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North Carolina's Debt Adjusting Attorney Exemption & Implications for Consumers

I. INTRODUCTION

North Carolinians have an average of almost \$100,000 in consumer debt.¹ Faced with the pressure to address their debts, many North Carolinians choose to engage with companies that advertise services to help settle outstanding debts based on their negotiation expertise and experience gaining favorable outcomes for the consumer.²

One such North Carolina consumer, Katherine Otto, decided to navigate repayment of her roughly \$15,000 debt with the assistance of a law firm.³ Ms. Otto enlisted the help of Carolina Legal Services, a firm offering debt adjustment services.⁴ Carolina Legal Services represented to Ms. Otto that they would act on her behalf to settle her outstanding debts with creditors, thereby relieving her of any further debt liability and enabling her to achieve financial freedom.⁵ However, Ms. Otto's use of Carolina Legal Services resulted in a worse financial position than the one in which she began: the law firm had not actually settled her debts, her creditors initiated lawsuits against her, and she was unable to recover the nearly \$10,000 she had paid the law firm toward

1. See Chris Horymski, *Average American Debt by Age, US State, Credit Score and Type in 2025*, EXPERIAN (Nov. 17, 2025), <https://www.experian.com/blogs/ask-experian/research/consumer-debt-study/> [<https://perma.cc/6MDE-ADPU>] (estimating the average consumer debt of North Carolinians in 2025 is estimated to be \$97,645). Consumer debt includes non-business expenses incurred by individual consumers, such as mortgages, credit card balances, and auto loans. *Id.*

2. See Becki Gray & Patrick Gleason, *Debt Settlement is a Vital Option for Those in Financial Crisis*, CAROLINA J. (May 3, 2021), <https://www.carolinajournal.com/opinion/debt-settlement-is-a-vital-option-for-those-in-financial-crisis/> [<https://perma.cc/Y5DY-BVRU>] (“According to the American Fair Credit Council, more than 68,000 North Carolinians used debt settlement services in 2020.”).

3. See Daniel Connolly, *The Law Firm Loophole: How Debt Cos. Snare NC Consumers*, LAW360 (June 13, 2025, 19:00 ET), <https://www.law360.com/pulse/articles/2349545/the-law-firm-loophole-how-debt-cos-snare-nc-consumers> [<https://perma.cc/L66B-BB78>] (providing Ms. Otto's experience using Carolina Legal Services to navigate her debt and looming creditors, only for the service to eventually scam her without paying any of her creditors).

4. See *id.* (describing how Ms. Otto used Carolina Legal Services after finding the firm online).

5. See *id.* (clarifying what led Ms. Otto to use this firm and what she was told she would gain from the debt adjusting practice through the law firm).

her settlement.⁶ Ms. Otto eventually learned that none of the individuals she interacted with at Carolina Legal Services were actually attorneys.⁷ Indeed, an exemption in North Carolina law allows such fraudulent law firms to exist and deceive North Carolinians.⁸

Carolina Legal Services engaged in a practice known as debt adjusting.⁹ Debt adjusting occurs when a consumer hires an intermediary to negotiate with their creditors on the consumer's behalf.¹⁰ In exchange for a settled debt amount, the consumer agrees to pay the creditor an immediate payment of the settled debt amount.¹¹ If this process is successfully managed and the consumer pays the negotiated amount, the consumer is relieved of their debt liability and the creditor is satisfied after partially recovering an otherwise outstanding debt.¹²

6. *See id.* (explaining that despite the representation that Carolina Legal Services had been actively negotiating and handling her debts, Ms. Otto learned of the scam only when she was served by her creditors and never recovered the full amount she had paid monthly).

7. *See id.* (stating that Ms. Otto interacted with many representatives from Carolina Legal Services who identified themselves as paralegals).

8. *See id.* (arguing that the North Carolina Debt Adjusting Act permitted Carolina Legal Services to operate a façade law firm that never offered legitimate legal services); *see also* Debt Adjusting Act, N.C. GEN. STAT. § 14-426(6) (permitting some attorneys to engage in debt adjusting practices).

9. *See* Daniel S. Ruffy, 20 DHC 17, at 2–3 (N.C. State Bar Ass'n 2021) (consent ord. of discipline), <https://www.ncbar.gov/handlers/DisciplinaryOrderHandler.ashx?url=/Ruffy,%20Daniel%20Consent%20Order%20of%20Discipline.pdf> [<https://perma.cc/LUF6-VAPK>] [hereinafter Daniel S. Ruffy Consent Order] (holding that Carolina Legal Services had engaged in illegal debt adjusting).

10. *See* § 14-423(2) (defining debt adjusting as a contract between a consumer and an intermediary in which “a particular debtor whereby the debtor agrees to pay a certain amount of money periodically to the person engaged in the debt adjusting business and that person . . . distributes the same among certain specified creditors”).

11. *See What Is a Debt Relief Program and How Do I Know If I Should Use One?*, CONSUMER FIN. PROT. BUREAU (Aug. 28, 2023), <https://www.consumerfinance.gov/ask-cfpb/what-is-a-debt-relief-program-and-how-do-i-know-if-i-should-use-one-en-1457/> [<https://perma.cc/UW9S-4WG4>] (explaining the typical arrangement between a creditor, debtor, and a debt adjusting intermediary).

12. *See* Andrew T. Schwenk, *Debt Settlement: A Beast of Burden Without Any Reins*, 76 BROOK. L. REV. 1165, 1170–71 (2011) (describing the business model of debt settlement and the theoretical appeal for both debtors and creditors, as the consumer pays much less than their owed debt while the creditor is able to recover on the outstanding payment).

While debt adjusting companies purport to provide a substantial benefit to consumers,¹³ both state governments and regulators are apprehensive about the practice.¹⁴ North Carolina, alongside the majority of other states, has prohibited debt adjusting since 1963, and allows it only when an exemption applies.¹⁵ Skeptical legislators cited widespread acts of deception and exploitation by debt adjusters against vulnerable North Carolinians, as well as a national movement to regulate debt adjusting, as the primary motivation to substantially limit debt adjusting in the state.¹⁶

While the law generally prohibits debt adjusting, the 1963 Debt Adjusting Act provided several exemptions that permit certain parties to adjust debts on behalf of others.¹⁷ Some exempted parties included employees of the debtor and persons who debt adjusted at the debtor's request without compensation.¹⁸ The Legislature carved out these

13. See Denise Duncel, *Bad Bill in NC House Would Block Debt Relief, Lead to Bankruptcy for North Carolinians*, FAYETTEVILLE OBSERVER (May 22, 2021, 7:00 ET), <https://www.fayobserver.com/story/opinion/2021/05/22/bad-bill-nc-house-would-block-debt-relief-lead-bankruptcy-north-carolinians/5174631001/> [https://perma.cc/JN6N-S9ZH] (explaining that debt adjusting companies assisted nearly 60,000 North Carolinians in 2021 and saved North Carolinians almost \$100 million of unsecured debt in 2020).

14. See *What Is a Debt Relief Program and How Do I Know If I Should Use One?*, *supra* note 11 (providing numerous concerns and risks that can result from a consumer using a debt adjusting company from the CFPB's perspective, such as expensive fees, negative impact on the debtor's credit score, or the potential for creditors to charge a late fee or even bring a lawsuit against the debtor).

15. See Leslie E. Linfield, *Uniform Debt Management Services. Act: Regulating Two Related—Yet Distinct—Industries*, 28 AM. BANKR. INST. J. 50, 51 (2009) (arguing that reports of deception and fraud were so rampant that the majority of states passed legislation to limit or prohibit debt adjusting).

16. See S. 109, 1963 Gen. Assemb., Reg. Sess. (N.C. 1963) (expressing concerns with the increase of debt adjusters in North Carolina who were known to have “instances of many sharp practices [and] hardships on the unfortunate”).

17. See *id.* § 4 (providing a list of individuals who are exempted under the proposed 1963 Debt Adjusting Act).

18. See *id.* (“The following individuals or transactions shall not be deemed debt adjusters or as being engaged in the business or practice of debt adjusting: (1) Any person or individual who is a regular, full-time employee of a debtor, and who acts as an adjuster of his employer's debts; (2) Any person or individual acting pursuant to any order or judgment of a court . . . (3) Any person who is a creditor of the debtor . . . whose services in adjusting the debtor's debts are rendered without cost to the debtor; (4) Any person who at the request of a debtor, arranges for or makes a loan to the debtor, and who, at the request of a debtor, arranges for or makes a loan to the debtor, and who, at the authorization of the debtor, acts as an adjuster of the debtor's debts in the disbursement of the proceeds of the loan, without compensation for the services rendered in adjusting such debts; (5) An intermittent or casual adjustment of a debtor's debts, for compensation, by an individual or person who is not a debt adjuster . . .”).

limited exemptions because legitimate debt adjusting offers consumers the opportunity to avoid lengthy bankruptcy proceedings and erase their liability to a creditor with an immediate decrease in payment.¹⁹

In response to increasing reports of exploitation under the fee collection exemptions, the North Carolina legislature amended the Debt Adjusting Act in 2005.²⁰ The amendment modified the debt adjusting exemptions by limiting advanced fee recovery.²¹ However, the amendment also added a group to the provided exemptions: attorneys who practice law in North Carolina and are not employed by a debt adjuster.²² The General Assembly enacted the attorney exemption to accommodate consumers' increasing need for assistance in managing their debt and to permit attorneys to perform actions frequently necessary in their work.²³

Despite the state legislature's intention to provide North Carolina consumers with more options to handle their debt and permit attorneys to handle debt matters, the exemption inadvertently created the issue of façade law firms.²⁴ Façade law firms, which are firms in name only and provide nominal legal services, evade detection by operating under a licensed attorney.²⁵ In many cases, consumers actually have little to no interactions with the attorney, receive

19. See Dunckel, *supra* note 13 (providing the reasons in which a legitimate debt settlement company can be beneficial to a consumer and therefore why debt settlement companies are exempted from the law).

