PIB LAW
PARKER IBRAHIM & BERG
WWW.PIBLAW.COM
Boston | Chicago | New Jersey | New York | Orange County | Philadelphia

THE PIB REPORT

CFPB's Indirect Auto Lending Discrimination Guidance Repealed

On May 22, 2018, President Trump signed a congressional resolution into law repealing fair lending guidance issued by the Consumer Financial Protection Bureau ("CFPB") prohibiting discrimination in auto lending by requiring compliance by indirect auto lenders with the Equal Credit Opportunity Act ("ECOA"). The resolution had passed the Senate on April 18, 2018, and the House of Representatives on May 8, 2018.

Prompted by a Republican request, the Government Accountability Office reviewed CFPB Bulletin 2013-02, titled "Indirect Auto Lending and Compliance with the Equal Credit Opportunity Act" (the "CFPB Bulletin"), and determined that the CFPB had erred by implementing the auto-lending policy through guidance instead of issuing a formal rule. As a result, the CFPB Bulletin was subject to the Congressional Review Act, which permits lawmakers to repeal regulations with a simple majority and bypass regular congressional procedure.

Unlike a direct auto loan – where a consumer receives a loan directly from a financial institution – an indirect auto loan is one where financing is obtained through the dealer, who works with a financial institution to extend credit after the consumer selects the vehicle. The CFPB Bulletin mandated compliance with the fair lending requirements of ECOA and its implementing regulation, Regulation B, for indirect auto lenders that permit dealers to increase consumer interest rates and that compensate dealers with a share of the increased interest revenues (a "dealer mark-up"). The guidance noted that some indirect auto lenders had policies that permitted auto dealers to mark-up rates and that compensated dealers for those mark-ups. As a result of the policy incentives and the discretion permitted in the mark-ups, the CFPB concluded that there was a significant risk of pricing disparities on the basis of race, national origin, and other prohibited bases, in violation of ECOA.

Substantively, critics of the guidance argued that the CFPB overstepped its authority in issuing the guidance, alleging that it circumvents a restriction in the Dodd-Frank Act on regulating auto loans. Supporters argued that it attempted to remedy discrimination in auto lending markups and the repeal will leave consumers open to discrimination.

While there is no longer explicit guidance mandating ECOA compliance, the law striking down the CFPB Bulletin did not establish that indirect auto lenders and auto dealers are exempt from it. The new status quo is that there is no explicit guidance as to whether auto dealer mark-ups expose dealers and indirect lenders to possible ECOA liability on the grounds that they may be considered "creditors" as defined by ECOA and Reg B. There may be an uptick in consumer litigation against indirect auto lenders and auto dealers seeking to clarify this issue. It is also possible that state attorneys general and consumer bureaus may seek to fill the void left by the CFPB on this issue.

PIB Law routinely advises clients on regulatory and consumer and fair lending issues. Please contact Brian Turetsky at brian.turetsky@piblaw.com, or James Berg at james.berg@piblaw.com, if we can assist in your company's response to this development. ■

Continued on next page

Supreme Court Grants Certiorari and Vacates Federal Circuit Decision Narrowing Covered Business Method Patent Eligibility

On May 14, 2018, in a decision favorable to financial institutions, the United States Supreme Court granted a petition for certiorari in *PNC Bank National Association et al. v. Secure Axcess, LLC*, No. 17-350, and further granted the requested relief in the certiorari petition, which was to vacate the Federal Circuit's decision in *Secure Axcess, LLC v. PNC Bank Nat'l Ass'n*, *et al.*, 848 F.3d 1370 (Fed. Cir. 2017). PIB Law represented defendant Santander Bank, N.A. in this matter.

Background: In 17 patent infringement actions brought against approximately 50 financial services institutions, Secure Axcess, a so-called "non-practicing entity," asserted U.S. Patent No. 7,631,191 (the '191 patent), entitled: "System and Method for Authenticating a Web Page." The District Court case alleging infringement of the '191 patent against Santander Bank, N.A. (Case No. 6:13-cv-723) was filed on September 27, 2013 in the United States District Court for the Eastern District of Texas, and was consolidated June 9, 2014 with Secure Axcess cases against PNC Bank, US Bank NA, US Bancorp, Bank of the West, Ally Financial, and other financial institutions (collectively, the "PNC Defendants").

The Leahy-Smith America Invents Act, enacted on September 16, 2011, provides several options for challenging the validity of an issued patent before the United States Patent and Trademark Office, as an alternative to litigation in District Courts. These options include *Inter Partes* Review ("IPR"), and Covered Business Method Review ("CBM"). A CBM review is a special opposition procedure for business method patents that "claim a method or corresponding apparatus for performing data processing or other operations used in the practice, administration, or management of a financial product or service."

