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U.S. DISTRICT COURT
CENTRAL DISTRICT OF CALIF.
SAN FRANCISCO

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**UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA**

Consumer Financial Protection Bureau,

Case No. SACV13-01267 JST (JEMx)

Plaintiff,

**COMPLAINT FOR PERMANENT
INJUNCTION AND OTHER
RELIEF**

v.

Morgan Drexen, Inc.,
and
Walter Ledda, individually, and as
owner, officer, or manager of Morgan
Drexen, Inc.,
Defendants.

1 The Consumer Financial Protection Bureau (the “Bureau”) alleges the following
2 against Morgan Drexen, Inc. (“Morgan Drexen”) and Walter J. Ledda (“Mr. Ledda”)
3 (together, “Defendants”):

4 **INTRODUCTION**

5 1. The Bureau brings this action under Sections 1031(a), 1036(a), 1054, and
6 1055 of the Consumer Financial Protection Act of 2010 (“CFPA”), 12 U.S.C. §§ 5531(a),
7 5536(a), 5564(a), and 5581, and under the Telemarketing and Consumer Fraud and
8 Abuse Prevention Act, 15 U.S.C. §§ 6102(c)(2), 6105(d), based on Defendants’
9 violations of the CFPA and the Telemarketing Sales Rule (“TSR”), 16 C.F.R. pt. 310, in
10 connection with the marketing and sale of debt relief services.

11 **JURISDICTION AND VENUE**

12 2. This Court has subject-matter jurisdiction over this action because the action
13 is “brought under Federal consumer financial law,” 12 U.S.C. § 5565(a)(1), presents a
14 federal question, 28 U.S.C. § 1331, and is brought by an agency of the United States, 28
15 U.S.C. § 1345.

16 3. Venue is proper in this District under 28 U.S.C. §§ 1391(b) and (c), and 12
17 U.S.C. § 5564(f).

18 **PLAINTIFF**

19 4. The Bureau is an independent agency of the United States charged with
20 regulating the offering and provision of consumer financial products or services under
21 Federal consumer financial laws. 12 U.S.C. § 5491(a). It has independent litigating
22 authority, 12 U.S.C. § 5564(a)-(b), including the authority to enforce the TSR as it
23 applies to persons subject to the CFPA, 15 U.S.C. §§ 6102(c)(2), 6105(d); 12 U.S.C. §
24 5531(a).

25 **DEFENDANTS**

26 5. Defendant Morgan Drexen, Inc. (“Morgan Drexen”) is a Nevada
27 corporation. Its physical business address is 675 Anton Blvd., Costa Mesa, CA 92626.
28

1 Morgan Drexen offers and provides debt relief services, as defined in the TSR, 16 C.F.R.
2 § 310.2(m) (2010), and financial advisory services within the meaning of the CFPA, 12
3 U.S.C. § 5481(15)(A)(viii), including, but not limited to, debt relief services. At all times
4 material to this Complaint, Morgan Drexen transacts or has transacted business in the
5 Central District of California.

6 6. Defendant Walter J. Ledda is the President and Chief Executive Officer of
7 Morgan Drexen. At all times material to this complaint, acting alone or in concert with
8 others, Mr. Ledda has formulated, directed, controlled, or participated in the acts and
9 practices of Morgan Drexen, including the acts and practices set forth in this Complaint.
10 Given his status as an officer or managerial employee, Mr. Ledda is a “related person”
11 under the CFPA. 12 U.S.C. § 5481(25). Because of his status as a “related person”
12 under the CFPA, Mr. Ledda is a “covered person” under the CFPA. *Id.* Mr. Ledda is
13 also a “covered person” under the CFPA because he engages in the offering or providing
14 of consumer financial services through his provision of financial advisory services,
15 including services to assist consumers settle debts. At all times material to this
16 Complaint, Mr. Ledda has transacted business in the Central District of California.

17 **BACKGROUND**

18 7. Mr. Ledda founded Morgan Drexen in or around March 2007. At the time, a
19 number of states that regulated the for-profit debt relief industry provided an exemption,
20 in some form, for attorneys practicing law in connection with debt relief.