20. See *Hearing on the Debt Settlement Industry: The Consumer's Experience: Hearing Before the U.S. S. Comm. on Com., Sci., and Transp.*, 111th Cong. 6 (Apr. 22, 2010) (statement of Philip A. Lehman, Assistant Att'y Gen., North Carolina Department of Justice), <https://www.commerce.senate.gov/index.php/services/files/A00B21BE-DCF0-4095-AC9E-CA7B0D91E373> [<https://perma.cc/6QVQ-ZYJU>] (explaining the debt adjusting law and what led to its amendment in 2005).

21. See *id.* at 6–7 (explaining that exploitation of the fee structure led the North Carolina General Assembly to update the Debt Adjusting Act exemptions, which led to “some attorneys . . . run[ning] their law firms as debt settlement businesses with some of the worst deceptive practices in the industry”).

22. See N.C. GEN. STAT. § 14-426 (stating that “[a]n attorney-at-law licensed to practice in this State who is not employed by a debt adjuster” is exempt from the debt adjusting law).

23. See Lea Krivinskas, “Don’t File!”: *Rehabilitating Unauthorized Practice of Law-Based Policies in the Credit Counseling Industry*, 79 AM. BANKR. LAW J. 51, 55–56 (2005) (describing how several states that limit the ability for non-attorneys to participate in debt adjusting view debt adjusting as “so close to lawyering that only a trained lawyer can properly advocate the debtor’s position”).

24. See Connolly, *supra* note 3 (explaining how the attorney exemption has permitted an attorney loophole that is affecting North Carolinians today).

25. See *id.* (defining façade law firms).

ineffective assistance in settling their debts, and suffer severe financial harm.²⁶ As this Note will argue, the attorney exemption inadvertently allows façade law firms to utilize predatory practices and lead North Carolinians to overpayment on their debt.

This Note considers how the statutory structure of numerous federal and state consumer protection laws has resulted in limited regulation of façade law firms in North Carolina. Moreover, other laws and regulators are unable to effectively regulate façade law firms due to political and practical constraints. Because of these limitations facing federal agencies and political intervention making state statutory revision unlikely, this Note recommends that the North Carolina State Bar increase its focus on façade law firms in North Carolina.

This Note proceeds in five parts. Part II discusses the development of the North Carolina Debt Adjusting Act and explains recent attempts to amend it.²⁷ Part III analyzes state consumer protection laws and their applicability to the attorney exemption.²⁸ Part IV describes several federal statutes and agency regulations relevant to debt adjusting in North Carolina, but considers the numerous challenges facing federal regulators under the Trump Administration.²⁹ Due to the limitations of the state and federal laws and regulators, Part V posits that the North Carolina State Bar will be the most reliable regulator to prevent deceptive façade law firms in North Carolina.³⁰ Part VI concludes this Note.³¹

26. *See id.* (providing an example of a North Carolina resident who lost over \$10,000 due to her reliance on a façade law firm); *CFPB and Seven State Attorneys General Sue Debt-Relief Enterprise, Strategic Financial Solutions, for Illegally Swindling More than \$100 Million From Financially Struggling Families*, CONSUMER FIN. PROT. BUREAU (Jan. 19, 2024) <https://www.consumerfinance.gov/about-us/newsroom/cfpb-and-seven-state-attorneys-general-sue-debt-relief-enterprise-strategic-financial-solutions-for-illegally-swindling-more-than-100-million-from-financially-struggling-families/> [<https://perma.cc/H98V-AV4P>] [hereinafter *CFPB and Seven State Attorneys General Sue Strategic Financial Solutions*] (describing a façade law firm that harmed consumers by charging extremely high fees and by deceptively implying that the consumers would receive legal services when there was really little to no legal assistance offered).

27. *See infra* Part II.

28. *See infra* Part III.

29. *See infra* Part IV.

30. *See infra* Part V.

31. *See infra* Part VI.

II. THE DEVELOPMENT OF NORTH CAROLINA'S DEBT ADJUSTING LAW

The North Carolina General Assembly first criminalized debt adjusting in 1963 in response to increasing instances of abusive debt adjusting practices, such as promising unattainable outcomes and failing to promptly settle with creditors.³² The North Carolina Senate was particularly concerned with debt adjusting companies using predatory practices when contracting with vulnerable consumers, promising to pay off their debt but failing to do so.³³ Consumers lost thousands of dollars to these predatory companies while their debts continued to grow.³⁴ Citing a statement from the National Better Business Bureau, the Senate expressed concern over “unscrupulous or incompetent opportunists whose activities have spread misery throughout the land . . . us[ing] extravagant and deceptive advertising to claim far more than they were in position to deliver.”³⁵ At the time, predatory debt adjusting gained national attention, with at least twelve other states implementing similar laws that outlawed debt adjusting in their state.³⁶

Consequently, the North Carolina General Assembly enacted the Debt Adjusting Act (“the Act”), explicitly prohibiting the practice of debt adjusting.³⁷ The Act defined debt adjusting and made it a Class 2 misdemeanor to “enter[] into or mak[e] a contract . . . with a particular debtor whereby the debtor agrees to pay a certain amount of money periodically to the person engaged in the debt adjusting business and that person . . . distributes the same among certain specified creditors.”³⁸

32. *See* S. 109, 1963 Gen. Assemb., Reg. Sess. (N.C. 1963) (referring to debt adjusters and their tactics as a “national menace by preying upon unfortunate people and harassed debtors”).

33. *See id.* (discussing the various ways in which debt adjusters have deceptively and problematically misled and harmed consumers in North Carolina).

34. *See id.* (“The net result of [debt adjuster’s] activities, in many cases, has been to leave already desperate people more hopelessly mired in debt and litigation than before.”).

35. *Id.*

36. *See* *Ferguson v. Skrupa*, 372 U.S. 726, 727 n.2 (1963) (stating that by 1962, at least twelve other states had enacted laws that prohibited debt adjusting).

37. *See* N.C. S. 109 § 2 (stating that it is a crime to engage in debt adjusting).

38. § 1.

The Act, however, contained exemptions,³⁹ including for employees of the consumer, individuals acting under orders of a court, debt adjusters who did not require a fee for their services, any person who authorized a loan to the consumer and was permitted to adjust, and any “casual adjustment.”⁴⁰ Notably, attorneys were not among those exempted under the 1963 Act.⁴¹

Over four decades later, in 2005, the North Carolina legislature returned to the debt adjusting law in response to growing concerns about consumer debt management.⁴² The legislature proposed “An Act to Further Protect Consumers Seeking Assistance with Managing Their Debts” primarily to prevent for profit organizations from charging advanced fees and to allow nonprofit organizations to charge nominal fees for debt management assistance.⁴³

39. See § 4 (outlining the exemptions proposed in the Debt Adjusting Act). The bill addresses the exemptions by stating that “[t]he following individuals or transactions shall not be deemed debt adjusters or as being engaged in the business or practice of debt adjusting: (1) Any person or individual who is a regular, full-time employee of a debtor, and who acts as an adjuster of his employer’s debts; (2) Any person or individual acting pursuant to any order or judgment of a court, or pursuant to authority conferred by any law of this State or of the United States; (3) Any person who is a creditor of the debtor, or an agent of one or more creditors of the debtor, and whose services in adjusting the debtor’s debts are rendered without cost to the debtor; (4) Any person proceeds of the loan, without compensation for the services rendered in adjusting such debts; who at the request of a debtor, arranges for or makes a loan to the debtor, and who, at the authorization of the debtor, acts as an adjuster of the debtor’s debts in the disbursement of the (5) An intermittent or casual adjustment of a debtor’s debts, for compensation, by an individual or person who is not a debt adjuster or who is not engaged in the business or practice of debt adjusting, and who does not hold himself out as being regularly engaged in debt adjusting.” *Id.*

40. *Id.* The act defines casual adjustment as anyone who periodically debt adjusts for money but “is not a debt adjuster or . . . is not engaged in the business or practice of debt adjusting, and who does not hold himself out as being regularly engaged in debt adjusting.” *Id.*

41. See *id.* (demonstrating that attorneys were not listed as an exempted person under the statute).

42. See MINUTES, H. JUD. COMMITTEE I, 109TH CONG. (N.C. 2005) (expressing the concerns of the debt industry around the country).

43. See M. Lynne Weaver, *Consumer Protection and Debtors: The Debt Adjusting Act and the Consumer Economic Protection Act*, UNC SCH. OF GOV’T., https://www.sog.unc.edu/sites/www.sog.unc.edu/files/course_materials/Weaver%20creditor%20Handout.pdf [<https://perma.cc/3SS8-5VWV>] (last visited Nov. 22, 2025) (explaining that the 2005 legislature hoped to establish nominal fees to fund legitimate credit counseling agencies, which had previously been funded by the creditors).

