

WILLIAM E. KOVACIC
General Counsel

BARBARA ANTHONY
Regional Director
Northeast Region

MICHELE STOLLS (MS 3618)
Federal Trade Commission
One Bowling Green, Suite 318
New York, NY 10004
(212) 607-2829 (phone)

Attorneys for Plaintiff

**UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF NEW YORK**

FEDERAL TRADE COMMISSION, Plaintiff,

v.

CREDIT ENHANCEMENT SERVICES, LLC, a limited liability company,
LIBERTY BENEFITS, LLC, a limited liability company, and
FREDERICK J. DICK, JR., individually and as the sole member of CREDIT ENHANCEMENT
SERVICES, LLC and LIBERTY BENEFITS, LLC, Defendants.

Hon.

Civil No.

COMPLAINT FOR INJUNCTIVE AND OTHER EQUITABLE RELIEF

Plaintiff, the Federal Trade Commission ("FTC" or "Commission"), for its Complaint alleges:

1. The FTC brings this action under Sections 13(b) and 19 of the Federal Trade Commission Act ("FTC Act"), 15 U.S.C. §§ 53(b) and 57b, and the Telemarketing and Consumer Fraud and Abuse Prevention Act ("Telemarketing Act"), 15 U.S.C. §§ 6101-6108, to secure permanent injunctive relief, rescission of contracts, restitution, disgorgement and other equitable relief for defendants' deceptive acts or practices in connection with the selling and telemarketing of advance fee credit cards in violation of Section 5(a) of the FTC Act, 15 U.S.C. § 45(a), and the FTC's Trade Regulation Rule entitled, "Telemarketing Sales Rule" ("the Telemarketing Sales Rule" or "the Rule"), 16 C.F.R. Part 310.

JURISDICTION AND VENUE

2. This Court has jurisdiction over this matter pursuant to 15 U.S.C. §§ 45(a), 53(b), 57b, 6102(c) and 6105(b), and 28 U.S.C. §§ 1331, 1337(a) and 1345.

3. Venue in the Eastern District of New York is proper under 15 U.S.C. § 53(b), as amended by the Federal Trade Commission Act Amendments of 1994, Pub. L. No. 103-312, 108 Stat. 1691 and 28 U.S.C. § 1391(b).

THE PARTIES

4. Plaintiff, the FTC, is an independent agency of the United States Government created by statute. 15 U.S.C. §§ 41- 58, as amended. The Commission enforces Section 5(a) of the FTC Act, 15 U.S.C. § 45(a), which prohibits unfair or deceptive acts or practices in or affecting commerce. The Commission also enforces the Telemarketing Sales Rule, 16 C.F.R. Part 310, which prohibits deceptive or abusive telemarketing acts or practices. The Commission may initiate federal district court proceedings to enjoin violations of the FTC Act and the Telemarketing Sales Rule and to secure such equitable relief as is appropriate in each case, including restitution for injured consumers. 15 U.S.C. §§ 53(b), 57b and 6105(b).

5. Defendant Credit Enhancement Services, LLC (hereafter "CES") is a single member Delaware Limited Liability Company, conducting business at 90-20 Jamaica Avenue, Woodhaven, New York 11421. Defendant CES transacts or has transacted business in the Eastern District of New York and throughout the United States.

6. Defendant Liberty Benefits, LLC (hereafter "Liberty Benefits") is a single member New Jersey Limited Liability Company, conducting business at 90-20 Jamaica Avenue, Woodhaven, New York 11421. Defendant Liberty Benefits transacts or has transacted business in the Eastern District of New York and throughout the United States.

7. Defendant Frederick J. Dick, Jr. (hereafter "Dick") is the sole owner and sole member of CES and Liberty Benefits, and, upon information and belief, he resides at 5312 Browning Road, Pennsauken, New Jersey 08109. At all times material to this Complaint, acting alone or in concert with others, he has formulated, directed, controlled, or participated in the acts and practices of CES and Liberty Benefits, including the acts and practices set forth in this Complaint. Defendant Dick transacts or has transacted business in the Eastern District of New York and throughout the United States.

