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 UNITED STATES OF AMERICA

18
 19 UNITED STATES DISTRICT COURT
 20 FOR THE CENTRAL DISTRICT OF CALIFORNIA
 21 WESTERN DIVISION

22 UNITED STATES OF AMERICA,
 23 Plaintiff,
 24
 25 v.
 26 AMERICAN HONDA FINANCE
 CORPORATION,
 27 Defendant.

No. 2:21-cv-07738
 COMPLAINT

1 Plaintiff, United States of America (“United States”), hereby alleges as follows:

2 **PRELIMINARY STATEMENT**

3 1. The United States brings this action under the Servicemembers Civil Relief
4 Act (“SCRA”), 50 U.S.C. §§ 3901-4043, against American Honda Finance Corporation
5 (“Defendant”) for violating the SCRA by failing to refund, on a *pro rata* basis, lease
6 amounts – in the form of capitalized cost reduction (“CCR”) from vehicle trade-in value
7 – paid in advance by servicemembers who lawfully terminated their motor vehicle leases
8 upon receipt of qualifying military orders. *See* 50 U.S.C. § 3955.

9 2. The purpose of the SCRA is to provide servicemembers with protections to
10 enable them to devote their entire energy to the defense needs of the Nation and to
11 protect their civil rights during military service. 50 U.S.C. § 3902. One of those
12 protections is the right to terminate a motor vehicle lease without penalty at any time: (1)
13 after entering military service, if the orders call for at least 180 days of service; (2) after
14 receiving qualifying military orders that permanently reassign the servicemember to
15 another location; or (3) after receiving military orders to deploy for at least 180 days. 50
16 U.S.C. § 3955(b)(2).

17 3. Within 30 days of the effective date of the lease termination, the lessor must
18 refund any lease amounts that the servicemember paid in advance to cover a period
19 occurring after the effective date of the lease termination. 50 U.S.C. § 3955(f).

20 4. A lessor who fails to refund to a servicemember any prepaid lease payments
21 for the period after lease termination violates that servicemember’s federally protected
22 rights under the SCRA.

23 **JURISDICTION AND VENUE**

24 5. This Court has jurisdiction over the subject matter of the claims in this
25 action under 28 U.S.C. § 1331, 28 U.S.C. § 1345, and 50 U.S.C. § 4041.

26 6. Defendant is a California corporation, administered from, and with a
27 principal place of business at, 1919 Torrance Boulevard, Torrance, California.

1 7. Venue is proper in the Central District of California, pursuant to 28 U.S.C.
2 § 1391(b), because Defendant’s principal place of business is in the Central District of
3 California, and Defendant conducts business within the Central District of California.

4 **DEFENDANT**

5 8. Defendant is a wholly-owned subsidiary of American Honda Motor Co.,
6 Inc., which in turn is a wholly-owned subsidiary of Honda Motor Co., Ltd., a Japanese
7 corporation. Defendant provides financing for Honda and Acura motor vehicles and
8 other Honda products in the form of both retail installment sales contracts and leases. As
9 of June 30, 2021, Defendant had total assets in excess of \$81 billion.

10 **FACTUAL ALLEGATIONS**

11 9. Leasing is a popular option for consumers seeking an automobile. When
12 consumers lease automobiles, they are allowed use of the vehicle for a specified period
13 of time, during which the consumer (or lessee) makes monthly payments. The monthly
14 lease payments include payment for possession and use of the vehicle, as well as any up-
15 front costs that have been financed. At the conclusion of the lease period, the consumer
16 usually has the option either to return the vehicle to the dealership or to purchase the
17 vehicle outright.

18 10. Often, the lessee contributes an up-front amount at lease signing, in the
19 form of a cash payment, credit for a trade-in vehicle, and/or rebates or other credits. A
20 portion of this up-front amount is applied to the first-month’s rent, and may also be
21 applied to certain up-front costs. The remainder, which is called the capitalized cost
22 reduction (“CCR”) amount, operates to reduce the monthly payment the lessee must
23 make over the term of the lease.

24 11. Many servicemembers, both active duty and members of the Reserves or
25 National Guard, have leased vehicles from Defendant. Since at least 2014, Defendant
26 has received thousands of requests from servicemembers to terminate their motor vehicle
27 leases under Section 3955 of the SCRA, including many instances involving leases
28

1 where the servicemember provided CCR amounts in the form of cash or vehicle trade-in
2 credits. In 2015, Defendant settled a putative class action lawsuit alleging that it had
3 violated Section 3955 by failing to refund prepaid CCR amounts to servicemembers who
4 terminated their leases early under the SCRA. As part of the settlement, Defendant
5 agreed to provide compensation to servicemembers who had made cash CCR payments
6 and later terminated their leases. The settlement did not include any compensation based
7 on servicemembers' vehicle trade-in credit. Around this time, Defendant changed its
8 policies with regard to the refund of CCR lease amounts. Under the new policy,
9 servicemembers who terminate their leases early are entitled to a refund of any "cash
10 down payment," which include cash payments that are applied to CCR, pro-rated based
11 on the proportion of the lease term that remains unfulfilled at the time of termination.
12 Servicemembers are not entitled under the new policy to any refund of vehicle trade-in
13 value that is applied to CCR.