In addition to these changes, the 2005 amendment also established the attorney exemption.⁴⁴ Many lawyers regularly encounter debt settlement processes while representing clients in their work.⁴⁵ For example, consumer and bankruptcy attorneys frequently negotiate with creditors to reduce debt liability or prepare for court proceedings.⁴⁶ Therefore, Congress created the attorney exemption to ensure that attorneys conducting legitimate legal services are not held criminally liable while assisting their clients.⁴⁷ Senate Bill 590, which proposed the amendment, initially stated that only an attorney “who engages in debt adjusting activities incidental to the practice of law” may be exempted from the debt adjusting prohibition.⁴⁸ However, the final statute excluded the “incidental” language and instead allowed any “attorney-at-law licensed to practice in this State who is not employed by a debt adjuster” to engage in debt adjusting.⁴⁹

Permitting attorneys to engage in debt adjusting inadvertently allowed non-lawyers to engage in debt adjusting simply by establishing a “law firm” in North Carolina.⁵⁰ The Consumer Financial Protection Bureau (“CFPB”) referred to these entities as “façade law firms” because the firms are merely a shield allowing individuals who do not offer legal services to engage in debt adjusting.⁵¹ In many cases, façade

44. *See id.* (stating that the attorney exemption was added to the 2005 amendment while the changes to nonprofit firms under the law were being updated).

45. *See* Krivinskas, *supra* note 24, at 55–56 (describing the overlap of an attorney’s responsibilities with that of a debt adjuster, including “reaching agreements with creditors, attempting to procure releases of wage assignments or garnishments, and advising debtors of their legal rights against creditors”).

46. *See* N.Y.C. BAR ASS’N, *SEE PROFITEERING FROM FINANCIAL DISTRESS: AN EXAMINATION OF THE DEBT SETTLEMENT INDUSTRY* 77 (May 9, 2012), <https://www2.nycbar.org/pdf/report/uploads/DebtSettlementWhitePaperCivilCtConsumerAffairsReportFINAL5.11.12.pdf> [<https://perma.cc/GHY2-A297>] (explaining how certain attorneys legitimately encounter debt adjusting in their routine practices).

47. *See* Connolly, *supra* note 3 (quoting Carlene McNulty, Director of North Carolina Justice Center, who felt that attorneys were concerned with the legality of their work while assisting clients).

48. Consumer Credit Counseling/Debt Management Act, S. 590, 2005 Gen. Assem., Reg. Sess. § 1 (N.C. 2005) (“An attorney-at-law licensed to practice in this State who is not primarily engaged in the business of debt adjusting but who engages in debt adjusting activities incidental to the practice of law.”).

49. N.C. GEN. STAT. § 14-426(6).

50. *See* Connolly, *supra* note 3 (arguing that the attorney exemption has permitted numerous law firms in North Carolina to operate as debt adjusters).

51. For an example of the CFPB identifying a “façade law firm” that established shell law firms while being operated by employees who are not attorneys, see *CFPB and Seven State Attorneys General Sue Strategic Financial Solutions*, *supra* note 26.

law firms comply with the debt adjusting statute because a licensed attorney owns and operates the firm, but the attorney is simply a “figurehead.”⁵² In reality, a separate corporation is often operating a larger debt adjusting scheme behind the scenes while the attorney purports to manage the façade firm.⁵³ In the most extreme cases, the façade law firm is established but no licensed attorney works at the firm.⁵⁴ Yet in almost all cases, the façade law firm employees actively engaging with consumers are not attorneys and the “firm” itself offers no legal services.⁵⁵

When a façade law firm takes on a client, the firm commonly advises the client to cease communication with their creditors and to stop making any payments directly to the creditor while the law firm purportedly proceeds to engage in “debt negotiation” on their behalf.⁵⁶ Clients are directed to make payments to a fund with the law firm so that, once a settlement is reached with the creditors, the firm can immediately make a lump-sum payment from the fund.⁵⁷ While this is a

52. *See* Connolly, *supra* note 3 (providing an example of a “figurehead” attorney who is a state licensed attorney that technically runs the façade law firm, but was hired by an out-of-state company to run the firm and funnels the majority of the proceeds to the company).

53. *See id.* (providing an example of a façade law firm, Carolina Legal Services, which technically operated under a single attorney, but, in actuality, was controlled by an out-of-state attorney who received ninety-seven percent of the profits of the façade law firm operating in North Carolina).

54. *See* State *ex. rel.* Cooper v. Orion Processing, LLC, 13 CVS 7161, 2017 NCBC LEXIS 20, at *6 (N.C. Super. Ct. Mar. 7, 2017) (discussing a case in which a fake law firm, “World Law Group”, deceived consumers by representing itself as a law firm to clients, while in actuality “[a]t no time was Orion a law firm or otherwise authorized to provide legal services to its customers in North Carolina”).

55. *See id.* at *10 (describing that employees of the façade law firm represented themselves as litigation support staff despite the business never being a law firm and that no attorney ever provided legal services to the clients that contracted with the façade law firm).

56. *See* *What Is a Debt Relief Program and How Do I Know if I Should Use One?*, *supra* note 11 (advising consumers that debt settlement companies typically require clients to cease payments to creditors).

57. *See id.* (explaining that many debt relief companies have clients make payments to dedicated bank accounts that accumulate for the settled lump sum payments). *But see* Connolly, *supra* note 3 (explaining that façade law firms collect monthly payments from clients but do not make any negotiated settlements).

common practice among even legitimate debt settlement companies,⁵⁸ the façade law firms frequently fail to negotiate with creditors, appear in court, or communicate with their clients.⁵⁹

As a result of the inadequate—or even nonexistent—services these firms offer, North Carolina consumers who unknowingly hire a façade law firm suffer further financial hardship beyond the debt delinquency they originally hoped to resolve.⁶⁰ While consumers believe they are taking helpful steps toward financial recovery, their debts continue to accrue fees and interest, especially in cases where no payments are made for an extended period of time.⁶¹ In some cases, creditors have even filed suits against consumers who believed their debts were being settled because the façade law firm failed to make payments.⁶²

A. *Katherine Otto and Carolina Legal Services*

One consumer that suffered financial harm after contacting a façade law firm was Katherine Otto, a North Carolina resident who was determined to address her outstanding debts.⁶³ Ms. Otto found Carolina Legal Services online, and after inquiring into their services, met with a notary at her home who walked her through the process.⁶⁴ Carolina

58. See *How to Get Out of Debt*, FED. TRADE COMM'N, <https://consumer.ftc.gov/articles/how-get-out-debt> [<https://perma.cc/3HAZ-VTRP>] (last visited Aug. 28, 2025) (recommending to consumers debt settlement services as a method to get out of debt, as debt settlement can be a favorable option for many consumers since consumers can pay a lessened lump sum payment to their creditors in order to be free from any further responsibility for their debts).

59. See Connolly, *supra* note 3 (describing the unfair practices engaged in by façade law firms).

60. See *CFPB and Seven State Attorneys General Sue Strategic Financial*, *supra* note 26 (“Consumers who were struggling financially and may well have been desperate to reduce their debts turned to the defendants for help. Instead, they were exploited, leaving them even worse off . . .”).

61. See *What Is a Debt Relief Program and How Do I Know if I Should Use One?*, *supra* note 11 (describing the various risks of using the debt settlement process, including the possibility to accumulate fees, interest, and hurt one’s credit score).

62. See *State ex. rel. Cooper v. Orion Processing, LLC*, 13 CVS 7161, 2017 NCBC LEXIS 20, at *10 (N.C. Super. Ct. Mar. 7, 2017) (“In many instances, customers who followed [façade law firm’s] instructions to stop paying their creditors were sued by their creditors for non-payment.”).

63. See Connolly, *supra* note 3 (detailing Ms. Otto’s interactions with Carolina Legal Services, a façade law firm).

64. See *id.* (outlining the day in which a notary came to Ms. Otto’s home to establish her contract with Carolina Legal Services).

Legal Services advised Ms. Otto to cease any contact with her creditors and stop any payments; instead, she was to pay \$746 monthly to a Carolina Legal Services account, from which the firm would make immediate payments to her creditors.⁶⁵ While Ms. Otto was aware an attorney seemingly managed the firm, it is unclear whether she ever interacted with a licensed attorney regarding her case; instead, Ms. Otto communicated overwhelmingly with “paralegals” within the firm.⁶⁶ Ms. Otto followed the firm’s guidance, contributing to the settlement fund monthly under the belief that her settlement was progressing.⁶⁷ Despite her diligent payments to the fund, she learned that Carolina Legal Services had not attempted to negotiate her debt when Wells Fargo Bank and Discover Bank sued her.⁶⁸

These tactics are particularly troubling, as highly vulnerable, financially unstable North Carolinians are commonly the consumers who seek debt-relief assistance.⁶⁹ Consumers who seek assistance from debt adjusting firms reportedly approach these companies for help with an average of \$30,000 in debt.⁷⁰ These consumers are often more vulnerable to predatory tactics because they have multiple creditors and high volumes of debt.⁷¹ In addition to consumers accumulating more debt while engaging with these law firms, consumers often lose the money they paid into the façade firm’s debt settlement fund.⁷² For example, Ms. Otto reportedly paid over \$10,000 to her settlement fund

65. *See id.* (stating that several representatives from Carolina Legal Services instructed Ms. Otto to cease payments).

