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8 UNITED STATES DISTRICT COURT
9 CENTRAL DISTRICT OF CALIFORNIA

10
11 FEDERAL TRADE COMMISSION,

12 Plaintiff,

13 v.

14 SL FINANCE LLC, et al.,

15 Defendants.

Case No. 8:23-cv-00698-JWH (ADSx)

**RECEIVER’S FINAL REPORT
AND APPLICATION FOR:
(1) DISCHARGE OF RECEIVER;
AND (2) APPROVAL OF FINAL
FEE APPLICATION**

JUDGE: Hon. John W. Holcomb
CTRM: 9D
DATE: October 25, 2024
TIME: 9:00 a.m.

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19 Thomas W. McNamara (“Receiver”), by and through his undersigned
20 counsel, submits this Final Report and Application for: (1) Discharge of Receiver
21 and (2) Approval of Final Fee Application for fees and expenses of the Receiver
22 and his counsel for the 15-month period July 1, 2023 through September 23, 2024.

23 **INTRODUCTION**

24 On April 24, 2023, the Federal Trade Commission (“FTC”) initiated this
25 lawsuit against SL Finance LLC, Michael Castillo, and Christian Castillo. The
26 FTC alleged Defendants violated Section 5 of the FTC Act, the Telemarketing
27 Sales Rule, the COVID-19 Consumer Protection Act, and the Gramm-Leach-Bliley
28 Act. (ECF No. 1.)

1 On May 2, 2023, the Court entered a Temporary Restraining Order (ECF
2 No. 23, “TRO”) appointing Mr. McNamara as the temporary receiver over the
3 Receivership Entities.¹ The appointment was confirmed on May 22, 2023 with the
4 Court’s entry of the Order Entering Stipulated Preliminary Injunction (ECF No. 38,
5 “PI”).

6 The Receiver was given a number of duties under the TRO and PI including:
7 (1) taking custody and control of the Receivership Entities’ Assets and Documents,
8 PI ¶ 14(b) and (c); (2) preserving the value of the Receivership Entities’ Assets and
9 Documents, PI ¶ 14(d) and (e); (3) securing each location from which the
10 Receivership Entities operated their businesses, PI ¶ 14(h); (4) protecting the
11 interests of consumers who transacted business with the Receivership Entities, PI
12 ¶ 14(k); (5) providing an accounting of the Assets and financial condition of the
13 receivership to the Court, PI ¶ 14(l); (6) instituting legal action as the Receiver
14 deems necessary and advisable to preserve or recover the Assets of the
15 Receivership Entities, PI ¶ 14(m); (7) issuing subpoenas and conducting discovery
16 on behalf of the receivership estate, PI ¶ 14(n); (8) opening a bank account for
17 funds of the Receivership Entities, serving copies of monthly account statements
18 on all parties and maintaining accurate records of all receipts and expenditures, PI
19 ¶ 14(o) and (p); (9) providing both the FTC and Defendants access to the
20 Receivership Entities’ premises and documents, PI ¶ 14(q) and (r); (10) suspending
21 the Receivership Entities’ business operations if, in the Receiver’s judgment, they

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23 ¹ Receivership Entities are defined in the TRO to mean the Corporate Defendant
24 (SL Finance LLC and its subsidiaries, affiliates, successors, and assigns), as well
25 as any other entity that has conducted any business related to Defendants’
26 marketing of Debt Relief Services, including receipt of Assets derived from any
27 activity that is the subject of the Complaint in this matter, and that the Receiver
28 determines is controlled or owned by any Defendant. *See* TRO Definition M,
page 7.

Pursuant to the procedure outlined at ¶ 14(u) of the TRO, the Receiver designated
additional entities to be Receivership Entities based on his determination that they
received Assets derived from Defendants’ student loan debt relief business and
were controlled or owned by a Defendant. These included Debt Consulting
Services, Inc. and ACM Marketing LLC.

1 could not continue lawfully and profitably, PI ¶ 14(t); and (11) identifying
2 additional Receivership Entities, PI ¶ 14(u).

3 On October 24, 2023, the Court entered an Order Granting Stipulation for
4 Permanent Injunction, Monetary Relief, and Other Relief as to all Defendants
5 (ECF No. 56). The Order identified a number of assets which the Defendants
6 either had to turn over to the Receiver for liquidation or provide equivalent value
7 to the FTC. The Receiver was directed to wind up the Receivership Entities and
8 liquidate all assets within 180 days after entry of the Order, although extensions
9 could be granted for good cause.

