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**STATE OF WASHINGTON
KING COUNTY SUPERIOR COURT**

STATE OF WASHINGTON,

Plaintiff,

v.

IRVINEWEBWORKS, INC. d/b/a
STUDENT LOAN PROCESSING.US;
and JAMES E. KRAUSE,

Defendants.

NO.

COMPLAINT

I. PLAINTIFF

1.1 The Plaintiff is the State of Washington.
1.2 The Attorney General is authorized to commence this action pursuant to RCW 19.86.080, RCW 19.86.140, and RCW 18.28.200. The Attorney General brings this action to address practices that violate the Consumer Protection Act and the Debt Adjusting Act: charging fees for debt adjusting that are well in excess of those allowed under Washington law, and failing to inform consumers of important rights, most notably, their three day right to cancel.

II. DEFENDANTS

2.1 Defendant IrvineWebWorks, Inc. d/b/a StudentLoanProcessing.US (“Student Loan Processing”) is a California corporation headquartered at 42 South Peak Drive in Laguna

1 Nigel, California. Student Loan Processing maintains an office in Lake Forest, California and
2 Dallas, Texas. Founded in May 2011, Student Loan Processing provides, or purports to
3 provide, counseling, advice, and assistance to student loan borrowers applying for U.S.
4 Department of Education federal student loan repayment programs, including Direct
5 Consolidation Loans and the Income-Based Repayment Plan. Student Loan Processing also
6 provides, or purports to provide, assistance facilitating enrollment in other federal student loan
7 programs.

8 2.2 Defendant James E. Krause (“Krause”) is the founder, president, and sole owner
9 of Student Loan Processing. Krause has substantial managerial responsibility for and daily
10 control over the operations of Student Loan Processing, including sales, marketing, training,
11 communications, compliance, and development/enforcement of the company’s policies and
12 procedures. Krause personally participated in or with knowledge approved of all actions of
13 Student Loan Processing which violate Washington’s Debt Adjusting Statute and Consumer
14 Protection Act as described below.

15 **III. JURISDICTION**

16 3.1 The State files this complaint and institutes these proceedings under the
17 provisions of the Consumer Protection Act, RCW 19.86.

18 3.2 The Defendant has engaged in the conduct set forth in this complaint in King
19 County and elsewhere in the state of Washington.

20 **IV. VENUE**

21 4.1 Venue is proper in King County pursuant to RCW 4.12.020 and 4.12.025, and
22 Court Rule 82 because Student Loan Processing transacts business in King County – to wit:
23 entering into contracts with consumers located in King County.

1 **V. FACTS**

2 **Federal Student Loan Repayment Programs**

3 5.1 The U.S. Department of Education offers numerous repayment plans to eligible
4 borrowers with federal student loans, all which are designed to help borrowers manage their
5 student loan debt and/or make repayment of student loans more affordable. These plans include
6 its Graduated Repayment Plan, Income-Based Repayment Plan, and Pay As You Earn
7 Repayment Plan. The amount the borrower will pay and the repayment term can vary
8 depending on the repayment plan in which the borrower enrolls.

9 5.2 To access certain repayment plans, some borrowers will first combine their
10 multiple eligible federal student loans into a single Direct Consolidation Loan. Eligible
11 borrowers can apply electronically for a Direct Consolidation Loan through the U.S.
12 Department of Education's website at www.StudentLoans.gov or by mailing a completed
13 paper application to the U.S. Department of Education.

14 5.3 The U.S. Department of Education does not charge borrowers any fee to apply
15 for a Direct Consolidation Loan or any U.S. Department of Education repayment plan or
16 program. Additionally, its website includes numerous self-help materials and FAQs for use by
17 individual borrowers during the consolidation process.

18 **Defendants' Debt Adjustment Services**

19 5.4 Since at least July, 2011 to the present, Student Loan Processing has marketed
20 and advertised for-cost services to advise and assist student loan borrowers applying for U.S.
21 Department of Education federal student loan repayment programs, including the Income-
22 Based Repayment Program, and Direct Consolidation Loans.