21 8. In or around August 2007, Morgan Drexen began employing what is known
22 colloquially as the “Attorney Model” of debt relief services. Under the Attorney Model,
23 consumers contracted directly with attorneys affiliated with Morgan Drexen for the
24 provision of debt relief services and paid the attorneys up-front fees in advance of any
25 debt being settled. Morgan Drexen, not the attorneys, actually performed the debt relief
26 work on behalf of consumers. The attorneys, in turn, paid Morgan Drexen the majority
27 of the up-front fees they received from consumers.

1 9. At the outset of its use of the Attorney Model, Morgan Drexen entered into a
2 business arrangement with a number of lawyers (“Engagement Attorneys”). Morgan
3 Drexen and the Engagement Attorneys agreed that they would work together to offer debt
4 relief services to the entire nation. Each of the Engagement Attorneys was assigned a
5 region of the country. The Engagement Attorneys then contracted with attorneys in
6 jurisdictions where the Engagement Attorneys were not licensed to practice law (“Local
7 Attorneys”) (Collectively, Local Attorneys and Engagement Attorneys are referred to
8 herein as “Network Attorneys”).

9 10. Though consumers paid Network Attorneys directly, the attorneys would
10 only keep a small percentage of the funds received. Morgan Drexen retained the majority
11 of the up-front fees paid by consumers.

12 11. In October 2010, the FTC responded to the proliferation of abusive and
13 deceptive practices in the debt relief sector by amending the TSR to, among other things,
14 prohibit debt relief companies engaged in telemarketing from requesting or receiving
15 advance fees before renegotiating, settling, reducing, or otherwise altering the terms of at
16 least one of a consumer’s debts. The TSR amendments do not provide an exemption for
17 attorneys practicing law in connection with debt relief.

18 12. On or around the effective date of the TSR amendment, Morgan Drexen
19 changed its business practice.

20 13. Under its new practice, Morgan Drexen presents the consumer with two
21 contracts to enter into with a Network Attorney, one purportedly for debt relief services
22 and one purportedly for bankruptcy-related services (“Dual Contract Model”).

23 14. The Dual Contract Model is designed to disguise consumers’ up-front
24 payments for debt relief services provided by Morgan Drexen as payments for
25 bankruptcy-related work purportedly performed by Network Attorneys.

1 displayed on the screen in large bold neon print, while a voice in the background
2 announces, “Best part – no up-front fees. You have nothing to lose except your debt.”

3 20. Morgan Drexen also advertises its services as a way for consumers to avoid
4 bankruptcy, with statements such as: “Start your life over without filing bankruptcy.”

5 21. In its commercials, Morgan Drexen claims that attorneys will work on
6 behalf of consumers to reduce their debt. For example, one commercial includes the
7 following statement: “attorneys supported by Morgan Drexen will work to reduce your
8 debt.” Another includes the following statement: “Put a lawyer on your side.” In most
9 commercials, Morgan Drexen does not name a specific attorney. Instead, it refers
10 generally to “attorneys supported by Morgan Drexen.”

11 22. Each television and radio commercial contains a toll-free telephone number
12 for consumers to call in order to speak with a Morgan Drexen representative.

13 *The Intake Call*

14 *The Pitch*

15 23. Consumers respond to Morgan Drexen’s advertising and call the toll-free
16 telephone number listed by Morgan Drexen to inquire about the advertised debt relief
17 services.

18 24. During telephone calls, employees of Morgan Drexen advise consumers that
19 Morgan Drexen can assist in negotiating unsecured debts so that a consumer will be able
20 to repay the debt for less than what is owed.

21 25. Morgan Drexen employees advise consumers that, under the terms of the
22 advertised debt relief program, the consumers will make fixed monthly payments for a
23 defined period of time.

24 26. Morgan Drexen employees further advise that, once Morgan Drexen has
25 negotiated a settlement of unsecured debt, the funds the consumer has paid on a monthly
26 basis will be used to pay the negotiated, reduced debt amount, thereby settling the debt.

1 27. Consumers are often placed on hold during their initial call to Morgan
2 Drexen. While on hold, consumers hear testimonials from people who state they are
3 happy with the program advertised by Morgan Drexen. These testimonials often
4 emphasize the benefits of avoiding bankruptcy. For example, one such testimonial reads:

5 And I thought I was going to have to claim bankruptcy, but I
6 really didn't want to do that, so I decided to take a chance on
7 the program I saw advertised. Now of course I was very
8 nervous at first because it was something new I hadn't heard of
9 before. But, I'm debt free now. I could hardly believe it. It's
 awesome to get a second chance.