8. Defendants CES and Liberty Benefits share office space, sell the same credit card package, use the same postcards and scripts, and cooperate and act in concert to carry out the defendants' business practices as alleged herein. They constitute a common enterprise for purposes of this proceeding.

COMMERCE

9. At all times material to this Complaint, defendants' course of business, including the acts and practices alleged herein, has been and is in or affecting commerce, as "commerce" is defined in Section 4 of the FTC Act, 15 U.S.C. § 44.

DEFENDANTS' BUSINESS PRACTICES

10. Since at least 2000, defendants have offered and telemarketed advance fee credit cards to consumers throughout the United States. Defendants have engaged in these practices under the names Credit Enhancement Services, LLC and Liberty Benefits, LLC.

11. Defendants have mailed postcards throughout the United States to senior citizens, consumers who had never had credit, consumers with credit problems, and consumers who have had bankruptcies, inducing them to call a toll-free number to obtain a pre-approved unsecured credit card at a "low" six percent interest rate with a guaranteed minimum credit limit of either \$3,500 or \$4,000 and, in some cases, up to a maximum credit limit of \$7,500. In the course of defendants' telemarketing program, defendants' telemarketers have induced these consumers to pay an advance fee ranging from \$219.99 to \$289.00 to obtain an unsecured major credit card, such as a VISA or MasterCard credit card.

12. Defendants' telemarketers represent to consumers that they are guaranteed to receive the offered credit cards, that there is no annual fee for use of the credit cards, that the six percent interest rate will never go up, and that the consumers are pre-approved for a minimum credit limit of either \$3,500 or \$4,000. Defendants' telemarketers do not tell consumers that in order to obtain credit cards, consumers

will be required to meet a lender's minimum credit-granting criteria and to re-apply for any such cards and pay additional fees.

13. Defendants' telemarketers tell numerous consumers that there is a 30-day unconditional money back guarantee covering the purchase of their credit card that runs from the date of receipt of the package containing the credit card. Defendants' telemarketers tell numerous consumers that they will receive a package containing the credit card in approximately four to six weeks.

14. When a consumer agrees to accept the card, the defendants ask for information about the consumer's bank account, including the number of the consumer's account and the name of the bank, in order to effect payment. In advance of obtaining or arranging the promised extension of credit, defendants' telemarketers charge consumers a fee ranging from \$219.99 to \$289.00 for each credit card. These fees were debited from consumers' bank accounts.

15. While the funds are electronically withdrawn from the consumer's bank account almost immediately, the consumer does not receive anything from the defendants for several months. Some consumers do not receive anything further from defendants.

16. Eventually, defendants send some consumers a package under the name of Liberty Benefits. Other consumers received a package with materials for the "Triple Gold" program. Instead of receiving the unsecured major credit card, as promised by defendants, consumers receive a letter welcoming them to a merchandise and service purchasing program offering discounts for auto rental, travel, magazines, prescription drugs, legal services and other goods and services, along with "bonus" items such as a credit repair manual that includes a list of banks purportedly offering secured credit cards. Defendants sometimes provide consumers with a "Premium Card" or a "Triple Gold Premium Card" that can only be used by a consumer to make purchases from defendants' catalog and only if the consumer makes a down payment of approximately one-third of the purchase price for merchandise ordered with the card.

17. In the letter included with the package for the Premium Card, defendants tell consumers that they will be receiving an application for an unsecured major credit card directly from the issuing bank. Only then do those consumers realize that the fee already paid to defendants is a membership fee for defendants' buying club, as defendants' telemarketers usually make no mention of defendants' buying club, and when they do, they present it as an incidental benefit to the major credit card. Consumers who receive the letter with the Triple Gold Premium Card realize that they cannot actually obtain credit cards from defendants when the package arrives without the major credit card.

18. Some consumers are sent applications for a credit card by several financial institutions purportedly offering credit cards. Only then do consumers learn that any effort to obtain these cards requires that consumers pay other fees - including an origination fee, a processing fee, an annual fee and/or a one-time acceptance fee - to those institutions offering credit cards. These additional fees ranged from \$35.00 to \$119.00, and some of these financial institutions required consumers to pay multiple fees for an extension of credit. Assuming the consumers were approved for credit, they would be subject to terms materially different from those represented by defendants, such as an annual percentage rate as high as twenty-one percent and a maximum credit limit as low as \$350.00.

