



Mandatory Arbitration: Contracts and Your Legal Rights

Many common consumer transactions involve contracts, and more and more of them contain arbitration clauses. Arbitration is a dispute resolution method. Parties with a legal disagreement can decide, even before any problem occurs, to have a third party known as an arbitrator issue a final, binding decision in the case. If you sign a contract that contains an arbitration clause, you are ultimately agreeing to resolve any problems that may arise without using the court system.

These contracts may favor businesses and place you at a disadvantage. Be aware of common contracts featuring arbitration clauses and the problems associated with arbitration.

Categories of Contracts with Arbitration Clauses:

1. **Healthcare:** When moving a loved one into a nursing home, you may be asked to sign papers stating that if a dispute arises between your family and the nursing home, including in the case of injury or death of your loved one, you will waive the right to a jury trial and an arbitrator will decide the claim.
2. **Financial:** A dispute between you and a credit card company, whether it's over identity theft charges or unpaid debt, will be decided by an arbitrator if your contract contained an arbitration clause. Arbitration is particularly unfavorable to consumers in these cases: one study showed major credit card companies won in 95% of its arbitration cases.
3. **Employment:** If you are subjected to workplace discrimination, such as wrongful termination based on age or race, an arbitration contract will prevent a jury trial and an arbitrator will decide your claim, which may reduce your compensation.
4. **Services and Online:** Remember that service contracts (i.e. cell phone, cable, and utilities) and online agreements (i.e. iTunes, PayPal, and Netflix) often contain arbitration clauses that make arbitration of claims mandatory.

Just by buying a product or service, you can lose your right to hold a company accountable in court for negligence, defective products or scams.

Watch Out! For:

- ✗ People who try to **pressure** you into signing an **optional** arbitration agreement.
- ✗ Arbitration clauses **hidden in fine print** or an **addendum**.
- ✗ Companies **changing** terms of a contract **after** you have **signed** a user policy agreement.
- ✗ An agreement that allows the company to choose the arbitrator.

Did You Know?

- Some contracts **allow** consumers to **opt-out of arbitration!** Check to see if your contracts give you this **option**.



Things to Consider Before You Sign a Contract with an Arbitration Clause

➤ No Right to a Jury Trial or an Appeal

- Arbitration contracts deprive consumers of certain fundamental rights. By signing an arbitration contract, you waive the right to a jury trial and the right to appeal. The arbitrator's decision is final and the results are not public.

➤ Reduced Compensation and Claim Deterrence

- Arbitration generally results in lower damage awards than jury trials. So, the possibility of reduced compensation can deter claims because of the low payout. Even if you file a claim and win a monetary award, the award may not cover the cost of the original harm plus the cost of arbitration.

➤ Prevention of Class Action Suits

- In two recent decisions, the United States Supreme Court held that businesses can legally prevent class action arbitration suits—suits where a large group of people bring a claim together—even if the cost of an individual suit is not feasible because it would cost more to bring the suit than the possible recovery.

➤ Consumers More Likely to Lose

- Numerous consumer contracts contain arbitration clauses because businesses prefer arbitration. One reason is that arbitrators are more likely than juries to rule in favor of businesses. A business can also increase its chances of winning if the contract allows it to choose the arbitrator.

For More Information about Arbitration:

Consumer Financial Protection Bureau
<http://www.consumerfinance.gov>
(855) 411-2372

National Consumer Law Center
<http://www.nclc.org/>
(617) 542-8010

National Association of Consumer Advocates
<http://www.naca.net/>
(202) 452-1989

Public Citizen
<http://www.citizen.org/>
(202) 588-1000

