



Portfolio Media, Inc. | 860 Broadway, 6th Floor | New York, NY 10003 | www.law360.com
Phone: +1 646 783 7100 | Fax: +1 646 783 7161 | customerservice@law360.com

Morgan Drexen Banned From Getting Fees, Starts Shutdown

By **Daniel Siegal**

Law360, Los Angeles (June 19, 2015, 5:23 PM ET) -- A California federal judge ruled Thursday that Morgan Drexen Inc., a bankrupt debt relief company accused by the government of collecting illegal upfront fees, can't collect any fees from customers, and on Friday the company's bankruptcy trustee told the court the company has commenced an immediate shutdown.

The Consumer Financial Protection Bureau had alleged Morgan Drexen duped consumers into paying illegal upfront fees for debt-relief services, and in April, U.S. District Judge Josephine L. Staton **agreed with the CFPB** that the company had fabricated and destroyed evidence in the run-up to trial and issued terminating sanctions.

On Thursday, Judge Staton granted the CFPB's motion for a permanent injunction barring the company from collecting any more fees, over the company's bankruptcy trustee's objection that allowing continued fee collection would benefit consumers.

"The court is not convinced that any benefit to consumers would result if the court allows Morgan Drexen to continue to charge affected consumers fees, when they are the very same consumers who have already paid Morgan Drexen an illegal upfront fee," Judge Staton wrote. "It is more likely that no additional benefit will inure to the affected consumers in the course of the next few months, and the only effect will be the continued drain on their accounts, and an additional few million dollars in Morgan Drexen's coffers."

On Friday, Chapter 11 trustee John Hueston of Hueston Hennigan LLP filed a notice with the court that Nevada-based Morgan Drexen had commenced an immediate shutdown, and a request for an ex parte hearing on the injunction's effects on the shutdown.

Hueston told Law360 on Friday that the shutdown had been started before the injunction was issued and that the trustee's planned steps are "broader than the issue injunction."

Thursday and Friday's filings are the latest chapter in a battle marked by unusual turns.

As the bureau prepared to file the instant suit, Morgan Drexen preemptively sued the CFPB in D.C. federal court in July 2013, challenging the agency's constitutional right to exist. **That bid failed.**

The bureau **sued Morgan Drexen in August 2013**, saying the operations of the company and its CEO, Walter Ledda, violated the Federal Trade Commission's Telemarketing Sales Rule and the Dodd-Frank Act, claiming the company skirts laws generally forbidding upfront fees by having customers who contract for debt-settlement services also sign a second, bogus bankruptcy services contract requiring them to pay hundreds of dollars in fees.

The agency also claimed Morgan Drexen has misled struggling consumers by claiming they can be "debt-free in months" when only a small percentage of the company's customers ever become debt-free.

Last year, Judge Staton **wouldn't let Morgan Drexen escape the suit** as the company again took aim at the constitutionality of the CFPB in a dismissal motion.

In January, the bureau asked Judge Staton to impose default sanctions against Morgan Drexen, saying it had found discovery fabrication.

The court granted terminating sanctions on April 21, finding that Morgan Drexen "not only acted willfully and in bad faith by falsifying evidence but also decided to continuously deceive [its] own trial counsel, opposing counsel, and the court by engaging in practices that have undermined the integrity of judicial proceedings."

Judge Staton found that the "only logical conclusion" is that Morgan Drexen was trying to make it seem as if it had done more bankruptcy work on certain consumer files before it handed them over.

On Friday, the Chapter 11 trustee's filing also asked for the court to grant an ex parte hearing on the fact that certain attorneys with contracts with Morgan Drexen have tried to obstruct the shutdown by claiming to represent roughly 10,000 Morgan Drexen customers, and claiming that any interruption with the services provided to the customers will "not be tolerated," per an email sent by attorney Vincent Howard.

"Regardless, prior to this court's issuance of [a] permanent injunction order, the trustee has already concluded that the conduct of the attorneys has shown that the Morgan Drexen business model is irretrievably broken — legally and practically," the trustee wrote.

Hueston told Law360 on Friday that the trustee is preparing additional action against the obstructionist attorneys.

Lawrence Williamson of Williamson Law Group APC, one of the allegedly obstructionist attorneys, declined to comment on Friday.

Representatives for Morgan Drexen and the CFPB did not immediately respond to requests for comment on Friday.

The government is represented by R. Gabriel D. O'Malley, Jan Singelmann and Amy Radon of the Consumer Financial Protection Bureau and Kent A. Kawakami of the U.S. Attorney's Office for the Central District of California.

The trustee is represented by Brian Hennigan, John C. Hueston, Xinlin Li and Lauren E. Shaw of Hueston Hennigan LLP and Evan C. Borges and Michael P. McMahon of Greenberg Gross LLP.

Morgan Drexen is represented by Gerald A. Klein and Mark B. Wilson of Klein & Wilson PC and Randall K. Miller, Nicholas M. DePalma, Randal M. Shaheen and Celeste M. Brecht of Venable LLP.

The case is Consumer Financial Protection Bureau v. Morgan Drexen Inc. et al., case number 8:13-cv-01267, in the U.S. District Court for the Central District of California.

--Additional reporting by Gavin Broady, Brandon Lowrey and Juan Carlos Rodriguez. Editing by Brian Baresch.