66. *See id.* (detailing Ms. Otto’s interactions with Carolina Legal Services, a façade law firm).

67. *See id.* (explaining that Ms. Otto followed the instructions of the firm and ceased payments while monthly payments were withdrawn from her account).

68. *See id.* (describing how Ms. Otto was sued by her creditors).

69. *See CFPB and Seven State Attorneys General Sue Strategic Financial Solutions*, *supra* note 26 (describing the worries of then North Carolina Attorney General Josh Stein, who expressed serious concerns about the exploitation of vulnerable North Carolinians who were “scammed by these fraudulent law firms and lost even more money”).

70. Dunckel, *supra* note 13.

71. *See Daniel S. Rufty Consent Order*, *supra* note 9 (providing an example of consumers being more at risk of interacting with façade law firms because Strategic Financial Solutions, a façade law firm, purposefully targeted consumers with one or more creditors).

72. *See Matthew Brock, Comment, “As Cats are Drawn to Cream”: Expanding Debt Settlement Regulation to Traditionally-Exempt Entities*, 47 COLUM. J.L. & SOC. PROBS. 385, 394–95 (2014) (explaining that debt adjusting law firms frequently refuse to refund payments to clients because they keep the money by suggesting it was “fees,” and arbitration clauses may pose a barrier for consumers to file a complaint and recover the funds).

and recovered only \$900 after it was not paid to her creditors, stripping her of funds she could have used for debt payments and leaving her in bad standing with her creditors.⁷³

B. Attempted Legislative Reform

Recognizing the harm North Carolina consumers have suffered due to the attorney exemption, several members of the General Assembly have introduced amendments to the Debt Adjusting Act.⁷⁴ However, these bills have repeatedly stalled or failed to garner enough support to be enacted.⁷⁵ The most recent failure was in April of 2025 when a group of bipartisan representatives, concerned with the inequitable impact of debt adjusting on vulnerable North Carolinians, brought House Bill 734 to limit the scope of the attorney exemption.⁷⁶ House Bill 734 proposed to limit the attorney exemption to only attorney “services provided to a debtor by an attorney, or in the name of an attorney, who has entered in any arrangement with a person engaged, directly or through affiliates, in debt adjusting or debt settlement.”⁷⁷ Despite receiving bipartisan support and passing unanimously in the

73. See Connolly, *supra* note 3 (discussing the harm that Ms. Otto suffered after she could not recover many of the payments she made to the firm falsely believing it would be used to settle her debts).

74. See Brianna Kraemer, *House Leaders Hope Predatory-Debt Bill Can Finally Break Through Senate This Session*, CAROLINA J. (Apr. 22, 2025), <https://www.carolinajournal.com/house-leaders-hope-predatory-debt-bill-can-finally-break-through-senate-this-session/> [<https://perma.cc/WC7F-LK6H>] (describing the repeated attempts to pass a bill updating the debt adjusting law in recent years).

75. For an example of one of the many failures to amend the Debt Adjusting Act, see Consumer, Housing, & Energy Project, *NC Senate Refuses to Bring Bill to Floor that Protects Borrowers from Abusive Debt Settlement Practices*, N.C. JUST. CTR. (June 26, 2020), <https://www.ncjustice.org/nc-senate-refuses-to-bring-bill-to-floor-that-protects-borrowers-from-abusive-debt-settlement-practices/> [<https://perma.cc/TQW4-P3VQ>] (describing the failure to get a House Bill modernizing the debt adjusting law to the Senate floor, citing lobbying as a major influence).

76. See *House Bill 734*, N.C. GEN. ASSEMBLY, <https://www.ncleg.gov/BillLookup/2025/H734> [<https://perma.cc/D9N8-FNPY>] (last visited Aug. 29, 2025) (stating that House Bill 734 did not move past the Senate Rules and Operations Committee); Kraemer, *supra* note 74 (explaining how Representative Ya Liu, co-sponsor of the bill, was concerned with passing a bill “that’s focused on stopping bad actors from preying on those unable to fight back”).

77. H.R. 734, 2025 Gen. Assemb., Reg. Sess. (N.C. 2025).

House, the bill stalled in the Senate Rules and Operations Committee and never made it to the floor.⁷⁸

Several senators also brought Senate Bill 491 in March of 2025 as a solution to amend the Debt Adjusting Act.⁷⁹ Under the proposed legislation, debt adjusting would be permissible only after debt adjusters secured a license in the state and remained under the supervision of the North Carolina Commissioner of Banks.⁸⁰ Attorneys were exempted from securing licensure under the proposed bill, but the exemption would require that attorneys be licensed in North Carolina to comply with the exemption.⁸¹ If a debt adjuster did not obtain the required license, or was not a licensed North Carolina attorney, they would be guilty of a Class 3 misdemeanor.⁸² Notably, like House Bill 734, Senate Bill 491 also stalled in the Senate Rules and Operations Committee.⁸³

Lobbying has significantly impacted the legislative efforts to change the debt adjusting law.⁸⁴ Numerous organizations have lobbied to update the law, including the American Association of Retired Persons (“AARP”), State Employees Credit Union (“SECU”), and the

78. See *House Roll Call Vote Transcript for Roll Call #145*, N.C. GEN. ASSEMBLY, <https://www.ncleg.gov/Legislation/Votes/RollCallVoteTranscript/2025/H/145> [<https://perma.cc/5D5R-R7XJ>] (last visited Aug. 28, 2025) (showing unanimous support for House Bill 734).

79. See Connolly, *supra* note 3 (stating that the bill aimed to repeal the current debt adjusting law).

80. See S. 491 2025 Gen. Assemb., Reg. Sess. (N.C. 2025) (“No person shall engage in the business of providing or offering to provide debt settlement services to any debtor, whether or not the person has an office, facility, agent, or other physical presence in the State, unless the person obtains from the Commissioner a license issued pursuant to this Article.”).

81. See *id.* (“This article does not apply to . . . any person licensed to practice law in this State.”).

82. See § 53-465 (stating that any violation of the proposed act would result in a Class 3 misdemeanor).

83. See *House Bill 734*, *supra* note 76 (showing that the bill does not progress past the Rules and Operations Committee); *Senate Bill 491*, N.C. GEN. ASSEMBLY, <https://www.ncleg.gov/BillLookup/2025/S491> [<https://perma.cc/2PSK-LBLU>] (last visited Jan. 23, 2025) (showing that Senate Bill 491 similarly stalled in the Rules and Operation Committee). For an argument that the Rules and Operations Committee has been given special “gatekeeping” powers that limit what bills make it to the floor, see Rob Schofield, “*Out of Order*”: *How NC Legislative Leaders Use Rules to Maintain Their Dominance*, NC NEWSLINE: COMMENTARY (May 20, 2025, at 5:30 ET), <https://ncnewslines.com/2025/05/20/out-of-order-how-nc-legislative-leaders-use-rules-to-frustrate-majority-control/> [<https://perma.cc/NU5Y-WN54>].

84. See Connolly, *supra* note 3 (describing the large impact of lobbying on the failure of House Bill 734 to pass in May 2025).

Marine Corps.⁸⁵ These organizations represent individuals that may be vulnerable to deceptive trade practices, such as elderly consumers, state employees, and veterans.⁸⁶ These groups have advocated for the passage of amendments to the debt adjusting statute to address predatory debt adjusting practices,⁸⁷ and urged their members to contact their representatives about passing the amendments.⁸⁸

North Carolina representatives sponsoring these bills, however, generally believe pro-debt adjusting lobbying efforts heavily contribute to the failure of each proposed bill to reach the Senate floor.⁸⁹ For example, in 2025, the American Association for Debt Resolution and Beyond Finance, two of the largest organizations representing the debt settlement industry, each had at least seven active lobbyists registered

85. See Travis Fain, *Marine Corps, SECU Press General Assembly on Stalled Debt Collection Bill*, WRAL NEWS (July 8, 2020, at 11:49 ET), <https://www.wral.com/story/marine-corps-secu-press-general-assembly-on-stalled-debt-collection-bill/19179788/> [<https://perma.cc/3B3D-AZZ9>] (providing a description of numerous organizations who have advocated for passing the debt settlement bills).

86. See Letter from Nicholas E. Davis, Chief of Staff, Marine Corps Installations East-Marine Corps Base, to N.C. Gen. Assembly (July 8, 2020), https://wwwcache.wral.com/asset/news/state/nccapitol/2020/07/08/19179789/1067_letter_to_the_general_assembly-DMID1-5nfrbhno2.pdf [<https://perma.cc/5UB2-PE7T>] (identifying that military members are often targeted by financial schemes and urging the legislature to pass an amendment to protect military members and their families); *Stop Debt Settlement Companies from Abusing North Carolinians*, AARP, <https://states.aarp.org/north-carolina/stop-debt-settlement-companies-from-abusing-north-carolinians> [<https://perma.cc/J8EF-GXVT>] (last visited Oct. 13, 2025) (describing the harms that façade law firms can create for elderly consumers); Letter from Michael J. Lord, President/CEO, State Emp.'s Credit Union, to Members of the Gen. Assembly (July 6, 2020), <https://www.ncjustice.org/wp-content/uploads/2020/07/SECU-2020-07-06-Ltr-to-Members-of-NC-General-Assembly-SECU-Support-HB-1067-M-Lord-003.pdf?eType=EmailBlastContent&eId=4a40abae-3fdf-4677-bfce-cd04e0be4498> [<https://perma.cc/HVV2-TMYD>] (warning the Legislature about the potential harms to state employees in the debt settlement industry).

