bureau previously sent a Notice and Opportunity to Respond and Advise (NORA) notifying the company that the CFPB Enforcement Office intended to recommend that the Bureau commence legal action against the company for alleged violations of the Dodd-Frank Act, the Truth in Lending Act, and Regulation Z. (Read our alert on the CFPB's focus on for-profit educational providers here.)

While other lawsuits, such as the California attorney general's claims against Corinthian Colleges, have focused on alleged misrepresentations to students and investors about job placement rates, the CFPB complaint alleges a pattern of aggressive tactics to ensnare low-income students in high-interest private loans – with the expectation that many students will eventually default on those loans. According to the complaint: "Simply to enhance its financial statements and appearance to investors, ITT sacrificed its students' futures by saddling them with debt on which it knew they would likely default."

In its complaint, the CFPB alleges that ITT engaged in deceptive recruiting practices, luring prospective students with statements about its graduates' six-figure incomes, and then used strong-arm tactics to enroll the prospects and eventually push them into expensive loans. The complaint, which relies in part on the recorded experiences of "mystery shoppers" in a program commissioned by ITT itself, details a "hard sell" recruitment and enrollment campaign involving repeated calls to prospective students, deceptive claims about post-graduation job prospects, and an automated application and financial aid process designed to enroll students without affording them an opportunity to understand the loan obligations they were incurring. The company allegedly extended no-interest "temporary credit" to students in their first year but then, in many cases, coerced the students into taking on private loans to repay the credit. According to the complaint, ITT's financial aid team engaged in aggressive tactics such as threatening to expel students from their classes if they failed to meet their payment obligations. ITT was actively involved in the servicing and collection of the private loans, which carried interest rates significantly higher than public loans, despite the expectation that most of its students would ultimately default.

The CFPB alleges that ITT violated the Consumer Financial Protection Act by engaging in unfair and abusive practices in connection with the private loans – consumer financial services under the act. The complaint further alleges violations of the Truth in Lending Act and Regulation Z, through ITT's failure to disclose the terms and finance charges associated with its temporary credit installment plans.

Attracting considerable media attention, the lawsuit underscores the Bureau's agenda of prosecuting lending abuses by nonbank institutions and may well be a harbinger of further enforcement actions against colleges and educational lenders.

## Loeb & Loeb LLP's Consumer Financial Protection Bureau Task Force

Our Task Force is composed of experienced litigators and trial attorneys who defend investigations and enforcement actions alleging violations of consumer protection and unfair competition laws, including consumer financial laws. Our goal is to provide clients with efficient, cost-effective representation in complex consumer-related litigation encompassing a diverse range of legal areas. We strive to keep our clients "off the radar" by training them to prepare for and defend claims and investigations before they arise. For those clients who engage us after litigation has already been filed, we focus on the economics of litigation and endeavor to develop defense strategies that maximize business objectives while capturing and implementing the valuable lessons that can be derived from every litigation or investigation. For more information, please click here.



### *Attorneys*


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|---|---|---|
| PATRICK N. DOWNES | PDOWNES@LOEB.COM | 310.282.2352 |
| LIVIA M. KISER | LKISER@LOEB.COM | 312.464.3170 |
| MICHAEL MALLOW | MMALLOW@LOEB.COM | 310.282.2287 |
| MICHAEL A. THURMAN | MTHURMAN@LOEB.COM | 310.282.2122 |