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Suit Filed in US Fidelis Bankruptcy Case

In the bankruptcy case of US Fidelis auto service provider, a lawsuit has been filed to limit the amount to be awarded to Chicago-based Mepco Finance Corp. who other creditors say is making unfair claims on the $25 million bankruptcy estate of the Wentzville firm. If the suit succeeds at limiting the take of Mepco Finance, more money could go to other creditors that include hundreds of disgruntled customers who have filed claims and state attorneys general seeking restitution for tens of thousands more. Still other creditors are consultants who were owed hundreds of thousands of dollars in fees for trying to keep US Fidelis afloat, as well as potentially hundreds of former employees who were not given sufficient notice when they were laid off.

US Fidelis had their telemarketers sell allegedly worthless auto service contracts when customers revolted en mass triggering the bankruptcy. Mepco Finance was left with the bulk of the bad debts to the tune of $57 million. As Mepco was the only secured creditor of US Fidelis, the company naturally applied to be first in line to collect the money Fidelis owes it.

But a committee was formed among the unsecured creditors claiming that Mepco should not be paid anything because the finance company was party to the fraudulent scheme that was run by Fidelis. The lawsuit charges that Mepco was a willing partner in a faulty business model that they should have known was based on fraud and could not be sustained.

But Mepco's lawyer strongly refutes the claims, saying, "Mepco believes these claims are absolutely meritless, and we're going to vigorously defend".

US Fidelis is the country's largest seller of independent vehicle service contracts. It uses Mepco Finance Corp as its main finance partner to finance insurance plans sold by it. Mepco also finances other such companies operating from the industry's hub in the St. Louis area. Business turned sour for US Fidelis in late 2009 when disgruntled customers complained about the company's alleged lies, fine print and limits in their vehicle protection plans. As a result, many customers severed their contracts with US Fidelis, forcing the company to file for bankruptcy in March 2010. Its owners, Darain and Cory Atkinson, were indicted on June 15 on charges of consumer fraud, stealing and illegally selling insurance.

As main financier, Mepco financed more than 600,000 US Fidelis customers with interest-free loans when they signed up for their service contracts. Each contract typically costs between $2,000 and $4,000, depending on the type of coverage, the age and model of the vehicle and the commission paid telemarketer who closed the sale.

Upon signing the contract, the customer makes monthly intallment payments but Mepco would pay US Fidelis in one lump sum the entire amount of money due to Fidelis according to the contract. If a customer cancels the contract prematurely, Fidelis would owe Mepco money, which would be offset by revenue from new sales.

Things turned awry in 2009 when the volume of new sales plummeted and fell far below cancellations. According to the lawsuit, this has all the elements of a Ponzi (pyramid) scheme where "(Mepco's) ability to be paid by US Fidelis for cancellations on yesterday's sales was largely dependent on fundings from tomorrow's sales."