



Press Release

CFPB Orders Navy Federal Credit Union to Pay \$28.5 Million for Improper Debt Collection Actions

Credit Union Used False Threats to Collect Debts and Placed Unfair Restrictions on Account Access

OCT 11, 2016

WASHINGTON, D.C. – Today the Consumer Financial Protection Bureau (CFPB) took action against Navy Federal Credit Union for making false threats about debt collection to its members, which include active-duty military, retired servicemembers, and their families. The credit union also unfairly restricted account access when members had a delinquent loan. Navy Federal Credit Union is correcting its debt collection practices and will pay roughly \$23 million in redress to victims along with a civil money penalty of \$5.5 million.

“Navy Federal Credit Union misled its members about its debt collection practices and froze consumers out from their own accounts,” said CFPB Director Richard Cordray. “Financial institutions have a right to collect money that is due to them, but they must comply with federal laws as they do so.”

Navy Federal Credit Union is a federal credit union based in Vienna, Va. As a credit union, it offers a wide range of consumer financial products and services, including deposit accounts and loans. Membership in the credit union is limited to consumers who are, or have been, U.S. military servicemembers, Department of Defense civilian employees or contractors, government employees assigned to Department of Defense installations, and their immediate family members. It is the largest credit union in the country, with more than \$73 billion in assets as of December 2015.

The CFPB investigation found that Navy Federal Credit Union deceived consumers to get them to pay delinquent accounts. The credit union falsely threatened severe actions when, in fact, it seldom took such actions or did not have authorization to take them. The credit union also cut off members’ electronic access to their accounts and bank cards if they did not pay overdue loans. Hundreds of thousands of consumers were affected by these practices, which occurred between January 2013 and July 2015. The practices violated the Dodd-Frank Wall Street Reform and Consumer Protection Act. Specifically, the CFPB found that Navy Federal Credit Union:

- **Falsely threatened legal action and wage garnishment:** The credit union sent letters to members threatening to take legal action unless they made a payment. But in reality, it seldom took any such actions. The CFPB found that the credit union’s message to consumers of “pay or be sued” was inaccurate about 97 percent of the time, even among consumers who did not make a payment in response to the letters. The credit union’s representatives also called members with similar verbal threats of legal action. And the credit union threatened to garnish wages when it had no intention or authority to do so.
- **Falsely threatened to contact commanding officers to pressure servicemembers to repay:** The credit union sent letters to dozens of servicemembers threatening that the credit union would contact their commanding officers if they did not promptly make a payment. The credit union’s representatives also communicated these threats by telephone. For members of the military, consumer credit problems can result in disciplinary proceedings or lead to revocation of a security clearance. The credit union was not authorized and did not intend to contact the servicemembers’ chains of command about the debts it was attempting to collect.
- **Misrepresented credit consequences of falling behind on a loan:** The credit union sent about 68,000 letters to members misrepresenting the credit consequences of falling

behind on a Navy Federal Credit Union loan. Many of the letters said that consumers would find it “difficult, if not impossible” to obtain additional credit because they were behind on their loan. But the credit union had no basis for that claim, as it did not review consumer credit files before sending the letters. The credit union also misrepresented its influence on a consumer’s credit rating, implying that it could raise or lower the rating or affect a consumer’s access to credit. As a furnisher, the credit union could supply information to the credit reporting companies but it could not determine a consumer’s credit score.

- **Illegally froze members’ access to their accounts:** The credit union froze electronic account access and disabled electronic services for about 700,000 accounts after consumers became delinquent on a Navy Federal Credit Union credit product. This meant delinquency on a loan could shut down a consumer’s debit card, ATM, and online access to the consumer’s checking account. The only account actions consumers could take online would be to make payments on delinquent or overdrawn accounts.

Enforcement Action

Pursuant to the Dodd-Frank Act, the CFPB has the authority to take action against institutions or individuals engaging in unfair or deceptive acts or practices or that otherwise violate federal consumer financial laws. Under the terms of the order, Navy Federal Credit Union is required to:

- **Pay victims \$23 million:** The credit union is required to pay roughly \$23 million in compensation to consumers who received threatening letters. Most will be eligible for redress if they received one of the deceptive debt collection letters and they made a payment to the credit union within 60 days of that letter. In addition, all consumers who received the letter threatening to contact their commanding officer will receive at least \$1,000 in compensation. The credit union will contact consumers who are eligible for compensation.
- **Correct debt collection practices:** The credit union must create a comprehensive plan to address how it communicates with its members about overdue debt. This includes refraining from any misleading, false, or unsubstantiated threats to contact a consumer’s commanding officer, threats to initiate legal action, or misrepresentations about the credit consequences of falling behind on a Navy Federal Credit Union loan.
- **Ensure consumer account access:** Navy Federal Credit Union cannot block its members from accessing all their accounts if they are delinquent on one or more accounts. The credit union must implement proper procedures for electronic account restrictions.
- **Pay a \$5.5 million civil money penalty:** Navy Federal Credit Union is required to pay a penalty of \$5.5 million to the CFPB’s Civil Penalty Fund.

The Navy Federal Credit Union consent order can be found at:

http://files.consumerfinance.gov/f/documents/102016_cfpb_NavyFederalConsentOrder.pdf



The CFPB advises all servicemembers to know their rights when a debt collector calls. They should know that a debt collector can’t tell their chain of command that they owe a debt, threaten them with prosecution under the Uniform Code of Military Justice, or threaten to revoke their security clearance. More information, including how to access sample letters to respond to a debt collector, is available at: <http://files.consumerfinance.gov/f/CFPB-Servicemembers-Know-Your-Rights-Handout-Debt-Collection.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 consumerfinance.gov .

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