10 28. Morgan Drexen employees obtain detailed information from consumers
11 about the amount and source(s) of their income and the amount and number of their
12 debts.

13 29. Once Morgan Drexen has obtained information about the consumer's
14 income and debt, the consumer is transferred to a "Legal Intake Specialist," another
15 Morgan Drexen employee at its call center. Morgan Drexen has prepared a script for
16 Legal Intake Specialists to follow when talking to consumers. The script includes the
17 following language:

18 Basically, I'm a Morgan Drexen Legal Intake Specialist who
19 works with (name the firm). This is a law firm that settles with
20 creditors. (Name the firm), with our support, negotiates with
21 your creditors to get you out of the debt. Although this depends
22 on the circumstances of each individual client, their average
23 settlements are about 40 to 50% of the balance due (excluding
24 fees and accretion). Ultimately, they work with you to pay
 back the debt at a reduced amount, without the scar of filing for
 bankruptcy.

25 30. If a consumer is still interested in signing up for the advertised debt relief
26 program, a Morgan Drexen employee determines the amount of the monthly payment the
27 consumer will have to make under the program and informs the consumer of this.
28

1 *The Fees*

2 31. During the intake call, Morgan Drexen makes a series of contradictory
3 statements about the fees consumers must pay under the advertised debt relief program.

4 32. For example, per Morgan Drexen’s call scripts, Morgan Drexen employees
5 state that the “only fee” a consumer will be charged for debt relief services is a flat
6 percentage of the consumer’s original balance of a debt, and that the flat percentage will
7 only accrue once the debt is settled.

8 33. But then the employee explains that the consumer will also be charged three
9 fees for bankruptcy services: (1) a \$1,000 to \$1,500 engagement fee; (2) a \$450
10 bankruptcy filing fee; and (3) a \$50 monthly administrative fee. The employee states that
11 Morgan Drexen provides the consumer with bankruptcy services as a “safety net, just in
12 case you need a new beginning.” The employee describes how an attorney will prepare a
13 bankruptcy petition for the consumer, but will not file it until the consumer consents and
14 has paid the fees. The employee then explains that these fees are “built into” the
15 consumer’s payment and thus are not an “out of pocket expense.”

16 34. As the final step of the intake call, the Morgan Drexen employee asks
17 consumers with internet access to access a web portal and electronically sign two
18 contracts for services with the Network Attorney to which Morgan Drexen has assigned
19 them. The first contract is titled, “Attorney/Client Agreement – Debt Resolution
20 Representation” (“Debt Relief Contract”). The second contract is titled, “Attorney/Client
21 Bankruptcy Fee Agreement” (“Bankruptcy Contract”).

22 35. The Debt Relief Contracts are at least five-pages long, contain many legal
23 terms, and are written in small font, in single-spaced form. The Bankruptcy Contracts are
24 at least four-pages long, contain many legal terms, and are also written in small font, in
25 singled spaced form.

26 36. Consumers do not have any contact with an attorney prior to signing these
27 contracts.

1 37. The vast majority of consumers seeking Morgan Drexen’s debt relief
2 services sign both contracts.

3 38. When consumers enroll in the program, Morgan Drexen employees tell them
4 to stop paying debts they want to settle.

5 39. Consumers who stop paying debts as a result of Morgan Drexen’s advice
6 may be harmed because the failure to pay may result in, among other things, a lowered
7 credit score, collection calls, and the imposition of late fees.

8 40. Morgan Drexen also obtains authorization from consumers to automatically
9 deduct a monthly payment from their bank account. Once Morgan Drexen has this
10 authorization, it immediately withdraws \$100.

11 ***The Architecture of Morgan Drexen’s Dual Contract Model***

12 ***The Debt Relief Contract***

13 41. Under the Dual Contract Model, the Debt Relief Contract the consumer
14 signs does not require the payment of up-front fees. Instead, it requires that the consumer
15 pay his or her attorney a contingent fee that is a percentage (18%) of the verified original
16 balance of the resolved account at the time of engagement. It also requires the consumer
17 to pay a “pass-through charge” of either 4% of each debt that is settled or \$10 per each
18 payment the consumer makes to pay off a debt that is settled, whichever is less.

