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# CFPB Orders Subprime Credit Card Company to Refund \$2.7 Million for Charging Illegal Credit Card Fees



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'Fee-Harvester' Credit Cards Misrepresented Charges, Hit Consumers With Excessive Fees

WASHINGTON, D.C. – Today, the Consumer Financial Protection Bureau (CFPB) ordered Continental Finance Company LLC, a subprime credit card company based in Delaware, to refund an estimated \$2.7 million to approximately 98,000 consumers who were charged illegal credit card fees. The agency found that the company's "fee-harvester" subprime credit cards misrepresented certain fees and hit consumers with illegal charges. The order also requires the company to pay a civil penalty of \$250,000.

"Continental Finance misled consumers and charged them illegal fees," said CFPB Director Richard Cordray. "These excessive fees are especially harmful because the cards were targeted to consumers with subprime credit who are often economically vulnerable. We will act to protect people who are wronged in this market."

The CFPB's consent order can be found at:

[http://www.consumerfinance.gov/f/201502\\_cfpb\\_consent-order\\_continental-finance.pdf](http://www.consumerfinance.gov/f/201502_cfpb_consent-order_continental-finance.pdf)

Continental Finance Company, LLC is a subprime credit card originator and servicer based in Newark, Delaware. The company designs and markets credit cards targeted at consumers with subprime credit. Continental credit cards often have very low credit limits and impose high upfront fees. Credit cards with these features are often referred to as fee-harvester credit cards. They are frequently targeted at subprime consumers who are economically vulnerable and lack other options to access credit because of their poor credit history. The company partners with banks or credit unions to issue its credit cards.

In 2009, Congress passed the Credit Card Accountability, Responsibility, and Disclosure (CARD) Act, to increase protections for consumers against unfair credit card billing practices. This law included a fee-harvester provision to increase consumer protections for predatory cards with high upfront fees. The rules under the CARD Act ban credit card companies from charging consumers fees that exceed 25 percent of the credit limit during the first year after opening an account. That means for a card with a \$300 credit limit, consumers generally can't be required to pay more than \$75 in fees the first year the account is open.

Continental offered the following credit cards: the Cerulean Card, the Matrix Card, and the Verve Card. Consumers that signed up for these Continental credit cards typically received a \$300 credit limit and were charged an upfront fee of \$75 which immediately met the 25 percent fee limit under the CARD Act. During the next twelve months,

## Photos and bios



Director Rich  
Cordray



Deputy Director  
Steven  
Antonakes

## Press contacts

Jen Howard  
Assistant Director of Communications  
(202) 435-7170  
[Jennifer.Howard@cfpb.gov](mailto:Jennifer.Howard@cfpb.gov)

Walter Suskind  
Press Assistant  
(202) 435-9469  
[Walter.Suskind@cfpb.gov](mailto:Walter.Suskind@cfpb.gov)

Moira Vahey  
Spokesperson

Continental then charged certain consumers fees that exceeded the fee cap.

The CFPB investigation found violations occurred in connection with Continental Cards issued between April 2012 and July 2013. Specifically, Continental Finance:

- **Misled consumers about credit card costs:** Continental’s materials indicated that consumers would only be charged a monthly paper statement fee if they “elected” paper billing. In reality, Continental automatically required certain consumers to pay a monthly \$4.95 fee unless they opted out through an online process.
- **Charged consumers illegal credit card fees:** These paper statement fees also violated the ban on credit card companies from requiring fees over 25 percent of the consumer’s credit limit during the first year after opening an account. Specifically, Continental charged some consumers up to an additional \$49.50 in “paper statement fees” for providing paper billing statements during that time. When added to the \$75 maintenance and setup fee, the paper statement fees constituted as much as 42 percent of the consumer’s \$300 credit limit during the first year after account opening.
- **Misrepresented account insurance:** Continental stated in some consumer cardholder agreements that security deposits consumers provided for certain credit cards would be “FDIC insured” when, in reality, for a time period many funds were not FDIC insured.

## Enforcement Action

The CFPB found that Continental Finance engaged in deceptive acts or practices by misrepresenting the paper statement fee and whether security deposits would be “FDIC insured.” The company also violated the Truth in Lending Act by requiring consumers to pay fees over 25 percent of the credit limit during the first year after account opening. To address these violations, the CFPB’s consent order requires Continental Finance to:

- **Provide full refunds to 98,000 consumers:** Continental must repay approximately \$2.7 million to the approximately 98,000 consumers who were charged illegal credit card fees for paper statements.
- **Conveniently repay consumers:** Consumers will receive a credit to their account, a check in the mail, or both, depending on their circumstances. Consumers are not required to take any action to receive their refund.
- **Prohibited from engaging in illegal practices:** Continental is prohibited from charging illegal fees that exceed 25 percent of a consumers’ credit limit in the first year of the account. Continental is also prohibited from making misrepresentations about the fees associated with their credit cards, as well as whether consumers’ funds are covered by FDIC or other deposit insurance.
- **Subjected to federal supervision for the first time:** Continental will be subject to the CFPB’s supervisory authority for the first time, allowing the CFPB ongoing oversight of the company to ensure harmful practices do not reoccur. This supervision can include examinations of the company and monitoring by the CFPB for compliance with consumer financial protection laws.
- **Pay a \$250,000 civil penalty fine:** Continental will make a \$250,000 penalty payment to CFPB’s Civil Penalty Fund.

The Bureau will continue to closely monitor credit cards and other consumer financial products for compliance with federal consumer financial law. This work includes

(202) 435-9151  
[Maira.Vahey@cfpb.gov](mailto:Maira.Vahey@cfpb.gov)

Sam Gilford  
Spokesperson  
(202) 435-7673  
[Samuel.Gilford@cfpb.gov](mailto:Samuel.Gilford@cfpb.gov)

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scrutinizing arrangements between nonbanks and financial institutions for risk to consumers.

The full text of the CFPB's Consent Order is available at:

[http://www.consumerfinance.gov/f/201502\\_cfpb\\_consent-order\\_continental-finance.pdf](http://www.consumerfinance.gov/f/201502_cfpb_consent-order_continental-finance.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](http://www.consumerfinance.gov).



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