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15 UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

16 Consumer Financial Protection Bureau,
17 Plaintiff,

18 v.

19 Global Client Solutions, LLC,
20 an Oklahoma limited liability
21 company;

22 Global Holdings LLC, an Oklahoma
23 limited liability company;

24 Robert Merrick, an individual; and

25 Michael Hendrix, an individual;

26 Defendants.
27

Case No. 2:14-CV-6643

COMPLAINT

1 **JURISDICTION AND VENUE**

2 1. This Court has subject-matter jurisdiction because this action is brought
3 under Federal consumer financial law, 12 U.S.C. § 5565(a)(1), presents a federal
4 question, 28 U.S.C. § 1331, and is brought by an agency of the United States, 28 U.S.C.
5 § 1345.

6 2. Venue is proper in this district because a substantial amount of the
7 transactions, acts, practices, and courses of conduct constituting violations of Federal
8 consumer financial law occurred within this district. 28 U.S.C. § 1391(b)(2); 12 U.S.C.
9 § 5564(f).

10 **INTRODUCTION**

11 3. The Consumer Financial Protection Bureau (“Bureau”) brings this action
12 against Global Client Solutions, LLC (“GCS”), Global Holdings LLC (the “Parent
13 Company”), Robert Merrick, and Michael Hendrix (collectively, “Defendants”), under
14 the Consumer Financial Protection Act of 2010 (CFPA), 12 U.S.C. §§ 5531(a), 5536(a),
15 5564(a), and the Telemarketing and Consumer Fraud and Abuse Prevention Act, 15
16 U.S.C. §§ 6102(c)(2), 6105(d), based on violations of the Telemarketing Sales Rule
17 (“TSR”), 16 C.F.R. pt. 310, and sections 1031(a) and 1036(a) of the CFPA. In particular,
18 this action is based on Defendants’ facilitation of TSR violations by debt-relief service
19 providers (“DRSPs”) with which they do business.

20 **PARTIES**

21 4. The Bureau is an agency of the United States. 12 U.S.C. § 5491(a). It has
22 independent litigating authority, 12 U.S.C. § 5564(a)-(b), including the authority to
23 enforce the TSR as it applies to persons subject to the CFPA, 12 U.S.C. § 5531(a); 15
24 U.S.C. §§ 6102(c)(2), 6105(d).

25 5. Defendant Global Client Solutions, LLC is a limited liability company
26 organized under the laws of Oklahoma and is wholly-owned by Global Holdings LLC.
27 GCS does business in every state of the United States. GCS offers and provides account
28

1 maintenance and payment-processing services to DRSPs and consumers. These services
2 are consumer financial services under the CFPA. 12 U.S.C. § 5481(15)(A)(viii)(II). GCS
3 is therefore a “covered person” under the CFPA. 12 U.S.C. § 5481(6).

4 6. Defendant Global Holdings LLC, is a limited liability company organized
5 under the laws of Oklahoma and—through its subsidiary, agent, or alter-ego, GCS—does
6 business in every state of the United States. The Parent Company is a controlling
7 shareholder of GCS and is, therefore, a “related person” under the CFPA. 12 U.S.C.
8 § 5481 (25)(C)(i)-(ii).

9 7. GCS and its Parent Company (collectively, “Global”) share a common board
10 of directors, common officers, common office space, and common ownership, such that
11 they constitute a single business enterprise.

12 8. Defendant Robert Merrick co-founded GCS and is the chairman of the board
13 of directors of the Parent Company. Merrick has managerial responsibility for GCS and
14 materially participates in the conduct of its affairs, including its payment-processing
15 services for DRSPs. Merrick is therefore a “related person” under the CFPA. 12 U.S.C. §
16 5481 (25)(C)(i)-(ii).

17 9. Defendant Michael Hendrix is the Chief Executive Officer of GCS. Hendrix
18 has managerial responsibility for GCS and materially participates in the conduct of its
19 affairs, including its payment-processing services for DRSPs. Hendrix is therefore a
20 “related person” under the CFPA. 12 U.S.C. § 5481 (25)(C)(i)-(ii).

21 **FACTS**

22 10. In exchange for a fee, DRSPs promise to help consumers reduce or eliminate
23 their unsecured debts by enrolling consumers in a debt-relief program.

24 11. Generally, when consumers enroll in a debt-relief program, they also enter
25 into a separate agreement with Global, which establishes and maintains a “Custodial
26 Account” for the consumer.

1 12. After a consumer enrolls in a debt-relief program, the DRSP instructs the
2 consumer to stop making payments towards their unsecured debts and instead to make
3 monthly payments to Global for deposit into the consumer's Custodial Account.

4 13. These monthly payments cover three things: (i) the DRSP's fee for debt-
5 relief services; (ii) Global's fee for account-maintenance services; and (iii) the
6 consumer's savings, which are set aside for future settlements of the consumer's debts, as
7 negotiated by the DRSP.

8 14. Since October 27, 2010, Global has processed payments for more than
9 236,000 consumers enrolled in debt-relief programs offered by more than 800 DRSPs.
10 Global processed payments for more consumers in California than in any other state.

