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April 21, 2005

MADIGAN, GRILLO FILE SUIT AGAINST CAMBRIDGE CREDIT; NON-PROFIT DEBT COUNSELING SERVICE ALLEGEDLY CHARGED ILLINOISANS EXCESSIVE FEES, FUNNELED EARNINGS THROUGH FOR-PROFIT SUBSIDIARIES

NEW FEDERAL LAW WILL REQUIRE CONSUMERS TO GO TO DEBT AGENCIES

Chicago – With a new federal law that will require most debt-ridden consumers to go to a “non-profit” credit counseling agency before declaring bankruptcy, Attorney General Lisa Madigan and Illinois Department of Financial and Professional Regulation Secretary Fernando Grillo today filed a lawsuit against a non-profit debt management company they allege funneled earnings through other for-profit companies while its Illinois customers paid excessive fees, received sub-standard service and remained mired in debt and deception.

“Instead of providing useful, education-based credit counseling services to consumers in financial crises, Cambridge Credit engaged in a scheme that allowed its owners to profit while its customers remained mired in debt,” Madigan said. “With the new bankruptcy reform laws that require many consumers filing for bankruptcy to receive debt counseling within six months prior to their filing, it is crucial that the companies they turn to are in fact providing credit counseling, not furthering their financial despair. Debt counseling by a legitimate agency is very worthwhile, but it is critical that we weed out bad players who see consumers’ debt as their opportunity for profit.”

“Cambridge has abused the trust of Illinois’ people who are doing their best to pay back what they owe. It has flagrantly violated laws specifically designed to protect people when they are most vulnerable,” Grillo said.

Madigan’s Consumer Protection Division launched an investigation into Massachusetts-based Cambridge Credit after receiving complaints between November 2001 and November 2003 from consumers in Champaign, Cook, Macoupin, Morgan, Vermilion and Will Counties. According to a listing provided by Cambridge Credit, the company has enrolled more than 2,500 Illinois consumers into their program.

The investigation revealed that Cambridge Credit accepted hundreds of dollars in fees and debt payments from individual consumers seeking debt management counseling but, in some cases, did not pay consumers’ creditors in a timely fashion. Consumers allegedly were charged one-time fees equal to one month’s total debt payments and monthly fees of 10 percent of the consumers’ total monthly debt payments.

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While Illinois law limits initial fees to a maximum of \$50 and monthly fees to a maximum of \$30, consumers who reported their complaints to Madigan's office paid initial fees ranging from \$491 to \$827 and monthly fees ranging from \$50 to \$83.

The investigation also revealed that Cambridge Credit allegedly was outsourcing the majority of its operations to a network of for-profit companies under the same ownership and paying those companies tens of millions of dollars for their services.

Madigan and Grillo allege that virtually all of the key functions of Cambridge Credit were actually performed by Brighton Credit or Brighton Debt; in 2003, the two companies received a total of more than \$14.6 million in payment from Cambridge Credit. The two for-profit companies allegedly provided services for Cambridge Credit ranging from communications with Cambridge Credit clients to preparation of all Cambridge Credit reports to the processing and disbursement of payments to Cambridge Credit customers' creditors. Madigan and Grillo allege two additional for-profit corporations also controlled by John Puccio, Cambridge Brighton Budget Planning Corporation and Debt Relief, received more than \$9.1 million in 2003 for services provided to Cambridge Credit.

In other words, the defendants who ran the non-profit company allegedly engaged in self-dealing through a coordinated set of transactions with themselves, in violation of Illinois charitable trust laws. Madigan's lawsuit further alleges violation of the Illinois Charitable Trust Act for failure to register the non-profit company as a charitable organization. The Attorney General's office is demanding an accounting of the funds collected by the defendants.

In addition to violating Illinois charitable trust laws, the lawsuit alleges that the defendants violated the Illinois Consumer Fraud and Deceptive Business Practices Act by, among other things, using the facade of a non-profit company to obtain payments from consumers which consumers believed were donations. In fact, the payment was mandatory. Also, the complaint alleges that the Consumer Fraud Act was violated because, unlike a traditional licensed non-profit debt counselor, the defendants allegedly provided no debt counseling to consumers and placed virtually all consumers in the same type of debt management plan without regard to their debt management needs. Furthermore, the lawsuit alleges that some consumers actually were put into a worse financial condition when their payments were not forwarded in a timely manner to their creditors.

Finally, Madigan and Grillo allege Cambridge Credit, Brighton Credit and Brighton Debt violated the Illinois Debt Management Service Act by operating in Illinois without a license and by charging significantly more than the maximum allowed amounts for both the initial fee and monthly fees.

Madigan and Grillo's lawsuit asks the court to prohibit the defendants from further operating in violation of Illinois law. The lawsuit also seeks a civil penalty of \$50,000 per violation of the Consumer Fraud Act and up to \$1,000 for each violation of the Charitable Trust Act. Finally, Madigan's lawsuit asks the court to order the defendants to pay full restitution to consumers.

The case was filed in Sangamon County Circuit Court.

Assistant Attorney General Karen Winberg-Jensen from Madigan's Consumer Fraud Bureau and Assistant Attorney General Barry Goldberg from Madigan's Charitable Trust Bureau are handling the case.

In February 2003, Madigan's office filed a lawsuit against the credit counseling agency AmeriDebt for similar allegations that the national debt management company was not licensed to do business in Illinois, charged excessive up-front and monthly fees, and failed to make timely payments to creditors. Madigan's lawsuit was one of the first in the country targeting this costly new version of credit counseling. AmeriDebt filed for Chapter 11 bankruptcy in June 2004 and Madigan's case is ongoing.