

## How State AG Consumer Finance Enforcement Is Expanding

By **Allen Denson, Alice Hrdy and Daniel Tehrani** (June 30, 2025, 4:32 PM EDT)

State attorneys general are increasingly shaping the enforcement landscape for consumer financial services in response to shifting federal priorities and a less active Consumer Financial Protection Bureau.

These officials, who are independently elected in most states, have long had broad authority to commence investigations and enforcement actions. Now, amid regulatory rollbacks at the federal level, many AGs are flexing that authority, and in greater coordination with their peers and other federal and state prosecutors.

State AGs are using their expansive consumer protection powers to target a growing range of financial products and services, often relying on broad unfair and deceptive acts and practices statutes. These laws, combined with state AGs' authority under federal statutes like the Dodd-Frank Act, allow for enforcement even when federal agencies remain on the sidelines.

This article explores how state AGs are asserting themselves in the consumer financial services space, what issues they are prioritizing, how their investigations unfold, where state financial regulators fit in and what companies can do to stay ahead of enforcement risks.[1]

### **Evolving Consumer Protection Priorities**

Despite differences in party affiliation and state politics, state AGs frequently align on enforcement in the consumer financial services space, when they believe that the facts are compelling and the public interest is clear. Several areas of focus have recently emerged.

### ***Elder Abuse and Social Engineering Fraud***

State AGs are increasingly focused on elder abuse, which can go beyond nursing homes and involve consumer financial services and fraudulent payments, as well as social engineering fraud, in which scammers develop online relationships with victims and coax them into transferring funds.

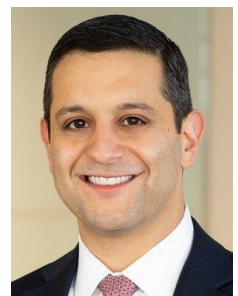
In June 2024, the Virginia AG launched a dedicated Elder Abuse Investigation Center to coordinate investigations and improve outcomes for vulnerable adults.[2] Connecticut has established a dedicated Elder Justice Hotline to connect older residents with resources and legal assistance,[3] while Oregon's



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AG has prioritized public education and cross-agency coordination to identify and prevent financial exploitation of seniors.[4]

### ***Artificial Intelligence***

State AGs are beginning to scrutinize how algorithmic decision-making powered by artificial intelligence may contribute to discriminatory outcomes in areas like lending.

Since AI models are only as good as the data used for the model, poor or incomplete data can reinforce systemic biases, which could raise fair lending and discrimination issues.

### ***Recharacterization of Noncredit Products as Loans***

State AGs are also challenging how novel products or services fit into existing consumer protection rules.

For example, earned wage access, or EWA, products, which allow employees to access wages they have already earned but have not received through a scheduled paycheck, are facing scrutiny from enforcers that argue that the associated fees may effectively constitute interest.

In April 2025, the New York AG brought a case against MoneyLion for offering such services under the state's usury laws, contending that EWA offerings are loans despite intentional efforts to structure them as noncredit products.

Maryland just passed a new law, effective Oct. 1, that regulates EWA as a form of consumer credit, but includes exemptions for providers already licensed under the state's credit laws.

Indiana's new law regulating EWA, which went into effect on Jan. 1, classifies the EWA product as consumer credit. Both Maryland and Indiana require EWA providers to offer consumers at least one reasonable option to obtain wages early at no cost.

New York is also leading the way outside of litigation, through scrutiny of "buy now, pay later" products, recently enacting legislation that treats BNPL arrangements as loans, thus aligning them with federal Truth in Lending Act standards. This move comes as the CFPB **withdrew** a 2024 interpretive rule on BNPL in May, after stating it would not enforce its interpretive rule.

This state-level scrutiny is not confined to EWA and BNPL. In Massachusetts, the AG has rulemaking authority under state consumer protection law, which may create special risks for companies. Financial products such as home equity investments and lease-to-own arrangements face arguments from attorneys general that the products ought to be recharacterized as a loan.

Such recharacterization cases can have severe consequences, including retroactive liability, forced product changes, licensing obligations and class action exposure. The increasing frequency of such actions sends a clear message: State AGs are not afraid to reinterpret existing law to capture emerging financial products.

### ***Auto Lenders, Debt Settlement and Debanking***

In more traditional spaces, state AGs are continuing to target auto lenders and debt settlement companies.