19. The letter included with the package states that consumers are entitled to a complete refund within 30 days if the benefits package does not clearly state everything talked about on the initial call. The letter further states that consumers should call defendants' toll-free customer service number so that defendants can review a recording of the initial call, and then, if defendants determine the product was misrepresented, the consumer may return the package in complete resaleable condition for a full refund. This written refund policy contradicts the representation, made in the initial call to numerous consumers, that there is a 30-day *unconditional* money back guarantee covering the purchase of their credit card.

20. When consumers call defendants' toll-free number to complain or seek a refund, they are rarely able to speak to anyone because the phone lines are constantly busy. If they are able to get through to a representative, many are told that they are entitled to a refund only if they return the membership package within 30 days of receiving the package. Numerous consumers who do return the packages in a timely fashion do not get a refund.

21. In numerous instances, consumers do not receive either the guaranteed credit card or a refund of the fees paid to defendants.

VIOLATIONS OF SECTION 5 OF THE FTC ACT

22. Section 5(a) of the FTC Act, 15 U.S.C. § 45(a), prohibits unfair or deceptive acts or practices in or affecting commerce.

23. Misrepresentations or omissions of material fact constitute deceptive acts or practices prohibited by Section 5(a) of the FTC Act.

COUNT ONE

24. In numerous instances, in connection with the telemarketing of advance fee credit cards, defendants or their employees or agents have represented, expressly or by implication, that:

a. after paying defendants a fee, consumers will, or are highly likely to, receive an unsecured major credit card, such as a VISA or MasterCard credit card; and

b. defendants will unconditionally refund the purchase price if a consumer seeks a refund within 30 days of receipt of defendants' package.

25. In truth and in fact:

a. in numerous instances, after paying defendants a fee, consumers do not receive an unsecured major credit card, such as a VISA or MasterCard credit card; and

b. in numerous instances, defendants do not refund the purchase price when a consumer seeks a refund within thirty 30 days of receipt of defendants' package.

26. Therefore, the representations set forth in Paragraph 24 are false and misleading and constitute deceptive acts or practices in violation of Section 5(a) of the FTC Act, 15 U.S.C. § 45(a).

THE FTC'S TELEMARKETING SALES RULE

27. The Commission promulgated the Telemarketing Sales Rule pursuant to Section 6102(a) of the Telemarketing Act, 15 U.S.C. § 6102(a). The Rule became effective on December 31, 1995.

28. The FTC Telemarketing Sales Rule prohibits telemarketers and sellers from misrepresenting any material aspect of the performance, efficacy, nature, or central characteristics of goods or services that are the subject of a sales offer. 16 C.F.R. § 310.3(a)(2)(iii).

29. The FTC Telemarketing Sales Rule prohibits telemarketers and sellers from misrepresenting any material aspect of the nature or terms of the seller's refund, cancellation, exchange, or repurchase policies. 16 C.F.R. § 310.3(a)(2)(iv).

30. The Telemarketing Sales Rule also prohibits telemarketers and sellers from, among other things, requesting or receiving payment of any fee or consideration in advance of obtaining or arranging a loan or other extension of credit when the seller or telemarketer has guaranteed or represented a high likelihood of success in obtaining or arranging a loan or other extension of credit. 16 C.F.R. § 310.4(a)(4).

31. Pursuant to Section 3(c) of the Telemarketing Act, 15 U.S.C. § 6102(c), and Section 18(d)(3) of the FTC Act, 15 U.S.C. § 57a(d)(3), violations of the Telemarketing Sales Rule constitute unfair or deceptive acts or practices in or affecting commerce, in violation of Section 5(a) of the FTC Act, 15 U.S.C. § 45(a).

32. Defendants are "sellers" or "telemarketers" engaged in "telemarketing," as those terms are defined in the FTC Telemarketing Sales Rule. 16 C.F.R. §§ 310.2(r), (t) & (u).

