

Consent order requiring an Atlanta, Ga., seller of credit card services to franchisees who in turn sell retail merchants memberships in respondents' services to cease violating the Truth in Lending Act by failing to make the disclosures required by Regulation Z of the Act; respondents are also required to cease misrepresenting the number of sales a franchisee can make in a given geographic area, that a franchisee needs no skill or training, that franchise holders receive substantial benefits from the respondent organization, that

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they will receive assistance if they fall below their monthly quota, and making other similar misrepresentations in selling and servicing their franchises; respondents are also required to cease using simulated legal processes in efforts to collect monies owed by consumers on charges submitted by member merchants.

## COMPLAINT

Pursuant to the provisions of the Federal Trade Commission Act, and of the Truth in Lending Act and the regulation promulgated thereunder, and by virtue of the authority vested in it by said Acts, the Federal Trade Commission, having reason to believe that Computer Credit Systems, Inc., a corporation, and George H. Naterman, individually and as an officer of Computer Credit Systems, Inc., hereinafter referred to as respondents, have violated the provisions of the said Acts and of the regulation promulgated under the Truth in Lending Act, and it appearing to the Commission that a proceeding by it in respect thereof would be in the public interest, hereby issues its complaint stating its charges in that respect as follows:

PAR. 1. Respondent Computer Credit Systems, Inc., is a corporation organized, existing, and doing business under and by virtue of the laws of the State of Georgia, with its principal office and place of business located at 290 Interstate North, Atlanta, Georgia.

Respondent George H. Naterman is an individual and an officer of Computer Credit Systems, Inc. His business address is the same as the corporate respondent.

Respondent George H. Naterman has been and is president of the said corporate respondent and is primarily responsible for establishing, supervising, directing and controlling its acts and practices hereinafter set out.

PAR. 2. Respondents Computer Credit Systems, Inc. and George H. Naterman were and are now engaged in the advertising and offering for sale and sale of franchises which authorize the franchisees to sell retail merchants memberships in respondents' "Honor All Credit Card" Program for the use of respondents' credit card services, and in the advertising and offering for sale and sale of such services to retail merchants.

Respondents first sell franchises to persons who invest a substantial sum of money as a condition to being granted exclusive rights to sell memberships in respondents' "Honor All Credit Card" Program (hereinafter referred to as respondents' program). Second, directly and through such franchisees, respondents sell their credit card clearing services to retail merchants (hereinafter referred to as members), who invest substantial sums of money as fees and service discounts on credit

sales. Respondents' program entitles members to sell their respective products and services to customers presenting any one of a large number of credit cards approved by respondents, and to submit such credit charges to respondents. Respondents collect the charges from the customers of members and remit payment to the members.

#### COUNT I

Alleging violation of Section 5 of the Federal Trade Commission Act, the allegations of numbered Paragraphs One and Two hereof are incorporated by reference in Count I as if fully set forth verbatim.

PAR. 3. In the course and conduct of their business as aforesaid, the respondents were and are now causing their promotional materials to be mailed or otherwise conveyed to various persons residing outside of the State of Georgia, in various other States of the United States. Advertising matter, applications, contracts, franchise agreements, letters, checks, and other written instruments and communications have been sent and have been received between the respondents at their places of business located in Georgia and persons in various other States of the United States. As a result of said interstate advertising and promotion, and as a result of said transmission and receipt of said written instruments and communications, respondents have maintained a substantial course of trade in said franchises and credit card services in commerce as "commerce" is defined in the Federal Trade Commission Act.

PAR. 4. In the course and conduct of their aforesaid business, and for the purpose of inducing purchases of franchises to sell respondents' services, and of selling memberships in respondents' program, respondents and their salesmen or representatives have represented and now represent, directly or by implication, in advertising and promotional material and in oral solicitations:

a. To all prospective franchisees, that:

1. Typical franchisees selling memberships in respondents' program can expect to sell ten (10) memberships per month, from which they can expect to earn in excess of \$21,840 per year and achieve a return of their investments within months.
2. Typical franchisees can expect to remain active selling memberships for many years.
3. Respondents' program can be sold with ease to retail merchants.
4. Geographical areas offered to prospective franchisees have not been previously franchised.
5. No skill, knowledge, or prior training is necessary to successfully operate respondents' franchises.