87. See Letter from Nicholas E. Davis, *supra* note 86 (writing to the General Assembly to urge the passing of the debt adjusting House Bill); Letter from Michael J. Lord, *supra* note 86 (advocating for the General Assembly to pass the amendment to protect state employees).

88. See *Stop Debt Settlement Companies from Abusing North Carolinians*, *supra* note 86 (describing the predatory nature of debt adjusting companies and encouraging AARP members to email their representatives about the pending House bill).

89. See Kraemer, *supra* note 74 (quoting a sponsor of the House Bill speculating on the effect of lobbying that had prevented progress on the bill for years and hoped would no longer “be a pain in [the supporters’] side[s]”).

when the North Carolina legislature considered House Bill 734.⁹⁰ The debt adjusting lobbyists claim the proposed amendments will eliminate an effective tool for consumers seeking financial recovery, as they can no longer turn to companies experienced in the debt adjusting industry.⁹¹ It is likely these efforts have prevented further development in this area, and as a result, the attorney exemption remains the law in North Carolina.

III. ANALYSIS OF RELEVANT STATE CONSUMER PROTECTION LAW

North Carolina laws, including the Debt Adjusting Act and Unfair and Deceptive Trade Protection Act, as well as oversight by the North Carolina State Bar, may help to regulate the actions of façade law firms operating under the attorney exemption.⁹² However, due to the statutory designs and specific attorney exemptions frequently provided in consumer protection laws, these frameworks face challenges in effectively regulating façade law firms.⁹³

A. *Debt Adjusting Act*

The Act creates criminal liability for engaging in debt adjusting, making it a Class 2 misdemeanor to engage in unauthorized debt adjusting.⁹⁴ The Act can easily be used against façade law firms when the façade law firm is plainly unlicensed or has no attorneys authorized to practice law in North Carolina. For example, a North Carolina court found that a façade law firm violated the Act in *State ex rel. Cooper v.*

90. See Elaine F. Marshall, *Lobbying Directory*, N.C. DEP'T OF THE SEC'Y OF STATE 1, 120, 131 (July 14, 2025), https://www.sosnc.gov/webfiles/documents/forms/lobbying/directory/lobby_directory_7_14_2025.pdf [<https://perma.cc/WK6G-R7WT>] (providing the list of lobbyists and affiliations active as of July 14, 2025).

91. For a defense of debt settlement companies and a call to action to defend debt settlement companies by the CEO of the American Fair Credit Council, the group that employs several lobbyists in the North Carolina General Assembly, see Dunckel, *supra* note 13.

92. See Brock, *supra* note 72, at 400 (discussing how state general consumer protection statutes provide private actions that allow consumers to bring suits against façade law firms that engage in fraud or deceptive trade practices).

93. See *id.* at 400–01 (stating the challenges of state consumer protection laws, including that some harms simply fall outside the scope of many state fraud and deceptive trade practices).

94. N.C. GEN. STAT. § 14-424.

Orion Processing, LLC; however, the attorney exemption was not addressed because no employee of the firm was ever authorized to provide legal services in North Carolina.⁹⁵ Despite the debt adjusters' intention to avoid detection by establishing a law firm and continuing their scheme under the guise of the attorney exemption, a court was able to reprimand the firm under the Debt Adjusting Act because of the lack of legal services the firm provided.⁹⁶

However, criminal liability under the Act may not reach façade law firms that operate under a “figurehead” attorney who is licensed to practice law in North Carolina because of the attorney exemption.⁹⁷ One possibility, such as in Ms. Otto’s case, is that a façade law firm violates the Act when an out-of-state debt adjuster operating a shell company, employs a “figurehead” attorney who funnels nearly all of the firm’s profits back to the out-of-state debt adjuster.⁹⁸ However, this requires finding that the attorney is “employed” under the direction of an identifiable debt adjuster and that the debt adjuster largely controls and profits from the firm.⁹⁹ Moreover, the CFPB and multiple states used their combined resources to sue the debt adjuster acting behind the scenes in Ms. Otto’s case, which likely made it easier to prove that the debt adjuster actually employed the “figurehead” attorney given the

95. *See State ex. rel. Cooper v. Orion Processing, LLC*, 13 CVS 7161, 2017 NCBC LEXIS 20, at *52 (N.C. Super. Ct. Mar. 7, 2017) (“By engaging, or offering or attempting to engage in, debt adjusting—including by holding itself out as an intermediary between North Carolina consumer debtors and the debtors’ creditors for the purpose of reducing, settling, or altering the terms of the payment of debtors’ debts, and by collecting fees in advance of the settlement of debtors’ debts—Defendants . . . have violated N.C. GEN. STAT. §§ 14-423 and 14-424.”).

96. *See id.* at *29 (“Seeking a means of continuing Orion’s . . . debt settlement business and apparently believing that the proposed FTC regulation exempted law firms . . . [debt adjuster] represented that he was the principal of a large international law firm . . . [i]n reality, there was no large, international law firm . . .”).

97. *See Brock, supra* note 72, at 407–08 (arguing that broad attorney exemptions which permit any attorneys engaged in the practice of law in the state where they are licensed have been found to satisfy the statutory exemptions, even when the genuine legal services offered by an attorney are minimal to absent).

98. *See Daniel S. Rufty Consent Order, supra* note 9, at 3 (holding that the attorney was employed by a debt adjuster).

99. *See id.* (identifying that the attorney was operating under a debt adjuster because he was hired by the debt adjuster and nearly all of the profits were funneled back to the debt adjuster).

national focus and pooled resources.¹⁰⁰ This fact pattern may not always be present when attempting to bring an action against a façade law firm. Therefore, the attorney exemption may obscure a façade law firm that operates a debt adjusting scheme through a licensed attorney.

B. North Carolina Unfair and Deceptive Trade Practices Act

Additionally, the North Carolina legislature declared it unlawful to participate in “unfair or deceptive acts or practices in or affecting commerce” in the Unfair and Deceptive Trade Practices Act (“UDTPA”).¹⁰¹ To successfully bring a UDTPA claim, the plaintiff must prove three elements: “(1) [the] defendant committed an unfair or deceptive act or practice, (2) the action in question was in or affecting commerce, and (3) the act proximately caused injury to the plaintiff.”¹⁰² Under the Debt Adjusting Act, unlawfully engaging in debt adjusting is a violation of the UDTPA.¹⁰³

However, the learned profession exception of the UDTPA presents greater difficulty for regulating façade law firms.¹⁰⁴ Under this exception, the UDTPA does not apply to professional services offered by members of a learned profession.¹⁰⁵ The North Carolina Supreme Court has held that the practice of law is traditionally regarded as a learned profession, and attorneys performing traditional legal duties fall

100. See *Consumer Fin. Prot. Bureau v. Strafts, LLC*, 24-CV-40-EAVV-MJR, 2024 U.S. Dist. LEXIS 37615, at *8–9 (W. D. N.Y. 2024) (showing that the case had the force of the CFPB, as well as many other states’ Attorney Generals, making it easier to collectively prove the harm).

101. N.C. GEN. STAT. § 75-1.1(a).

102. *Dalton v. Camp*, 353 N.C. 647, 656 (2001).

103. See N.C. GEN. STAT. § 14-425 (“The superior court shall have jurisdiction, in an action brought in the name of the State by the Attorney General or the district attorney of [a] prosecutorial district . . . to enjoin, as an unfair or deceptive trade practice, the continuation of any debt adjusting business or the offering of any debt adjusting services.”).

104. See 75 N.C. GEN. STAT. § 75-1.1(b) (“For purposes of this section, ‘commerce’ includes all business activities, however denominated, but does not include professional services rendered by a member of a learned profession.”).

105. See *Reid v. Ayers*, 531 S.E.2d 231, 235 (N.C. Ct. App. 2000) (“In order for the learned profession exemption to apply, a two-part test must be satisfied. First, the person or entity performing the alleged act must be a member of a learned profession. (citation omitted). Second, the conduct in question must be a rendering of professional services.”).

under the learned profession exception.¹⁰⁶ Thus, the learned profession could pose a barrier to the use of the UDTPA in regulating façade law firms.

At least one North Carolina court has held that a façade law firm violated the UDTPA.¹⁰⁷ In *State ex rel. Cooper v. Orion Processing, LLC*, the court held that a façade law firm existed and violated the UDTPA.¹⁰⁸ However, because there were no attorneys licensed in North Carolina involved in the façade law firm, the court did not address the learned profession exception.¹⁰⁹ Instead, the court simply concluded that the UDTPA elements were satisfied here.¹¹⁰ Because (1) the façade law firm engaged in unfair or deceptive practices by illegally debt adjusting; (2) both the debt adjusting conduct and false statements to their clients affected commerce; and (3) consumers suffered multiples injuries as a result of the failure to negotiate with creditors, the court held that the façade law firm violated the UDTPA.¹¹¹

The harms identified by the court in *Orion Processing, LLC* are common in many debt adjusting cases, such as in Ms. Otto's case, as the façade law firm in her case never paid her creditors and therefore caused her similar harm.¹¹² However, unlike the lack of licensed attorneys in the façade law firms in *Orion Processing, LLC*, façade law firms that operate under a single "figurehead" may present a challenge by requiring a different conclusion to prove that the façade law firm is engaging in an unfair or deceptive practice.¹¹³ Thus far, no North Carolina court has provided clarity as to whether a façade law firm

106. See *Sharp v. Gailor*, 510 S.E.2d 702, 704–05 (N.C. Ct. App. 1999) (affirming that attorneys are a learned profession and that the court should not "rewrite a law enacted by our state legislature" since the legislature had expressly excluded learned professionals from the statute).

