

The Consumer Financial Protection Bureau (“CFPB”) announced an enforcement action against Meracord, LLC, a debt settlement payment processor, for helping other entities collect millions of dollars in illegal upfront fees from consumers. The CFPB has asked a federal court to approve a consent order that would require Meracord and its CEO/owner to halt all illegal activities and to pay a \$1.376 million civil penalty.

Debt settlement companies generally offer to help consumers reduce or eliminate credit card or other debt by negotiating settlements with creditors. In many cases, debt settlement companies instruct consumers to stop paying their debts and to instead make monthly payments to a payment processor such as Meracord while the debts are negotiated. Meracord, based in the State of Washington, is one of the nation’s largest payment processors for the debt settlement industry.

In the CFPB enforcement action, it was alleged that Meracord violated the Telemarketing Sales Rule by helping debt settlement companies charge consumers upfront fees. The rule prohibits debt settlement companies from unlawfully charging consumers an upfront fee before settling or negotiating any of their debts. The rule is intended to protect consumers from the risk of spending their hard-earned money on services that may not help the consumer get out of debt and may instead only add to financial woes. In North Carolina, a state statute expressly prohibits debt settlement companies from charging an upfront fee for debt settlement or debt negotiation services.

The CFPB complaint alleged that Meracord processed thousands of illegal advance fees since October 2010. In doing so, Meracord helped debt settlement companies charge millions of dollars in unlawful fees to more than 11,000 consumers in multiple states. Nearly 5,000 of those consumers’ accounts were closed without any of their debts being settled. The consent order would have the defendants barred from processing payments for debt settlement companies and for entities in the mortgage settlement industry. Meracord would also be required to make reports to the CFPB to ensure their compliance and pay a civil penalty of \$1.376 million.

The enforcement action against Meracord is part of the CFPB’s comprehensive effort to prevent consumer harm in the debt settlement industry. CFPB also pursued enforcement actions against several debt settlement providers and obtained judgments against two large players in the industry – Payday Loan Debt Solution, Inc. and American Debt Settlement Solutions, Inc.

Consumers in North Carolina are protected against payment of advance fees for debt settlement services by a North Carolina statute, in addition to the Telemarketing Sales Rule. North Carolina consumers charged an up-front fee for debt settlement or debt negotiation services may have a claim for unfair and deceptive trade practices and for other violations of North Carolina law.