



STUDENT BORROWER
PROTECTION CENTER



Americans for
Financial Reform
Education Fund

August 20, 2020

The Honorable Kathleen Kraninger
Director
Consumer Financial Protection Bureau
1700 G Street NW
Washington, D.C. 20552

The Honorable Brian Brooks
Acting Comptroller
Office of the Comptroller of the Currency
400 7th Street SW
Washington, D.C. 20219

Dear Director Kraninger and Acting Comptroller Brooks,

We write to inform you of serious concerns of borrower harm involving two entities that you regulate: PayPal Credit and Synchrony Bank.

PayPal Credit, a subsidiary of PayPal Holdings, Inc., works alongside Synchrony Bank, a federally chartered savings association, to provide consumers open-end credit accounts linked to their digital PayPal wallets.¹ PayPal Credit markets this “reusable credit line” mainly as a means for consumers to shop online.² However, the results of an investigation by the Student Borrower Protection Center (SBPC) indicate that PayPal Credit is currently providing its products as high-cost education financing options that can leave borrowers in significant distress with few protections. Further, PayPal Credit is being used to prop up a wide range of for-profit educational institutions, many of them bearing the hallmarks of schools that have cheated or failed borrowers in the past. We write today to warn of the significant consumer harm that PayPal Credit may be driving and to call for an immediate investigation into PayPal, Synchrony Bank, and their business practices related to PayPal Credit.

Last month, the SBPC published a report examining the universe of largely unsupervised and often exploitative debt and credit products targeted toward students attending for-profit schools.³

¹ *PayPal Credit Frequently Asked Questions*, PayPal, <https://perma.cc/23SK-WUVE> (captured July 29, 2020).

² *Id.*

³ *Shadow Student Debt*, Student Borrower Prot. Ctr. (July 2020), <https://protectborrowers.org/wp-content/uploads/2020/07/Shadow-Student-Debt.pdf#page=7> (“As described in this report, SBPC engaged in an extensive review of public court filings, documents produced by the U.S. Department of Education (ED) through open records requests, consumer complaints submitted to the Consumer Financial Protection Bureau (CFPB),

This debt, referred to in the SBPC report as “shadow student debt,” stems from a web of companies peddling financial products to prop up for-profit educational institutions. These products often include a set of harmful features such as extremely high interest rates, misleading marketing, and risky underwriting. Predatory schools steer students to take on this debt when the schools do not have access to, or students have exhausted, federal student loans and traditional private student loans.⁴ The SBPC report found that millions of students have taken on billions of dollars in shadow student debt.

Further, the SBPC report revealed that the web of companies driving borrowers to take on this shadow student debt, including PayPal Credit, have a track record of running afoul of consumer protections, violating state and federal law, and deploying aggressive tactics to collect defaulted debt.⁵

PayPal Credit is one of the most common providers of shadow student debt. Enclosed with this letter is a list of over 150 colleges, career academies, certificate programs, and other educational institutions prominently advertising PayPal Credit as a preferred option for students to finance their educational expenses (see enclosed Appendix I).⁶ Many of these institutions promise borrowers bright futures in new careers as, for example, home inspectors,⁷ makeup artists,⁸ flight attendants,⁹ or bodyguards.¹⁰ Other institutions listed offer courses in essential oils,¹¹ swordsmanship,¹² hypnosis,¹³ or veganism.¹⁴ But across areas of study, these institutions have much in common: they are almost exclusively unaccredited, unproven, and lightly or wholly unsupervised, all while driving students to take on thousands of dollars in high-cost, questionably marketed debt at the click of a button.¹⁵ The use of PayPal Credit allows many of these schools to secure students’ up-front payments, which are critical to the institutions’ survival. But it remains unclear what criteria—if any—PayPal Credit uses to determine what schools or programs may offer its product as a method for student borrowing.

promotional materials from private-sector companies, information provided by legal services attorneys and policy experts, and various other sources to inform the findings outlined in its report.”).

⁴ *Id.* at n.1.

⁵ *Id.* at 23.

⁶ Also available at *Appendix I*, Student Borrower Prot. Ctr., <https://protectborrowers.org/ppc-appendix-I>.

⁷ *Tuition and Payments*, The Home Inspection Institute, <https://perma.cc/9ZUB-ZZB5> (captured July 19, 2020).

⁸ *Payment Methods*, Cal. Makeup Academy, <https://perma.cc/8P6U-SFDV> (captured July 15, 2020).

