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CFPB Sues Sprint for Cramming Consumers with Unauthorized Third-Party Charges



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Sprint Ignored Complaints from Consumers and Cost Them Tens of Millions of Dollars

WASHINGTON, D.C. — Today, the Consumer Financial Protection Bureau filed a lawsuit against Sprint Corporation for illegally billing wireless consumers tens of millions of dollars in unauthorized third-party charges. The Bureau’s complaint alleges that Sprint operated a billing system that allowed third parties to “cram” unauthorized charges on customers’ mobile-phone accounts and ignored complaints about the charges. The CFPB seeks refunds for affected consumers and penalties to deter unauthorized third-party charges in the future.

“Today we are suing Sprint for allowing illegal charges to be crammed onto consumers’ wireless bills,” said CFPB Director Richard Cordray. “Consumers ended up paying tens of millions of dollars in unauthorized charges, even though many of them had no idea that third parties could even place charges on their bills. As the use of mobile payments grows, we will continue to hold wireless carriers accountable for illegal third-party billing.”

Consumers use mobile phones to purchase an array of digital products, such as apps, games, books, movies, and music. Wireless carriers collect and process payments for these purchases and control the networks connecting merchants and customers. From about 2004 through 2013, nearly all wireless third-party billing involved products called “premium text messages” or “premium short messaging services” (PSMS) because they were frequently delivered by text messages. Sprint outsourced payment processing for these digital purchases to vendors called “billing aggregators” without properly monitoring them.

The lack of oversight gave aggregators near unfettered access to consumers’ wireless accounts. Sprint’s system attracted and enabled unscrupulous merchants who, in some cases, only needed consumers’ phone numbers to cram illegitimate charges onto wireless bills. The charges ranged from one-time fees of about \$0.99 – \$4.99 to monthly subscriptions that cost about \$9.99 a month. Sprint received a 30-40 percent cut of the gross revenue from these charges.

Most consumers were targeted online. Consumers clicked on ads that brought them to websites asking them to enter their cellphone numbers. Some merchants tricked consumers into providing their cellphone numbers to receive “free” digital content and then charged for it. Many others simply placed fabricated charges on bills without delivering any goods or communicating with consumers.

The Bureau is alleging that Sprint, as a payment processor for third parties, violated the

Photos and bios



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Dodd-Frank Wall Street Reform and Consumer Protection Act's prohibition on unfair practices by:

- **Allowing third-parties to illegally charge consumers:** Sprint's billing system made it easy for third-party scammers to attach charges to consumers' bills. Sprint profited from these illegitimate charges, while millions of consumers were victimized by them.
- **Automatically billing consumers for illegitimate charges without their consent:** Sprint did not let customers opt in to third-party billing. Instead, the company automatically enrolled customers without their consent. This policy helped perpetuate the wrongdoing because many customers did not spot unauthorized charges, as they were unaware that third parties could place charges on their bills.
- **Disregarding red flags about third parties:** Sprint disregarded red flags showing that its system was a breeding ground for unauthorized charges. Sprint continued to outsource to billing aggregators despite lawsuits about cramming against the very same aggregators that Sprint used. In addition, Sprint should have known that cramming was a major problem as the company had already been subject to a law enforcement action related to the issue.
- **Ignoring consumer complaints about unauthorized charges:** Sprint failed to track customer complaints about unauthorized charges, and as a result, lacked the most basic alert mechanism that could have revealed flaws in its monitoring systems. Sprint also failed to provide full and prompt remediation to consumers subjected to these charges. In some instances, Sprint refused to provide refunds and only offered instructions on how to block future third-party charges. Other times, Sprint refused to provide refunds and referred customers to the merchants.

As a result, Sprint's wireless customers – many of whom did not know that third parties could place charges on their bills – incurred millions of dollars in illegitimate charges. Sprint, in contrast, profited handsomely from its system, collecting hundreds of millions of dollars in revenue, according to the Bureau's complaint. Sprint terminated premium short messaging services billing in December 2013.

The CFPB worked in close coordination with the Federal Communications Commission and received valuable assistance from its Enforcement Bureau in this matter.

The Bureau's complaint is not a finding or ruling that the defendant has violated the law.

A copy of the Bureau's complaint can be found at:

http://files.consumerfinance.gov/f/201412_cfpb_cfpb-v-sprint-complaint.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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