23 5.5 In exchange for an upfront enrollment fee and recurring monthly fee, Student
24 Loan Processing, under the direction and control of Krause, purported to perform a variety of
25 student loan debt relief services for its customers. Those services included helping borrowers
26 identify the various U.S. Department of Education repayment plans for which the borrowers

1 qualify, helping borrowers prepare and complete their application for a Direct Consolidation
2 Loan, assisting borrowers to “correct” any errors made by the U.S. Department of Education in
3 processing the borrower’s enrollment in a repayment plan, and complying with annual
4 recertification programs. It also helped borrowers identify more favorable repayment
5 programs in the event that the borrower’s circumstances had changed, thereby making the
6 borrower eligible for other repayment programs.

7 5.6 The enrollment fee charged by Defendants for their services amounted to the
8 greater of (a) 1% of the borrower’s federal student loan balance, or (b) \$250.

9 5.7 Defendants also charged consumers a recurring monthly fee. The “Monthly
10 Maintenance Fee” was generally \$39 per month and was charged for the entire repayment term
11 of the borrower’s federal student loan.

12 **Defendants’ Marketing of Debt Adjustment Services**

13 5.8 Student Loan Processing operated at least three active URLs to advertise its
14 student loan debt relief services, all of which contained either an “.us” or “.org” suffix:
15 www.studentloanprocessing.us, www.slpus.org, and www.studentloanprocessing.org,
16 prominently displaying on its websites, that “With more than 25 years of combined experience
17 managing loans for Federal student borrowers, Student Loan Processing has shown thousands
18 of Federal student loan borrowers an end to their financial struggle.” Student Loan Processing
19 also operated and advertised on several social media websites, including pages and accounts on
20 Facebook, LinkedIn, Tumblr, Twitter, and YouTube.

21 5.9 Throughout the relevant time period, Student Loan Processing primarily relied
22 on a direct mailer and outbound telemarketing to attract consumers, including consumers in
23 Washington. Some consumers learned about Student Loan Processing through website
24 submissions or customer referrals.

25 5.10 Inside Student Loan Processing’s mailer, language stated that they “work[s]
26 with the Department of Education to consolidate all your existing Federally Insured Student

1 Loans.” The mailer also purported to highlight “new” federal student loan benefits, which
2 included lower monthly payments, lower interest rates, forgiveness programs, and increased
3 monthly cash flow. Touting the “easy qualification process,” the direct mailer used by Student
4 Loan Processing during the relevant time period stated, “You [the borrower] must call the
5 student loan processing center within 30 days of receiving this notice to receive these federal
6 benefits.”

7 **Defendants’ Enrollment Process and Enrollment (Initial) Fee Collection**

8 5.11 Consumers who contacted Student Loan Processing in response to an outbound
9 call, a mailer, or any other recruitment channel spoke with a self-proclaimed “Student Loan
10 Specialist” for enrollment with Student Loan Processing.

11 5.12 The enrollment calls typically began with staff at Student Loan Processing
12 telling the consumer that they were “prequalified” for certain federal student loan repayment
13 and forgiveness programs. During the call, the “specialists” directed the consumer to divulge
14 their confidential 4-digit PIN information for the U.S. Department of Education’s National
15 Student Loan Data System, collected information about the borrower’s federal student loan
16 balances and annual income, and then quoted the new expected federal student loan monthly
17 payment amount for borrowers who enroll.

18 5.13 Student Loan Processing then gathered banking information from the borrower
19 for payment of the enrollment fee, which was generally collected from the consumer’s
20 debit/credit card or bank account during the initial enrollment call. If a consumer needed to
21 schedule payment of the enrollment fee or to break the enrollment fee into more than one
22 payment, Student Loan Processing’s employees were directed to ask the consumer about the
23 frequency with which they were paid, as well as their next expected payday, in order to
24 schedule the enrollment fee payment around that date.

