

***Testimony  
Of  
F. Paul Bland, Jr.\*  
Staff Attorney  
Public Justice***

***DOMESTIC POLICY SUBCOMMITTEE  
OVERSIGHT AND GOVERNMENT REFORM COMMITTEE***

***Wednesday, July 22, 2009  
2154 Rayburn HOB  
2:00 p.m.***

***“Arbitration” or ‘Arbitrary’: The Misuse of Arbitration to Collect  
Consumer Debts***

---

\* F. Paul Bland, Jr., is a Staff Attorney for Public Justice, where he handles precedent-setting complex civil litigation. He has argued or co-argued and won nearly twenty reported decisions from federal and state courts across the nation, including cases in the U.S. Courts of Appeal for the Third, Fourth, Fifth, Eighth and Ninth Circuits, and in the high courts of California, Florida (two cases), Maryland (five cases), New Mexico (two cases), Washington (two cases), and West Virginia. He is a co-author of a book entitled *Consumer Arbitration Agreements: Enforceability and Other Issues*, and numerous articles. For three years, he was a co-chair of the National Association of Consumer Advocates. He was named Maryland Trial Lawyer of the Year in 2009, and in 2006 he was named the “Vern Countryman” Award winner in 2006 by the National Consumer Law Center, which “honors the accomplishments of an exceptional consumer attorney who, through the practice of consumer law, has contributed significantly to the well being of vulnerable consumers.” He also has won the San Francisco Trial Lawyer of the Year in 2002 and Maryland Trial Lawyer of the Year in both 2001 and 2009. Prior to coming to Public Justice, he was in private practice in Baltimore. In the late 1980s, he was Chief Nominations Counsel to the U.S. Senate Judiciary Committee. He graduated from Harvard Law School in 1986 and Georgetown University in 1983.



## INTRODUCTION AND SUMMARY

For more than ten years, I and other attorneys at Public Justice have spoken to hundreds if not thousands of consumers and consumer attorneys about their experiences arbitrating consumer debts before the National Arbitration Forum (NAF). Consumers and attorneys approaching us for help, or reporting to us on their experiences, have repeatedly reported widespread abuses throughout the NAF system that raise serious doubts about the trustworthiness of the private dispute resolution system that has been increasingly replacing the constitutional civil justice system.

Pursuant to consent decree with the Attorney General of Minnesota, NAF has just announced that it is withdrawing from the business of consumer debt collection. While NAF has publicly stated that it was innocent of any wrongdoing and is just a victim of overzealous pursuit by the Minnesota Attorney General and consumer lawyers, the hard facts establish that NAF pursued the business of debt collection arbitrations by cultivating relationships with and the favor of creditors, fundamentally to the detriment of consumers.

The troubling practices in which the NAF engaged may well reappear before too long (perhaps with some of the same persons operating under some different institutional name). So long as there is money to be made in debt collection arbitrations, arbitration providers will try to make it, even if their efforts mean that consumers are deprived of fair hearings.

This testimony will address the following issues:

1. The collection industry's use of mandatory binding arbitration before the National Arbitration Forum to collect consumer debts; and
2. Concerns about systemic irregularities and abuses that are prevalent in the National Arbitration Forum's debt collection arbitrations.

## **BACKGROUND ON PUBLIC JUSTICE**

Public Justice (formerly Trial Lawyers for Public Justice) is a national public interest law firm dedicated to using trial lawyers' skills and resources to advance the public good. We specialize in precedent-setting and socially significant litigation, carrying a wide-ranging docket of cases designed to advance the rights of consumers and injury victims, environmental protection and safety, civil rights and civil liberties, occupational health and employee rights, protection of the poor and the powerless, and overall preservation and improvement of the civil justice system.

Public Justice was founded in 1982 and is currently supported by more than 3,000 members around the country. More information on Public Justice and its activities is available on our web site at <http://www.publicjustice.net>. Public Justice does not lobby and generally takes no position in favor of or against specific proposed legislation. We do, however, respond to informational requests from legislators and persons interested in legislation, and have occasionally been invited to testify before legislative and administrative bodies on issues within our expertise. In keeping with that practice, we are grateful for the opportunity to share our experience with respect to the important issues this Committee is considering today. In this connection, we have extensive

experience with respect to abuses of mandatory arbitration, having litigated (often successfully) a large number of challenges to abuses of mandatory arbitration in state and federal courts around the nation.

**I. COMPANIES COLLECTING CONSUMER DEBTS HAVE A SYMBIOTIC RELATIONSHIP WITH THE NATIONAL ARBITRATION FORUM**

When debt buyers and credit card companies have been unable to collect on a debt, they commonly turn to binding mandatory arbitration before NAF to effect collection of the debt. The relationship between NAF and creditors begins with the credit card contract: credit card companies draft the contract, which includes a clause requiring consumers to arbitrate their disputes—usually before a specific arbitration provider—rather than sue in court. Most credit-card issuers include these mandatory arbitration clauses in their contracts.<sup>1</sup>

NAF, far more so than the two other major players in the arbitration industry, the American Arbitration Association (AAA) and JAMS, has financial interests strongly aligned with credit card companies and debt collectors. Indeed, a recent lawsuit brought by the Minnesota Attorney General against NAF charges that these financial ties run deep: it alleges that NAF “is financially affiliated with a New York hedge fund group that owns one of the country’s major debt collection enterprises” and that NAF conceals this relationship from consumers.<sup>2</sup> Even before this lawsuit brought the shared ownership between NAF and debt collectors into the light, however, the impropriety of NAF’s financial relationship with debt collectors was perfectly clear. In 2008, CNN’s personal finance editor called NAF “the folks who are the worst actors in this industry,”<sup>3</sup>

and the Wall Street Journal observed that, more than other arbitration providers, NAF works with a handful of large companies, and a “significant percentage of its work includes disputes involving consumers, rather than disputes between businesses.”<sup>4</sup> In contrast, AAA and JAMS arbitrate more employment disputes and contractual disputes between companies.<sup>5</sup>