VIOLATIONS OF THE TELEMARKETING SALES RULE

COUNT TWO

33. In numerous instances, in connection with the telemarketing of advance fee credit cards, defendants or their employees or agents have misrepresented, directly or by implication, that after paying defendants a fee, consumers will, or are highly likely to, receive an unsecured major credit card, such as a VISA or MasterCard credit card.

34. Defendants have thereby violated Section 310.3(a)(2)(iii) of the Telemarketing Sales Rule, 16 C.F.R. § 310.3(a)(2)(iii).

COUNT THREE

35. In numerous instances, in connection with the telemarketing of advance fee credit cards, defendants or their employees or agents have misrepresented, directly or by implication, that defendants will unconditionally refund the purchase price if a consumer seeks a refund within 30 days of receipt of defendants' package.

36. Defendants have thereby violated Section 310.3(a)(2)(iv) of the Telemarketing Sales Rule, 16 C.F.R. § 310.3(a)(2)(iv).

COUNT FOUR

37. In numerous instances, in connection with the telemarketing of advance fee credit cards, defendants or their employees or agents have requested and received payment of a fee in advance of consumers obtaining a credit card when defendants have guaranteed or represented a high likelihood of success in obtaining or arranging for the acquisition of an unsecured credit card, such as a VISA or MasterCard credit card, for such consumers.

38. Defendants have thereby violated Section 310.4(a)(4) of the Telemarketing Sales Rule, 16 C.F.R. § 310.4(a)(4).

CONSUMER INJURY

39. Consumers throughout the United States have suffered and continue to suffer substantial monetary loss as a result of defendants' unlawful acts or practices. In addition, defendants have been unjustly enriched as a result of their unlawful practices. Absent injunctive relief by this Court, defendants are likely to continue to injure consumers, reap unjust enrichment and harm the public interest.

THIS COURT'S POWER TO GRANT RELIEF

40. Section 13(b) of the FTC Act, 15 U.S.C. § 53(b), empowers this Court to grant injunctive and other ancillary relief, including consumer redress, disgorgement and restitution, to prevent and remedy any violations of any provision of law enforced by the Commission.

41. Section 19 of the FTC Act, 15 U.S.C. § 57b, and Section 6(b) of the Telemarketing Act, 15 U.S.C. § 6105(b), authorize this Court to grant such relief as the Court finds necessary to redress injury to consumers or other persons resulting from defendants' violations of the Telemarketing Sales Rule, including the rescission and reformation of contracts and the refund of monies.

42. This Court, in the exercise of its equitable jurisdiction, may award other ancillary relief to remedy injury caused by defendants' law violations.

PRAYER FOR RELIEF

WHEREFORE, plaintiff, the Federal Trade Commission, requests that this Court, as authorized by Sections 13(b) and 19 of the FTC Act, 15 U.S.C. §§ 53(b) and 57b, Section 6(b) of the Telemarketing Act, 15 U.S.C. § 6105(b), and pursuant to its own equitable powers:

1. Award plaintiff such preliminary injunctive and ancillary relief as may be necessary to avert the likelihood of consumer injury during the pendency of this action and to preserve the possibility of effective final relief;
2. Permanently enjoin defendants from violating the Telemarketing Sales Rule and the FTC Act, as alleged herein;
3. Award such relief as the Court finds necessary to redress injury to consumers resulting from defendants' violations of the Telemarketing Sales Rule and the FTC Act including, but not limited to, rescission of contracts, the refund of monies paid, and the disgorgement of ill-gotten monies; and
4. Award plaintiff the costs of bringing this action, as well as such other and additional relief as the Court may determine to be just and proper.

DATED:

New York, New York
April 8, 2002

Respectfully submitted,

WILLIAM E. KOVACIC
General Counsel

BARBARA ANTHONY
Regional Director

MICHELE STOLLS (MS 3618)
ATTORNEYS FOR PLAINTIFF
FEDERAL TRADE COMMISSION
Northeast Region
One Bowling Green, Suite 318
New York, NY 10004

Telephone (212) 607-2829
Facsimile (212) 607-2822