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6. There is a "regional manager" or other sales representative of respondents who is interviewing other franchise applicants for the same area as each franchise prospect; and that the prospective franchisees must act immediately to be considered for a franchise.

7. Franchise holders receive substantial benefits from bookkeeping charges and bonuses based on a percentage of net credit charges submitted by members in each franchisee's territory.

8. Prospective franchisees risk losing little or nothing in investing in a franchise in that the respondents will repurchase a franchise and/or aid in its resale.

9. In the event franchise holders do not maintain minimum monthly production quotas of new membership agreements, the respondents will not exercise the right of termination as provided in the Franchise Agreements, and will provide the assistance of the respondents' sales personnel in increasing to acceptable standards the sales production of the franchises.

b. To both prospective franchisees and prospective members, that:

1. Respondents' program has received national acceptance.

2. There are thousands of members honoring all credit cards under respondents' program each and every month.

3. All credit charges submitted under respondents' program are guaranteed payable without recourse; that respondents assume all risks of non-payment by the members' customers; that members can expect to be successful and satisfied with the program's performance; and that members usually continue using respondents' program for one year or longer.

4. Respondents' program is economically feasible in that it results in increased sales volume for members and the program costs members less than competing bank credit card programs.

5. Members complete just one simple form for all credit charges; and that members receive payment on or about the 25th of every month for each credit charge submitted to and processed by the respondents before the 10th of the same month.

6. Respondents have available a \$5 million fund to provide financial resources and ability to service members.

PAR. 5. In truth and in fact:

a. With respect to the representations directed to prospective franchisees:

1. The vast majority of franchisees selling memberships in respondents' program have not sold ten (10) memberships per month nor have they earned in excess of \$21,840 per year. The vast majority of the

franchisees receive no earnings from the operation of their franchises and do not achieve the return of their original investment.

2. The vast majority of the franchisees do not achieve even one year longevity as franchisees actively pursuing sales.

3. Respondents' program has not been and cannot be sold with ease to retail merchants.

4. In a substantial number of instances, the geographical areas offered to prospective franchisees have been previously franchised.

5. Skill, knowledge and/or prior training in sales and business administration is necessary to successfully operate respondents' franchises.

6. There is no "regional manager" or other sales representative of respondents who is interviewing other franchise applicants in each area, but rather all persons responding to invitations for inquiries receive the same sales presentation stating that said "regional manager" or other sales representative is interviewing other interested persons for the same franchise area. In few, if any, instances need prospective franchisees act immediately to be considered for a franchise.

7. Franchise holders do not receive substantial benefits from book-keeping charges or bonuses based on a percentage of net credit charges submitted by members in each franchisee's territory.

8. Prospective franchisees do risk losing their investment. In a substantial number of instances, the respondents do not repurchase the franchise and where respondents do aid in its resale, they retain a substantial portion of the proceeds.

9. In the event franchise holders do not maintain a minimum monthly production quota of new membership agreements, the respondents do exercise the right of termination as provided in the franchise agreements and do not provide direct sales assistance in increasing to acceptable standards the sales production of the franchise.

b. With respect to the presentations directed to both prospective franchisees and prospective members:

1. Respondents' program has not received national acceptance.

2. There are not thousands of members honoring all credit cards under respondents' program each and every month.

3. Not all credit charges submitted under respondents' program are guaranteed payable without recourse. Respondents do not assume all risks of non-payment by the members' customers; the vast majority of the members have been neither successful nor satisfied with the program's performance. A substantial majority of the members have not continued using respondents' program for one year.

4. Respondents' program is not economically feasible in that its utilization has not resulted in increased sales volume for members and the program is more costly than competing bank credit card programs.

5. The forms which members must complete in order to process credit charges are not simple and are burdensome to fill out in practice. Members do not receive payment on or about the 25th of every month for each credit charge submitted to and processed by the respondents before the 10th of the same month.

6. Respondents do not have available a \$5 million fund to provide financial resources and ability to service members.

Therefore, the statements and representations as set forth in Paragraph Four hereof were and are false, misleading and deceptive.