Both the Illinois and Minnesota attorneys general are especially active in this space, arguing that add-on products, debt relief and alleged deception in auto sales are all violations of their states' unfair and deceptive acts and practices laws. In December 2024, Illinois' AG and the Federal Trade Commission **reached** a \$20 million settlement with Leader Automotive Group for alleged deceptive practices in car sales, financing and product add-ons.

Finally, debanking — or the denial of financial services based on a customer's industry or beliefs — is gaining traction as a nonpartisan concern. Several states have passed laws addressing it, and AGs across the political spectrum have signaled interest in investigating allegedly discriminatory debanking practices.

### **Inside a State AG Investigation**

State AG investigations often begin quietly. A single consumer complaint, online review or tip from a financial regulator may prompt informal fact-finding, even before a civil investigative demand is issued.

Once a CID is served, negotiations typically follow regarding the scope of production. These discussions can be lengthy, but resolution is often preferable to litigation.

If the AG proceeds with an enforcement action, litigation in state court may follow. Removal to federal court is rare, as state AGs are not considered citizens of their state for diversity jurisdiction purposes. However, cases that rely on federal statutes such as the Fair Credit Reporting Act, Credit Repair Organizations Act, Dodd-Frank Act or Electronic Fund Transfer Act may create a federal hook.

Even when litigation ends, enforcement is rarely over. Most resolutions include a compliance period involving follow-up reporting, audits or third-party monitoring.

### **Collaboration With State Financial Regulators**

Most states have financial regulators separate from their AGs. These include the New York Department of Financial Services, California's Department of Financial Protection and Innovation, and Florida's Office of Financial Regulation. Their mandates and powers vary, with some overseeing banking institutions directly.

While AGs and financial regulators often operate independently, they frequently collaborate. State financial regulators conduct routine examinations and gather troves of company data.

That information, in turn, can be shared with AGs and used to initiate enforcement actions. When the two entities work in tandem, the impact on a target company can be considerable.

### **What to Expect Next From State AGs**

The trendline is clear: AGs are ramping up. Offices are expanding, especially in New York and California, and adding attorneys with federal experience. This increase in staffing suggests more frequent investigations and a higher volume of enforcement actions.

At the same time, state AGs are coordinating more closely with one another and with agencies like the FTC. These partnerships allow for simultaneous investigations, joint complaint filings and harmonized

enforcement theories.

State AGs from California, New York, Pennsylvania, Illinois, Massachusetts, Colorado, Texas and Connecticut frequently lead these efforts. But participation is broad and bipartisan.

### **Derisking Your Institution**

In light of the enforcement trends discussed above, companies operating in the consumer financial space would do well to consider the following strategies to reduce exposure to state AG enforcement.

#### ***Prioritize customer service.***

Many state AG investigations begin with consumer complaints. Companies should implement strong complaint monitoring systems that track both direct complaints and those submitted to third parties such as the Better Business Bureau or online forums.

Prompt responses, thorough investigations and remediation when necessary can prevent issues from escalating to AG scrutiny.

#### ***Conduct regular compliance audits.***

Annual compliance reviews and effective management of emerging issues are essential to identifying and remediating potential violations before they become enforcement targets. These audits should be conducted by an independent unit, should be comprehensive in scope, and include an evaluation of evolving FTC and AG priorities and product risk areas.

#### ***Monitor regulatory developments.***

AGs regularly meet to discuss enforcement trends and legislative developments. Staying informed of these meetings and their outcomes can help institutions anticipate new enforcement themes and proactively adjust policies and practices.

### **Conclusion**

As the future of federal consumer financial services enforcement remains uncertain, state AGs are increasingly acting as the frontline regulators in this sector. Their willingness to reinterpret product categories, coordinate across jurisdictions and pursue enforcement under both state and federal law makes them formidable actors in this space.

Financial services providers — from established institutions to fintech startups — need to understand how AGs operate, what drives their priorities and how to avoid an enforcement action.

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[1] <https://www.morganlewis.com/events/state-attorneys-general-program-series>.

[2] <https://www.oag.state.va.us/media-center/news-releases/2747-june-17-2024-attorney-general-miyares-announces-elder-abuse-investigation-center-for-central-virginia>.

[3] <https://portal.ct.gov/ag/elderhotline>.

[4] <https://www.doj.state.or.us/oregon-department-of-justice/office-of-the-attorney-general/spotlight-elder-abuse/>.