19 42. The contract commits a Network Attorney to represent a consumer with
20 respect to the attempted negotiation and settlement of the consumer’s debts. In numerous
21 instances, however, Morgan Drexen, not Network Attorneys, performs virtually all of the
22 debt resolution work. Among other things, Morgan Drexen:

- 23 a. Creates and publishes advertisements for debt relief services;
- 24 b. Fields phone calls from consumers responding to its advertisements;
- 25 c. Performs consumer intake;
- 26 d. Analyzes consumers’ budgets to determine the potential savings that
27 consumers may realize as a result of enrolling in the debt relief program;
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- e. Determines consumers' monthly payments;
- f. Appoints Network Attorneys for consumers to enter into a contract with;
- g. Sends letters to consumers instructing them to call Morgan Drexen rather than their attorneys if they have a question;
- h. Obtains paperwork from consumers to process enrolled debts;
- i. Sets up automatic withdrawals from consumers' bank accounts;
- j. Develops relationships with creditors to facilitate debt relief;
- k. Sends letters to creditors in the names of Network Attorneys (Morgan Drexen has signature stamps from the attorneys that it uses for this purpose);
- l. Directs creditors to communicate only with Morgan Drexen, not attorneys;
- m. Determines when to make a settlement offer to creditors;
- n. Directly negotiates with creditors to settle consumers' debts;
- o. Transfers funds from the accounts of Network Attorneys to itself, creditors, and other third parties; and
- p. Handles inquiries or complaints from consumers, the Better Business Bureau, and government agencies.

43. In numerous instances, Network Attorneys perform little, if any, work with respect to debt relief.

44. Local Attorneys receive a monthly retainer of \$500 for a client base of three hundred consumers (\$1.66 per consumer). Morgan Drexen provides incentives to Local Attorneys to approve settlement offers. Local Attorneys receive an additional \$250 per month to review and approve or reject up to fifty settlement offers (\$5 per offer). After receipt of the initial \$250, Local Attorneys are eligible to receive another \$5 per settlement offer, but only for settlement offers that they approve.

1 45. When Morgan Drexen has negotiated a settlement offer from a creditor, it
2 emails Local Attorneys through a web portal. Upon receipt of the email, an attorney
3 must choose one of four options: “cancel,” “accept,” “accept with comments,” or “deny.”
4 If Local Attorneys do not respond to the settlement proposal within 24 hours, the
5 proposal is automatically deemed approved. Settlement offers are routinely approved.

6 46. If debt settlement negotiations fail, and a creditor seeks to collect a debt
7 through litigation, consumers are not provided representation under the Debt Relief
8 Contract.

9 47. If a consumer wants litigation representation, he or she may enter into a
10 separate, limited scope agreement with a per-service fee structure, and even then receives
11 only a consultation regarding the filing of *pro-se* pleadings.

12 **The Bankruptcy Contract**

13 48. Under the Bankruptcy Contract presented to the consumer, the consumer is
14 required to pay up-front fees. At the outset of the engagement, a consumer pays:

- 15 a. an engagement fee of between \$1,000 and \$1,500, as determined by
- 16 Morgan Drexen;
- 17 b. a \$450 bankruptcy filing fee; and
- 18 c. a flat monthly servicing fee of \$50.

19 49. By the bankruptcy contract’s own limited scope, little to no bankruptcy work
20 is performed for consumers.

21 50. Though the Bankruptcy Contract refers to bankruptcy in its title and
22 throughout the document, the contract does not commit Network Attorneys to provide
23 legal representation to consumers in a bankruptcy proceeding. It limits a Network
24 Attorney’s engagement to counseling the consumer “with respect to preparation for
25 possibly filing a bankruptcy petition” and “with respect to pre- and post-filing claims by
26 creditors.” If a consumer seeks representation in a bankruptcy proceeding, he or she must
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1 pay the Network Attorney additional fees under a new contract, or find another attorney
2 to represent him or her.

3 **Morgan Drexen's Receipt of Up-Front Fees**

4 51. Once the consumer enrolls in Morgan Drexen's Dual Contract Model
5 program by signing both contracts, Morgan Drexen commences making automatic
6 monthly withdrawals from the consumer's account and depositing this money in his or
7 her Network Attorney's account.

8 52. With limited exception, it is not until the consumers' payments have covered
9 the up-front fees due under the Bankruptcy Contract – which may take a number of
10 months – that the consumer's monthly payments (minus the \$50 monthly administrative
11 fee or other outstanding fees) are placed into a trust account to be used towards
12 settlements with the consumer's creditors as negotiated by Morgan Drexen.