25 5.14 Full payment of the enrollment fee was required before Student Loan
26 Processing mailed the application for the Direct Consolidation Loan to the consumer, and as a

1 result, well before the U.S. Department of Education modified or altered any of the repayment
2 terms of the consumer's federal student loans.

3 5.15 All the terms of the contractual relationship between Student Loan Processing
4 and the consumers, including payment terms, were set forth in a written agreement between the
5 two parties, which was generally transmitted to the consumer via email towards the end of the
6 enrollment call. Consumers were required to execute the agreement with Student Loan
7 Processing to complete enrollment. The agreement remains in effect until the consumer's
8 federal student loans are "paid in full" or "discharged due to [the consumer] qualifying for a
9 federal discharge."

10 5.16 Upon information and belief, Student Loan Processing has entered into at least
11 88 contracts with Washington residents for debt adjusting services, and has received an initial
12 fee of at least \$250 on each of these contracts, thus receiving in excess of \$51,000 in initial
13 fees.

14 5.17 Student Loan Processing's contracts with Washington borrowers also require
15 the borrower to pay Student Loan Processing \$39 each month until the borrower has paid off
16 his/her federal loan. The standard repayment period for many federal student loans is 10 years,
17 which would result in payments to Student Loan Processing of \$4,680. Some consumers may
18 also enter into extended repayment programs for their federal loans of up to 25 years, in which
19 case Student Loan Processing would collect \$11,700 from the borrower in monthly payments.
20 Upon information and belief, Student Loan Processing has received in excess of \$80,000 from
21 Washington borrowers in the form of monthly payments, often engaging in aggressive
22 collection tactics in the event a borrower misses one of the said \$39 payments.

23 **VI. COUNT I – VIOLATION OF WASHINGTON DEBT ADJUSTING ACT**

24 6.1 The State incorporates Paragraphs 1.1 through 5.17 herein as if set forth in their
25 entirety.
26

1 6.2 RCW 18.28.010(2) provides that “[d]ebt adjusting’ means the managing,
2 counseling, settling, adjusting, prorating, or liquidating of the indebtedness of a debtor, or
3 receiving funds for the purpose of distributing said funds among creditors in payment or partial
4 payment of obligations of a debtor.” The term “debt adjuster” is defined to include “any person
5 known as a debt pooler, debt manager, debt consolidator, debt prorater, or credit counselor, is any
6 person engaging in or holding himself or herself out as engaging in the business of debt adjusting
7 for compensation.”

8 6.3 As described above, Student Loan Processing assists consumers in consolidating
9 their federal student debt, and counsels them concerning their repayment options for federal
10 student debt, including options regarding consolidation, income-based repayment (in which
11 monthly payments are calculated based on income and other factors, and unpaid debt may be
12 forgiven by the government after 20 to 25 years), and other federal student loan repayment
13 options. The process of federal student loan consolidation also involves paying off multiple
14 existing student loans – i.e., liquidating them – and replacing them with a new, single federal
15 student loan. This process may be used by borrowers to manage indebtedness, and is available as
16 a tool for defaulted federal student loan borrowers to become current on their loans and escape
17 default. Student Loan Processing also holds itself out as engaging in the business of debt adjusting
18 – through its websites, advertising, and direct mailings – for compensation. Consequently,
19 Student Loan Processing is a “debt adjuster” as that term is defined in Washington’s Debt
20 Adjusting Act.

21 6.4 The Debt Adjusting Act places strict limits on the fees that a debt adjuster may
22 charge for its services. First, RCW 18.28.080(1) provides that “[t]he debt adjuster may make an
23 initial charge of up to twenty-five dollars which shall be considered part of the total fee.” Each
24 and every one of the 88 contracts between Student Loan Processing and Washington consumers
25 provides for an initial fee of \$250, or 1% of the outstanding balance of the loan(s), whichever is
26

1 greater. As a result, Student Loan processing took an initial fee of at least ten times the legal
2 limit, and each and every one of these contracts is in violation of RCW 18.28.080(1).