As a result of NAF’s focus on consumer debt, NAF receives substantial fees from its creditor and debt collector clients. For example, First USA Bank disclosed in court filings that it had paid NAF at least \$5 million in fees between 1998 and 2000. During that same period, First USA won 99.6% of its 50,000 collection cases before NAF.<sup>6</sup> While advocates for banks invoke the possibility that the bank could have been equally successful in court, “[m]aybe, however, the millions of dollars it paid the NAF in fees tend to produce overwhelmingly favorable results.”<sup>7</sup> In sharp contrast, it would be shocking for a public court to be so financially dependent on a litigant appearing before it.

Among America’s major arbitration providers, NAF also has the dubious distinction of most aggressively marketing itself to credit card companies and debt collectors.<sup>8</sup> While NAF trumpets itself to the public as fair and neutral, “[b]ehind closed doors; NAF sells itself to lenders as an effective tool for collecting debts.”<sup>9</sup> In its solicitations and advertising, NAF “has overtly suggested to lenders that NAF arbitration will provide them with a favorable result.”<sup>10</sup> Business Week revealed one of the most shocking examples of NAF marketing to debt collectors when it described a September, 2007, PowerPoint presentation aimed at creditors—and labeled “confidential”—that

promises “marked increase in recovery rates over existing collection methods.”<sup>11</sup> The presentation also “boasts that creditors may request procedural maneuvers that can tilt arbitration in their favor. ‘Stays and dismissals of action requests available without fee when requested by Claimant—allows claimant to control process and timeline.’”

Speaking on condition of anonymity, an NAF arbitrator told BusinessWeek that these tactics allow creditors to file actions even if they are not prepared, in that “[i]f there is no response [from the debtor], you’re golden. If you get a problematic [debtor], then you can request a stay or dismissal.”<sup>12</sup> Business Week also highlighted another disturbing NAF marketing tactic: NAF “tries to drum up business with the aid of law firms that represent creditors.” Neither AAA nor JAMS cooperate with debt-collection law firms in such a manner.<sup>13</sup>

NAF has an arsenal of other ways of letting potential clients know that NAF can immunize them against liability. In one oft-cited example, an NAF advertisement depicts NAF as “the alternative to the million-dollar lawsuit.”<sup>14</sup> Additionally, NAF sends marketing letters to potential clients in which it “tout[s] arbitration as a way of eliminating class action lawsuits, where thousands of small claims may be combined . . . . [Class actions] offer a means of punishing companies that profit by bilking large numbers of consumers out of comparatively small sums of money.”<sup>15</sup> NAF’s marketing letters also urge potential clients to contact NAF to see “how arbitration will make a positive impact on the bottom line” and tell corporate lawyers that “[t]here is no reason for your clients to be exposed to the costs and risks of the jury system.”<sup>16</sup> Finally, in an interview with a magazine for in-house corporate lawyers, NAF’s managing director Anderson

once boasted that NAF had a “loser pays” rule requiring non-prevailing consumers to pay the corporation’s attorney’s fees.<sup>17</sup>

NAF’s practices in another dispute resolution arena—that of internet domain name disputes—further demonstrate NAF’s willingness to suggest to potential clients that it will decide in their favor. In this area of its business, NAF issues press releases that laud its arbitrators’ rulings in favor of claimants. These press releases, which feature headlines such as “Arbitrator Delivers Internet Order for Fingerhut” and “May the Registrant of magiceightball.com Keep the Domain . . . Not Likely,” “do little to engender confidence in the neutrality of the NAF.” The other two domain name dispute arbitration providers do not issue such press releases.<sup>18</sup>

## **II. NAF’S ARBITRATIONS ARE RIFE WITH SYSTEMIC IRREGULARITIES AND OVERSIGHTS THAT DENY THE VAST MAJORITY OF CONSUMERS A FAIR HEARING**

In September 2007, Public Citizen issued a report analyzing data from NAF consumer arbitrations in California. This report found that, out of the more than 19,000 cases between January 1, 2003, and March 31, 2007, creditors won 94% of the time.<sup>19</sup> In response, some proponents of NAF arbitration have argued that the win rate for creditors is wholly reasonable because so many cases are defaults, where the consumer fails to respond to the notice of arbitration. One arbitrator, for example, said that “[b]ecause they’re defaults, the power of the arbitrator is such that *you have no choice* as long as the parties have been informed.”<sup>20</sup> In our experience and that of many other consumer lawyers and consumers with whom we’ve spoken, this NAF arbitrator’s approach is



normal and typical of that of nearly all NAF arbitrators. The arbitrator's words are revealing: they suggest that an arbitrator is *compelled* to enter an award for the creditor in the full amount of whatever the creditor claims in the event of a default. In court, however, creditors do not automatically win in the event of a default. Instead, in a properly functioning legal system, a creditor winning a default still should be required to produce evidence that the consumer actually owed the debt, and the creditor still should be required to produce some evidence to verify the amount owed. Any other approach invites abuse – since the vast majority of consumers predictably default, if no proof is required, creditors will be rewarded for adding on imaginary or inflated claims. NAF arbitrators, in contrast to many courts, have demonstrably and notoriously unquestionably accepted creditors' assertions at face value in many tens of thousands of cases, without requiring any proof, breakdown or verification whatsoever, and awarding 100% of the sum demanded.