10 The Receiver moved to extend the Receivership on June 25, 2024 (ECF
11 No. 64) because a Motion to Approve Settlement Agreement with Non-Party
12 Payment Automation Network, Inc. and Allocation of Proceeds (ECF No. 58)
13 remained pending before the Court. On July 17, 2024, the Court granted the
14 Motion to Approve and Allocate (ECF No. 65), as well as the Motion to Extend
15 Completion Deadline for Receivership which extended the completion deadline for
16 the receivership until September 23, 2024 (ECF No. 66).

17 With the case settled as to all parties, all motions having been resolved, and
18 the Receiver having fulfilled his duties under the PI as described below, the
19 Receiver now presents this Final Report, requests discharge, and seeks final
20 payment of fees and expenses.

21 **FINAL REPORT**

22 As described in greater detail in previous reports, and in line with his duties,
23 the Receiver secured the site that the Receivership Entities used for their business;
24 examined business and financial records; prepared an assessment whether the
25 business could operate lawfully and profitably, ultimately concluding that it could
26 not; ensured that consumer payments to Defendants were suspended; pursued

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1 claims against third parties; and provided updates to consumers on the case on an
2 ongoing basis.²

3 **I.**

4 **Immediate Access**

5 At the time of the Receiver’s appointment on May 2, 2023, Receivership
6 Entity SL Finance LLC was operating its business from 12900B Garden Grove
7 Boulevard, Suite 170, Garden Grove, California (“Garden Grove”). On May 4,
8 2023, supported by law enforcement officers, the site was secured, and a locksmith
9 was retained to change all exterior locks. Access was provided to counsel and
10 other representatives of the FTC as required by the TRO. Once the site and assets
11 were secure, the Receiver suspended operations in compliance with the TRO and
12 began the process of assessing Defendants’ business.

13 **A. 12900B Garden Grove Boulevard, Suite 170, Garden Grove, California**

14 When we arrived at the Garden Grove site, only three employees were
15 present – Mark Manansala (the supervisor), Jun Chang, and a call center employee.
16 The business operated from a 2,000 square foot suite in a Class C office building
17 and consisted of a call room with three offices, a breakroom, twelve cubicles, and a
18 manager’s desk. Only one office appeared in use, while the other two were being
19 used for storage. We conducted lengthy interviews of those present and secured
20 the limited hard copy documents onsite. We supervised the FTC’s Digital
21 Forensics Unit in creating forensic images of selected desktop computers,
22 including Mark Manansala’s MacBook.

23 The Castillo brothers were not initially cooperative and failed to provide
24 administrative passwords to access Receivership Entities’ accounts for email,
25 QuickBooks, and their customer relationship management (“CRM”) platform,

26 _____
27 ² This Final Report is a summary of activities which are detailed more fully in the
28 Receiver’s Preliminary Report (ECF No. 29, filed May 12, 2023), a First Interim
Fee Application (ECF No. 43), and a First Interim Status Report (ECF No. 57,
filed November 10, 2023).

1 DebtPayPro. Over the next couple of days and after numerous telephone calls and
2 emails with defense counsel, we ultimately prepared to file an Affidavit of Non-
3 Compliance and Order to Show Cause re: Contempt. Only after this extreme
4 measure did we receive the requested passwords.

5 The few hard copy records that were onsite were boxed up and taken to the
6 Receiver's secure storage unit. The offices were returned to the landlord at the end
7 of May, after the PI was entered.

8 **B. 9480 S. Eastern Avenue, Suite 269, Las Vegas, Nevada**

9 Consistent with ¶ 14(u) of the TRO, the Receiver designated Debt
10 Consulting Services Inc. as a Receivership Entity ("DCS"). On the afternoon of
11 May 4, the Receiver and deputy traveled to Las Vegas from Orange County to take
12 control of this new location. However, upon arrival, the DCS office was vacant.
13 DCS was still listed on the building directory, but the space was empty. As such,
14 no further action was taken at that location.

15 **II.**

16 **The Receiver's Investigation of Defendants' Business**

17 **A. ACM Marketing, LLC**

18 ACM Marketing, LLC ("ACM") was owned and operated by Defendants
19 Christian and Michael Castillo. The company was formed in 2022 to buy and sell
20 leads for SL Finance and DCS. Initial financing came from either, or both,
21 Receivership Entities. ACM had no physical location, no employees, and was
22 created solely to work in conjunction with SL Finance and DCS. Pursuant to
23 ¶ 14(u) of the TRO, on May 22, 2023, the Receiver declared that it qualified as a
24 Receivership Entity.