3 6.5 Second, RCW 18.28.080(1) also provides that "The fee retained by the debt
4 adjuster from any one payment made by or on behalf of the debtor may not exceed fifteen percent
5 of the payment." However, every contract between Student Loan Processing and Washington
6 consumers provides for a monthly fee of at least \$39.00. Thus, for borrowers whose monthly
7 student loan payment is less than \$260, the Student Loan Processing monthly fee violates
8 RCW 18.28.080(1). The State calculates that 56 of the 88 total contracts between Student Loan
9 Processing and Washington consumers violate the 15% cap on per-payment fees.

10 6.6 The Debt Adjusting Act includes strict consequences for those who violate the fee
11 limitations. RCW 18.28.090 provides

12 [i]f a debt adjuster contracts for, receives or makes any charge in excess of the
13 maximums permitted by this chapter, except as the result of an accidental and bona
14 fide error, the debt adjuster's contract with the debtor shall be void and the debt
15 adjuster shall return to the debtor the amount of all payments received from the
16 debtor or on the debtor's behalf and not distributed to creditors.

17 6.7 Student Loan Processing's contracts for, and receipt of charges in excess of the
18 maximums permitted by the Debt Adjusting Act are not accidental or the result of a bona fide
19 error. For example, Student Loan Processing structured its contracts in such a way that the initial
20 fee was *at least ten times greater* than the allowable \$25 fee. Moreover, whether Student Loan
21 Processing's \$39.00 monthly charge exceeds 15% of the borrower's monthly payment is a matter
22 of math, which Student Loan Processing either failed to perform or chose to ignore. As noted
23 above, 56 of the 88 total contracts between Student Loan Processing and Washington consumers
24 violate this provision.

25 6.8 As a result of Student Loan Processing's illegal fees, the State seeks a declaration
26 that each and every contract between Student Loan Processing and any Washington consumer is
void, and an order directing Student Loan Processing to return all payments made to it by

1 Washington consumers. Either violation of RCW 18.28.080(1) above – the excess initial fee or
2 the excess monthly fee – provides an adequate independent basis for voiding the contracts.

3 6.9 In addition to violating the fee limitations explained above, Student Loan
4 Processing also failed to comply with the notice requirements of RCW 18.28.100. Specifically, in
5 its standard form contracts, Student Loan Processing failed to include the following notifications
6 to borrowers, as required by law:

- 7 a. Do not sign this contract before you read it or if any spaces intended for the
8 agreed terms are left blank.
9 b. You are entitled to a copy of this contract at the time you sign it.
10 c. You may cancel this contract within three days of signing by sending notice
11 of cancellation by certified mail return receipt requested to the debt adjuster
12 at his or her address shown on the contract, which notice shall be posted not
13 later than midnight of the third day (excluding Sundays and holidays)
14 following your signing of the contract

15 6.10 By leaving these important consumer notifications out of its contracts, Student
16 Loan Processing violated the Debt Adjusting Act and also prevented its customers from making
17 informed decisions regarding contracts that both involved thousands of dollars, and could
18 potentially hang over their heads for 10 to 25 years.

19 6.11 RCW 18.28.200 provides that “[n]otwithstanding any other actions which may be
20 brought under the laws of this state, the attorney general or the prosecuting attorney of any county
21 within the state may bring an action in the name of the state against any person to restrain and
22 prevent any violation of this chapter.” Consequently, the State seeks an injunction prohibiting
23 Student Loan Processing from entering into contracts with Washington consumers that violate
24 RCW 18.28.

25 **VII. COUNT II – VIOLATION OF WASHINGTON CONSUMER PROTECTION ACT**

26 7.1 The State incorporates Paragraphs 1.1 through 6.11 herein as if set forth in their
entirety.

