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Protection Bureau

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CFPB Takes Action Against "Bad Check" Debt Collector

Nationwide Operation Deceptively Threatened Consumers with Criminal Prosecution and Jail Time for Writing Bounced Checks

WASHINGTON, D.C. — Today, the Consumer Financial Protection Bureau (CFPB) announced an enforcement action against a nationwide debt collection operation and its chief executive officer for using deceptive threats of criminal prosecution and jail time in order to intimidate consumers into paying debts for bounced checks. The company also misled consumers into believing that they must enroll in a costly financial education program to avoid criminal charges. The proposed order, if approved by a federal district court, would put an end to the illegal activities, impose a civil money penalty of \$50,000, and require new consumer disclosures and stronger oversight of the bounced check program.

"National Corrective Group masqueraded as prosecutors and used deceptive tactics to intimidate consumers into paying hundreds of dollars in extra fees to avoid potential criminal prosecution," said CFPB Director Richard Cordray. "Today we are taking action to put a stop to these illegal debt collection practices."

The CFPB's proposed order names National Corrective Group, a privately-held, California-based corporation that operates nationwide and specializes in the collection of consumer debt for bounced checks. The order also includes several related entities that purchased all of the contracts and assets of National Corrective Group and took over its operation during the course of the CFPB investigation. These companies are Victim Services Inc. and American Justice Solutions, Inc. Together, these companies operate one of the largest bad check diversion programs in the United States. Mats Jonsson, National Corrective Group's Chief Executive Officer, is the senior company executive in charge of the daily operations of its bad check diversion programs and continues to operate Victim Services Inc. and American Justice Solutions, Inc.

State and district attorneys' offices often offer diversion programs to people accused of writing bad checks as a way for the individuals to avoid criminal prosecution. Many bad check diversion programs are run by companies that enter into contracts with state and local prosecutors' offices to collect bounced check debt. Under the law, a company operating a bad check diversion program cannot contact a consumer about the program until a prosecutor's office has reviewed the case and determined the consumer is eligible. The law also requires these companies to inform consumers of certain rights, including their right to dispute allegations of bad check violations.

The CFPB alleges that National Corrective Group deceived consumers by sending them notices on prosecutors' letterheads and creating the false impression that consumers may be prosecuted for writing bounced checks. However, the letters went to consumers before any district attorney had determined prosecution was likely. Consumers were told by the company that to qualify for the diversion program and avoid prosecution



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they must pay the bounced check debts as well as enroll in the company's financial education class for an additional fee. The cost of the financial education classes were typically around \$200, which was often several times the amount of the alleged bad check debt.

Specific violations alleged in the CFPB's complaint include:

- **Masquerading as state or district attorneys:** The CFPB complaint alleges that the National Corrective Group created a false impression for consumers that its communications were from a state or district attorney's office. The company sent letters on prosecutors' letterheads that appeared to be signed by the state or district attorney. The telephone numbers and mailing addresses that the company provided to consumers linked directly to its corporate offices, even though the letters indicated that the consumer would be contacting the district attorney's office.
- **Intimidating consumers with false threats of criminal charges:** Under the law, government prosecutors must make the determination to pursue a potential bad check violation. The Bureau alleges that National Corrective Group sent collection letters to consumers on prosecutors' letterheads threatening criminal prosecution before district or state attorneys had even examined whether a criminal violation may have occurred, and whether participation in the diversion program was appropriate. In fact, the CFPB alleges that less than one percent of consumers who received final warning letters stating that their case was being forwarded for possible criminal prosecution were ever even referred to the prosecutor's office for possible prosecution. The Bureau alleges that the company also threatened possible criminal prosecution where the amount of the debt was so low that criminal action would rarely or never occur.
- **Deceiving consumers into paying extra fees for costly financial education class:** According to the Bureau's complaint, the National Corrective Group deceived consumers into believing that they must pay to enroll in a financial education class in order to avoid possible criminal prosecution for writing a bad check. In reality, consumers are not typically at risk of prosecution, which rarely, if ever, occurs.

Enforcement Action

The CFPB alleged that the defendants violated the Fair Debt Collection Practices Act (FDCPA). Among other things, the FDCPA prohibits making misrepresentations to or deceiving consumers. The CFPB also alleged that the defendants violated the Dodd-Frank Wall Street Reform and Consumer Protection Act, which prohibits deceptive acts or practices in the consumer financial marketplace. If entered by the court, today's order would:

- **End deceptive communications to consumers:** The order would prohibit the companies from stating or implying that they are a state or district attorney. The order would also require that the companies clearly disclose the company name in communications with consumers.
- **Prohibit threats of imprisonment and other intimidation tactics:** The order would require that the companies stop falsely representing to consumers that failure to pay a debt or enter the bad check diversion program will result in arrest or imprisonment. It would also require the companies to disclose to consumers that the prosecutor's office has not made a decision about whether to charge the consumer with a crime and that many cases are never prosecuted.
- **Prohibit use of district attorney letterhead:** The order would ban the

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companies from using district attorneys' letterheads or duplicating their signatures for their communications to consumers. The operation would also be required to clearly state that the diversion program is voluntary.

- **Require increased program oversight:** The order would prohibit companies from contacting consumers about a diversion program unless the operation is under the supervision of a state or district attorney's office and the office has reviewed and provided written confirmation to the company that there is reason to believe the individual being contacted violated the law.
- **Pay a \$50,000 civil money penalty:** The proposed order requires the companies and Jonsson to pay a \$50,000 civil penalty. The poor financial condition of the companies and Jonsson make them unable to pay a greater sum.

The CFPB complaint is available here:

http://files.consumerfinance.gov/f/201503_cfpb_complaint-national-corrective-group.pdf

The proposed order is available here:

http://files.consumerfinance.gov/f/201503_cfpb_proposed-order-national-corrective-group.pdf

The Bureau's complaints and consent orders are not findings or rulings that the defendant has actually violated the law.

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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 consumerfinance.gov.



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