14 12. Defendant has not, in practice, provided refunds of any portion of
15 servicemembers' CCR amounts that are derived from vehicle trade-in credits.

16 **United States Army Sergeant Barreto**

17 13. On April 15, 2018, United States Army Sergeant Eugenio Barreto executed
18 a lease for a 2018 Honda Accord at Gary Yeomans Honda in Daytona Beach, Florida.

19 14. At the time of leasing, Sgt. Barreto paid \$3,500 in cash, received a \$500
20 "Manufacturer Contribution," and received \$4,500 in trade-in credit for his 2013 Ford
21 Focus. The lease contract indicates that he received \$4,000 in CCR for the "Amount
22 Paid in Cash" and \$2,819.71 in CCR for the "Credit for Net Trade-In Allowance." The
23 remainder of the up-front trade-in value was credited to the first month's payment, taxes,
24 and other fees. The CCR acted to reduce his monthly lease payment to less than it would
25 have been without the CCR.

26 15. On February 14, 2019, Sgt. Barreto received orders to report on June 1,
27 2019 for training and on July 9, 2019 for a 400-day deployment to Kuwait as part of
28

1 Operation Enduring Freedom.

2 16. On April 24, 2019, Sgt. Barreto submitted his notice of termination of his
3 lease, along with a copy of his mobilization orders, to Defendant.

4 17. On April 25, 2019, Sgt. Barreto spoke with Defendant's representative
5 about the early lease termination request.

6 18. On May 6, 2019, Sgt. Barreto surrendered the vehicle to Gary Yeomans
7 Honda in Daytona Beach, Florida. Defendant processed the surrender as an early
8 termination under Section 3955 of the SCRA. At the time of termination, Sgt. Barreto
9 was up-to-date on his lease payments.

10 19. On June 4, 2019, Defendant's representative sent Sgt. Barreto a letter
11 stating that only the cash portion of the CCR was eligible for refund after an SCRA
12 termination, and the portion attributed to trade-in credit could not be refunded.

13 20. On or about July 2, 2019, only after Sgt. Barreto had complained and made
14 multiple requests for a refund, Defendant provided a pro-rated refund of CCR amounts,
15 including the vehicle trade-in credit CCR amount.

16 **Defendant's Policy and Unlawful Conduct**

17 21. Until at least July 2019, when the United States opened its investigation of
18 Defendant, Defendant's written policy was not to refund any portion of CCR amounts
19 attributable to vehicle trade-in value to servicemembers who terminate their motor
20 vehicle leases under Section 3955 of the SCRA.

21 22. Since at least July 2014 and until at least July 2019, Defendant regularly
22 failed to timely refund to servicemembers all of their lease amounts paid in advance for
23 periods after the termination of their motor vehicle leases under Section 3955 of the
24 SCRA. During the time period, thousands of servicemembers requested Defendant
25 terminate their leases because of their military service obligations. Based on its review
26 of these lease terminations, the United States has identified 714 servicemembers harmed
27 by Defendant's policy. These servicemembers did not receive a refund of their trade-in
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1 value paid as part of their CCR. Defendant changed its policy in 2019 after it received
2 notification of the United States’ investigation.

3 **CLAIM FOR RELIEF**
4 **(VIOLATION OF THE SCRA)**

5 23. Plaintiff United States realleges the allegations contained in paragraphs 8
6 through 22 above.

7 24. The SCRA provides that “[t]he lessee on a [motor vehicle] lease . . . may, at
8 the lessee’s option, terminate the lease at any time after . . . the date of the lessee’s
9 military orders” 50 U.S.C. § 3955(a)(1). This option applies to servicemembers
10 who “while in military service, execute[] the lease and thereafter receive[] military
11 orders – (i) for a permanent change of station– (I) from a location in the continental
12 United States to a location outside the continental United States; or (II) from a location
13 in a State outside the continental United States to any location outside that State; or (ii)
14 to deploy with a military unit, or as an individual in support of a military operation, for a
15 period of not less than 180 days.” 50 U.S.C. § 3955(b)(2). The same option also applies
16 to leases “executed by or on behalf of a person who thereafter and during the term of the
17 lease enters military service under a call or order specifying a period of not less than 180
18 days (or who enters military service under a call or order specifying a period of 180 days
19 or less and who, without a break in service, receives orders extending the period of
20 military service to a period of not less than 180 days).” *Id.*

21 25. Further, “lease amounts paid in advance for a period after the effective date
22 of the termination of the lease shall be refunded to the lessee by the lessor . . . within 30
23 days of the effective date of the termination of the lease.” 50 U.S.C. § 3955(f).

24 26. Defendant has engaged in a pattern or practice of violating Section 3955(f)
25 of the SCRA, 50 U.S.C. § 3955(f), by failing to timely refund any portion of CCR
26 amounts from vehicle trade-in credit to eligible servicemembers who terminated their
27 motor vehicle leases under Section 3955 of the SCRA.

conduct;

32. Awards appropriate monetary damages under 50 U.S.C. § 4041(b)(2) to the victims of Defendant’s violations of the SCRA;

33. Assesses civil penalties against Defendant under 50 U.S.C. § 4041(b)(3) in order to vindicate the public interest; and

34. Grants such other and further relief as the court deems just and proper.

Dated: September 29, 2021

Respectfully submitted,

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