



For Immediate Release

Contact: Cara Smith

312-814-3118

877-844-5461 (TTY)

csmith@atg.state.il.us

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**MADIGAN REACHES AGREEMENT WITH PAYPAL TO PROTECT
CONSUMERS; PAYPAL TO ADD POLICIES AND PROCEDURES
DESCRIBING RIGHTS AND RESPONSIBILITIES**

Chicago – Attorney General Lisa Madigan today announced that Illinois has reached an agreement with PayPal, Inc., a San Jose based subsidiary of e-Bay, resolving concerns about the company’s business practices.

PayPal represents a relatively new type of web-based alternative payment system. PayPal provides online services which its members can use to transfer money to other people or businesses. The most common reasons for sending the money include on-line auction or business purchases but transferring money between individuals is also supported by the PayPal system. PayPal charges fees to some users depending on the type of user account.

Today’s agreement requires PayPal to provide adequate protection to consumers before they become members and whenever they make payments to others using PayPal’s system. The agreement requires the company to clearly and conspicuously disclose to consumers all contractual terms and financial obligations.

Madigan’s office received nearly 250 complaints about PayPal from 2000 through July 2006. Some of those complaints allege that during disputes with PayPal, the company would freeze money held in the consumer’s PayPal account. Other complaints allege that consumers, who expected to fund the payment through use of credit cards, found instead that their bank accounts had been charged directly. Consumers also complained to Madigan’s office that they believed Paypal was offering the same protections consumers receive with the use of a credit card. Although PayPal contracts give members some protection when using their credit cards, these protections are not as complete as those provided by credit card companies.

Madigan's office took the lead in the settlement, in which 27 other states joined. Under the terms of the agreement with Illinois and the 27 other states, PayPal will pay \$1.7 million to the states. Illinois will receive \$170,000 from PayPal.

Madigan said Illinois initiated discussions with PayPal in 2003 to resolve the state’s concerns about its business practices. Today’s settlement requires:

- PayPal spell out important terms and conditions before a consumer becomes a PayPal member and at the times members initiate transactions;
- that PayPal make information more accessible to users by requiring changes to the way the company uses hyperlinks and multi-page documents;
- that whenever a PayPal member gets ready to make a purchase, he or she will be presented with a clear choice regarding what form of payment to use, either credit card, debit card or electronic funds transfer from a bank account;
- that PayPal provide clear access to web pages explaining important differences between its in-house PayPal dispute resolution programs and chargeback rights granted by federal law to consumers who use electronic banking, debit cards and credit cards to make payments and purchases.

"As internet transfers of funds become more common, consumers have the right to know, in clear terms, whether using an online system as opposed to the banking system, affords them the same consumer protections." Madigan said. "Under this settlement, consumers will receive clear information to help them decide which method of payment to use."

The settlement is a voluntary agreement between PayPal, Illinois and the other 27 states. As part of this agreement, PayPal does not admit to wrongdoing.

Assistant Attorney General Jeffrey Feltman handled this case on behalf of Madigan's Consumer Fraud Bureau.

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