Another key distinction between collection cases before NAF and in court is the manner in which the decision maker is selected. This section will detail these differences between collection cases before NAF and in court, and then it will describe the experiences of consumer attorneys representing clients in NAF arbitrations.

#### **A. NAF's Procedures for the Selection and Retention of Arbitrators Are Kept Secret and Favor Creditors**

Under NAF Rule 21(c), either party to the arbitration gets one chance to strike a potential arbitrator without cause: “the Forum shall submit one Arbitrator candidate to all

Parties making an Appearance. A Party making an Appearance may remove one Arbitrator candidate by filing a notice of removal within ten (10) days from the date of the notice of Arbitrator selection.” Any subsequently appointed arbitrators can be disqualified for bias under NAF Rule 23.

This rule, however, omits a key aspect of NAF’s arbitrator selection process: *how arbitrators are assigned to a case in the first place*. NAF keeps that crucial bit of information secret, and there is reason to believe that the selection is not random. On its website, NAF boasts that it has a total of more than 1,500 arbitrators in all 50 states, but that statistic has little significance if the vast majority of cases are steered to a small number of persons. (NAF has also been known to falsely state in court filings that certain lawyers, law professors, and former judges are NAF arbitrators when in fact they are not.<sup>21</sup>) Indeed, a large body of information establishes that NAF intentionally funnels the vast majority of cases to a very small group of selected arbitrators. The evidence further establishes that the major repeat players are more likely to decide cases in favor of creditors. In contrast, those arbitrators who rule for consumers are blackballed, meaning that they are no longer assigned to cases. In effect, this system gives credit card companies and debt buyers an additional strike, since arbitrators to whom they object would never be assigned to their cases in the first instance.

Data provided by the NAF pursuant to California Code of Civil Procedure § 1281.96, which requires arbitration providers to disclose certain information about their arbitrations, reveal that a tiny number of NAF arbitrators decide a disproportionate number of cases. The Center for Responsible Lending recently analyzed this data and

reached two startling conclusions: (a) companies that arbitrate more cases before certain arbitrators consistently get better results from those arbitrators, and (b) individual arbitrators who favor creditors over consumers get more cases in the future.<sup>22</sup> Similarly, the Christian Science Monitor analyzed one year of data and found that NAF's ten most frequently used arbitrators—who were assigned by NAF to decide nearly three out of every five cases—ruled for the consumer only 1.6% of the time. In contrast, arbitrators who decided three or fewer cases during that year found in favor of the consumer 38% of the time.<sup>23</sup> Likewise, Public Citizen's analysis found that one particular arbitrator, Joseph Nardulli, handled 1,332 arbitrations and ruled for the corporate claimant 97% of the time. On a single day—January 12, 2007—Nardulli signed 68 arbitration decisions, giving debt holders and debt buyers every cent of the nearly \$1 million that they demanded.<sup>24</sup> If Nardulli worked a ten-hour day on January 12, 2007, he would have averaged one decision every 8.8 minutes. Busy arbitrators like Nardulli are well-compensated for workdays like this one—as one former NAF arbitrator noted, “I could sit on my back porch and do six or seven of these cases a week and make \$150 a pop without raising a sweat, and that would be a very substantial supplement to my income . . . . I'd give the [credit-card companies] everything they wanted and more just to keep the business coming.”<sup>25</sup>

Further evidence of NAF's propensity for steering arbitrations to those arbitrators who will rule in favor of its clients comes from outside of the consumer realm. In addition to handling consumer debt collection cases, NAF has also handled a large number of internet domain name disputes. A study of its handling of those cases

demonstrates the same patterns NAF has displayed in consumer cases: it curries favor with the party which selects the arbitrator, it determines which of the arbitrators on its panel will favor the party which selects them, and it funnels nearly all of its cases to those arbitrators. Law professor Michael Geist observed that, in domain name arbitrations, NAF's "case allocation appears to be heavily biased toward ensuring that a majority of cases are steered toward complainant-friendly panelists. Most troubling is data which suggests that, despite claims of impartial random case allocation as well as a large roster of 131 panelists, the majority of NAF single panel cases are actually assigned to little more than a handful of panelists."<sup>26</sup> Professor Geist went on to note that "an astonishing 53% of all NAF single panel cases . . . were decided by only six people," and the "complainant winning percentage in those cases was an astounding 94%." Importantly, neither of the other two domain name arbitration services had such a skewed caseload. Like aggressive advertising to potential clients, this method of attracting business is unique to NAF.