13 53. Morgan Drexen transfers the vast majority of all of these fees from the
14 Network Attorneys' accounts into its own account.

15 54. If consumers seek to terminate their relationship with Morgan Drexen and
16 the Network Attorneys and obtain a refund of the money they have paid, they typically
17 are unable to do so, or they obtain only a partial refund. Morgan Drexen routinely argues
18 that the fee payments are nonrefundable, regardless of whether Morgan Drexen has
19 obtained any settlements for the consumer.

20 **The Consumer Experience Under The Dual Contract Model**

21 55. Consumers who respond to Morgan Drexen's marketing efforts have
22 unsecured debt(s) and typically are having difficulty making their monthly payments.
23 They typically contact Morgan Drexen to inquire about debt relief services, not
24 bankruptcy-related services.

25 56. At least 22,000 consumers have enrolled in Morgan Drexen's Dual Contract
26 program since October 27, 2010 and have been charged millions of dollars in up-front
27 fees.

1 57. On average, Morgan Drexen customers who enter into the Dual Model
2 Contract program enroll fourteen debts, totaling tens of thousands of dollars.

3 58. Few, if any, consumers become debt free in months by using Morgan
4 Drexen's Dual Contract Model program.

5 59. Only a tiny fraction of consumers who enter into Morgan Drexen's Dual
6 Contract Model have all of their enrolled debts renegotiated, settled, reduced, or
7 otherwise altered. The vast majority of consumers do not have any enrolled debt
8 renegotiated, settled, reduced, or otherwise altered.

9 60. Morgan Drexen and the Network Attorneys rarely perform any bankruptcy-
10 related work for consumers. Typically, where bankruptcy work is performed, it is limited
11 to Morgan Drexen's preparation of a draft bankruptcy petition for the consumer.

12 **ROLE OF INDIVIDUAL DEFENDANT WALTER J. LEDDA**

13 61. Mr. Ledda has engaged in the offering or providing of debt relief services
14 through Morgan Drexen. He is the President of Morgan Drexen's two-person Board of
15 Directors, and the President and Chief Executive Officer of the company. He also holds
16 a 93.09% stake in the company.

17 62. Among other acts relating to Morgan Drexen, Mr. Ledda manages the
18 company's day-to-day operations, is the sole signatory on Morgan Drexen's bank
19 accounts, and was instrumental in the creation of the Morgan Drexen's Dual Contract
20 Model.

21 **THE TELEMARKETING SALES RULE**

22 63. The TSR was promulgated for the explicit purpose of preventing consumer
23 harm from debt relief operations like Morgan Drexen's. 75 Fed. Reg. 48, 458 (Aug. 10,
24 2010).

25 64. The TSR, 16 C.F.R. § 310.2(m), defines "debt relief service" as "any
26 program or service represented, directly or by implication, to renegotiate, settle, or in any
27 way alter the terms of payments or other terms of the debt between a person and one or
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1 more unsecured creditors or debt collectors, including, but not limited to, a reduction in
2 the balance, interest rate, or fees owed by a person to an unsecured creditor or debt
3 collector.”

4 65. The TSR, 16 C.F.R. § 310.2(dd), defines “telemarketing” as “a plan,
5 program, or campaign which is conducted to induce the purchase of goods or services or
6 a charitable contribution, by use of one or more telephones and which involves more than
7 one interstate telephone call.”

8 66. The TSR, 16 C.F.R. § 310.2(aa), defines “seller” as “any person who, in
9 connection with a telemarketing transaction, provides, offers to provide, or arranges for
10 others to provide goods or services to the customer in exchange for consideration.”

11 67. The TSR, 16 C.F.R. § 310.2(cc), defines “telemarketer” as “any person who,
12 in connection with telemarketing, initiates or receives telephone calls to or from a
13 customer or donor.”

14 68. Defendants are “sellers” or “telemarketers” of “debt relief service,” who
15 engage in “telemarketing,” as defined in the TSR.

16 69. The TSR, 16 C.F.R. § 310.4(a)(5)(i), provides that a seller or a telemarketer
17 may not request or receive payment of any fee or consideration for any debt relief service
18 until and unless, among other things, “the seller or telemarketer has renegotiated, settled,
19 reduced, or otherwise altered the terms of at least one debt pursuant to a settlement
20 agreement, debt management plan, or other such valid contractual agreement executed by
21 the customer” and “the customer has made at least one payment” pursuant to such an
22 agreement or plan.