25 **B. Defendants' Student Loan Debt Relief Business**

26 The Receiver's initial investigation confirmed that Defendants' student loan
27 debt relief operations were based upon practices prohibited by the TRO, including
28 advance fees and deceptive representations to consumers. Through a review of

1 electronic records, hard copy documents found onsite, Defendants’ DebtPayPro
2 customer relationship management database (“DPP”), and employee interviews,
3 the Receiver was able to confirm that SL Finance and DCS operated as a common
4 enterprise with overlapping ownership and employees. Both offered Debt Relief
5 Services as defined in the TRO and DCS’s operations were funded in substantial
6 part by money generated by SL Finance’s student loan debt relief operation.

7 Onsite supervisor Mark Manansala confirmed he began with SL Finance in
8 late 2018 or early 2019. He described all the current employees as being in
9 “sales.” It was never a large operation and at its peak only employed ten to twelve
10 staff, not including the Castillo brothers.³

11 Our review of electronic records revealed that SL Finance sourced its
12 customers via leads purchased via ACM or directly from multiple sources. These
13 leads would result in inbound calls, and callers would state that they had seen ads
14 or received a voicemail or email message about “loan forgiveness.”

15 1. Unlawful Advance Fees

16 The Receiver’s investigation confirmed the allegations in the TRO that
17 Defendants were taking advance fees in violation of the Telemarketing Sales Rule
18 (16 C.F.R. § 310, “TSR”). The rule prohibits debt relief operators from requesting
19 or receiving payment of any fee unless and until (A) the telemarketer has settled at
20 least one debt pursuant to an agreement executed by the customer, and (B) the
21 customer has made at least one payment pursuant to that agreement.⁴

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23 ³ Manansala stated the Castillo brothers were moving away from the student loan
24 debt relief business to a debt validation business under the DCS banner. This was
25 verified by our review of DPP records which indicated a sharp decline in new
26 student loan debt relief clients beginning around October 2022, with only a handful
of clients enrolled after January 2023, and enrollment of debt validation consumers
beginning around the same time.

27 ⁴ There is a narrow exception to this prohibition, known as the escrow exception,
28 which allows debt relief operators to take advance fees through the use of escrow
accounts where very stringent requirements are met. This exception is not
applicable here.

1 Once a consumer was enrolled, the process of applying for student loan
2 relief, which Defendants referred to as “processing,” appeared to be hit and miss,
3 and we were unable to find any evidence that Defendants were successfully
4 submitting reduced-payment plan applications with any regularity.

5 What is clear is the TSR was violated because at no time did Defendants
6 wait for (1) applications to be processed, (2) consumers to be enrolled in a new
7 student loan program, and (3) consumers to make at least one payment for the new
8 loan before charging consumers. Often, consumers were charged their first
9 monthly payment as soon as they signed up with Defendants’ sales agent and, in
10 fact, Manansala stated that Defendants would wait for consumers to make their
11 first payments to SL Finance before the “processing” began at all; therefore, all of
12 the payments received by Defendants qualified as unlawful advance fees.

13 In addition to the initial fee of \$999 for SL Finance’s services, many
14 consumers were charged a recurring monthly fee of \$39, purportedly for
15 recertification, well in advance of completion of the annual recertification
16 applications (and, as such, these monthly payments are also unlawful advance
17 fees).

18 2. Deceptive Sales Practices and Misrepresentations

19 Our review of limited scripts, training materials, and sales directives
20 confirmed that deceptive representations were ingrained in the business.
21 Defendants made substantial misrepresentations throughout the sales process –
22 most notably, misrepresentations related to the availability of loan forgiveness and
23 Defendants’ affiliation with the Department of Education. Defendants routinely
24 “guaranteed” that consumers would be placed in a loan forgiveness program.

25 Consumers were told that, if they qualified for the loan forgiveness program,
26 they would not have to pay back the full amount of their student loan debt. In fact,
27 the call scripts stated, “the way the programs work is you’re only required to pay a
28 small portion of your loans back & whatever you DONT repay back will be

1 completely forgiven & discharged by the Department of Education.” *See* ECF No.
2 29-1.

3 Typical call scripts included basic qualifying questions regarding the amount
4 of the consumer’s student loan debt, their employment status and income, marital
5 status, and family size. Once the information was obtained, the scripts called for
6 the sales representative to “HOLD & MARINATE” the call, during which time,
7 the sales representative would run the information through DPP to generate the
8 quote. The consumer was then told that the quote had been provided by the
9 Department of Education. At this point during the call, the sales representative
10 would email the consumer a “Borrower Eligibility Confirmation,” autogenerated
11 by DPP, which included the consumer’s loan information and stated that the
12 consumer was “confirmed for the following government program, [Program Title]”
13 – all without the sales representative ever contacting the Department of Education.
14 *Id.*