Both the IPR and the CBM reviews are conducted by the Patent Trial and Appeal Board ("PTAB"). The PTAB is staffed by Administrative Patent Judges who conduct trials and render decisions on, among other things, post-issuance challenges to patents.

IPR and CBM Reviews at the Patent Trial and Appeal Board: In the Secure Axcess cases, both the IPR and the CBM tools were employed by financial institutions to challenge the validity of the '191 patent claims asserted against them. In those cases, the PTAB invalidated all asserted '191 patent claims in both the IPR and the CBM review.

Appeals of the PTAB Decisions to the Court of Appeals for the Federal Circuit: Secure Axcess appealed the PTAB decisions to the Court of Appeals for the Federal Circuit, and on appeal, the Federal Circuit affirmed both decisions. As such, with the asserted claims invalidated by both the IPR and the CBM decisions, Secure Axcess discontinued the District Court actions again the PNC Defendants with prejudice.

In the Federal Circuit case involving the CBM challenge, *Secure Axcess, LLC v. PNC Bank Nat'l Ass'n*, *et al.*, 848 F.3d 1370 (Fed. Cir. 2017), the question on appeal was whether CBM eligibility should be determined based solely on the patent claim language (which does not mention a financial product or service), or should the PTAB have considered that the "patent specification is heavily focused on banking-related applications of the alleged invention." Secure Axcess also argued that post-grant evidence – such as the patent owner's litigation history in asserting this patent against 50 financial institutions – should not have been considered by the PTAB.

Although the Federal Circuit affirmed the PTAB decision invalidating the asserted '191 patent claims, the Federal Circuit also held that because the '191 patent claims themselves do not directly address "financial products or services," the '191 patent was not eligible for CBM review. On that basis, the Federal Circuit further held that the PTAB erred by going beyond the express words of the claims themselves, because "the statutory definition of a CBM patent requires that the patent have a claim that contains, however phrased, a financial activity element."

Continued on next page

Petition for Rehearing En Banc to the Federal Circuit: Because the Federal Circuit's language in the CBM decision limited the scope of patents eligible for CBM review to only those with claims that contained "a financial activity element" – regardless of whether the patent specification was specifically directed to financial activity – the PNC Defendants petitioned the Federal Circuit for rehearing en banc on April 6, 2017. Although the petition for rehearing en banc drew amicus support from the Electronic Frontier Foundation and Public Knowledge, and The Clearing House Payments Company, L.L.C. and Financial Services Roundtable, on June 6, 2017, the Federal Circuit denied the petition for rehearing.

Petition for Certiorari to the United States Supreme Court:
The PNC Defendants sought certiorari to the United States Supreme Court. The certiorari petition, filed September 4, 2017, sought to vacate the Federal Circuit's CBM decision, because the claims became moot on the way to the Supreme Court. This mootness argument, which was based on the fact that the cases against each of the PNC Defendants had already been dismissed with prejudice, was supported by Supreme Court's 1950 precedent in *United States v. Munsingwear, Inc.*, 340 U.S. 36, 39 (1950), which held that "[t]he established practice of the Court in dealing with a civil case from a court in the federal system which has become moot while on its way here or pending our decision on the merits is to reverse or vacate the judgment below and remand with a direction to dismiss."

In arguing for certiorari, the PNC Defendants explained to the Supreme Court that the Federal Circuit's decision narrowing CBM eligibility had already impacted the CBM program, in that the CBM institution rate had fallen from 55% to 41.9%. The PNC Defendants also argued that the decision had altered the conduct of patent owners, who were canceling "patent claims that explicitly recite a 'financial activity element' to avoid CBM review, while retaining and asserting *broader* independent claims that cover the same financial activities." As such, the PNC Defendants argued that the Federal Circuit's "overly narrow interpretation of the statute will bar CBM challenges to many of the suspect patents that Congress plainly intended the program to address."

On May 14, 2018, the Supreme Court granted the petition for certiorari, and in a summary certiorari disposition, vacated the Federal Circuit's CBM decision as moot based on *Munsingwear*.

Implications of the Supreme Court's Decision: The Supreme Court's decision in *PNC Bank National Association et al. v. Secure Axcess, LLC* is favorable to financial institutions, because non-practicing entities will not be able to insulate their patents from CBM review simply by removing any reference to financial services or activities in their claims. This decision should also facilitate CBM challenges to potentially weak or suspect business method patents – which was the legislative intent behind instituting the CBM program.■

For more information, contact Scott W. Parker at scott.parker@piblaw.com or Diane Ragosa at diane.ragosa@piblaw.com.