The second component of NAF's business-friendly system of arbitrator selection is its documented blackballing of arbitrators who dared to rule in favor of consumers. Harvard law professor Elizabeth Bartholet went public with her concerns that, after she awarded a consumer \$48,000 in damages, NAF removed her from 11 other cases, all of which involved the same credit card company, on the credit card company's objection. As Bartholet described her experience to BusinessWeek, "NAF ran a process that systematically serviced the interests of credit card companies."<sup>27</sup> Bartholet told the Minneapolis Star-Tribune that "[t]here's something fundamentally wrong when one side

has all the information to knock off the person who has ever ruled against it, and the little guy on the other side doesn't have that information. . . .That's systemic bias.”<sup>28</sup> Another deeply troubling element of Bartholet's experience comes from how NAF explained Bartholet's removal from her cases to the parties in those cases. NAF sent letters to the parties stating that “due to a scheduling conflict, the Arbitrator previously appointed is not available to arbitrate the above case.” When Bartholet asked the NAF case administrator about the letters, the administrator “agreed that [Bartholet] was likely being removed simply because of [her] one ruling against the credit card company.” NAF's legal counsel did not deny this explanation.<sup>29</sup>

Similarly, former West Virginia Supreme Court Justice Richard Neely stopped receiving NAF assignments after he published an article accusing the firm of favoring creditors. In that article, Justice Neely lamented that NAF “looks like a collection agency” that depends on “banks and other professional litigants” for its revenue; he described NAF as a “system set up to squeeze small sums of money out of desperately poor people.”<sup>30</sup>

## **B. NAF Arbitrations Deny Consumers Some of the Protections They Would Be Granted in Court Proceedings**

Other aspects of NAF's arbitration practices raise further doubts about the trustworthiness of the process and the ability of consumers to get a fair hearing in arbitration, as compared to the experiences they would have in court. Proponents of arbitration frequently cite to a law review article from 1990 in support of their argument

that consumers in credit-card collection cases fare equally poorly in court as in arbitration.<sup>31</sup> This article, however, predates the explosion of third-party debt buyers and their inability to provide proper evidence to substantiate their claims. Because of the way debt is now sold and resold, for pennies on the dollar, debt buyers frequently lack any meaningful substantiation of their claims and instead put forward “proof” that, because it fails to comport with the rules of evidence, is admissible in NAF arbitrations but would be insufficient in many courts. Before turning to the protections available in court that are absent in NAF proceedings, it is necessary to briefly discuss the rise of the third-party debt buyer industry.

Third-party debt collection, in which debt buyers pay pennies on the dollar for defaulted consumer debt, is a hugely profitable business. Despite the faltering economy, companies that collect and buy consumer debt are flourishing, and the industry’s current revenues of around \$17 billion are expected to increase by six percent each year over the next three years.<sup>32</sup> The industry has already undergone massive growth: in 2005, debt buyers purchased \$66.4 billion worth in credit card debt, up from \$4.4 billion just ten years earlier.<sup>33</sup>

Bad debts are typically sold and resold, at increasingly bargain prices, as new buyers attempt to collect debts that others have given up on. As of 2007, the average price of one dollar in bad credit card debt was 5.3 cents.<sup>34</sup> One debt buyer, Encore Capital Group, recently scored \$5 billion worth of credit card loans from Citibank, Bank of America, and Capital One, for 3 cents on the dollar.<sup>35</sup> One court case offers a telling example of the way consumer debts are tossed from debt buyer to debt buyer: the

successor company to Providian assigned an account to Vision Management Services, which three days later reassigned the account to Great Seneca Financial Corporation. Less than a month later, Great Seneca Financial Corporation assigned the account to Account Management Services, which after four months sold the account to Madison Street Investments. After five months, Madison Street Investments sold the debt to Jackson Capital, and on the same day it received the account, Jackson Capital sold the debt to Centurion.<sup>36</sup> A huge number of debt buyers operate out of an endlessly shifting set of corporate shell entities that come into and go out of business regularly, having the same group of employees making calls on behalf of numerous supposedly separate corporations from the same phones and offices.

Moreover, because these consumer debts are bought and resold so many times, as part of enormous portfolios of debt that are divided up and resold to other buyers who do the same, debt buyers frequently lack adequate documentation of the loan, including the original contract between the consumer and the lender. In the case of credit card debt and arbitrations brought to collect this debt, this lack of documentation means that (a) there is no evidence of the consumer's agreement to arbitrate any disputes that arise between himself and the lender, and (b) there is no evidence of the amount the consumer actually owes. Instead, creditors simply offer a generic form contract and an affidavit stating the amount owed. As will be explained below, these and other practices work enormous harm on consumers who find themselves forced into arbitration over credit card debt.

In NAF arbitrations, creditors frequently attempt to demonstrate the amount allegedly owed by simply producing an affidavit from one of their employees. In many

courts, however, such an affidavit, standing alone, is not sufficient to collect a debt. A number of states require that a creditor seeking to collect on a debt must file a copy of the instrument itself. In Connecticut, for example, Practice Book § 17-25 states that in defaults for a failure to appear, “the affidavit shall state that the instrument is now owned by the plaintiff, and a copy of the executed instrument shall be attached to the affidavit.” Similarly, pursuant to Ohio Civil Rule 10(D), account or written instrument must be attached to the pleading. If the account or written instrument is not attached, the reason for the omission must be stated in the pleading.” Under Florida Rule of Civil Procedure 1.130, “[a]ll bonds, notes, bills of exchange, contracts, accounts, or documents upon which action may be brought or defense made, or a copy thereof or a copy of the portions thereof material to the pleadings, shall be incorporated in or attached to the pleading.” In yet more states, including Georgia, “[w]here records relied upon and referred to in an affidavit are neither attached to the affidavit nor included in the record and clearly identified in the affidavit, the affidavit is insufficient.”<sup>37</sup>

In contrast, in NAF arbitrations concerning debts in Connecticut, Ohio, Florida, and Georgia, the debt collector has no obligation to produce a copy of the original instrument—which is convenient for the debt buyer, since the repeated sale and resale of the debt as part of an enormous package of debts has likely left the debt buyer without any actual evidence or documentation of an individual account. If called upon to produce a contract, the debt buyer will probably present a generic form contract with no evidence that the consumer was ever bound by that particular contract. This issue is particularly relevant in the arbitration context because creditors must demonstrate that the contract



contained an arbitration clause. But because consumer contracts undergo frequent revisions and are often allegedly amended by “bill stuffers,” the version of the contract that the consumer actually received may not have contained the clause.<sup>38</sup>