PAR. 6. In the further course and conduct of their business and in furtherance of efforts to collect monies owed by consumers on charges submitted by member merchants and accepted by them, respondents or its representatives have engaged in the following additional unfair, false, misleading and deceptive act and practice of sending through the United States mail written debt collection notices:

1. Which simulate legal process.

2. Which contain representations of creditors' rights after judgment to collect the principal, interest and cost without disclosing that judgment may not be entered against the debtor unless he has first had an opportunity to appear and defend himself in a court of law.

PAR. 7. In the course and conduct of their aforesaid business, and at all times mentioned herein, respondents Computer Credit Systems, Inc. and George H. Naterman have been and now are in substantial competition, in commerce, with corporations, firms and individuals in the sale of franchises or distributorships to persons interested in establishing their own businesses, and with corporations, firms and individuals in the sale of credit card services.

PAR. 8. The use by respondents of the aforesaid false, misleading, and deceptive statements, representations and practices has had and now has the capacity and tendency to mislead members of the purchasing public into the erroneous and mistaken belief that said statements and representations were and are true and into investing substantial sums of money in becoming franchisees to sell respondents' services, and into investing substantial sums of money in becoming members of respondents' program for the use of respondents' services, and into the payment of substantial sums of money by reason of said erroneous and mistaken belief.

PAR. 9. The aforesaid acts and practices of respondents, as herein alleged, were and are all to the prejudice and injury of the public and

of respondents' competitors and constituted, and now constitute, unfair methods of competition in commerce and unfair and deceptive acts and practices in commerce in violation of Section 5 of the Federal Trade Commission Act.

#### COUNT II

Alleging violation of the Truth in Lending Act and the implementing regulations promulgated thereunder, and of the Federal Trade Commission Act, the allegations of Paragraphs One and Two hereof are incorporated by reference in Count II as if fully set forth verbatim.

PAR. 10. In the ordinary course and conduct of their business, as aforesaid, respondents regularly extend and for some time last past have regularly extended consumer credit as "consumer credit" is defined in Regulation Z, the implementing regulation of the Truth in Lending Act duly promulgated by the Board of Governors of the Federal Reserve System.

PAR. 11. Respondents, subsequent to July 1, 1969, in the ordinary course and conduct of their business, extended open end credit to the customers of member merchants in connection with their member merchants' credit sales, as "open end credit" and "credit sales" are defined in Regulation Z. In connection with the extension of open end credit, the respondents have furnished to customers, prior to the first transaction, a disclosure statement which describes some of the credit terms of these open end accounts. By and through the use of the said disclosure statements, respondents:

1. Fail to employ the term "finance charge," as required by Section 226.7(a) of Regulation Z and also thereby fail to employ this term more conspicuously than other required terminology, as required by Section 226.6(a) of Regulation Z.
2. Fail to employ the term "annual percentage rate," as required by Section 226.7(a) of Regulation Z and also thereby fail to employ this term more conspicuously than other required terminology, as required by Section 226.6(a) of Regulation Z.
3. Fail to employ the term "periodic rate" (or "rates"), as required by Section 226.7(a) of Regulation Z.
4. Fail to disclose the conditions under which any charges other than the finance charge may be imposed, and the method by which they will be determined, as required by Section 226.7(a) (6).

PAR. 12. Respondents, subsequent to July 1, 1969, in the ordinary course and conduct of their business, extended open end credit to the customers of member merchants in connection with their member merchants' credit sales, as "open end credit" and "credit sales" are defined in Regulation Z. In connection with the extension of open end

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credit, the respondents have sent and are sending to its member merchants' credit customers periodic statements as "periodic statements" are described in Section 226.7(b) and (c) of Regulation Z. By and through the use of the periodic statements, respondents:

1. Fail to employ the term "previous balance" to describe the outstanding balance in the account at the beginning of the billing cycle, as required by Section 226.7(b) (1) of Regulation Z.
2. Fail to employ the term "payments" to describe the amounts credited to the account during the billing cycle for payments, as required by Section 226.7(b) (3) of Regulation Z.
3. Fail to employ the term "finance charge" to describe the amount of any finance charge debited to the account during the billing cycle, itemized and identified to show the amounts, if any, due to the application of periodic rates and the amount of any other charge included in the finance charge, as required by Section 226.7(b) (4) of Regulation Z and thereby fail to print the term "finance charge" more conspicuously than other required terminology, as required by Section 226.6(a) of Regulation Z.
4. Fail to disclose the periodic rate (or rates) that may be used to compute the finance charge (whether or not applied during the billing cycle) using the term "periodic rate" (or "rates"), as required by Section 226.7(b) (5) of Regulation Z.
5. Fail to employ the term "annual percentage rate" (or "rates"), as required by Section 226.7(b) (6) of Regulation Z and also thereby fail to employ this term more conspicuously than other required terminology, as required by Section 226.6(a) of Regulation Z.
6. Fail to include a statement of how the balance upon which the finance charge was computed is determined, as required by Section 226.7(b) (8) of Regulation Z.
7. Fail to employ a statement accompanying the term "new balance" indicating the date by which or the period, if any, within which payment must be made to avoid additional finance charges, as required by Section 226.7(b) (9) of Regulation Z.

PAR. 13. Pursuant to Section 103(q) of the Truth in Lending Act, respondents aforesaid failure to comply with the provisions of Regulation Z constitutes violations of that Act, and, pursuant to Section 108(c) thereof, respondents thereby violated the Federal Trade Commission Act.

## DECISION AND ORDER

The Federal Trade Commission having initiated an investigation of certain acts and practices of the respondents named in the caption hereof, and the respondents having been furnished thereafter with

a copy of a draft of complaint which the Atlanta Regional Office proposed to present to the Commission for its consideration and which, if issued by the Commission, would charge respondents with violation of the Federal Trade Commission Act, the Truth in Lending Act and the implementing regulation promulgated thereunder; and

The respondents and counsel for the Commission having thereafter executed an agreement containing a consent order, an admission by the respondents of all the jurisdictional facts set forth in the aforesaid draft of complaint, a statement that the signing of said agreement is for settlement purposes only and does not constitute an admission by respondents that the law has been violated as alleged in such complaint, and waivers and other provisions as required by the Commission's rules; and

The Commission having thereafter considered the matter and having determined that it had reason to believe that the respondents have violated the said Act, and that complaint should issue stating its charges in that respect, and having thereupon accepted the executed consent agreement and placed such agreement on the public record for a period of thirty (30) days, now in further conformity with the procedure prescribed in Section 2.34(b) of its rules, the Commission hereby issues its complaint, makes the following jurisdictional findings, and enters the following order:

1. Respondent Computer Credit Systems, Inc., is a corporation organized, existing and doing business under and by virtue of the laws of the State of Georgia, with its office and principal place of business located at 290 Interstate North, Atlanta, Georgia.

Respondent George H. Naterman is an individual and officer of said corporation. Said individual formulates, directs and controls the policies, acts and practices of the corporate respondent, including the acts and practices under investigation. Said individual respondent's address is the same as that of the corporate respondent.

Respondents cooperate and act together in carrying out the acts and practices being investigated.

2. The Federal Trade Commission has jurisdiction of the subject matter of this proceeding and of the respondents and the proceeding is in the public interest.

#### ORDER

*It is ordered*, That respondents Computer Credit Systems, Inc., a corporation, and its officers, and George H. Naterman, individually and as an officer of the said corporation, and respondents' franchisees, agents, representatives and employees, directly or through any corporate or other device, in connection with the advertising, offering for

sale or sale of franchises or credit card services, or any other products or services, or in the operation of any credit card service or other business in commerce, as "commerce" is defined in the Federal Trade Commission Act, do forthwith cease and desist from, directly or by implication:

1. (a) Representing that franchisees can expect to or will make any number of sales; or representing, in any manner, the number of sales made in the past by franchisees unless in fact the number of past sales represented are those of a substantial number of franchisees in the geographical area in which such representations are made and accurately reflect the average number of sales of these franchisees under circumstances similar to those of the person to whom the representation is made.

(b) Representing that franchisees will earn or receive any stated gross or net amount of earnings or profits; or representing, in any manner, the past earnings of franchisees unless in fact the past earnings represented are those of a substantial number of franchisees in the geographical area in which such representations are made and accurately reflect the average earnings of these franchisees under circumstances similar to those of the person to whom the representation is made.

2. Representing that franchisees can expect to remain active franchisees selling memberships for many years; or representing, in any manner, the longevity or tenure of past or existing franchisees unless in fact the periods of time represented are those during which sales efforts were actively pursued by a substantial number of franchisees in the geographical area in which the representations are made.

