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CENTRAL DIST. OF CALIF.  
SANTA ANA

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

10 SA CV 06-701 DOC (RNBx)

Case No.

11 **Federal Trade Commission,**

12 Plaintiff,

13 v.

COMPLAINT FOR INJUNCTIVE  
AND OTHER EQUITABLE RELIEF

14 **Dennis Connelly, an individual;**

15 **Richard Wade Torkelson, a/k/a**  
Wade Torkelson, an individual;

16 **Joanne Garneau, a/k/a Joanne**  
17 Torkelson, an individual also doing  
18 business as Prosper Financial  
Solutions;

19 **Homeland Financial Services, a**  
corporation;

20 **National Support Services, LLC, a**  
21 limited liability company;

22 **United Debt Recovery, LLC, a**  
limited liability company;

23 **Freedom First Financial, LLC, a**  
24 limited liability company; and

25 **USA Debt Co, LLC, a/k/a**  
26 UsaDebtCo.com, a limited liability  
company,

27 Defendants.  
28

1 Plaintiff, the Federal Trade Commission ("FTC" or "Commission"), by its  
2 undersigned attorneys, alleges:

3 1. The FTC brings this action under Sections 5(a) and 13(b) of the Federal  
4 Trade Commission Act ("FTC Act"), 15 U.S.C. §§ 45(a) and 53(b), to obtain  
5 preliminary and permanent injunctive relief, rescission or reformation of contracts,  
6 restitution, disgorgement, the appointment of a receiver, and other equitable relief  
7 for defendants' violations of Section 5(a) of the FTC Act, 15 U.S.C. § 45(a).

### 8 9 JURISDICTION AND VENUE

10 2. This Court has subject matter jurisdiction over the FTC's claims  
11 pursuant to 15 U.S.C. §§ 45(a) and 53(b) and 28 U.S.C. §§ 1331, 1337(a) and 1345.

12 3. Venue in the United States District Court for the Central District of  
13 California is proper under 15 U.S.C. § 53(b) and 28 U.S.C. §§ 1391(b) and (c).

### 14 15 THE PARTIES

16 4. **Plaintiff Federal Trade Commission** is an independent agency of the  
17 United States Government created by statute. 15 U.S.C. §§ 41 *et seq.* The  
18 Commission enforces Section 5(a) of the FTC Act, 15 U.S.C. § 45(a), which  
19 prohibits unfair or deceptive acts or practices in or affecting commerce. The  
20 Commission may initiate federal district court proceedings by its own attorneys to  
21 enjoin violations of the FTC Act and to secure such equitable relief as is appropriate  
22 in each case, including restitution for injured consumers. 15 U.S.C. § 53(b).

23 5. **Defendant Dennis Connelly** ("Connelly") is an individual who resides  
24 in Orange County, California. Connelly founded or helped to found defendants  
25 Homeland Financial Services ("Homeland"), National Support Services, LLC  
26 ("NSS"), United Debt Recovery, LLC ("United"), and Freedom First Financial, LLC  
27 ("Freedom First"). Connelly is or has been the Secretary and a director of  
28 Homeland. At all times material to this Complaint, acting alone or in concert with

1 others, Connelly has formulated, directed, controlled, or participated in the acts and  
2 practices of Homeland, NSS, United, and Freedom First, including the acts and  
3 practices set forth in this Complaint. Connelly transacts or has transacted business  
4 in the Central District of California and throughout the United States.

5       6.     **Defendant Richard Wade Torkelson** ("Torkelson"), also known as  
6 Wade Torkelson, is an individual who resides in Orange County, California.  
7 Torkelson founded or helped to found defendants Homeland, NSS, and United.  
8 Torkelson is or has been the Chief Executive Officer, Chief Financial Officer,  
9 President, and a director of Homeland. At all times material to this Complaint,  
10 acting alone or in concert with others, Torkelson has formulated, directed,  
11 controlled, or participated in the acts and practices of Homeland, NSS, and United,  
12 including the acts and practices set forth in this Complaint. Torkelson transacts or  
13 has transacted business in the Central District of California and throughout the  
14 United States.

15       7.     **Defendant Joanne Garneau** ("Garneau"), also known as Joanne  
16 Torkelson, is an individual who resides in Orange County, California. At all times  
17 material to this Complaint, Garneau has done business as Prosper Financial  
18 Solutions ("Prosper"). Garneau and Prosper conduct or have conducted business out  
19 of offices located at 1031 Calle Recodo Suite D, San Clemente, California, and at  
20 31815 Camino Capistrano, San Juan Capistrano, California. At all times material to  
21 this Complaint, acting alone or in concert with others, Garneau has formulated,  
22 directed, controlled, or participated in the acts and practices of Prosper, including  
23 the acts and practices set forth in this Complaint. Garneau transacts or has  
24 transacted business in the Central District of California and throughout the United  
25 States.