Even in courts where the debt can be proved using only an affidavit, other basic procedural protections apply in court but can be easily evaded by filing an NAF arbitration instead. For example, some states, including Indiana, Minnesota, and New York, require that sworn pleadings from out-of-state be accompanied by a certificate authenticating the affiant’s authority and courts may reject affidavits submitted without that certificate.<sup>39</sup> NAF arbitrations offer no such protection. Moreover, pursuant to regular rules of evidence, affidavits must be made based on personal knowledge and affirmatively demonstrate that the affiant is competent to testify on the matters contained in the affidavit—a requirement that frequently cannot be met by the debt buyer’s affiant.<sup>40</sup>

### **C. NAF Arbitrations Suffer from a Number of Other Systemic Procedural Irregularities that Raise Doubts About the Trustworthiness of the Process**

Over the years, we have spoken to hundreds of consumers and consumer attorneys about NAF. They have told us, again and again, about how NAF takes creditors’ assertions at face value, without requiring substantiation, resulting in a system that is rigged against consumers. In preparation for this testimony, we have also conducted an informal poll of a large number of consumer attorneys to survey their experiences of procedural irregularities in NAF debt collection arbitrations. Their stories are too

numerous and too lengthy to report in full, but below we offer some examples of common practices in NAF debt collection arbitrations and the names and contact information of attorneys who can have witnessed these practices. These stories, all of which derive from NAF's willingness to enter awards despite lack of substantiation, give rise to serious concerns about the reliability of the private justice system that is quickly replacing American courts.

1. NAF enters awards against individuals who are the victim of identity theft

The numerous stories of individuals who had NAF awards entered against them even though they were victims of identity theft are among the most troubling of all the NAF horror stories: even the briefest impartial review of the creditor's case would reveal that these individuals did not owe the debt that the creditor claimed.<sup>41</sup> The following individuals represent just a few instances of NAF's entering awards against identity theft victims.

Buddy Newsom never had an MBNA credit card account. When he received a document from MBNA about an account in his name, he immediately contacted MBNA to explain that it was not his. Subsequently, Newsom discovered that an employee in his construction business—who was later prosecuted for embezzlement—had opened credit card accounts in his name. Nevertheless, when MBNA initiated an arbitration proceeding, NAF entered an award against Newsom for \$17,759.65, the full amount demanded by MBNA, even though Newsom had objected to arbitration on the ground that there was no account and thus no arbitration agreement. After learning of the award,

Newsom's attorney contacted the arbitrator, who explained that he receives a stack of 40-50 "uncontested" cases from NAF every month, and that Newsom's case was included in that set. The arbitrator simply rubber-stamped Newsom's case with an award for the creditor in the full sum, as he did for all the others. When Newsom's attorney contacted an NAF case manager, he learned that NAF had actually received the information about the identity theft but decided not to forward that information to the arbitrator—because it had been received one day too late.<sup>42</sup>

Six months after Beth Plowman used her MBNA card to pay a hotel bill while on a business trip to Nigeria in 2000, MBNA called her to collect more than \$26,000 spent at sporting goods stores in Europe. Plowman had received no credit card statements during those six months; MBNA told her that "her sister"—Plowman has no sisters—had changed the address on the account to an address in London. Plowman filed an identity theft report with the police and heard nothing more from MBNA. But two years later, a debt collection agency that had purchased the debt from MBNA got an arbitration award against her from NAF.<sup>43</sup>

Troy Cornock received a letter from NAF claiming that he owed money on an MBNA credit card, but he had never signed a credit card agreement or made any charges on the account, which had been opened by his ex-wife. NAF ruled against him anyway.<sup>44</sup> But when MBNA attempted to enforce the NAF award in court, the court granted Cornock's motion for summary judgment, stating that "in the absence of a signed credit card application or signed purchase receipts demonstrating that the defendant used and retained the benefits of the card, the defendant's name on the account, without more, is

insufficient evidence that the defendant manifested assent. . . . To hold otherwise *would allow any credit card company to force victims of identity theft into arbitration*, simply because that person's name is on the account.”<sup>45</sup>

Irene Lieber, who lives on \$759 a month in Social Security disability payments, was hounded by a debt collection agency after her MBNA credit card was stolen. Lieber later received a notice of arbitration from NAF. With the help of a legal services attorney, she asked to see the case against her or for the claim to be dismissed. But Lieber heard nothing until another notice arrived, stating that NAF had issued a \$46,000 award against her.<sup>46</sup>

In addition to all of these stories, several attorneys told us that NAF had entered awards against their clients even though they were the victims of identity theft:

- Joanne Faulkner, Connecticut, 203-772-0395, j.faulkner@snet.net
- Scott Owens, Florida, 954-923-3801, scott@cohenowens.com
- Jane Santoni, Maryland, 410-938-8666, jane@williams-santonilaw.com

2. NAF enters awards even though consumer never received notice of arbitration

NAF's habitual practice of failing to ensure that consumers receive adequate notice of arbitration has been observed by courts asked to confirm arbitration awards as well as by consumer attorneys.