3. Representing that respondents' program can be sold with ease to retail merchants; or misrepresenting, in any manner, the saleability of respondents' program or the acceptance of respondents' program.

4. Representing that any geographical area offered as a franchise has not been previously franchised by the respondents unless in fact the said geographical area has not been previously franchised by the respondents.

5. Representing that a franchisee needs no skill, knowledge, prior training, or experience to operate a successful franchise, unless the prospective franchisee is fully and completely apprised of all facts and responsibilities of operating respondents' franchise.

6. Falsely representing that there is a "regional manager" or other sales representative of respondents who is interviewing

other franchise applicants or persons who are interested in the same area as are prospective franchisees; or that prospective franchisees must act immediately in order to be considered for a franchise; or misrepresenting, in any manner, the nature and extent of interest or the number of other applications for any franchise area.

7. Representing that franchise holders receive substantial benefits from bookkeeping charges or bonuses based on a percentage of net credit charges submitted by members; or representing, in any manner, benefits of franchisees which are dependent upon the actions of members, unless the benefits represented are those received by substantial numbers of the franchise holders under circumstances similar to those of the person to whom the representation is made.

8. (a) Representing that prospective franchisees risk losing little or nothing in investing in a respondents' franchise;

(b) Representing that respondents will repurchase franchises without contemporaneously, clearly and conspicuously disclosing in the franchise contracts or agreements the price at which the respondents will repurchase;

(c) Representing that respondents will aid or assist in the resale of franchises without contemporaneously, clearly and conspicuously disclosing in the franchise contract or agreement the amount of the resale purchase price which the respondents will retain.

9. (a) Representing that the respondents will not exercise their right to terminate franchises for failure to maintain minimum monthly sales quotas as is provided in the respondents' franchise agreements; or misrepresenting, in any manner, the actions to be taken by the respondents under its franchise agreements.

(b) Representing that the respondents will provide direct sales assistance to franchisees in the event the franchisees should fail to maintain their minimum monthly sales quota; or misrepresenting, in any manner, the sales and other assistance and training to be furnished or made available to the franchisees and their employees.

10. Representing, in any manner, that respondents' program has received national acceptance; or misrepresenting, in any manner, the extent or degree of acceptance or approval of respondents' program.

11. Representing that there are thousands of members honoring all credit cards each and every month under respondents' pro-

gram; or representing, in any manner, the number of members in respondents' program unless the number represented is the average number of members who actually accepted credit charges under the program and submitted payment vouchers therefor during the twelve month period preceding the month when the representation is made; or misrepresenting, in any manner, the nature and extent of respondents' membership.

12. Representing that all credit charges submitted under respondents' program are guaranteed payable or are payable without recourse; or that respondents assume all risk of non-payment by members' customers; or that members can expect to be successful or satisfied with the performance of the respondents' program; or that members usually continue using respondents' program for more than one year.

13. Representing that respondents' program is economically feasible for members; or that the use of the program will result in increased sales volume for members; or that the program cost less than competing bank credit card programs; or misrepresenting, in any manner, the cost or profitability of respondents' program to members.

14. Representing that members complete just one simple form for all credit charges; or misrepresenting, in any manner, the procedures necessary to process credit charges and receive payment therefor; or failing to disclose contemporaneously, clearly or conspicuously any and all reasons which will preclude receipt of full payment of credited charges submitted by members.

15. Representing that members receive payment on or about the 25th of every month for each credit charge submitted to and processed by the respondents before the 10th of the same month; or misrepresenting, in any manner, the period of time in which members will receive payment for credit charges submitted to the respondents.

16. Representing that respondents have available a \$5 million fund to provide financial resources and ability to service members; or representing, in any manner, the state of respondents financial resources, without disclosing the exact amount of net working capital as determined by an independent audit as of the end of the last completed fiscal period preceding the time the representation is made.

