

# COMPLIANCE OVERVIEW

# UDAAP

Complimentary preview



**COMPLIANCE**  
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## What is UDAAP?

[Dodd Frank Section 1031 \(a\) states:](#)

The Bureau (CFPB) make take any action authorized under subtitle E to prevent a covered person or service provider from committing or engaging in an unfair, deceptive or abusive act or practice under Federal law in connection with any transaction with a consumer for a consumer financial product or service, or the offering of a consumer financial product or service.

UDAAP stands for Unfair, Deceptive and Abusive Acts or Practices taking place in the debt or other financial industry. It originates from [Section 5 of the Federal Trade Commission Act](#) (See Appendix A). The Dodd–Frank Wall Street Reform and Consumer Protection Act (see Appendix B) expanded on the concept of UDAP (Unfair or Deceptive Acts or Practices) from the Federal Trade Commission Act by adding “abusive” to the alphabet soup. It also gave the newly-formed Consumer Financial Protection Bureau a directive to supervise financial institutions and prevent UDAAPs through rule-making, examination, and enforcement. They have an almost unlimited discretion to put in place regulations it believes necessary to protect consumers.

The CFPB is tasked with regulating “service providers,” defined as “any person that provides a material service to a covered person in connection with the offering or provision by such covered person of a consumer financial product or service.” Non-bank entities like debt collectors could be service providers under this definition, meaning they’re covered by the CFPB’s UDAAP authority.

In many ways, UDAAP is an addition to and an expansion of the [Fair Debt Collection Practices Act](#); the FDCPA, enacted in 1977, is a regulation for the debt collection industry to treat consumers honestly, fairly and with respect. Being up-to-date on just FDCPA compliance is no longer enough; because of UDAAP, collectors now have to actively prove that their practices don’t harm consumers. “Plain language” is no longer a guaranteed safe harbor for disclosures and letters. We must actively engage with consumers to ensure their understanding and acceptance of our practices and agreements.

## To summarize:

### UDAAP

Part of a federal regulation, the Dodd-Frank Act, regarding the treatment of consumers during financial transactions.

### Creation of the CFPB

The Dodd-Frank Act also created the CFPB

### CFPB Oversight

The CFPB has oversight of credit grantors, their vendors, and anyone who might purchase the debt created by financial transactions.

### Proactive Rather Than Reactive

Collectors must now be proactive in their compliance reviews, showing a process to identify potential UDAAP violations *before* they happen.