A Connecticut court, for example, denied a debt buyer's motion to confirm an NAF award noting that NAF rules provide “no procedure by which the arbitrator makes any determination of whether the defendant has received actual notice of the demand for arbitration . . . . and if the defendant does not respond in writing to the demand for

arbitration, NAF simply decides the case ‘on the papers.’ This certainly results in a high likelihood that the outcome of the arbitration will be in the defendant’s favor.”<sup>47</sup>

Attorneys frequently reported that NAF entered awards against their client even though the client could affirmatively demonstrate that he or she never received notice of arbitration. New York attorney Kevin Mallon (phone: 212-822-1474; email: [kmallon@lawsuites.net](mailto:kmallon@lawsuites.net)), for example, reported that NAF erroneously insisted that his client had been served with notice of arbitration. The client was able to verify that he had not been served, however, by demonstrating that he had, in fact, been getting married on the day that he allegedly received notice of arbitration. Mallon wrote NAF a letter explaining the lack of proper service, but NAF responded by taking his letter as a substantive response to the creditors’ allegations and entered an award against his client.

California attorney Aurora Harris (phone: 714-288-0202; email: [roraharris@aol.com](mailto:roraharris@aol.com)) noted that an individual in Minnesota is responsible for certifying that notices of arbitration have been sent, even though that certification offers no evidence that the notice of arbitration was actually mailed or that it was sent to the proper address.

Other attorneys who reported that NAF entered awards against their clients despite lack of proper notice of arbitration include:

- Rebecca Covey, Florida, 954-763-4300, [rebeccacovey@lemonadvice.com](mailto:rebeccacovey@lemonadvice.com)
- Angela Martin, North Carolina, 919-708-7477, [martingodawgs@aol.com](mailto:martingodawgs@aol.com)
- Bob Martin, New York, 212-815-1810, [rmartin@dc37.net](mailto:rmartin@dc37.net)
- John Mastriani, Texas, 713-665-1777, [mrmastriani@gmail.com](mailto:mrmastriani@gmail.com)
- Scott Owens, Florida, 954-923-3801, [scott@cohenowens.com](mailto:scott@cohenowens.com)
- Dale Pittman, Virginia, 804-861-6000, [dale@pittmanlawoffice.com](mailto:dale@pittmanlawoffice.com)

- Rich Tomlinson, Texas, 713-627-2100, rtomlinson@houstonconsumerlaw.com

3. NAF enters awards despite the creditor's failure to prove the existence of an arbitration agreement

One of consumer attorneys' most frequent comments about NAF was that NAF routinely entered arbitration awards against their clients in the absence of any reason to believe that the clients had actually agreed to arbitration. One particularly telling example comes from California attorney Aurora Harris (phone: 714-288-0202; email: roraharris@aol.com). NAF had entered an arbitration award when the purported contract between Chase and her client was three illegible pages. Upon closer inspection, Harris realized that the contract supposedly containing the arbitration agreement was actually three unrelated pages from three different contracts, with inconsistent page numbers and overlapping content—and nowhere in those three pages was there actually an arbitration agreement.

Another example comes from Iowa attorney Ray Johnson (phone: 515-224-7090; email: johnsonlaw29@aol.com) who has had clients who could not possibly have agreed to arbitration, because (a) the account was so old that it predated the use of arbitration clause, and (b) the consumer had closed the account before the credit card company amended the contract to add an arbitration provision.

Other attorneys reporting NAF's failure to verify the existence of an arbitration agreement include:

- Craig Jordan, Texas, 214-855-9355, craig@warybuyer.com
- John Mastriani, Texas, 713-665-1777, mrmastriani@gmail.com
- Scott Owens, Florida, 954-923-3801, scott@cohenowens.com

- Dale Pittman, Virginia, 804-861-6000, dale@pittmanlawoffice.com
- Joe Ribakoff, California, 562-366-4715, killerrrib@gmail.com

#### 4. NAF enters awards even though debts are past the statute of limitations

We have spoken to a large number of consumers, and to a number of attorneys, who have reported that NAF arbitrators entered awards against consumer's clients even though the alleged debts were past the statute of limitations. I have seen NAF enter awards in cases that are more than half a dozen years past the statute of limitations.

Some other attorneys who have had this experience include:

- Terry Adler, Michigan, 810-695-0100, lemonadel@sbcglobal.net
- Ray Johnson, Iowa, 515-224-7090, johnsonlaw29@aol.com
- Bob Martin, New York, 212-815-1810, rmartin@dc37.net
- Scott Owens, Florida, 954-923-3801, scott@cohenowens.com

#### 5. NAF enters awards with impermissible fees added on

Several attorneys noted that NAF enters awards that have impermissible junk and attorneys fees added, even when those fees may be prohibited by law.

- Joanne Faulkner, Connecticut, 203-772-0395, j.faulkner@snet.net
- Aurora Harris, California, 714-288-0202; roraharris@aol.com
- Ray Johnson, Iowa, 515-224-7090, johnsonlaw29@aol.com
- Bob Martin, New York, 212-815-1810, rmartin@dc37.net
- Joe Ribakoff, California, 562-366-4715, killerrrib@gmail.com

## CONCLUSION

In all too many cases, American consumers are denied the fair and impartial arbitration that they are promised. Rather than presenting an expedient and just way to

resolve disputes, arbitrations before the NAF have been operating simply as an arm of the debt-collection industry. Even though NAF has now withdrawn from the business of consumer arbitration, the circumstances that allowed NAF to profit from credit card arbitration remain unchanged, and it would be all too easy for another company to start up where NAF left off.