15 Sales representatives were required to go through a set of “mandatory” Sales
16 Compliance Questions with consumers once their application was completed.
17 Although the script clearly states that the initial payment made by the consumer
18 was for document preparation services and would not be applied to the consumer’s
19 student loan debt, follow up emails and phone calls with consumers completely
20 contradicted this and consumers were told that those payments were being made to
21 their student loan servicer. *Id.*

22 **C. Defendants’ Debt Validation Business**

23 Defendants’ effort to pivot to debt validation services via DCS was nascent
24 and drastically smaller than the SL Finance operation. DCS was subsidized by
25 funds generated from SL Finance’s student loan debt relief business and, at the

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1 time of the receivership, was not profitable. Because it was largely subsidized by
2 SL Finance, the Receiver suspended operations.⁵

3 **III.**

4 **Implementation of the Preliminary Injunction**

5 Defendants stipulated to a preliminary injunction on May 12, 2023, which
6 was entered by the Court on May 22, 2023 (ECF No. 38, “PI”). The PI confirmed
7 Mr. McNamara’s appointment as permanent receiver and his duties and authorities
8 as previously outlined in the TRO.

9 **A. Wind Down of Garden Grove Site**

10 After entry of the PI, the Receiver completed the process of closing the
11 Garden Grove location and returning the premises to the landlord. Onsite records
12 were boxed up, as well as any electronics, and taken to the Receiver’s secure
13 storage location. The minimal office furniture had little to no value and was
14 abandoned at the site.

15 **B. Settlement with Merchant Processor**

16 Payment Automation Network, Inc. (“PAN”) and its principal, Kenneth
17 Martinez (“Martinez”) played an essential and knowing role in aiding and abetting
18 the unlawful student loan debt relief schemes at the heart of the FTC Actions⁶ –
19 schemes which resulted in millions of dollars in consumer losses. Both SL
20 Finance, as well as DCS, utilized PAN for their payment processing.

21 During the course of his investigation, the Receiver and his team reviewed
22 thousands of emails and utilized the Expedited Discovery provision of the PI (¶ 23)

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24 ⁵ While the TRO and PI provide the Receiver may continue to operate any
25 defendant business which is lawful and profitable, because DCS was not profitable,
we did not analyze whether it could operate lawfully.

26 ⁶ PAN also provided payment processing services for Receivership Entities in a
27 related matter styled, *Federal Trade Commission v. BCO Consulting Services, Inc.,*
28 *et al.* (C.D. Cal.), Case No. 8:23-cv-00699-JWH (ADSx) (the “BCO Consulting
Case”), in which Mr. McNamara is also the Court-appointed receiver.
(Collectively, the instant action and the BCO Consulting Case are referred to as the
“FTC Actions.”)

1 to subpoena both Martinez and PAN for records pertaining to their business
2 relationships with the Receivership Entities.

3 On August 7, 2023, the Receiver sent a detailed demand letter to PAN, after
4 which the parties engaged in a substantive written exchange outlining their
5 respective positions. Following this exchange, on December 29, 2023, the parties
6 conducted a full-day virtual mediation, at which time they reached agreement to
7 settle the dispute with PAN paying \$425,000, thus avoiding the time and expense
8 of litigation.

9 In his Motion to Approve Settlement Agreement with Non-Party Payment
10 Automation Network, Inc. and Allocation of Proceeds (ECF No. 58), the Receiver
11 proposed an allocation of the proceeds between the two FTC Actions based upon
12 an analysis of the fees charged by PAN to the Receivership Entities in each case:
13 75% of the fees were paid by BCO Consulting Receivership Entities and 25% were
14 paid by the SL Finance Receivership Entities. Therefore, the settlement proceeds
15 would be disbursed to each receivership according to those percentages. The Court
16 entered an Order approving the Settlement and proposed Allocation on July 17,
17 2024 (ECF No. 65).

18 **C. Taking Custody and Control of Receivership Entities' Assets**

19 The Receiver's investigation revealed early on that there were little to no
20 hard assets for the Receiver to marshal and liquidate. It was determined that the
21 2021 Mercedes Benz GLE 63 S Coupe titled to SL Finance did not have sufficient
22 equity to justify the time and expense of selling it, so it was returned to a
23 dealership in Henderson, Nevada.

24 The Permanent Injunction (ECF No. 56) provided Defendant Michael
25 Castillo the option of transferring \$13,723 to the FTC or transferring title to his
26 2017 Tesla Model 3 to the Receiver. He chose to turn the vehicle over to the
27 Receiver; however, after a detailed vehicle inspection was performed, it too was

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1 determined to have insufficient equity to justify the time and expense of selling it
2 and it was returned to a dealer.