⁹ *Accelerated Flight Attendant Program*, The Airline Academy, <https://perma.cc/VK7D-DC3C> (captured July 17, 2020).

¹⁰ Hucky, *Executive Protection Institute Review*, Bodyguard Careers (June 22, 2020), <https://perma.cc/Y8DY-NXV4> (captured July 19, 2020).

¹¹ *Frequently Asked Questions*, Aromahead Inst. Sch. of Essential Oil Studies, <https://perma.cc/X754-5888> (captured July 17, 2020).

¹² *Kentucky Elite Event*, The Sword Experience, <https://perma.cc/VL8D-7RPH> (captured July 23, 2020).

¹³ *Pay with PayPal*, Hypnotherapy Training Inst., <https://perma.cc/SEC6-7U5U> (captured July 23, 2020).

¹⁴ *FAQ*, Main Street Vegan Academy, <https://perma.cc/6AD7-LRGU> (captured July 23, 2020).

¹⁵ *E.g.*, *Enroll in the 10k Blockchain Developer Initiative*, The Blockchain Academy, <https://perma.cc/QBQ2-JURK> (captured July 15, 2020) (“The cost for the Hyperledger Fabric cohort is \$10,000.”).

PayPal positions itself as a mission-driven company aiming to help people build their financial health.¹⁶ The SBPC, however, found that PayPal Credit and its partner, Synchrony Bank, perpetuate many of the predatory financial practices that plague borrowers attending for-profit schools and that are seen across the marketplace for shadow student debt. These practices include extending exorbitantly expensive credit to borrowers attending the dubious programs mentioned above, deploying misleading marketing, and engaging in aggressive collections practices (see enclosed Appendix II).¹⁷ We urge you to scrutinize PayPal’s conduct, and to take immediate action to halt practices that run afoul of the financial laws that your agencies administer and enforce.

Exorbitant Costs for Consumers

PayPal Credit's loan product can be extremely expensive for student borrowers, especially compared to federal and private student loans. For example, when using PayPal Credit as a means to finance educational expenses, students are charged a 25.49 percent APR, a rate more than four times higher than that of the most expensive federal student loans.¹⁸ In addition, PayPal Credit charges late fees of up to \$39 per missed payment to borrowers who have fallen behind.¹⁹ For reference, federal student loans and many mainstream private student loans—including those from Wells Fargo and Discover—have no such fees.²⁰

¹⁶ Dan Schulman, *PayPal’s Second Quarter 2017 Financial Results*, PayPal, (July 26, 2017) <https://www.paypal.com/stories/us/paypals-second-quarter-2017-financial-results>; David Brancaccio & Janet Nguyen, *The CEO of PayPal: Managing and Moving Money Shouldn’t Be a Privilege of the Affluent*, Marketplace (June 29, 2018), <https://www.marketplace.org/2018/06/29/dan-schulman-paypal/>; *PayPal Is Trying to Help Everyone—including Their Employees—Become Financially Healthier*, Fast Company (Apr. 22, 2020), <https://www.fastcompany.com/video/paypal-is-trying-to-help-everyoneincluding-their-employeesbecome-financially-healthier/AtspgWtX>; Dan Schulman, *Dan Schulman on Shifting From Financial Inclusion to Financial Health*, The Wall Street Journal (Jan. 17, 2018), <https://www.wsj.com/articles/dan-schulman-on-shifting-from-financial-inclusion-to-financial-health-1516201094>.

¹⁷ Also available at *Appendix II*, Student Borrower Prot. Ctr., <https://protectborrowers.org/ppc-appendix-II>.

¹⁸ *PayPal Credit Offer Details*, PayPal, <https://perma.cc/48VV-369W> (captured July 17, 2020); *Federal Interest Rates and Fees*, U.S. Dep’t of Educ., Fed. Student Aid, <https://studentaid.gov/understand-aid/types/loans/interest-rates/> (last visited July 30, 2020).

¹⁹ *PayPal Credit Offer Details*, PayPal, *supra* note 18.

²⁰ *Student Loans: Making Payment Questions*, Wells Fargo, <https://www.wellsfargo.com/help/loans-and-lines/student-payments-billing-fees-faqs/> (last visited July 30, 2020) (“We do not charge any fees on student loans. This means, for example, that we do not charge application fees, origination fees, late fees, pay by phone fees, prepayment fees, and return check fees.”); *Promissory Note*, Discover, https://www.discover.com/content/dam/dfs/student-loans/pdf/PCL_Prom_Note.pdf (last visited July 30, 2020) (“We will not assess any late payment charges under this Note”). Note PayPal Credit charges a \$28 late fee for delinquent borrowers who have made their minimum payment in each of the last six months and a \$39 late fee for those who have missed any payments over the same time frame.