107. See *State ex rel. Cooper v. Orion Processing, LLC*, 13 CVS 7161, 2017 NCBC LEXIS, at *65–67 (N.C. Super. Ct. Mar. 7, 2017) (addressing a façade law firm and the UDTPA).

108. See *id.* at *22 (holding that the façade law firm had violated the UDTPA and Debt Adjusting Act).

109. See *id.* at *21 (holding that no attorneys licensed in North Carolina were involved in the façade law firm).

110. See *id.* at *66 (concluding that Orion Processing, LLC had violated the UDTPA).

111. *Id.* at *66–67.

112. See Connolly, *supra* note 3 (stating that Ms. Otto's creditors were never paid and she was sued by her creditors as a result).

113. See Daniel S. Ruffy Consent Order, *supra* note 9, at 10 (showing that violation of the UDTPA was not used in an enforcement action against a figurehead attorney).

operating under a figurehead attorney constitutes an unfair or deceptive practice under element one of the UDTPA.

C. *Oversight by the North Carolina State Bar*

The North Carolina General Assembly created the North Carolina State Bar (“State Bar”) to regulate the activities of attorneys practicing in North Carolina.¹¹⁴ The State Bar is authorized to regulate, investigate, and enforce the professional conduct of attorneys in North Carolina.¹¹⁵ To fulfill its purpose, the State Bar is tasked with creating and maintaining the Rules of Professional Conduct (“RPC”), a code of conduct that all attorneys in the state must follow in order to remain in good standing.¹¹⁶ The State Bar investigates potential noncompliance with the rules and enforces discipline when the rules are broken.¹¹⁷

One relevant North Carolina statute makes it unlawful for any person in North Carolina who is not a member of the State Bar to engage in the unauthorized practice of law.¹¹⁸ Violation of this law is a Class 1 misdemeanor.¹¹⁹ Under this statute, any harmed person has a private right of action to recover civil damages or injunctive relief against someone who engages in the unauthorized practice of law or assists another person in the unauthorized practice of law.¹²⁰ Therefore, a citizen harmed by a façade law firm may seek relief for their harm by bringing action against the façade law firm for any unauthorized

114. See *Who We Are*, N.C. STATE BAR, <https://www.ncbar.gov/about-us/who-we-are/> [<https://perma.cc/2WXQ-79YS>] (last visited Sep. 16, 2025) (explaining the State Bar’s role governing attorneys in North Carolina).

115. See N.C. GEN. STAT. § 84-23(a) (permitting the State Bar to “regulate the professional conduct of licensed lawyers” and “take actions that are necessary to ensure the competence of lawyers” by “do[ing] all things necessary in the furtherance of the purposes of this Article that are not otherwise prohibited by law”).

116. See *id.* (permitting the State Bar to “formulate and adopt rules of professional ethics and conduct . . . and formulate and adopt procedures for accomplishing these purposes”).

117. See *Who We Are*, *supra* note 114 (explaining the State Bar’s authority to investigate misconduct).

118. See N.C. GEN. STAT. § 84-4 (“[I]t shall be unlawful for any person or association of persons, except active members of the Bar of the State of North Carolina admitted and licensed to practice as attorneys-at-law, to appear as attorney or counselor at law in any action or proceeding before any judicial body.”).

119. § 84-8(a).

120. § 84-10.1 (“[A]ny person who is damaged by the unlawful acts set out in this section shall be entitled to maintain a private cause of action to recover damages and reasonable attorneys’ fees and other injunctive relief as ordered by court.”).

practice of law that the employees of the firm perform.¹²¹ The State Bar is empowered by the statute to act against any unauthorized practice of law, regardless of whether a private cause of action is pursued.¹²² Therefore, many citizens may not utilize their private right of action and instead rely on the State Bar because of the State Bar's ability to investigate and enforce against the unauthorized practice of law.¹²³

Beyond this specific statute, the State Bar has a multitude of rules that allow it to regulate façade law firms.¹²⁴ The State Bar specifically addresses the unauthorized practice of law in the RPC.¹²⁵ Under Rule 5.5, a lawyer cannot practice law in a jurisdiction where they lack authorization to do so.¹²⁶ Moreover, Rule 5.5 prohibits lawyers from aiding another person in the unauthorized practice of law.¹²⁷ The statutory authority and Rule 5.5 adequately ensure that the State Bar can bring enforcement mechanisms when North Carolinians do not receive adequate services from individuals unqualified to represent client interests.¹²⁸

For instance, after investigating several claims of misconduct, the North Carolina State Bar issued a motion for discipline order against the “figurehead” attorney operating the façade law firm that harmed Ms. Otto.¹²⁹ The State Bar found that the attorney violated Rule 5.5 by

121. *Id.*

122. *See id.* (“No order or judgment under this section shall have any effect upon the ability of the North Carolina State Bar to take any action authorized by this Chapter.”).

123. *See* Sam Bock, *4 Barriers Blocking Access to Justice (And How to Break Them)*, RELATIVITY: BLOG (Mar. 25, 2021), <https://www.relativity.com/blog/4-barriers-blocking-access-to-justice-and-how-to-break-them/> [<https://perma.cc/T6MK-VNVQ>] (describing common barriers that discourage people from taking legal action, such as high costs of legal cases and lack of knowledge of their legal rights).

124. *See* N.Y.C. BAR ASS'N., *supra* note 46, at 88-93 (providing a discussion of the many rules that State Bars can use to punish façade law firms).

125. *See* 27 N.C. ADMIN. CODE r. 5.5(a) (authorizing only lawyers who are licensed in North Carolina to practice law in the state).

126. *Id.*

127. *See* r. 5.5(f) (“A lawyer shall not assist another person in the unauthorized practice of law”).

128. *See* *Unauthorized Practice of Law*, N.C. STATE BAR, <https://www.ncbar.gov/bar-programs/unauthorized-practice-of-law/> [<https://perma.cc/N3UC-9JYW>] (last visited Nov. 25, 2025) (“The Rules of The North Carolina State Bar state, ‘[t]he purpose of the committee on the authorized practice of law is to protect the public from being unlawfully advised and represented in legal matters by unqualified persons.’”).

129. *See* Daniel S. Ruffy Consent Order, *supra* note 9, at 9 (disciplining the figurehead attorney that operated Carolina Legal Services for many years).

allowing non-attorneys to provide legal services to clients.¹³⁰ These unpermitted services included allowing the non-attorneys to enroll consumers in the debt adjusting program with the firm, advising them to cease payments to their creditors, and walking clients through signing a contract without any attorney supervision.¹³¹ Ultimately, the State Bar suspended the attorney's license for five years due to his operation of the façade law firm.¹³²

Additionally, the RPC addresses other ethical issues that may arise from a façade law firm's unethical conduct.¹³³ The RPC provides specific guidance on how to govern non-attorneys employed by the lawyer and their involvement with casework.¹³⁴ For example, the State Bar can use Rule 5.3(a) to punish façade law firms where unsupervised non-attorneys offer legal services.¹³⁵ In addition, Rule 8.4(c) also declares that a lawyer commits professional misconduct when the lawyer "engage[s] in conduct involving dishonesty, fraud, deceit or misrepresentation that reflects adversely on the lawyer's fitness as a lawyer."¹³⁶ Under Rule 8.4(c), the State Bar can punish an attorney operating a façade law firm that deceives its clients, such as when the firm suggests that it is actively negotiating with creditors or that

130. *See id.* at 10 ("By permitting nonlawyers to provide legal services to North Carolina residents, thereby aiding others in the unauthorized practice of law . . . [he] assisted another person in the unauthorized practice of Law, in violation of Rule 5.5(f) . . .").

131. *See id.* at 3–5 (finding facts that demonstrate the unauthorized practice of law occurring in the façade law firm).

132. *Id.* at 14.

133. *See* Meg Sohmer Wood, 21 DHC 18, at 4–5 (N.C. State Bar Ass'n 2022) (consent ord. of discipline), https://www.ncbar.gov/orders/Wood_Meg_Sohmer_Consent_Order.pdf [<https://perma.cc/TW92-FSVS>] [hereinafter Meg Sohmer Wood Consent Order] (providing an example of a variety of Rules of Professional Conduct that were used to punish an attorney who had previously owned and operated Carolina Legal Services).

134. *See* 27 N.C. ADMIN. CODE r. 5.3(a) (2025) (regulating the conduct of a lawyer who oversees a nonlawyer within an organization).