11 15. Since October 27, 2010, the TSR has prohibited DRSPs from requesting or
12 receiving fees from a consumer for debt-relief services before (i) the DRSP has
13 renegotiated, settled, reduced, or otherwise altered the terms of at least one of the
14 consumer's debts and (ii) the consumer has made at least one payment pursuant to a debt-
15 settlement agreement or other contractual arrangement between the consumer and one of
16 his or her creditors. *See* 16 C.F.R. § 310.4(a)(5)(i).

17 16. Many of the DRSPs for which Global processed payments improperly
18 claimed to be exempt from the TSR based on unsubstantiated exemptions (e.g., an
19 "intrastate" exemption) and unrecognized exemptions (e.g., a "legal" exemption) and
20 routinely charged advance fees for debt-relief services, in violation of the TSR.

21 17. Since October 27, 2010, Global processed payments for tens of thousands of
22 consumers who were charged tens of millions of dollars in unlawful advance fees for
23 debt-relief services. More consumers were charged an unlawful advance fee in California
24 than in any other state.

25 18. For each consumer who was charged an unlawful advance fee, Global was
26 responsible for actually transmitting, and did transmit, the fees from a consumer's
27 Custodial Account to his or her DRSP.

1 19. At the time Global transmitted these fees, it knew, based on its own account
2 records, that it had not yet transmitted any funds from the consumer's Custodial Account
3 to a creditor. Global thus knew that it was transmitting fees to DRSPs that had not yet
4 settled consumers' debts, and that the DRSPs were not entitled to an advance fee.

5 20. Since October 27, 2010, Global has received hundreds of complaints from or
6 on behalf of consumers concerning fees paid in connection with debt-relief services.
7 Despite these complaints, Global continued to transmit unlawful advance fees to DRSPs.

8 21. As persons with managerial responsibility for, and who materially
9 participate in, the conduct of the affairs of Global, Merrick and Hendrix are intimately
10 familiar with Global's corporate affairs. They actively participate in Global's payment-
11 processing business for DRSPs. Merrick and Hendrix also have personally profited from
12 Global's activities.

13 22. Merrick and Hendrix knew or should have known that Global provided
14 substantial assistance to DRSPs by processing payments on their behalf and that DRSPs
15 were charging and collecting unlawful advance fees.

16 **COUNT I**

17 **(Global's Violations of the TSR and the CFPA)**

18 23. The allegations in paragraphs 1-22 are incorporated here by reference.

19 24. Global provided substantial assistance to its DRSP partners by processing
20 payments on their behalf.

21 25. Global knew or consciously avoided knowing that its DRSP partners were
22 charging and collecting advance fees in violation of the TSR.

23 26. Global's conduct violated the TSR's ban on assisting and facilitating others'
24 violations of that rule. 16 C.F.R. § 310.3(b).

25 27. Because GCS is a "covered person," its conduct is unlawful under sections
26 1031(a) and 1036(a)(1) of the CFPA, 12 U.S.C. §§ 5531(a), 5536(a)(1).

1 28. Because Global Holdings, LLC is a “related person,” Global Holdings, LLC
2 is deemed a “covered person” for purposes of the CFPA. 12 U.S.C. § 5481(25) and its
3 conduct is unlawful under sections 1031(a) and 1036(a)(1) of the CFPA, 12 U.S.C. §§
4 5531(a), 5536(a)(1).

5 **COUNT II**

6 **(Merrick’s Violations of the TSR and the CFPA)**

7 29. The allegations in paragraphs 1-22 are incorporated here by reference.

8 30. Because he is a “related person,” Merrick is deemed a “covered person” for
9 purposes of the CFPA. 12 U.S.C. § 5481(25).

10 31. Merrick is liable for violations of the TSR, 16 C.F.R. § 310.3(b) and sections
11 1031(a) and 1036(a)(1) of the CFPA, 12 U.S.C. §§ 5531(a), 5536(a)(1).

12 **COUNT III**

13 **(Hendrix’s Violations of the TSR and the CFPA)**

14 32. The allegations in paragraphs 1-22 are incorporated here by reference.

15 33. Because he is a “related person,” Hendrix is deemed a “covered person” for
16 purposes of the CFPA. 12 U.S.C. § 5481(25).

17 34. Hendrix is liable for violations of the TSR, 16 C.F.R. § 310.3(b) and
18 sections 1031(a) and 1036(a)(1) of the CFPA, 12 U.S.C. §§ 5531(a), 5536(a)(1).

19 **DEMAND FOR RELIEF**

20 Wherefore, the Bureau requests that the Court, as permitted by 12 U.S.C. § 5565:

- 21 a. Permanently enjoin Defendants from committing future violations of the
22 CFPA, 12 U.S.C. §§ 5531, 5536, the TSR, 16 C.F.R. pt. 310, or any other
23 provision of federal consumer-financial law, as defined by 12 U.S.C.
24 § 5481(14);
- 25 b. Grant additional injunctive relief as the Court may deem to be just and
26 proper;
- 27 c. Award damages or other monetary relief against Defendants;

- 1 d. Award restitution against Defendants in the amount of all fees collected
- 2 from consumers in violation of the TSR's advance fee ban;
- 3 e. Order disgorgement of all ill-gotten profits against Defendants;
- 4 f. Award civil money penalties against Defendants;
- 5 g. Award Plaintiff's costs against Defendants; and
- 6 h. Award additional relief as the Court may determine to be just and proper.

7
8 Dated: August 25, 2014

9 Respectfully Submitted,

10
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13 Lucy Morris
14 *Deputy Enforcement Director*
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