Credit products with high rates and significant fees often impose the greatest costs on the most vulnerable borrowers. Consider the following examples, each using product cost details disclosed by PayPal Credit:²¹

- **A student who opts to take a course at the Elite Blog Academy, an unaccredited school that promises to set people up for success in a career as a blogger.** If the student uses PayPal Credit to finance the \$4,997 cost of the course and takes five years to pay off the debt, that borrower would pay over \$10,019 over the life of the loan—more than twice the amount borrowed.²² This borrower will pay \$167 a month, every month, while entering a field where the typical annual pay scale starts at \$16,000.²³
- **A student who pursues a career as a home inspector through the Home Inspection Institute.** If the student finances his or her \$6,800 tuition through PayPal Credit, that student would pay \$13,634 over the life of the loan—again, more than twice the amount borrowed.²⁴ This borrower will owe \$227 each month toward his or her student loan bill, but will be working in a field where salaries start at \$24,000—assuming the certification leads to a job as promised.²⁵
- **A student who is working toward a job as a massage therapist through classes at the Institute of Natural Health and Education.** If the student finances their \$7,900 tuition through PayPal Credit, that student would pay \$15,840 over the life of the loan.²⁶ Yet again, this expense would amount to more than twice the amount borrowed, and it would leave the student with a \$264 monthly student loan bill. If the student finds employment, massage therapists' salaries typically start at \$26,000.²⁷

Many of the schools are well aware that these loans are so expensive and precarious as to be predatory, but they also know that PayPal Credit will still readily provide them. As the Fashion Style Institute (FSI), which offers financial aid through PayPal Credit, states:²⁸

²¹ Calculations based on a 25.49% nominal interest rate and a 60-month repayment term, with payment beginning after the impact of 6 months of deferred interest, discussed further below (*see PayPal Credit Offer Details*, PayPal, *supra* note 18).

²² Author's calculation. *See Enroll Now*, Elite Blog Academy 4.0, <https://perma.cc/SJD7-777B> (captured July 19, 2020).

²³ *Blogger Salaries*, Glassdoor, https://www.glassdoor.com/Salaries/blogger-salary-SRCH_KO0,7.htm#:~:text=The%20national%20average%20salary%20for,to%20Glassdoor%20by%20Blogger%20employees (last visited July 30, 2020).

²⁴ Author's calculation. *See Tuition and Payments*, The Home Inspection Inst., *supra* note 7.

²⁵ *Home Inspector Salaries*, Glassdoor, https://www.glassdoor.com/Salaries/home-inspector-salary-SRCH_KO0,14.htm (last visited July 30, 2020).

²⁶ Author's calculation. *See Learn About Program Cost and Financial Options*, Inst. of Natural Health and Educ., <https://perma.cc/NYV8-ETMB> (captured July 24, 2020).

²⁷ *Massage Therapist Salaries*, Glassdoor, https://www.glassdoor.com/Salaries/massage-therapist-salary-SRCH_KO0,17.htm (last visited July 30, 2020).

²⁸ *Purchase FAQ*, Fashion Stylist Inst., <https://perma.cc/2W3Y-5EUV> (captured July 15, 2020).

Payment Plans

FSI does not offer installment plans at this time because of the high interest rates that get passed on to you - the student. However, we do accept PayPal and if you choose this option at checkout you can use your PayPal Credit/Bill Me Later account. For details about PayPal's payment plans [visit this link](#). Once approved just return to the course page and check out using PayPal. PayPal does offer 6 months special financing as well.