26       8.     **Defendant Homeland Financial Services** is a California corporation  
27 that has or has had its principal place of business at 2850 Red Hill Avenue, Suite  
28 220, Santa Ana, California. Homeland has been in business since approximately

1 2001. At all times material to this Complaint, Homeland has advertised, marketed,  
2 promoted, offered, sold, or agreed to perform debt-negotiation services to or for  
3 consumers throughout the United States. Homeland transacts or has transacted  
4 business in the Central District of California and throughout the United States.

5       **9. Defendant National Support Services, LLC** is a California limited  
6 liability company that has or has had its principal place of business at 2850 Red Hill  
7 Avenue, Suite 220, Santa Ana, California. NSS has been in business since at least  
8 2004. At all times material to this Complaint, NSS has advertised, marketed,  
9 promoted, offered, sold, or agreed to perform debt-negotiation services to or for  
10 consumers throughout the United States. NSS transacts or has transacted business  
11 in the Central District of California and throughout the United States.

12       **10. Defendant United Debt Recovery, LLC** is a Nevada limited liability  
13 company that has or has had its principal place of business at 2151 Michelson Drive,  
14 Suite 170, Irvine, California. United has been in business since at least 2004. At all  
15 times material to this Complaint, United has advertised, marketed, promoted,  
16 offered, sold, or agreed to perform debt-negotiation services to or for consumers  
17 throughout the United States. United transacts or has transacted business in the  
18 Central District of California and throughout the United States.

19       **11. Defendant Freedom First Financial, LLC** is a Wyoming limited  
20 liability company that has or has had its principal place of business at 1274 Center  
21 Court Drive, Suite 107, Covina, California. Freedom First has been in business  
22 since at least 2004. At all times material to this Complaint, Freedom First has  
23 advertised, marketed, promoted, offered, sold, or agreed to perform debt-negotiation  
24 services to or for consumers throughout the United States. Freedom First transacts  
25 or has transacted business in the Central District of California and throughout the  
26 United States.

27       **12. Defendant USA Debt Co, LLC** ("USA Debt Co."), also known as  
28 UsaDebtCo.com, is a Wyoming limited liability company that has or has had its

1 principal place of business at 1274 Center Court Drive, Suite 107, Covina,  
2 California. USA Debt Co. has been in business since at least 2004. At all times  
3 material to this Complaint, USA Debt Co. has advertised, marketed, promoted,  
4 offered, sold, or agreed to perform debt-negotiation services to or for consumers  
5 throughout the United States. USA Debt Co. transacts or has transacted business in  
6 the Central District of California and throughout the United States.

### 7 8 COMMON ENTERPRISE

9 13. Homeland, NSS, United, Prosper, Freedom First and USA Debt Co. (or  
10 "corporate defendants") have operated together as a common enterprise while  
11 engaging in the deceptive acts and practices alleged below. Defendants have  
12 conducted the business practices described below through an interrelated network of  
13 companies that have common ownership, officers, managers, and business functions.  
14 Individual Defendants Connelly, Torkelson and Garneau have formulated, directed,  
15 and/or controlled, or had authority to control, or participated in the acts and  
16 practices of the corporate defendants that comprise the common enterprise.

### 17 18 COMMERCE

19 14. At all times relevant to this Complaint, defendants have maintained a  
20 substantial course of business in the advertising, marketing, promoting, offering for  
21 sale and sale of debt-negotiation services, in or affecting commerce, including the  
22 acts and practices alleged herein, as "commerce" is defined in Section 4 of the FTC  
23 Act, 15 U.S.C. § 44.

### 24 25 DEFENDANTS' BUSINESS ACTIVITIES

26 15. Defendant Homeland was founded by defendants Connelly and  
27 Torkelson. Homeland began operating a debt-negotiation business in or about 2001.  
28 Homeland held out its debt-negotiation program (or "program") as a means for

1 consumers to dramatically reduce their credit-card and other unsecured debts, so that  
2 they could pay off these debts for substantially less than the amount owed.

3 16. Through approximately mid-2004, Homeland promoted and sold its  
4 debt-negotiation program directly to consumers through an in-house sales staff and  
5 various third-party sales offices and/or sales representatives, including defendant  
6 Prosper.

7 17. In or about August 2004, Homeland reorganized its operation, in  
8 response to numerous complaints that had been filed against the company with the  
9 Better Business Bureau. First, Connelly and Torkelson formed defendant United,  
10 and transferred Homeland's in-house sales operation to United. Second, Connelly  
11 and Torkelson formed defendant NSS, which took over the processing and servicing  
12 of new debt-negotiation clients. NSS has continued to obtain new clients not only  
13 through United and Prosper, but also through sales offices around the country.