- <sup>1</sup> See Consumers Union, *Best and Worst Credit Cards*, Consumer Reports, Oct. 2007. See also Day to Day, *Marketplace Report: Credit Disputes Favor Companies* (NPR radio broadcast Sept. 28, 2007) (available at 2007 WLNR 19048094) (“[I]t’s often hard to find a credit card that doesn’t make arbitration mandatory.”); Simone Baribeau, *Consumer Advocates Slam Credit-Card Arbitration*, Christian Sci. Monitor, July 16, 2007 (“[I]f you own a credit card, chances are you have a mandatory arbitration clause.”).
- <sup>2</sup> Compl. ¶ 2, *State v. Nat’l Arbitration Forum, Inc.*, (Minn. Dist. Ct. filed July 14, 2009).
- <sup>3</sup> Am. Morning (CNN television broadcast June 6, 2008) (transcript available at <http://transcripts.cnn.com/TRANSCRIPTS/0806/06/ltn.03.html>).
- <sup>4</sup> Nathan Koppel, *Arbitration Firm Faces Questions Over Neutrality*, Wall St. J., Apr. 21, 2008.
- <sup>5</sup> Robert Berner & Brian Grow, *Banks v. Consumers (Guess Who Wins)*, BusinessWeek, June 5, 2008.
- <sup>6</sup> Consumers Union, *Consumer Rights: Give Up Your Right to Sue?* Consumer Reports, May 2000.
- <sup>7</sup> Joseph Garrison, *Is ADR Becoming “A License to Steal”?* Conn. L. Trib., Aug. 26, 2002, at 4.
- <sup>8</sup> See Caroline E. Mayer, *Win Some, Lose Rarely? Arbitration Forum’s Rulings Called One-Sided*, Wash. Post, Mar. 1, 2000, at E1 (“[A]rbitration industry experts say [that] the forum’s business involves more corporate-consumer disputes, in large part because of the company’s aggressive marketing.”). Cf. Michael Geist, *Fair.com? An Examination of the Allegations of Systemic Unfairness in the ICANN UDRP*, 27 Brook. J. Int’l L. 903, 907 (2002) (in analysis of domain name arbitration providers, noting that “[m]arketing techniques clearly illustrate one area of differentiation between providers, with the NAF adopting a far more aggressive approach than the other providers in the marketing of its services”).
- <sup>9</sup> Robert Berner & Brian Grow, *Banks v. Consumers (Guess Who Wins)*, BusinessWeek, June 5, 2008. See also Sean Reilly, *Supreme Court Looks at Arbitration in Alabama Case This Week*, Mobile Reg., Oct. 1, 2000, at A1 (“In marketing letters to potential business clients, [NAF’s] executives have touted arbitration as a way of eliminating class action lawsuits, where thousands of small claims may be combined.”); Sarah Ovaska, *3 Cases Cite Payday Lending: Consumer Groups Say Arbitration Clauses Deny People Recourse to Courts*, News & Observer, Jan. 7, 2007 (“[NAF], which in 2006 resolved \$3 billion worth of claims involving debts and other disputes, has been singled out by consumer advocates, who criticize it for advertising its services to businesses.”).
- <sup>10</sup> Ken Ward, Jr., *State Court Urged to Toss One-Sided Loan Arbitration*, Charleston Gazette & Daily Mail, Apr. 4, 2002, at 5A.
- <sup>11</sup> Robert Berner & Brian Grow, *Banks v. Consumers (Guess Who Wins)*, BusinessWeek, June 5, 2008.
- <sup>12</sup> *Id.*
- <sup>13</sup> *Id.*
- <sup>14</sup> Nadia Oehlsen, *Mandatory Arbitration on Trial*, Credit Card Mgmt., Jan. 1, 2006, at 38.
- <sup>15</sup> Sean Reilly, *Supreme Court Looks at Arbitration in Alabama Case This Week*, Mobile Reg., Oct. 1, 2000, at A1.
- <sup>16</sup> See Caroline E. Mayer, *Win Some, Lose Rarely? Arbitration Forum’s Rulings Called One-Sided*, Wash. Post, Mar. 1, 2000, at E1.
- <sup>17</sup> See *Do An LRA: Implement Your Own Civil Justice Reform Program NOW*, Metropolitan Corp. Counsel, Aug. 2001.
- <sup>18</sup> Michael Geist, *Fair.com? An Examination of the Allegations of Systemic Unfairness in the ICANN UDRP*, 27 Brook. J. Int’l L. 903, 907 (2002).
- <sup>19</sup> Public Citizen, *The Arbitration Trap: How Credit Card Companies Ensnare Consumers* 15 (2007), <http://www.citizen.org/documents/ArbitrationTrap.pdf>.
- <sup>20</sup> Justin Scheck, *Neutral Takes Path from Construction to Credit Cards*, The Recorder, Oct. 2, 2007 (emphasis added).
- <sup>21</sup> This information comes from the declaration of a West Virginia attorney in the case of *McQuillan v. Check ‘N Go of North Carolina*, which Public Justice is happy to provide upon request.
- <sup>22</sup> Joshua M. Frank, Center for Responsible Lending, *Stacked Deck: A Statistical Analysis of Forced Arbitration* (2009), [http://www.responsiblelending.org/credit-cards/research-analysis/stacked\\_deck.pdf](http://www.responsiblelending.org/credit-cards/research-analysis/stacked_deck.pdf).
- <sup>23</sup> Simone Baribeau, *Consumer Advocates Slam Credit-Card Arbitration*, Christian Sci. Monitor, July 16, 2007.
- <sup>24</sup> Public Citizen, *The Arbitration Trap: How Credit Card Companies Ensnare Consumers* 17 (2007), <http://www.citizen.org/documents/ArbitrationTrap.pdf>.
- <sup>25</sup> Chris Serres, *Arbitrary Concern: Is the National Arbitration Forum a Fair and Impartial Arbiter of Dispute Resolutions?* Star Trib. (Minneapolis), May 11, 2008, at 1D.

