

CONSUMER FINANCIAL SERVICES COMMITTEE

FTC Settles Credit Card Laundering Scam With Paybasics

In a victory for consumers, The Federal Trade Commission “FTC” voted 4-0 to approve a Stipulated Order against all defendants involved in a complex credit card laundering scheme.

The Complaint, which was filed in the U.S. District Court for the Northern District of Illinois on December 15, 2015, settled a case against PayBasics, Inc., DBA Livewire Commerce, Todd Hatch, and Jimmy Shin.

PayBasics, also doing business as Livewire, is headquartered in Chicago, Illinois and conducts business throughout the United States. Defendants Jimmy Shin and Todd Hatch also reside in the district in which the complaint was filed.

Since 2010, the defendants helped to establish merchant accounts for various shell companies. The shell companies were controlled by the Tax Club, Inc., an entity which was a defendant in a separate FTC action (See FTC et al. v. The Tax Club et al., No. 13- cv-210 filed January 9, 2013). PayBasics helped the principals at the Tax Club process credit card transactions for third-party entities in exchange for a percentage of each transaction, in violation of the Telemarketing Sales Rule. Defendants allowed third-party entities who were not disclosed on any merchant account to process credit card transactions.

Credit card laundering is causing a transaction to be processed for payment by a merchant unrelated to the transaction with the consumer. These entities would not have been able to meet any banks’ strict underwriting criteria. Most if not all of these merchants would have been denied by the banks because they were viewed as high risk for illegal activity or excessive chargebacks. A chargeback is a process where the issuing bank credits the consumer’s account by charging back all or part of the transaction to the acquiring merchant. The merchant's processing bank is 100% responsible for all the transactions that the merchant performs. If there is fraud against a consumer, the bank guarantees the consumer will receive a credit on their account, leaving the bank to collect from the merchant. Credit card laundering is unlawful because it is difficult for law enforcement to trace who these unscrupulous merchants are and where the money has gone.

Defendants Jimmy Shin and Todd Hatch established a merchant account for JC Enterprises, a shell company, a business with no business and no address. The sole corporate officer was a childhood friend of one of the Tax Club’s principals, Jacob Cheha. Hatch and Shin falsely verified that they physically inspected the business. A merchant account was established for JC Enterprises and other shell companies including a vast amount of DBAs that consumers could

easily identify on their credit card statement; however, the name was not identical to the merchant with a direct nexus to the consumer.

The chargeback rate on the merchant accounts set up by Hatch and Shin exceeded 33%, with one account reporting a 60% chargeback rate which indicates widespread fraud and deceptive consumer practices. Transaction amounts are not considered for chargeback purposes; rather the number of transactions versus the amount of chargebacks. Most banks will only allow very low percentages (under 2%), and 10% would be deemed very excessive.

The action was brought under Section 13 (b) and 19 of the FTC Act, 15 U.S.C. §§ 53 (b) and 57 (b) and the Telemarketing & Consumer Fraud Abuse Prevention Act, 15 U.S.C. §§ 6101-6108 to obtain permanent injunctive relief, refund of monies paid, and restitution for the acts of the defendants in violation of Section 5 (a) of the FTC Act, 15 U.S.C. § 45 (a) and the FTCs Telemarketing Sales Rule, 16 C.F.R. Part 310.

The Stipulated Order and Judgment was entered in favor of the FTC in the amount of \$1.022 million but was suspended based upon the defendants' inability to pay. Shin and Hatch were ordered to sell their Tesla and Range Rover and turn over any net proceeds over \$5,000 to the FTC.

Both defendants were ordered to maintain meticulous records as outlined in the Judgment for a period of ten years and maintain those records for a period of five years. Defendants were prohibited from disclosing or using any information collected from consumers and must destroy all records in their possession, custody, and control within 30 days. The defendants are also subject to compliance reporting for a period of ten years.

The full Complaint is available [here](#).

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