135. *See id.* Rule 5.3(a) of the RPC mandates that "[w]ith respect to a nonlawyer employed or retained by or associated with a lawyer[] . . . a principal, and a lawyer who individually or together with other lawyers possesses comparable managerial authority in a law firm or organization shall make reasonable efforts to ensure that the firm or organization has in effect measures giving reasonable assurance that the nonlawyer's conduct is compatible with the professional obligations of the lawyer." *Id.*

136. *See* r. 8.4(c) (describing one of the many acts that constitute misconduct for a lawyer).

attorneys are handling the majority of the casework.¹³⁷ Other rules regarding a lawyer's duties to their clients, such as those requiring competence, diligence, and communication, could also be used against façade law firm attorneys.¹³⁸

IV. RELEVANT FEDERAL CONSUMER PROTECTION LAW

In addition to the potential criminal liability under the North Carolina Debt Adjusting Act and other state consumer protection laws, civil relief may also be available under federal consumer protection statutes and regulations. However, the Trump Administration has challenged the power of many regulators, resulting in a decreased capacity for federal protections to be used to protect consumers from façade law firms.¹³⁹

A. Consumer Financial Protection Bureau

The Consumer Financial Protection Bureau (“CFPB”) was created by the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (“Dodd-Frank”) in the wake of the Great Financial Crisis.¹⁴⁰ Under this authority, the CFPB is tasked with “ensuring that all consumers have access to markets for consumer financial products and services and that markets for consumer financial products and services are fair, transparent, and competitive.”¹⁴¹ Dodd-

137. For an example of the State Bar using Rule 8.4(c) to punish Ms. Otto's façade law firm for falsely representing that an attorney would handle the casework, see Daniel S. Rufty Consent Order, *supra* note 9.

138. See Brock, *supra* note 72, at 412–13 (arguing that these rules could presumably be brought against attorneys that operate a façade law firm).

139. See Lauren McFerran & Celine McNicholas, *Trump's Assault on Independent Agencies Endangers Us All*, ECON. POL'Y INST. 1, 6–9 (Oct. 22, 2025), https://files.epi.org/uploads/Trump-assault-on-independent-agencies-endangers-us-all_Economic-Policy-Institute_The-Century-Foundation.pdf [https://perma.cc/BYU7-NY6U] (describing how the Trump Administration has decreased the capacity of many federal agencies during the first few months of his term by firing agency leaders, adding oversight to agencies, decreasing rulemaking powers, and limiting available enforcement mechanisms).

140. See Dodd-Frank Wall Street Reform and Consumer Protection Act, 12 U.S.C. § 5491(a) (“There is established in the Federal Reserve System, an independent bureau to be known as the “Bureau of Consumer Financial Protection”, which shall regulate the offering and provision of consumer financial products or services under the Federal consumer financial laws.”).

141. § 5511(a).

Frank empowers the CFPB to use its enforcement authority against any entity that provides a consumer financial product or service and commits an “unfair, deceptive, and abusive act or practice.”¹⁴² There is no private right of action under Dodd-Frank’s protections, so the CFPB, rather than the consumer, must bring an enforcement action against a covered party who engages in such acts.¹⁴³

Dodd-Frank generally provides that the CFPB “may not exercise any supervisory or enforcement authority with respect to an activity engaged in by an attorney as part of the practice of law.”¹⁴⁴ However, this provision does not include any financial service occurring outside of the attorney-client relationship or that an attorney offers to a client who is not receiving legal service in connection with that financial product or service.¹⁴⁵ Given these exceptions, the CFPB has exerted its power over façade law firms.¹⁴⁶ For example, in June of 2025, the Second Circuit affirmed an injunction the CFPB secured, joined by seven state Attorney Generals, including then North Carolina Attorney General Josh Stein, in *Consumer Financial Protection Bureau v. Sasson*¹⁴⁷ against a façade law firm that practiced debt adjusting through shell law firms and debt adjusting companies in several states, including North Carolina.¹⁴⁸

142. § 5511(b)(2).

143. See § 5511(a) (demonstrating that Dodd-Frank prescribes power to the CFPB but does not provide a private right of action to consumers).

144. See § 5517(e)(1) (“Except as provided under paragraph (2), the Bureau may not exercise any supervisory or enforcement authority with respect to an activity engaged in by an attorney as part of the practice of law under the laws of a State in which the attorney is licensed to practice law.”)

145. See § 5517(e)(2)(A)–(B). Section 5517(e)(2)(A)–(B) provides that “[p]aragraph 1 shall not be construed so as to limit the exercise by the Bureau of any supervisory, enforcement, or other authority regarding the offering or provision of a consumer financial product or service described in any subparagraph of section 5481(5) of this title— (A) that is not offered or provided as part of, or incidental to, the practice of law, occurring exclusively within the scope of the attorney-client relationship; or (B) that is otherwise offered or provided by the attorney in question with respect to any consumer who is not receiving legal advice or services from the attorney in connection with such financial product or service.” *Id.*

146. See *CFPB and Seven State Attorneys General Sue Strategic Financial Solutions*, *supra* note 26 (explaining that the CFPB had identified the façade law firms impacting consumers in several states and filed suit to enjoin the firms from serving clients further).

147. See *Consumer Fin. Prot. Bureau v. Sasson*, No. 24-697-cv, 2025 U.S. App. LEXIS 13336, at *9 (2d Cir. June 2, 2025) (affirming that an injunction was warranted in the case due to the façade law firm’s likely violation of the Telemarketing Sales Rule).

148. See *id.* at *4–5 (describing the façade law firm structure and use of a major debt adjusting corporation that operated behind the scenes of the firms).

However, the CFPB is currently facing operational challenges under the Trump Administration.¹⁴⁹ The Trump Administration ordered the CFPB to cease its operations in February of 2025; as a result, the CFPB reduced its workforce by 1,400 employees, leaving only 200 employees to operate the CFPB.¹⁵⁰ Despite a district court enjoining the layoffs in April, the D.C. Circuit permitted the CFPB to continue its employee layoffs in August of 2025.¹⁵¹ Additionally, the “One Big Beautiful Bill Act,” which President Trump signed into law in July of 2025, decreased the CFPB budget by nearly half of its funding designated in Dodd-Frank.¹⁵² As a result, the CFPB has limited ability to effectively utilize its regulatory powers to oversee deceptive conduct.¹⁵³ The Trump Administration’s decision to stall the CFPB has resulted in fewer opportunities and resources for the CFPB to dedicate towards the issue of façade law firms.¹⁵⁴ Considering the CFPB’s decreased capacity to perform its work, it is unclear whether the agency will continue to regulate these façade law firms in the future. Despite the operational challenges, the CFPB templates how agency intervention at the federal level may be used to pursue its broader purpose in a more amenable presidential administration.

149. See Makena Kelly, *The CFPB Has Been Guttled*, WIRED (Apr. 17, 2025, at 5:27 PM), <https://www.wired.com/story/cfpb-has-been-guttled/> [<https://perma.cc/94UN-XR6G>] (explaining the CFPB’s issues, including the reduction in workforce).

150. *Id.*

151. See Eamonn K. Moran & Ashley Feighery, *Federal Court Vacates Preliminary Injunction, Allowing CFPB to Proceed with Layoffs*, HOLLAND & KNIGHT (Aug. 20, 2025), <https://www.hklaw.com/en/insights/publications/2025/08/federal-court-vacates-preliminary-injunction-allowing-cfpb-to-proceed> [<https://perma.cc/8JNR-6X6N>] (explaining how the CFPB was permitted to continue its reduction in workforce after the D.C. Circuit vacated the lower court’s injunction).

152. See Greg Iacurci, *Trump’s ‘Big Beautiful Bill’ Slashes CFPB Funding: What It Means for You*, CNBC (July 9, 2025), <https://www.cnbc.com/2025/07/09/trump-big-beautiful-bill-slashes-cfpb-funding-what-it-means.html> [<https://perma.cc/42T8-TSS9>]. The author explains that prior to the Big Beautiful Bill Act, the CFPB’s budget came from an appropriation in Dodd-Frank of 12% of the Federal Reserve’s operating expenses to the CFPB, which the Big Beautiful Bill cut to only 6.5%. *Id.*

153. See *Potential Impacts from a Zombie CFPB*, AMERICA’S CREDIT UNIONS (Feb. 25, 2025), <https://www.americascreditunions.org/blogs/compliance/potential-impacts-zombie-cfpb> [<https://perma.cc/TM6S-RRDR>] (explaining several steps taken by President Trump and his administration to systemically dismantle the CFPB’s powers).

154. See Stephanie Dhue, *What Dramatic Cuts at the Consumer Financial Protection Bureau Could Mean for Consumers*, CNBC YOUR MONEY (Apr. 29, 2025, at 8:53 ET), <https://www.cnbc.com/2025/04/29/what-cfpb-cuts-could-mean-for-consumers.html> [<https://perma.cc/WRT7-UP8H>] (describing dropped suits and decreased programs offered after the CFPB budget and workforce significantly decreased).

B. *The Federal Trade Commission*

Similar to the CFPB, the Federal Trade Commission (“FTC”) has the statutory authority to bring civil actions against persons, partnerships, or corporations that engage in unfair or deceptive acts or practices that affect commerce, while also not providing a private right of action for citizens under this statute.¹⁵⁵

After Congress delegated power over telemarketing schemes to the FTC in the Telemarketing Rules statute, the FTC promulgated the Telemarketing Sales Rule (“TSR”) to address unfair commerce practices occurring via telemarketing and bring actions when necessary.¹⁵⁶ The FTC amended the TSR to include the acts of debt adjusting companies in 2009, specifically requiring debt adjusters to be “clear and conspicuous” about material information, such as the total time it will take to complete the settlement process and the amount of money expected to be required for the settlement.¹⁵⁷ Additionally, the TSR prohibits a debt adjuster from charging fees until the company has actually settled the debt.¹⁵⁸

In addition, under the Telemarketing Rules statute, Congress stated that any violation of the TSR would also violate the CFPB’s “unfair, deceptive, or abusive acts or practices” statute.¹⁵⁹ Consequently, the CFPB has used the TSR in cases against unlawful debt adjusting

155. See Federal Trade Commission Act, 15 U.S.C. § 45(a)(2) (“The Commission is hereby empowered and directed to prevent persons, partnerships, or corporations . . . from using unfair methods of competition in or affecting commerce and unfair or deceptive acts or practices in or affecting commerce.”).