- 
- <sup>26</sup> Michael Geist, *Fair.com? An Examination of the Allegations of Systemic Unfairness in the ICANN UDRP*, 27 Brook. J. Int'l L. 903, 912 (2002).
- <sup>27</sup> Robert Berner & Brian Grow, *Banks v. Consumers (Guess Who Wins)*, BusinessWeek, June 5, 2008.
- <sup>28</sup> Chris Serres, *Arbitrary Concern: Is the National Arbitration Forum a Fair and Impartial Arbiter of Dispute Resolutions?* Star Trib. (Minneapolis), May 11, 2008, at 1D.
- <sup>29</sup> *Courting Big Business: The Supreme Court's Recent Decisions on Corporate Misconduct and Laws Regulating Corporations*, 110th Cong. (2008) (statement of Elizabeth Bartholet), available at [http://judiciary.senate.gov/hearings/testimony.cfm?id=3485&wit\\_id=7313](http://judiciary.senate.gov/hearings/testimony.cfm?id=3485&wit_id=7313).
- <sup>30</sup> Robert Berner & Brian Grow, *Banks v. Consumers (Guess Who Wins)*, BusinessWeek, June 5, 2008.
- <sup>31</sup> Hillard M. Sterling & Philip G. Schrag, *Default Judgments Against Consumers: Has the System Failed?* 67 Denver U. L. Rev. 357 (1990).
- <sup>32</sup> Jessica Silver-Greenberg, *Snagging Debt Collectors*, BusinessWeek, Dec. 1, 2008.
- <sup>33</sup> Walter V. Robinson & Beth Healy, *Debt Collectors Hunt the Innocent*, Boston Globe, Sept. 13, 2006.
- <sup>34</sup> Robert M. Hunt, *Overview of the Collections Industry*, available at <http://www.ftc.gov/bcp/workshops/debtcollection/presentations/hunt.pdf>.
- <sup>35</sup> Jessica Silver-Greenberg, *Snagging Debt Collectors*, BusinessWeek, Dec. 1, 2008.
- <sup>36</sup> *Miller v. Wolpoff & Abramson, LLP*, No. 1:06-CV-207-TS, 2007 WL 2694607, at \*8 (N.D. Ind. Sept. 7, 2007).
- <sup>37</sup> *Powers v. Hudson & Keyse, LLC*, 656 S.E.2d 578 (Ga. App. 2008).
- <sup>38</sup> *See, e.g., Creech v. MBNA Am. Bank, N.A.*, 250 S.W.3d 715 (Mo. Ct. App. 2008) (“In its argument in this Court, Appellant claims that the original agreement with Respondent probably had an agreement to arbitrate and was later amended to include an arbitration agreement. Appellant claims that the amendment was sent by mail to Respondent. Neither party filed with the trial court the original account agreement; instead, Respondent relies upon a copy of the ‘amendment’ which Appellant claims was mailed to Respondent a short time after the account was opened and which has never been acknowledged as received by Respondent.”).
- <sup>39</sup> Ind. Code § 34-37-1-7; Minn. Stat. § 600.09; N.Y. C.P.L.R. 2309(c) (McKinney).
- <sup>40</sup> For examples of courts rejecting affidavits on this basis, see, e.g., *Palisades Collection L.L.C. v. Gonzalez*, 809 N.Y.S.2d 482 (Civ. Ct. 2005), *Luke v. Unifund CCR Partners*, 2007 WL 2460327 (Tex. App. Aug. 31, 2007).
- <sup>41</sup> *See Sheryl Harris, Consumers Should Be Suspicious of Arbitration Clause*, Plain Dealer (Cleveland), Feb. 17, 2005, at C5. (“Even victims of identity theft have been wrestled into arbitration [with NAF] and held responsible for charges racked up by thieves.”).
- <sup>42</sup> Interview with Buddy Newsom and his attorney, Mark Pearson.
- <sup>43</sup> Eileen Ambrose, *Read the Fine Print: Arbitration Clause Can Sting You*, Fort Wayne J. Gazette, Mar. 15, 2005, at 8.
- <sup>44</sup> Gary Weiss, *Credit Card Arbitration* (Oct. 11, 2007), Forbes.com, [http://www.forbes.com/2007/10/10/gary-weiss-credit-oped-cx\\_gw\\_1011weiss.html](http://www.forbes.com/2007/10/10/gary-weiss-credit-oped-cx_gw_1011weiss.html).
- <sup>45</sup> *MBNA Am. Bank, N.A. v. Cornock*, No. 03-C-0018, slip. op. at 25 (N.H. Super Ct. Mar. 20, 2007) (emphasis added).
- <sup>46</sup> Laura Rowley, *Stacking the Deck Against Consumers* (Oct. 17, 2007), Yahoo! Finance, <http://finance.yahoo.com/expert/article/moneyhappy/48748>.
- <sup>47</sup> *CACV of Colo., LLC v. Corda*, No. NNHCV054016053, 2005 WL 3664087 (Conn. Super. Ct. Dec. 16, 2005). *See also Asset Acceptance, LLC v. Wheeler*, --- S.E.2d ---, 2009 WL 71504, at \*1 (Ga. Ct. App. Jan. 13, 2009) (affirming vacatur of NAF arbitration award where consumer had not received proper notice);