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FTC Cracks Down on Payments Processor for Facilitating Fraud

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On May 1, the FTC announced a settlement in federal court in the Northern District of Georgia against a payment processing company, along with its former CEO and senior vice president, for the company's role in handling transactions for a debt-relief company engaging in fraud. The defendants have agreed to a settlement that includes a $10 million payment to compensate affected consumers and tighter restrictions on future business operations.

According to the FTC's complaint, the company processed payments for a debt-relief company previously sued for fraud, despite "substantial" evidence of the company's deceptive and fraudulent practices. The payment processor ignored various red flags including warnings from its internal fraud monitoring team, evidence of high chargeback rates and direct advisories from credit companies, and continued to facilitate the transactions for the debt relief enterprise. This even extended to advising the debt relief company on how to best avoid detection of its improper activities.

In addition to a $10 million civil money penalty, the company is also barred from servicing high-risk clients, including those that participate in debt collection and relief activities, as well as those flagged by industry fraud monitoring programs.

Putting It Into Practice: The case highlights the FTC's ongoing commitment to combat payment processors' complicity in consumer fraud and emphasizes the legal obligations of payment processors to mitigate fraud (previously discussed here and here). It is also part of a broader push by federal regulators to target service providers that refuse to heed warning signs and turn a blind eye to fraudulent activities of their business partners. Payment processors and other service providers who are often subject to diligence and oversight should also ensure that they do the same to their third-party partners.

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