23 70. The TSR, 16 C.F.R. § 310.4(a)(5)(ii), provides that a seller or a telemarketer
24 may request or require customers to place funds in an account to be used for the debt
25 relief provider’s fees and for payments to creditors or debt collectors in connection with
26 the renegotiation or settlement of a debt, provided that, among other things: “the
27 customer owns the funds held in the account and is paid interest on the account” and “the
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1 customer may withdraw from the debt relief service at any time without penalty and must
2 receive all funds in the account, other than funds earned by the debt relief service in
3 compliance with §310.4(a)(5)(i)(A) through (C), within seven (7) business days of the
4 consumer's request.”

5 71. The TSR, 16 C.F.R. § 310.3(a)(2)(ii), prohibits a seller or telemarketer from
6 misrepresenting, directly or by implication, in the sale of goods or services, any material
7 restriction, limitation, or condition to purchase, receive, or use goods or services that are
8 the subject of the sales offer.

9 72. The TSR, 16 C.F.R. § 310.3(a)(2)(iii), prohibits a seller or telemarketer from
10 misrepresenting, directly or by implication, in the sale of goods or services, any material
11 aspect of the performance, efficacy, nature, or central characteristics of goods or services
12 that are the subject of a sales offer.

13 73. The TSR, 16 C.F.R. § 310.3(a)(2)(x), prohibits a seller or telemarketer from
14 misrepresenting, directly or by implication, in the sale of goods or services, any material
15 aspect of any debt relief service.

16 VIOLATIONS OF THE TSR

17 COUNT I

18 74. Plaintiff re-alleges Paragraphs 1 – 73 and incorporates them herein by
19 reference.

20 75. In the course of telemarketing debt relief services from October 27, 2010 to
21 the present, Defendants have requested or received fees from consumers for debt relief
22 services before renegotiating, settling, reducing, or otherwise altering the terms of at least
23 one of such consumers' debts. Defendants have requested or received payment of these
24 fees prior to consumers making at least one payment pursuant to any settlement
25 agreement, debt-management plan, or other valid contractual agreement between
26 consumers and their creditors.

1 Because Defendants are “covered persons,” their conduct is unlawful under sections
2 1031(a) and 1036(a)(1) of the CFPA, 12 U.S.C. §§ 5531(a), 5536(a)(1). 15 U.S.C. §
3 6102(c)(2).

4 COUNT IV

5 84. Plaintiff re-alleges Paragraphs 1 – 73 and incorporates them herein by
6 reference.

7 85. In numerous instances, in connection with the advertising, marketing,
8 promoting, offering for sale, or sale of debt relief services, Defendants have represented,
9 directly or indirectly, expressly or by implication, that consumers who enroll in the debt
10 relief program advertised by Defendants will be debt free in months, *i.e.*, less than a year,
11 of enrolling in the program.

12 86. In fact, in numerous instances, consumers do not become debt free in
13 months, *i.e.*, less than a year, of enrolling in Defendants’ debt relief program.

14 87. Therefore, Defendants’ representations as described herein violate the TSR,
15 16 C.F.R. § 310.3(a)(2)(iii) and (x), and are deceptive acts or practices in telemarketing.
16 Because Defendants are “covered persons,” their conduct is unlawful under sections
17 1031(a) and 1036(a)(1) of the CFPA, 12 U.S.C. §§ 5531(a), 5536(a)(1). 15 U.S.C. §
18 6102(c)(2).

19 THE CONSUMER FINANCIAL PROTECTION ACT

20 88. Sections 1031 and 1036(a)(1)(B) of the CFPA, 12 U.S.C. §§ 5531,
21 5536(a)(1)(B), prohibit covered persons from engaging “in any unfair, deceptive, or
22 abusive act or practice.”

23 89. Section 1036(a)(1)(A) of the CFPA provides that it is “unlawful for any
24 covered person to offer or provide to a consumer any financial product or service not in
25 conformity with Federal consumer law, or otherwise commit any act or omission in
26 violation of a Federal consumer financial law.” Section 1054(a) of the CFPA grants the
27 Bureau authority to commence a civil action against any person who violates a Federal
28

1 consumer financial law. The CFPA is a Federal consumer financial law. 12 U.S.C. §
2 5481(14).