14 18. Following a consumer's enrollment, the sales office passes the contract  
15 on to NSS for servicing, even though sales contracts are ostensibly between the  
16 consumer and the sales office. NSS then pays the sales office a percentage of the fee  
17 received from the client. NSS provides so-called "back end" service, which  
18 includes, among other things, negotiating settlements with consumers' creditors,  
19 providing customer service, and administering customer accounts.

20 19. Defendants have promoted their program to prospective purchasers  
21 through a variety of means, including Internet websites and flyers.

22 20. Homeland, NSS, Connelly and Torkelson have made available one or  
23 more website templates to the various sales offices. Many if not all of these sales  
24 offices, including defendants United, Prosper, Freedom First, and USA Debt Co.,  
25 have used one or more of these templates. As a result, the websites for these offices  
26 are very similar to each other in appearance and content.

27 21. Websites on which defendants have promoted their services include,  
28 without limitation, the following:

- 1 a. www.homelandfinancial.net;
- 2 b. www.prosperfinancial.net;
- 3 c. www.freedomfirstfinancial.com;
- 4 d. www.uniteddebtrecovery.com;
- 5 e. www.uniteddebtsservices.com;
- 6 f. www.united-debt-recovery.com; and
- 7 g. www.usadebtco.com.

8 22. Each of defendants' websites has represented to consumers that  
9 defendants will negotiate with the consumer's unsecured creditors and will obtain  
10 favorable settlements that will allow the consumer to pay off his debts to these  
11 creditors for a substantially lower amount than the consumer currently owes, such as  
12 40% to 60% of the consumer's outstanding debt.

13 23. For example, the website for Prosper has represented that consumers  
14 who enroll in the company's program will "Pay back Half" of what they currently  
15 owe, and that "[g]enerally, we reduce your debt by 40-60% of the current total."

16 24. Defendants' websites claim that defendants can settle a variety of  
17 unsecured debt, including credit cards, unsecured loans, and medical bills. A  
18 dominant theme of defendants' websites is that consumers can rely on defendants to  
19 improve the consumer's financial situation and to relieve consumers of the stress of  
20 dealing with creditors.

21 25. Defendants' websites encourage consumers to request a free analysis of  
22 their financial situation either by calling defendants' toll-free numbers or by  
23 completing and submitting an online form requesting more information.

24 26. Calls and website inquiries are handled by telemarketers in the  
25 defendants' sales offices. Homeland, NSS, Connelly and Torkelson provide or have  
26 provided the sales offices with scripts.

27 27. Defendants' telemarketers, like defendants' websites, claim that  
28 defendants will negotiate the consumer's unsecured debt down to 40% to 60% of the

1 amount the consumer owes his creditors. Defendants' telemarketers further tell  
2 consumers that under defendants' program, consumers will have an affordable  
3 monthly payment and will be out of debt within a limited period of time, typically  
4 within three years.

5 28. Defendants' telemarketers typically advise consumers that if they  
6 participate in defendants' debt-negotiation program, defendants will immediately  
7 contact the consumer's creditors and inform them that defendants now represent the  
8 consumer. Telemarketers represent that consumers will then receive few if any calls  
9 from creditors. Telemarketers also represent that consumers will obtain more  
10 favorable settlements if they stop making their monthly payments to their creditors.

11 29. In addition, defendants' telemarketers advise consumers who inquire  
12 about the effects of defendants' program on the consumer's credit rating that the  
13 program will have only a minimal, negative effect which will last only the length of  
14 time during which the consumer is in the program. Defendants also represent that  
15 they will negotiate settlements with consumers' creditors pursuant to which the  
16 creditors will stop reporting unfavorable items of information to credit reporting  
17 agencies.

18 30. Defendants charge their clients a nonrefundable fee. The defendants'  
19 fee is expressed as a percentage of the amount of debt that the consumer owes his  
20 unsecured creditors at the beginning of the program. Since 2002, the fee has risen  
21 from 12% to 15% of the consumer's total debt.

22 31. Defendants require clients to make a substantial down payment toward  
23 the fee within the first two to three months of enrolling in the program. The down  
24 payment consumers are required to pay is typically 30% to 40% of defendants' total  
25 fee. Consumers pay the remainder of defendants' fee in monthly installments over  
26 the course of the following six to twelve months. Defendants typically require  
27 consumers to pay the fee by automatic withdrawal from the consumer's checking or  
28 savings account.

1           32. After consumers enroll in defendants' program, they receive a packet of  
2 documents from defendants, which defendants refer to as a "Welcome Packet." The  
3 "Welcome Packet" includes form letters that consumers are instructed to fill out and  
4 send to their creditors. The form letters instruct the consumer's creditors to cease  
5 communicating with the consumer and to communicate instead with defendants.  
6 Defendants also advise consumers to send defendants copies of correspondence  
7 from creditors.

