

Enforcement Alert from Hudson Cook, LLP: CFPB Fines Large National Bank \$100 Million For Failing to Properly Disburse State Unemployment Benefits During the Height of Pandemic

July 19, 2022 | [Michael A. Goodman](#)

HIGHLIGHTS:

- The CFPB settled allegations that a large national bank unlawfully froze consumers' benefit accounts as a result of an inaccurate fraud detection program that made it difficult for people to unfreeze their accounts to receive their unemployment benefits.
- The bank neither admitted nor denied the allegations, but the consent order provides restitution and consequential damages to consumers who were wrongly denied access to unemployment benefits due to the fraud filter and requires the bank to pay a \$100 million civil penalty to the CFPB. The OCC separately fined the bank \$125 million to be remitted to the Treasury.

CASE SUMMARY

On July 14, 2022, the CFPB announced a consent order against a large national bank, settling allegations that the bank had "unlawfully frozen" consumers' accounts due to an overbroad fraud filter for prepaid debit cards, including unemployment insurance benefits, in violation of the Consumer Financial Protection Act (CFPA) and the Electronic Fund Transfer Act (EFTA).

The bank "has contracts with various state agencies to electronically deliver unemployment and other benefit payments to consumers through prepaid debit cards and accounts." When the COVID-19 pandemic spread in early 2020, the bank saw an increase in claims for unemployment insurance benefits and an increase in identity theft that affected legitimate account holders seeking those benefits.

The Bureau found that, despite the increase in identity theft, the bank replaced its investigation of consumers' notices of error with a fraud filter that inaccurately and automatically flagged accounts triggering account freezes. According to the Bureau, the bank acted unfairly by freezing the accounts solely on the results of the fraud filter. Further, the Bureau alleged that the bank engaged in unfair acts by impeding consumers'

"efforts to file notices of error concerning their prepaid debit accounts." Consumers could not unfreeze their benefit accounts or report fraudulent use online or in person at the bank branches. Additionally, when consumers sought assistance, the Bureau stated that the bank often sent consumers back to the State Unemployment Department. According to the Bureau, the bank should have known it was essentially redirecting consumers into a black hole because of how backlogged the department was.

The bank did not admit or deny these allegations. To resolve the matter, it agreed to a five-year consent order requiring the bank to create a compliance plan to provide redress to consumers nationwide. The order requires the bank to provide each affected consumer with a lump consequential harm payment and an opportunity to receive additional redress through a review process. It also requires the bank to pay a \$100 million civil penalty to the CFPB. The OCC separately fined the bank \$125 million to be remitted to the Treasury.

RESOURCES:

You can review all of the relevant court filings and press releases at the [CFPB's Enforcement Page](#).

- [Consent Order](#)
- [CFPB Press Release](#)

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7037 Ridge Road, Suite 300, Hanover, Maryland 21076
410.684.3200

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