## II

*It is further ordered.* That respondents Computer Credit Systems, Inc., a corporation, and its officers, and George H. Naterman, indi-

vidually and as an officer of said corporation, and respondents' agents, representatives and employees, directly or through any corporate or other device, in connection with any extension of consumer credit or any advertisement to aid, promote or assist directly or indirectly any extension of consumer credit, as "consumer credit" and "advertisement" are defined in Regulation Z (12 CFR § 226) of the Truth in Lending Act (Public Law 90-321, 15 U.S.C. 1601 *et seq.*), to forthwith cease and desist from:

1. Failing to employ the terms "finance charge," "annual percentage rate," "periodic rate" (or "rates"), as required by Section 226.7(a) of Regulation Z.

2. Failing to print the terms "annual percentage rate" and "finance charge," where required by Regulation Z to be used, more conspicuously than other required terminology as set forth in Section 226.6(a) of Regulation Z.

3. Failing to disclose the conditions under which any charges other than the finance charge may be imposed, and the method by which they will be determined, as required by Section 226.7(a)(6).

4. Failing to employ the term "previous balance" to describe the outstanding balance in the account at the beginning of the billing cycle, as required by Section 226.7(b)(1) of Regulation Z.

5. Failing to employ the term "payments" to describe the amounts credited to the account during the billing cycle for payments, as required by Section 226.7(b)(3) of Regulation Z.

6. Failing to employ the term "finance charge" to describe the amount of any finance charge debited to the account during the billing cycle, itemized and identified to show the amounts, if any, due to the application of periodic rates and the amount of any other charge included in the finance charge, as required by Section 226.7(b)(4).

7. Failing to disclose the periodic rate (or rates) that may be used to compute the finance charge (whether or not applied during the billing cycle), as required by Section 226.7(b)(5) of Regulation Z.

8. Failing to employ the term "annual percentage rate" (or "rates"), as required by Section 226.7(b)(6) of Regulation Z.

9. Failing to include a statement of how the balance upon which the finance charge was computed is determined, as required by Section 226.7(b)(8) of Regulation Z.

10. Failing to employ a statement accompanying the term "new balance" indicating the date by which or the period, if any, within

which payments must be made to avoid additional finance charges as required by Section 226.7(b)(9) of Regulation Z.

11. Failing, in any consumer credit transaction or advertisement, to make all disclosures, determined in accordance with Section 226.4 and Section 226.5 of Regulation Z, in the manner, form and amount required by Section 226.6, Section 226.7, Section 226.8, Section 226.9, and Section 226.10 of Regulation Z.

### III

*It is further ordered,* That the respondents, in connection with their efforts to collect monies owed by consumers on charges submitted by member merchants and accepted by the respondents, cease and desist from the use of written debt collection notices which:

1. Simulate legal process.
2. Contain representations of creditors' rights after judgment to collect the principal, interest and cost without disclosing that judgment may not be entered against the debtor unless he has first had an opportunity to appear and defend himself in a court of law.

*It is further ordered,* That respondents incident to selling their franchises and credit card services:

(a) Inform orally all persons to whom solicitations are made and provide in writing in all applications and contracts that the application or contract may be cancelled for any reason by notification to the respondents in writing within seven (7) days from the date of execution.

(b) Refund immediately all monies to (1) all persons who request cancellation of the application or contract within seven (7) days from the execution thereof, and (2) all persons who henceforth pay any monies for franchise fees, deposits or downpayments on franchises, membership fees, membership dues or discount fees and who show that respondents' solicitations, applications, contracts or performance are or were attended by or involved violations of any of the provisions of this order.

*It is further ordered,* That respondent corporation shall forthwith distribute a copy of this order to each of its operating divisions.

*It is further ordered,* That respondents deliver a copy of this order to cease and desist to all present and future personnel engaged in the offering for sale, or sale of any product or service, and in the consummation of any extension of consumer credit or in any aspect of preparation, creation, or placing of advertising, and that respondents

secure a signed statement acknowledging receipt of said order from each such person.

*It is further ordered,* That respondents notify the Commission at least thirty (30) days prior to any proposed change in the corporate respondent such as dissolution, assignment or sale resulting in the emergence of a successor corporation, the creation or dissolution of subsidiaries or any other change in the corporation which may affect compliance obligations arising out of the order.

*It is further ordered,* That the respondents herein shall, within sixty (60) days after service upon them of this order, file with the Commission a report, in writing, setting forth in detail the manner and form in which they have complied with this order.

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IN THE MATTER OF

MATTER, INC.