Misleading Marketing and Deferred Interest

While PayPal Credit prominently advertises that it does not charge borrowers interest for their first six months in debt, the fine print of the company's terms and conditions reveal that this ostensible borrower benefit is actually part of a "deferred interest" arrangement.²⁹ PayPal Credit's marketing can deceive borrowers into thinking that this financing is interest-free for the first six months, similar to a subsidized federal student loan. The reality is much more dangerous—if the borrower does not pay off their entire balance within six months, the 25.49 percent rate of interest is retroactively charged from the date of origination and this unpaid interest is added to the balance of their loan. As demonstrated in the examples above, the immense expense of PayPal Credit's product and the precarious financial situations student borrowers are likely to face after graduating from these institutions make it unlikely that many borrowers will be able to avoid triggering this costly provision. It is also worth noting that similar deferred interest schemes have previously drawn concern from regulators, including through actions that the CFPB has taken toward Synchrony Bank.³⁰

Aggressive Collections Practices

Further, PayPal Credit's term sheet outlines extremely aggressive collections practices that increase costs and compound the harm caused to borrowers in distress. For example, if a borrower defaults, PayPal Credit charges the borrower for any expenses associated with the collection of the borrower's debt.³¹ If a borrower dies, PayPal reserves the right to "request payment of the full amount due right away" from the estate of the deceased borrower.³² And if a borrower should object to PayPal Credit's conduct before default, they will be required to seek redress in arbitration instead of being given their day in court.³³

²⁹ See, e.g., *EMT - Financing*, Code One, Inc., <https://perma.cc/G23R-TPBX> (captured July 17, 2020).

³⁰ *CFPB Orders GE CareCredit to Refund \$34.1 Million for Deceptive Health-Care Credit Card Enrollment*, Consumer Fin. Prot. Bureau (Dec. 10, 2013), <https://www.consumerfinance.gov/about-us/newsroom/cfpb-orders-ge-carecredit-to-refund-34-1-million-for-deceptive-health-care-credit-card-enrollment/> (quoting CFPB Director Richard Cordray as saying, "Deferred-interest products can be risky for consumers in the best of circumstances" and noting that deferred interest products are "an area of concern that can pose risks for consumers."); Pet. to Modify the August 29, 2018 Civil Investigative Demand Issued to Synchrony Financial, 2018-MISC-Synchrony Financial-001, available at https://files.consumerfinance.gov/f/documents/cfpb_petition-to-modify_synchrony-financial.pdf.

³¹ *PayPal Credit Offer Details*, PayPal, *supra* note 18.

³² *Id.*

³³ *Id.*

Notably, PayPal Credit has been the subject of enforcement actions in the past for harming borrowers. In 2015, the CFPB alleged that PayPal Credit “deceptively advertised promotional benefits that it failed to honor, signed consumers up for credit without their permission, made them use PayPal Credit instead of their preferred payment method, and then mishandled billing disputes.”³⁴ This action led PayPal Credit to refund \$15 million to consumers and pay a \$10 million fine. That same year, the FCC threatened to take action to prevent PayPal from sneaking language into its end-user agreement to require that consumers opt in to receiving robo-calls and automated text messages.³⁵ The FCC noted that PayPal’s desired contract language “does not give consumers notice of their right to refuse consent to calls that require consumer consent from PayPal” and speculated that it possibly “violates the Telephone Consumer Protection Act and could subject PayPal, its affiliates, and its service providers to penalties of up to \$16,000 per call or text message.”³⁶

The SBPC’s findings make clear that PayPal Credit continues to put consumers at risk of serious financial harm. It is therefore imperative that the CFPB and OCC begin a comprehensive review of PayPal Credit, PayPal Holdings, and Synchrony Bank, scrutinizing their lending practices and assessing compliance with applicable federal financial laws. Enclosed with this letter is an appendix enumerating key questions and areas of inquiry that should serve as a starting point for any investigation into these matters (see enclosed Appendix III).³⁷

With millions of student loan borrowers having already taken on billions in shadow student debt, there is no time to waste. We urge an immediate investigation into PayPal Credit and its practices.

Sincerely,

Student Borrower Protection Center
Americans for Financial Reform Education Fund
Student Debt Crisis
Allied Progress

³⁴ CFPB Takes Action Against PayPal for Illegally Signing Up Consumers for Unwanted Online Credit, Consumer Fin. Prot. Bureau (May 19, 2015), <https://www.consumerfinance.gov/about-us/newsroom/cfpb-takes-action-against-paypal-for-illegally-signing-up-consumers-for-unwanted-online-credit/>.

³⁵ Fed. Communications Comm'n, Letter on Amendments to PayPal's User Agreement (June 11, 2015), available at <https://www.scribd.com/document/268494817/FCC-Letter-To-PayPal>.

³⁶ *Id.*

³⁷ Also available at *Appendix III*, Student Borrower Prot. Ctr., <https://protectborrowers.org/ppc-appendix-III>.