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CFPB Takes Action to Obtain \$120 Million in Redress from Sprint and Verizon for Illegal Mobile Cramming



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Companies Will Also Pay \$38 Million in Fines for Unauthorized Charges on Customers' Mobile Bills

WASHINGTON, D.C. — Today, the Consumer Financial Protection Bureau filed proposed orders in federal courts against Sprint and Verizon which, if approved, would provide \$120 million in redress to wireless customers who were illegally billed hundreds of millions of dollars in unauthorized third-party charges. The CFPB alleges that the companies operated billing systems that allowed third parties to “cram” unauthorized charges on customers’ mobile-phone accounts and ignored complaints about the charges. Today’s actions are being taken in coordination with the state attorneys general and the Federal Communications Commission (FCC). Under the proposed terms, the CFPB will oversee \$120 million in consumer refunds. The companies will also pay \$38 million in federal and state fines.

“Sprint and Verizon had flawed billing systems that allowed merchants to add unauthorized charges to wireless customer bills,” said CFPB Director Richard Cordray. “Consumers bore the brunt of those charges and ended up paying millions of dollars while the companies reaped profits. Today’s actions will put \$120 million back into the pockets of harmed consumers and require these companies to improve their billing practices going forward.”

Consumers use mobile phones to purchase an array of digital products, such as apps, games, books, movies, and music. These purchases appeared as charges on consumers’ phone bills. Wireless carriers collect and process payments for these purchases and control the networks connecting merchants and customers. From about 2004 through 2013, nearly all wireless carriers’ third-party billing involved products called “premium text messages” or “premium short messaging services” because they were frequently delivered by text messages. Sprint and Verizon outsourced payment processing for these digital purchases to vendors, but failed to properly monitor them.

The lack of oversight by Sprint and Verizon allowed the vendors to have nearly unfettered access to consumers’ wireless accounts. The billing systems for premium messages attracted and enabled unscrupulous merchants who, in some cases, only needed consumers’ phone numbers to cram illegitimate charges onto wireless bills. The charges ranged from one-time fees of about \$0.99 – \$4.99 to monthly subscriptions that cost \$9.99 a month. The companies received a 30-40 percent cut of the gross revenue from these charges.

Most consumers were targeted online. Consumers clicked on ads that brought them to websites asking them to enter their cellphone numbers. Some merchants tricked consumers into providing their cellphone numbers to receive “free” digital content and

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then charged for it. Many others simply placed fabricated charges on bills without delivering any goods or communicating with consumers.

In December 2014, the CFPB filed suit in the Southern District of New York against Sprint and today is filing a proposed consent order. Today, the CFPB also filed a complaint and a proposed consent order in the District of New Jersey to address Verizon's unlawful conduct. The Bureau charges Sprint and Verizon, as payment processors for third parties, with violating the Dodd-Frank Wall Street Reform and Consumer Protection Act's prohibition on unfair practices by:

- **Allowing third parties to illegally charge consumers:** The companies' billing systems made it easy for third-party scammers to attach charges to consumers' bills. The companies profited from these illegitimate charges which victimized millions of consumers.
- **Automatically billing consumers for illegitimate charges without their consent:** Neither Sprint nor Verizon required customers to opt in to third-party billing. Instead, they automatically enrolled customers without their consent. This policy helped perpetuate the wrongdoing because many customers did not spot unauthorized charges, as they were unaware that third parties could place charges on their bills. Although Verizon and Sprint allowed consumers to block third-party charges, consumers had to specifically request that they do so. Since many consumers were unaware that third parties could even place charges on their bills, they did not know to ask for such protection, making the blocking option of little use.
- **Ignoring consumer complaints about unauthorized charges:** Both companies failed to track customer complaints about unauthorized charges, and as a result, lacked the most basic alert mechanism that could have revealed flaws in their monitoring systems. The companies also failed to provide full and prompt remediation to consumers subjected to these charges.
- **Disregarding red flags about third party vendors:** Both companies disregarded red flags showing that the billing systems for premium messages were a breeding ground for unauthorized charges. Sprint and Verizon continued to outsource merchant oversight and billing to certain vendors despite lawsuits citing evidence that those same vendors enabled the cramming of unauthorized charges onto consumers' bills.

As a result, Sprint's and Verizon's wireless customers – many of whom did not know that third parties could place charges on their bills – incurred millions of dollars in illegitimate charges while the companies profited handsomely.

Enforcement Action

Pursuant to the Dodd-Frank Act, the CFPB has the authority to take action against institutions or individuals engaging in unfair, deceptive, or abusive acts or practices or that otherwise violate federal consumer financial laws. The parties' proposed consent orders, if approved by the courts, would require Sprint and Verizon to:

- **Pay \$120 million in redress:** The proposed consent orders would require Verizon to pay \$70 million and Sprint to pay \$50 million in consumer refunds. The CFPB will oversee the redress programs. Verizon customers can submit claims for refunds at www.CFPBSettlementVerizon.com or can learn more information about the Verizon settlement by calling 888-726-7063. Sprint customers can submit claims for refunds at www.SprintRefundPSMS.com or can learn more information about the Sprint settlement by calling 877-389-8787.
- **Clearly and conspicuously disclose third-party charges on wireless bills:** The proposed orders would also require Verizon and Sprint to present

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[FEBRUARY 2015](#) (14)

[JANUARY 2015](#) (12)

▶ 2014

▶ 2013

▶ 2012

▶ 2011

▶ 2010

third-party charges in a separate and clearly labeled section of the consumer's bill so that consumers can clearly identify which charges are from the carrier and which charges are from third parties.

- **Obtain informed consent from consumers prior to third-party billing:** Verizon and Sprint would be required under the orders to obtain informed consent before a consumer is charged by a third party and provide purchase confirmation for third-party charges such as an email or text message to the consumer. Verizon and Sprint would also be required to block third-party charges for consumers and tell consumers about the option to block said charges.
- **Improve dispute resolution procedures:** In addition, the proposed orders would require Verizon and Sprint to ensure that consumers disputing third-party charges are directed to a customer service representative who has access to at least 12 months of the consumers' billing statements. The representative must offer consumers the option to block future third-party charges, and provide consumers with a refund of unauthorized charges unless the companies can demonstrate the consumers expressly consented to the charges, already received refunds for the charges, or are otherwise ineligible for a refund.
- **Enhance customer-service training programs:** The companies would be obligated under the orders to train customer service representatives about third-party billing procedures for at least six years unless the companies discontinue third-party billing.

Sprint and Verizon will also pay \$38 million in federal and state fines. The CFPB worked in close coordination with the state attorneys general and the FCC in investigating the companies' third-party billing practices. The FCC and state attorneys general from all fifty states and the District of Columbia have worked to combat wireless cramming. Their collaboration was invaluable in achieving the substantial consumer relief and improved billing practices from Verizon and Sprint.

A copy of the Verizon complaint is available here:

http://files.consumerfinance.gov/f/201505_cfpb-cfpb-v-verizon-complaint.pdf 

A copy of the Verizon proposed consent order is available here:

http://files.consumerfinance.gov/f/201505_cfpb-cfpb-v-verizon-proposed-order.pdf 

A copy of the Sprint proposed consent order is available here:

http://files.consumerfinance.gov/f/201505_cfpb-cfpb-v-sprint-corporation-proposed-order.pdf 

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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 www.consumerfinance.gov.



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