JDJournal

Senate Nixes Rule That Allows Consumers to Sue Banks and Credit Card Companies

Summary: The Senate has voted to end the CFPB rule that barred mandatory arbitration clauses from financial companies.

This week, the Republican-majority Senate voted to remove a rule that allowed consumers to bring class-action lawsuits against banks and credit card companies. The vote was narrowly passed 51-50 with Vice President Mike Pence casting the tie-breaking vote, according to *NPR*.

Starting in July, the Consumer Financial Protection Bureau had a rule that banned restrictive mandatory arbitration clauses in the fine print of credit card and financial account agreements. However, on Tuesday, the Senate voted to get rid of it. Without mandatory arbitration agreements, consumers were able to file class-action lawsuits against financial institutions to resolve disputes.

The House of Representatives, which is also GOP-controlled, has already voted yes on rescinding the rule, and President Donald Trump is scheduled to sign off on the measure soon. As part of the vote, no similar rules will be allowed in the future.

The rule was released in July, and its purpose was to give consumers more power. The CFPB said that banning mandatory arbitration clauses prevented companies from avoiding refunds and continuing harmful practices. CFPB Director Richard Cordray told *NPR* that "Wall Street won and ordinary people lost."

"Tonight's vote is a giant setback for every consumer in this country," Cordray said. "As a result, companies like Wells Fargo and Equifax remain free to break the law without fear of legal blowback from their customers."

The CFPB rule was a result of a study about arbitration agreements that was created after the Trump administration had tried to dismantle the 2010 Dodd-Frank financial reform legislation earlier this year. Dodd-Frank was signed into effect during the Obama administration as a response to the 2007-2008 recession, and it regulated the financial industry.

Republicans pushed to repeal Dodd-Frank because they believe regulations hurt the free market. White House press secretary Sarah Huckabee Sanders said the CFPB's rule "would harm our community banks and credit unions by opening the door to frivolous lawsuits by special interest trial lawyers."

Democrats disagreed, stating the rule was needed to stop banks and credit card companies from abusive practices and forcing individuals to fight by themselves for refunds.

"This rule helped ensure that consumers are not forced to forfeit their rights in settling disputes with big banks and other financial firms and served as a powerful tool for consumers to hold financial institutions accountable," Democratic Sen. Maggie Hassan said to *Business Insider*.

The financial industry said that the CFPB rule encouraged lawyers to shake down companies, raising costs which in turn were put on consumers.

"Now, arbitration is a widely accepted method of resolving disputes between consumers and banks and other financial institutions," GOP Sen. John Cornyn said. "And it actually increases the benefit that flows to the consumer, as opposed to the alternative, which is class-action lawsuits, which enriches lawyers where consumers get pennies on the dollar."

- How Does the Navient Student Loan Scandal Effect You?
- Wells Fargo Caught Creating Millions of Fake Accounts to Collect Fees

What do you think of the CFPB rule? Let us know in the comments below.