



STATE OF CONNECTICUT  
DEPARTMENT OF BANKING  
CONSUMER CREDIT DIVISION  
260 CONSTITUTION PLAZA – HARTFORD, CT 06103-1800



**MEMORANDUM**

TO: Connecticut Licensed Consumer Collection Agencies  
FROM: Carmine Costa, Director, Consumer Credit Division *CC*  
RE: Collection of Loans in Violation of Small Loan Laws and Processing Fees  
DATE: January 14, 2015

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The purpose of this memorandum is to advise all licensees who collect debt from Connecticut residents of certain illegal practices that have recently come to this Department's attention. In particular, please be advised that it is illegal to: (1) collect on consumer loans which violate Connecticut's small loan regulatory scheme, Sections 36a-555 to 36a-573, inclusive, of the Connecticut General Statutes, or (2) receive payment processing fees not contemplated by a consumer's underlying debt contract.

Small Loans

Connecticut's small loan regulatory scheme prohibits loans to Connecticut residents in the amount of \$15,000 or less that charge or contract for interest at a rate in excess of 12% per annum, unless such loans are made by a licensed small loan lender. In recent years, this Department has seen the proliferation of illegal small loans being made via the Internet and a rise in the number of complaints concerning such loans.

In particular, Section 36a-573 of the Connecticut General Statutes prohibits persons who are not licensed as small loan lenders from, directly or indirectly, charging, contracting for or receiving any interest, charge or consideration greater than 12% per annum upon a loan, use or forbearance of money or credit in the amount of \$15,000 or less, and further provides that "[n]o loan for which a greater rate of interest or charge than is allowed by the provisions of sections 36a-555 to 36a-573, inclusive, has been contracted for or received, wherever made, shall be enforced in this state, and any person in any way participating therein in this state shall be subject to the provisions of said sections . . .".

If you have purchased illegal small loans or are assisting in their collection, you should immediately cease and desist from activity that may violate the mandates of the small loan regulatory scheme.

Processing Fees

This Department has also become aware that Connecticut consumers are being charged additional processing or convenience fees for expediting payments to collection agencies made by telephone, credit card, electronic check or debit card. Please be advised that it has been the long standing position of this Department that such additional fees are prohibited by Section 36a-805(a)(12) of the 2014 Supplement to

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the General Statutes (which prohibition was formerly contained in Section 36a-805(a)(13) of the Connecticut General Statutes).

Section 36a-805(a) states, in pertinent part, that:

No consumer collection agency shall . . . (12) add any post charge-off charge or fee for cost of collection, unless such cost is a court cost, to the amount of any claim which it receives for collection or knowingly accept for collection any claim to which any such charge or fee has already been added to the amount of the claim unless (A) the consumer debtor is legally liable for such charge or fee as determined by the contract or other evidence of an agreement between the consumer debtor and creditor, a copy of which shall be obtained by or available to the consumer collection agency from the creditor and maintained as part of the records of the consumer collection agency or the creditor, or both, and (B) the total charge or fee for cost of collection does not exceed fifteen per cent of the total amount actually collected and accepted as payment in full satisfaction of the debt . . . .

Consumer collection agencies are prohibited from adding *any* fees to a consumer's debt that are not authorized by the underlying debtor contract, regardless of whether such fees have been disclosed, the consumer agrees to pay such fees, fees are for an optional payment method, and/or the fees do not exceed the actual cost of providing the service.

A key cornerstone of the Department's mission is to protect users of financial services from unlawful or improper practices by requiring that regulated entities adhere to the law. As a consumer collection agency licensee, it is your responsibility to ensure that you do not facilitate collection on illegal small loans made to Connecticut residents or receive processing fees prohibited by Section 36a-805(a)(12).

This Department urges you to review all current client contracts, debtor accounts and operating procedures and make any necessary changes to such contracts and procedures to comply with these requirements.

Further, you are hereby advised that failure to cease activity violative of the prescriptions set forth herein may result in administrative action and the imposition of sanctions by this Department, including restitution, fines of up to \$100,000 per violation and/or revocation of your consumer collection agency license.

Should you have any questions or concerns, please do not hesitate to contact Jeffrey Hubbell, Principal Financial Examiner, with this Department at 860-240-8205 or [jeffrey.hubbell@ct.gov](mailto:jeffrey.hubbell@ct.gov).

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