

Direct Selling Firm Settles With FTC, Resumes Operations



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Parimal Naik

Founder and CEO, United Wealth Education

United Wealth Education (UWE) and its affiliated nonprofit, the Youth Financial Literacy Foundation (YFL), have reached a settlement with the Federal Trade Commission (FTC) regarding a May 2022 complaint. The agreement, approved unanimously by the FTC commission in early August 2024, allows both organizations to continue full operations.

The development marks a significant turn of events in a case that began over two years ago when the FTC took action against the Michigan-based direct selling company, then operating as Financial Education Services. (FES)

Case Background

On May 23rd, 2022, the FTC took swift action against FES, a direct selling company offering credit repair services. The FTC filed a complaint alleging that FES and its owners, Parimal Naik, Michael Toloff, Christopher Toloff, and Gerald Thompson, along with several related companies, had operated an unlawful credit repair scam and an illegal pyramid scheme since 2015. The FTC's complaint claimed that FES had deceived consumers across the country and violated several laws, including the FTC Act, the Credit Repair Organizations Act and the Telemarketing Sales Rule. According to the FTC, the company had bilked consumers for more than \$213 million through its practices.

Initially, the FTC's action resulted in a temporary restraining order and asset freeze issued by U.S. District Judge Bernard A. Friedman on May 24, 2022. This order effectively shut down the company's operations and froze its assets pending further investigation.



The FTC's complaint contained several allegations regarding FES's business practices:

- The agency claimed that FES violated Section 5(a) of the FTC act, which prohibits unfair or deceptive acts or practices in or affecting commerce.
- The FTC alleged violations of Title IV of the Consumer Credit Protection Act, which regulates credit repair services and prohibits certain practices such as demanding advance payment and making misleading representations.
- The complaint also cited violations of the Telemarketing Sales Rule, which sets standards for telemarketing and practices and prohibits certain deceptive tactics.

To support its claims, the FTC submitted a declaration from Dr. David Givens, an economist in the Consumer Protection Division of the bureau of Economics at the FEC. Givens concluded that FES was operating in a manner consistent with being a pyramid scheme, although he noted that he had not seen company data on enrollment, purchasing, compensation or tenure.

However, the case took an unexpected turn on June 30, 2022. After hearing oral arguments in the U.S. District Court for the Eastern District of Michigan, Judge Friedman denied the motion for a preliminary injunction. He vacated the temporary restraining order, terminated the asset freeze, and converted the receivership to a monitorship. This decision allowed FES to resume its operations under the observation of a court-appointed monitor.

The judge's decision to deny the preliminary injunction was based on several factors, including testimonials and affidavits from FES customers and agents, as well as expert testimony challenging the FTC's allegations.

The court-appointed receiver, who had spent approximately a month evaluating the business, found that FES had a "fairly robust compliance infrastructure in place." According to Richard Epstein, a member of the FES legal team.

This initial ruling set the stage for further legal proceedings and negotiations between FES and the FTC, ultimately leading to the settlement announced in August 2024.

Company's Response and Legal Process

Throughout the legal process, FES, now operating as UWE, maintained its innocence. The company's legal team argued that the FTC's complaint contained unfounded accusations and lacked proper investigation.

Epstein stated in 2022, "They did no investigation here. They did no investigation of the company. They did a background investigation secretly, but they never reached out to the company."

The defense presented customer testimonials, affidavits, and expert declarations to counter the FTC's allegations. They argued that FES had several key features differentiating it from typical multilevel-marketing companies (MLM's), including no incentive for inventory loading and full visibility into consumer purchases.



Settlement Details and Implications

Both UWE and YFL have agreed to operate within the provisions outlined in several consumer protection laws, including the Credit Repair Organizations Act (CROA), the Fair Credit Reporting Act (FCRA), the Telemarketing and Consumer Fraud and Abuse Prevention Act, the Gramm-Leach-Bliley Act and the Federal Trade Commission Act.

In a statement to SSN, Naik welcomed the settlement, saying “This is a signature moment in our 20-year history. The message is very clear; We are not a pyramid scheme. We do not make false promises. We do not overstate outcomes and earnings.”

Naik emphasized that the company remained open throughout the settlement process and made updates to address the FTC’s original complaint. He viewed the scrutiny as an opportunity for growth, noting that key parts of the company’s operation, including compliance rules and regulations, have reached new levels of excellence.

While the settlement includes fines, which some might interpret as an admission of guilt, both Naik and Michael Curry, president of YFL, addressed this perception.

“We get it,” Curry stated. “Given the history both ‘credit-repair’ and ‘network marketing’ carry a stigma. When you combine the two, people are naturally going to question it. But the reality is the UCES Protection Plan has positioned thousands of people to improve their debt and savings ratios, protect their personal estates and credit, and so much more.”

Business Model and Services

UWE partners with YFL to provide the United Credit Education Services Protection Plan (UCES Protection Plan), a bundled consumer finance solution. The monthly subscription service includes tools for identity monitoring, personal credit, and wills and trusts, among others.

Naik clarified the nature of the business, stating, “Contrary to some stereotypes, we are not a ‘credit repair’ company. We are a financial literacy company serving consumers who want to improve their financial health and independent agents interested in supplemental income.”

According to Naik approximately 65% of the company’s clients are customers who choose to take advantage of their full suite of finance solutions, while the remaining 35% are customers who also participate in the business opportunity.





Impact on Customers and Agents

The settlement allows UWE and YFL to continue their operations, which company leaders claim have helped thousands of people improve their debt and savings ratios, protect their personal estates and credit, and more. Curry emphasized that every Protection Plan purchase generates funding for YFL's charitable educational programs.

Naik expressed gratitude to those who remained with the company during the legal proceedings, stating, "We are all very thankful, especially for the customers, employees, and agents who stayed with us. Without them we would not be where we are today."



Industry Implications and Future Outlook

The resolution of this case may have broader implications for the direct selling and credit repair industries. As the company moves forward under the settlement agreement, it will likely face continued scrutiny from regulators and industry observers. The appointment of a monitor during the legal process suggests that UWE's operations will remain under close watch to ensure compliance with relevant laws and regulations.

Naik and Curry expressed optimism about the future, with Naik stating, "Most businesses would not survive something like this, but we are stronger than ever." The company leaders view the settlement as an opportunity to publicly verify their commitment to upholding the law and continuing their mission of promoting financial literacy.

The resolution of this case may serve as a benchmark for how similar companies operate and interact with regulatory agencies in the future, with its emphasis on compliance and transparency potentially influencing industry standards moving forward.