7.2 RCW 18.28.185 provides that “[a] violation of this chapter constitutes an unfair or
deceptive act or practice in the conduct of trade or commerce under chapter 19.86 RCW.” As a

1 result, each of the acts or practices set forth above that violate the Debt Adjusting Act are also
2 violations of RCW 19.86.020.

3 7.3 Student Loan Processing's acts or practices also took place in trade or commerce
4 because they advertised their services to, entered into consumer contracts with, and received fees
5 from, Washington residents.

6 7.4 Student Loan Processing's acts or practices affect the public interest because they
7 contracted with and collected illegal fees from at least 88 Washington consumers, advertised to
8 additional Washington consumers in the manner described above, and the acts and practices
9 herein were undertaken as part of their regular business practices. In addition, unless restrained,
10 these acts have a substantial potential for repetition and to injure additional Washington
11 consumers.

12 7.5 The State requests that the Court declare the acts and practices described above are
13 unfair or deceptive under RCW 19.86.020, and violate the Consumer Protection Act.

14 7.6 RCW 19.86.080(1) provides in relevant part that "[t]he attorney general may bring
15 an action in the name of the state, or as parens patriae on behalf of persons residing in the state,
16 against any person to restrain and prevent the doing of any act herein prohibited or declared to be
17 unlawful." Accordingly, the State requests that the Court enjoin Student Loan Processing and
18 Krause from entering into contracts with Washington consumers without strictly complying with
19 RCW 18.28.

20 7.7 RCW 19.86.080(2) provides that "[t]he court may make such additional orders or
21 judgments as may be necessary to restore to any person in interest any moneys or property, real or
22 personal, which may have been acquired by means of any act herein prohibited or declared to be
23 unlawful." Accordingly, the State requests that the Court issue an order requiring Student Loan
24 Processing to return to Washington consumers all sums obtained in violation of the Debt
25 Adjusting Act and the Consumer Protection Act, or pursuant to void contracts.
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1 7.8 RCW 19.86.140 provides "Every person who violates RCW 19.86.020 shall
2 forfeit and pay a civil penalty of not more than two thousand dollars for each violation"
3 Accordingly, the State requests that the Court impose a penalty of \$2,000 per violation of the
4 Consumer Protection Act, including one penalty for each of the 88 consumers who paid an initial
5 fee in excess of \$25, and another penalty for each of the 56 consumers who paid one or more
6 monthly payments in excess of 15% of their monthly student loan payment, for a total of at least
7 144 violations for which a penalty should be assessed.

8 VIII. PRAYER FOR RELIEF

9 Wherefore, the State prays for the following relief:

10 8.1 A declaration that each and every contract between Student Loan Processing and
11 Washington consumers is void, pursuant to RCW 18.28.090;

12 8.2 An order requiring Student Loan Processing to return to Washington consumers
13 all funds received from the consumers which were not forwarded on to the consumers' creditor(s),
14 pursuant to RCW 18.28.090;

15 8.3 An injunction against Student Loan Processing prohibiting them from entering
16 into contracts that require payments in excess of those allowed under RCW 18.28.080(1) or which
17 violate any other provision of the Debt Adjusting Act, RCW 18.28, pursuant to RCW 18.28.200;

18 8.4 A declaration that Student Loan Processing's acts described above are unfair or
19 deceptive acts or practices in trade or commerce, affecting the public interest, and in violation of
20 the Consumer Protection Act, RCW 19.86;

21 8.5 An injunction preventing Student Loan Processing or anyone acting in concert
22 with them from violating the Debt Adjusting Act in the manner described above, pursuant to
23 RCW 19.86.080(1);

24 8.6 An order necessary to restore to any person an interest in any moneys or property,
25 real or personal, which may have been acquired by means of an act prohibited by the Consumer
26 Protection Act, pursuant to RCW 19.86.080(2);