3 The only items that were able to be sold from the Garden Grove site were
4 two limited edition collectible Bearbrick HR Giger figurines, which the Receiver
5 liquidated. The sale of both figurines resulted in net proceeds to the receivership
6 of \$522.60.

7 **D. Tax Refund**

8 In the next 30 days, the receivership anticipates receiving a refund check
9 from the IRS representing an overpayment of the 2021 Q2 quarterly payroll taxes
10 in the amount of \$60,021.29. The check was previously issued by the IRS but had
11 been returned as undeliverable; the IRS has agreed to re-issue the check and send
12 the refund to the Receiver.

13 **E. Consumer Protection Efforts**

14 Upon appointment, the Receiver proceeded to ensure that all consumer
15 payments to the Receivership Entities were suspended. Defendants' active
16 websites were redirected to the Receiver's website,⁷ which provided information
17 about the case and contained pertinent Court Orders and reports of the Receiver.
18 The Receiver's office continues to field inquiries from consumers.

19 Utilizing Defendants' existing DPP customer relationship management
20 database, the Receiver was able to send emails to the universe of enrolled
21 consumers notifying them of the lawsuit, recommending that they contact their
22 student loan servicers, and directing them to the Receiver's website for further
23 details.

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28 ⁷ <https://regulatoryresolutions.com/case/federal-trade-commission-v-sl-finance-llc-et-al-sl-finance-receivership/>.

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IV.

Receivership Accounting

Attached as Exhibit 1 is a Receipts and Disbursements Summary for the receivership period through September 23, 2024. It shows aggregate receipts of \$205,533.98,⁸ less disbursements of \$120,903.54, for net cash as of this Final Report of \$84,630.44.

APPLICATION FOR DISCHARGE AND APPROVAL OF FINAL FEE APPLICATION

The Application for Discharge is made on the grounds that the underlying case has now been resolved as to all Defendants, and the Receiver has completed his duties as defined in the PI.

The Final Fee Application is made pursuant to ¶ 14(f) of the PI which authorizes the Receiver to “[c]hoose, engage, and employ attorneys, accountants, appraisers, and other independent contractors and technical specialists, as the Receiver deems advisable or necessary in the performance of duties and responsibilities under the authority granted by this Order” and ¶ 20, which provides that the “Receiver and all personnel hired by the Receiver as herein authorized, including counsel to the Receiver and accountants, are entitled to reasonable compensation for the performance of duties pursuant to this Order and for the cost of actual out-of-pocket expenses incurred by them, from the Assets now held by, in the possession or control of, or which may be received by, the Receivership Entities.” This fee application seeks approval to pay fees and expenses for services during the 15-month period July 1, 2023 through September 23, 2024 as follows: \$12,169.00 fees and \$2,780.13 expenses to the Receiver and his staff payable to TWM Receiverships Inc., dba Regulatory Resolutions; and \$6,861.00 fees and \$606.56 expenses to Receiver’s counsel McNamara Smith LLP.

⁸ This total includes the anticipated IRS refund of \$60,021.29.

1 The Final Fee Application also seeks authorization to hold back \$2,500.00 as
2 a reserve for final administrative costs, *e.g.*, document and electronics storage
3 costs, removal and destruction of computer hard drives, and document destruction
4 costs, which may be expended without further order of the Court, and after 120
5 days any unexpended funds from that reserve shall be disbursed to Plaintiff Federal
6 Trade Commission. If the invoices in this Final Fee Application are approved for
7 payment in full, and the requested reserve of \$2,500.00 is approved, upon receipt
8 of the IRS refund, net cash for transfer to the FTC will be \$59,713.75. In addition,
9 all future payments in the PAN settlement will be directed to the FTC.

10 The Application for Discharge is based upon the Final Report, the
11 Declaration of Thomas W. McNamara, and the proposed Order filed
12 simultaneously with this Application, the pleadings in this matter, and such other
13 oral and documentary evidence that may be presented at or before the time of the
14 hearing on the Application.

15 Dated: September 23, 2024

MCNAMARA SMITH LLP

16
17 By: /s/ Logan D. Smith
18 Logan D. Smith
19 *Attorneys for Receiver,*
20 *Thomas W. McNamara*
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CERTIFICATE OF SERVICE

I hereby certify that on the 23rd day of September, 2024, I caused the foregoing to be electronically filed with the Clerk of the Court using the CM/ECF system, which will send notification of the filing to all participants in the case who are registered CM/ECF users.

/s/ Logan D. Smith
Logan D. Smith
Attorney for Receiver,
Thomas W. McNamara