8           33. As described below, participation in defendants' program does not  
9 produce the positive results that consumers expect at the time they enroll.

10           34. Defendants typically do not commence settlement negotiations  
11 immediately. To the extent that defendants initiate negotiations with any of their  
12 clients' creditors, they typically do not begin doing so until after the consumer has  
13 made the required down payment on defendants' fee, which is typically a minimum  
14 of two to three months after the consumer has entered defendants' program and has  
15 ceased making payments to his creditors.

16           35. To the extent defendants negotiate a settlement on any of a consumer's  
17 several accounts, they rarely if ever negotiate settlements with all of a consumer's  
18 creditors. In fact, defendants fail to negotiate substantial reductions of debt on most  
19 of their clients' accounts. Even when defendants succeed in negotiating a settlement  
20 on one of a client's several accounts, the amount the client is required to pay under  
21 the settlement is typically significantly higher than 40% to 60% of the amount the  
22 client owed to the creditor at the time he enrolled in defendants' program.

23           36. Participation in defendants' program also does little to abate or prevent  
24 calls from creditors. Within approximately one to three months after enrolling in  
25 defendants' programs, consumers who stop paying their creditors on defendants'  
26 instructions begin receiving calls from creditors or collection agencies inquiring  
27 about the payments that are past due. When consumers call defendants to inquire or  
28 to complain about calls from creditors, consumers often have difficulty reaching

1 anyone, as their calls are put on hold indefinitely or are not answered, and their  
2 messages are not returned. Defendants are particularly nonresponsive after  
3 consumers have paid most or all of the defendants' fee. When consumers do succeed  
4 in reaching defendants, they are often told to simply tell their creditors to contact  
5 defendants and then to hang up.

6 37. Following defendants' advice to stop making payments to creditors  
7 results in other adverse consequences, as well.

8 a. Contrary to defendants' representations, creditors typically do not wait  
9 indefinitely to get paid. In numerous instances, after consumers who  
10 enroll in defendants' program have ceased making payments and  
11 defendants have failed to contact the consumer's creditors to offer a  
12 settlement, consumers are sued by one or more of their creditors or by  
13 one or more debt collection agencies attempting to collect on their  
14 accounts. Litigation against defendants' clients by their creditors or  
15 debt collection agencies has often resulted in the garnishment of the  
16 consumer's wages by the creditor or debt collection agency.

17 b. As a result of not making their minimum monthly payments, additional  
18 interest accrues on the consumer's outstanding account balances,  
19 interest rates increase, late charges are assessed, and other fees are  
20 imposed.

21 c. In many cases, consumers who enroll in defendants' program suffer a  
22 substantial negative impact to their credit ratings, as a result of ceasing  
23 payment to their creditors. Pursuant to the Fair Credit Reporting Act  
24 ("FCRA"), credit reporting agencies are permitted to report accurate  
25 negative information such as late payments, charge-offs, collections,  
26 judgments and garnishments for seven years. (15 U.S.C. §1681c) The  
27 FCRA also prohibits creditors from knowingly reporting false  
28

1 information (15 U.S.C. § 1681s-2(a)(1)), and thus prohibits creditors  
2 from changing accurate information they have previously reported.

3 38. Typically within six or seven months of enrolling in defendants' debt-  
4 negotiation program, most consumers realize that their financial situation is not  
5 improving but instead is getting worse, and cancel their participation in the program.  
6 By this time most consumers find that the balances on the accounts that they trusted  
7 defendants to settle have increased substantially as a result of penalties, fees, interest  
8 and other charges. Many consumers who have retained defendants' services for the  
9 purpose of improving their financial situation have experienced such a substantial  
10 increase in their debt that they have filed for protection under the bankruptcy laws.

### 11 12 **VIOLATIONS OF SECTION 5 OF THE FTC ACT**

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

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

### 17 18 **COUNT I**

#### 19 **(As to All Defendants)**

#### 20 **Misrepresentation of Defendants' Program**

21 41. In numerous instances in connection with the advertising, marketing,  
22 promoting, offering for sale or sale of their debt-negotiation services, defendants or  
23 their employees or agents have represented, expressly or by implication, that  
24 by enrolling in defendants' debt-negotiation program, consumers will be able to pay  
25 off their credit-card and other unsecured debts for a substantially reduced amount,  
26 such as 40 to 60 percent of the total amount owed to their creditors.

27 42. In truth and in fact, in numerous instances, by enrolling in defendants'  
28 debt-negotiation program, consumers are not able to pay off the debts they submit to







