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CFPB Takes Action Against PayPal for Illegally Signing Up Consumers for Unwanted Online Credit



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PayPal to Refund \$15 Million to Consumers and Pay \$10 Million Fine

WASHINGTON, D.C. — Today the Consumer Financial Protection Bureau (CFPB) filed a complaint and proposed consent order in federal court against PayPal, Inc. for illegally signing up consumers for its online credit product, PayPal Credit, formerly known as Bill Me Later. The CFPB alleges that PayPal deceptively advertised promotional benefits that it failed to honor, signed consumers up for credit without their permission, made them use PayPal Credit instead of their preferred payment method, and then mishandled billing disputes. Under the proposed order, PayPal would pay \$15 million in consumer redress and a \$10 million penalty, and it would be required to improve its disclosures and procedures.

“PayPal illegally signed up consumers for its online credit product without their permission and failed to address disputes when they complained,” said CFPB Director Richard Cordray. “Online shopping has become a way of life for many Americans and it’s important that they are treated fairly. The CFPB’s action should send a signal that consumers are protected whether they are opening their wallets or clicking online to make a purchase.”

PayPal Inc., a California-based company, offers a line of credit known as PayPal Credit that consumers can use to pay for online and other purchases. PayPal Credit operates like other forms of credit; consumers make purchases using it as a form of payment and then repay the debt over time. As with credit cards and other forms of credit, consumers using PayPal Credit may incur interest, late fees, and other charges. Consumers often enroll in PayPal Credit while purchasing a good or service online or while creating a PayPal account.

Since 2008, PayPal has offered PayPal Credit to consumers across the country making purchases from thousands of online merchants, including eBay. The CFPB alleges that many consumers who were attempting to enroll in a regular PayPal account, or make an online purchase, were signed up for a credit product without realizing it. The company also failed to post payments properly, lost payment checks, and mishandled billing disputes that consumers had with merchants or the company. Tens of thousands of consumers experienced these issues. Specifically, the CFPB alleges that the company:

- **Deceptively advertised promotional benefits:** The CFPB alleges that PayPal failed to honor advertised promotions, such as a \$5 or \$10 promised credit toward consumer purchases.
- **Abusively charged consumers deferred interest:** The CFPB alleges that PayPal offered consumers limited-time, deferred-interest promotions, and that PayPal purported to let consumers pick how payments would be applied to these

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

Walter Suskind

Press Assistant

(202) 435-9469

Walter.Suskind@cfpb.gov

Moir Vahey

Spokesperson

(202) 435-9151

Moir.Vahey@cfpb.gov

promotional balances. But consumers who attempted to contact the company to get more information or request to apply their payments to promotional balances often could not get through to the company's customer service line or were given inaccurate information. Many such consumers were hit with deferred-interest fees that, due to the company's conduct, they could not avoid.

- **Enrolled consumers in PayPal Credit without their knowledge or consent:** The CFPB alleges that the company often automatically enrolled consumers in PayPal Credit when those consumers were signing up for a regular PayPal account or making purchases. The company enrolled other consumers while they tried canceling or closing out of the application process. Many consumers ended up enrolled in PayPal Credit without knowing how or why they were enrolled. They discovered their accounts only after finding a credit-report inquiry or receiving welcome emails, billing statements, or debt-collection calls for amounts past due, including late fees and interest.
- **Made consumers use PayPal Credit for purchases instead of their preferred payment method:** The CFPB alleges that the company automatically set or preselected the default payment method for all purchases made through PayPal to PayPal Credit. This meant consumers used PayPal Credit even when they intended to use another method of payment such as a linked credit card or checking account. Other consumers were not able to select another payment method, finding that their purchases were charged to a PayPal Credit account even when they affirmatively selected another payment. Many of these consumers incurred late fees and interest because they did not know they had made purchases through PayPal Credit.
- **Engaged in illegal billing practices:** The CFPB alleges that the company failed to post payments or failed to remove late fees and interest charges from consumers' bills even when the consumers were unable to make payments because of website failures. Numerous consumers reported that the company lost payment checks or took more than a week to process checks.
- **Mishandled consumer disputes about payments:** The CFPB also alleges that PayPal mishandled consumers' billing disputes and made billing errors.

Enforcement Action

Under the Dodd-Frank Wall Street Reform and Consumer Protection Act, the CFPB has the authority to take action against institutions engaging in unfair, deceptive, or abusive practices. Under the terms of the proposed consent order filed today, PayPal would:

- **Pay \$15 million in redress to victims:** PayPal would reimburse consumers who were mistakenly enrolled in PayPal Credit, who mistakenly paid for a purchase with PayPal Credit, or who incurred fees or deferred interest as a result of the company's inadequate disclosures and flawed customer-service practices.
- **Improve disclosures:** PayPal would be required to take steps to improve its consumer disclosures related to enrollment in PayPal Credit to ensure that consumers know they are enrolling or using the product for a purchase. These improved disclosures would also apply to fees and deferred interest to ensure that consumers understand how their payments will be allocated.
- **Pay \$10 million civil penalty:** PayPal would pay \$10 million to the CFPB's Civil Penalty Fund.

The credit product at issue in this enforcement action was formerly known as Bill Me Later, and offered by Bill Me Later, Inc., which was acquired by PayPal, Inc.

Sam Gilford
Spokesperson
(202) 435-7673
Samuel.Gilford@cfpb.gov

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The proposed consent order is not a finding or ruling that the company has actually violated the law. It has been filed with the U.S. District Court for the District of Maryland, and would have the force of law only if it is approved by the presiding judge.

A copy of the consent order filed today can be found at:

http://files.consumerfinance.gov/f/201505_cfpb_consent-order-paypal.pdf 

A copy of the complaint filed today can be found at:

http://files.consumerfinance.gov/f/201505_cfpb_complaint-paypal.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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