3 90. Defendants are “covered person[s]” within the meaning of the CFPA, 12
4 U.S.C. §§ 5481(6) and 5481(25).

5 **VIOLATIONS OF THE CFPA**

6 **COUNT V**

7 91. Plaintiff re-alleges Paragraphs 1 – 73 and incorporates them herein by
8 reference.

9 92. In numerous instances, in connection with the advertising, marketing,
10 promoting, offering for sale, or sale of debt relief services, Defendants have represented,
11 directly or indirectly, expressly or by implication, that consumers are not charged an
12 advance fee for Defendants’ debt relief services.

13 93. In fact, consumers are charged advance fees for Defendants’ debt relief
14 services.

15 94. Therefore, Defendants’ representations as set forth in Paragraph 91 are false
16 and misleading, and constitute deceptive acts or practices in violation of Sections 1031
17 and 1036 of the CFPA, 12 U.S.C §§ 5531, 5536.

18 **COUNT VI**

19 95. Plaintiff re-alleges Paragraphs 1 – 73 and incorporates them herein by
20 reference.

21 96. In numerous instances, in connection with the advertising, marketing,
22 promoting, offering for sale, or sale of debt relief services, Defendants have represented,
23 directly or indirectly, expressly or by implication, that consumers who enroll in the debt
24 relief program advertised by Defendants will be debt free in months, *i.e.*, less than a year,
25 of enrolling in the program.

26 97. In fact, in numerous instances, consumers do not become debt free in
27 months, *i.e.*, less than a year, of enrolling in Defendants’ debt relief program. Therefore,
28

1 Defendants' representations as set forth in Paragraph 95 are false and misleading, and
2 constitute deceptive acts or practices in violation of Sections 1031 and 1036 of the CFPA,
3 12 U.S.C §§ 5531, 5536.

4 **CONSUMER INJURY**

5 98. Consumers have suffered and will continue to suffer substantial injury as a
6 result of Defendants' violations of the TSR and the CFPA. In addition, Defendants have
7 been unjustly enriched as a result of their unlawful acts or practices. Absent injunctive
8 relief by this Court, Defendants are likely to continue to injure consumers, reap unjust
9 enrichment, and harm the public.

10 **THIS COURT'S POWER TO GRANT RELIEF**

11 99. The CFPA empowers this Court to grant any appropriate legal or equitable
12 relief with respect to violations of Federal consumer financial law, including, without
13 limitation, permanent or temporary injunction, rescission or reformation of contracts, the
14 refund of moneys paid, restitution, disgorgement or compensation for unjust enrichment,
15 and civil money penalties. 12 U.S.C. §§ 5538(a) and 5565(a).

16 **PRAYER FOR RELIEF**

17 100. Wherefore, the Bureau requests that the Court:

- 18 a. Award Plaintiff such injunctive and ancillary relief as may be necessary to
19 enjoin Defendants from harming consumers through the advertisement,
20 marketing, promotion, offering for sale, or selling of any consumer
21 financial product or service;
- 22 b. Permanently enjoin Defendants from advertising, marketing, promoting,
23 offering for sale, or selling any debt relief product or service.
- 24 c. Permanently enjoin Defendants from committing future violations of the
25 CFPA, 12 U.S.C. §§ 5531, 5536, and the TSR, 16 C.F.R. pt. 310;
- 26 d. Award such relief as the Court finds necessary to redress injury to
27 consumers resulting from Defendants' violations of the CFPA and the
28

1 TSR, including, but not limited to, rescission or reformation of contracts,
2 the refund of moneys paid, restitution, and disgorgement or compensation
3 for unjust enrichment;

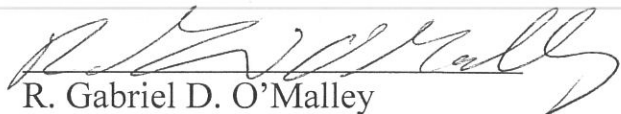
4 e. Award Plaintiff civil money penalties; and

5 f. Award Plaintiff the costs of bringing this action, as well as such other and
6 additional relief as the Court may determine to be just and proper.
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9 Dated: August 20, 2013

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11 Respectfully submitted,

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13 LUCY E. MORRIS
14 Deputy Enforcement Director For Litigation

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