156. Telemarketing and Consumer Fraud and Abuse Prevention Act, 15 U.S.C. § 6102(a) (“The Commission shall prescribe rules prohibiting deceptive telemarketing acts or practices and other abusive telemarketing acts or practices.”).

157. See Telemarketing Sales Rule, 16 C.F.R. § 310.3(a)(1)(vii)(A)–(D) (providing several concrete facts that debt relief companies must not misrepresent to their clients).

158. See § 310.4(a)(5)(i)(A) (“Requesting or receiving payment of any fee or consideration for any debt relief service until and unless[] . . . [t]he seller or telemarketer has renegotiated, settled, reduced, or otherwise altered the terms of at least one debt pursuant to a settlement agreement, debt management plan, or other such valid contractual agreement executed by the customer . . .”).

159. See 15 U.S.C. § 6102(c) (“Any violation of any rule prescribed under subsection (a) . . . that is committed by a person subject to the Consumer Financial Protection Act of 2010 shall be treated as a violation of a rule under section 1031 of that Act regarding unfair, deceptive, or abusive acts or practices.”).

services.¹⁶⁰ For example, in *Consumer Financial Protection Bureau v. Stratfs, LLC*,¹⁶¹ the court found the façade law firm likely violated the TSR because its employees had contacted consumers through telephone marketing and charged fees before settling any debt for its clients.¹⁶²

Notably, the TSR only applies to arrangements between façade law firms and the consumers made via telephone.¹⁶³ While this is barrier is an effective limitation to the ways in which façade law firms may contact consumers, it does not eliminate the ability to for façade law firms to avoid the punishment by simply sending a representative, who does not need to be an attorney, to communicate face-to-face with the consumer.¹⁶⁴ For example, Ms. Otto’s façade law firm tried to avoid detection by sending a notary to her home to complete the paperwork, despite having spoken with a representative calling from New York when she inquired into the firm.¹⁶⁵ Consequently, the attorney exemption still exists and may continue to do so, so long as façade law firms take steps to avoid the types of sales regulated by the TSR.¹⁶⁶

Because of this statutory design, as well as the barriers currently impacting the CFPB, federal oversight of façade law firms is less effective in managing façade law firms in North Carolina. This leaves a vacuum in which some entity will need to fill in in order to adequately address the problem posed by façade law firms to North Carolina’s consumers.

160. See Complaint at 8–9, *Consumer Fin. Prot. Bureau v. DMB Fin., LLC*, No. 1:20-cv-12147 (D. Mass. 2020) (arguing that a debt settlement company violated the TSR by charging deceptive fees even without a settlement reached).

161. See *Consumer Fin. Prot. Bureau v. Stratfs, LLC*, 24-CV-40-EAVV-MJR, 2024 U.S. Dist. LEXIS 37615, at *68–69 (W. D. N.Y. 2024) (finding a façade law firm had violated the TSR when interacting with clients).

162. See *id.* at *58–59 (holding that the practice of contacting clients over the phone and collecting fees before debt adjusting violated the Telemarketing Sales Rule).

163. See Brock, *supra* note 72, at 399 (explaining that a limitation of the Rule when limiting façade law firms is the Rule’s application only to telephone sales made in connection with telemarketing).

164. See *id.* at 399–400 (explaining that debt adjusting companies can avoid the Rule by not making transactions over the phone, hiring a local person to meet with the consumer, or having another company recommend their service).

165. See Connolly, *supra* note 3 (describing Ms. Otto’s experience with a notary coming to her home after inquiring into Carolina Legal Services).

166. See Brock, *supra* note 72, at 399–400 (explaining that the effectiveness of the TSR over façade law firms may be limited because façade firms can simply meet consumers in person to discuss enrollment, maintain local contacts to avoid telemarketing, contract with other businesses to refer their businesses to consumers, or simply avoiding interstate calls to escape TSR detection).

VI. POSSIBLE PATHS TO ADDRESS THE ATTORNEY EXEMPTION

There are several options to better address the attorney exemption under federal and North Carolina law, including amending the debt adjusting statute and advocating for increased supervision through the consumer protection regulatory framework. However, due to the federal government's reduced capacity, prohibiting façade law firms through state avenues will likely be the most effective way to reduce the harms to North Carolinians.

A. Eliminating the Attorney Exemption

One solution to eliminate the harm created by façade law firms is to revise the statute so it no longer includes an attorney exemption. The Senate contemplated the possibility of outright banning debt adjusting when it originally enacted the law but ultimately decided to permit certain actors to engage in debt adjusting.¹⁶⁷ Even though this approach would prevent façade law firms from engaging in the practice, it overlooks the fact that many attorneys engage in legitimate debt adjusting incidental to their legal services.¹⁶⁸ If attorneys cannot engage in permitted debt adjusting, several services attorneys provide, such as negotiating with creditors in a bankruptcy case,¹⁶⁹ will no longer be possible. Without the assistance of an attorney, consumers, who often have less power and expertise compared to their creditors, would have to negotiate their debts alone, despite available attorneys being well-trained and prepared to utilize those skills.

An amendment to the debt adjusting statute would provide the most straightforward solution to the attorney exemption but recent attempts to do so have not succeeded.¹⁷⁰ To successfully modernize the

167. See Connolly, *supra* note 3 (describing an interview between a newspaper and the sponsor of the original debt adjusting law who stated that the Senate contemplated banning debt adjusting altogether).

168. See N.Y.C BAR ASS'N., *supra* note 46, at 77 (describing how lawyers frequently engage in debt adjusting due to their work with clients, so much so that many firms had to expand their services due to the increased demand for debt settlement).

169. See Brock, *supra* note 72, at 412 (arguing that if an attorney cannot debt adjust when representing a client, the attorney's options may be severely limited when dealing with a creditor who is threatening legal action against a consumer, for example).

170. See Connolly, *supra* note 3 (describing the numerous times that statutory changes to the debt adjusting law have failed in Congress).

attorney exemption, the North Carolina Legislature will have to overcome the influence of the lobbyists supporting debt adjustment.¹⁷¹

B. Implementing the Washington Approach to the Attorney Exemption

Other efforts, such as those carried out by the Washington State Legislature, may provide a model for North Carolina to follow. A Washington state statute permits attorneys to engage in debt adjusting only when “performing services incidental to the practice of their profession[.]”¹⁷² Additionally, Washington prohibits debt adjusters from providing legal services.¹⁷³ The statute specifically disallows a debt adjuster or an employee of the debt adjuster to prepare legal documents, communicate with the consumer in the name of an attorney, or “represent that he or she is authorized or competent to furnish legal advice or perform legal services.”¹⁷⁴ The Washington approach makes any violation of the debt adjusting law also a violation of the state’s consumer protection laws.¹⁷⁵ Violation of the debt adjusting law is a misdemeanor,¹⁷⁶ while violating the state’s consumer protection laws could also result in civil fines of up to \$125,000.¹⁷⁷

The “incidental” language was used to regulate a debt adjusting law firm in *Bronzich v. Persels & Associates, LLC*.¹⁷⁸ In *Bronzich*, a Washington district court ruled that a firm specializing in debt adjusting could not be exempted from the debt adjusting law.¹⁷⁹ The court

171. See Kraemer, *supra* note 74 (describing multiple representatives’ understanding that debt settlement bills continue to fail because of powerful lobbyists).

172. WASH. REV. CODE § 18.28.010.

173. See § 18.28.130 (“Without limiting the generality of the foregoing and other applicable laws, the debt adjuster, manager or an employee of the debt adjuster shall not[] . . . [p]repare, advise, or sign a release of attachment or garnishment, stipulation, affidavit for exemption, compromise agreement or other legal or court document, nor furnish legal advice or perform legal services of any kind . . .”).

174. § 18.28.130(1)–(4).

175. § 18.28.185.

176. § 18.28.190.

177. § 19.86.140.

178. See *Bronzich v. Persels & Ass’ns., LLC*, No. CV-10-0364-EFS, 2011 U.S. Dist. LEXIS 57327, at *18 (E.D. Wash. May 27, 2011) (contemplating whether an attorney acting in a façade law firm was considered incidental to legal service and ultimately concluding the attorney’s actions were not).

179. See *id.* at *22 (“Therefore, an attorney specializing in debt adjusting is subject to the DAA because the attorney’s debt adjusting is not “solely incidental to” any legal practice but rather is the attorney’s legal practice.”).

reasoned that under the Washington approach, an attorney whose practice consists almost entirely of debt adjusting is engaged in debt adjusting “not ‘solely incidental to’ any legal practice but rather [as] the attorney’s legal practice.”¹⁸⁰ The approach thus limits the ability of large out-of-state companies, such as the façade law firm in *Consumer Financial Protection Bureau v. Stratsfs, LLC*, to operate law firms created with the sole intention of soliciting debt adjusting customers.¹⁸¹ Importantly, the Washington approach still protects attorneys who legitimately engage in debt adjusting as an aspect of their routine representation of a client.¹⁸²

By adopting language similar to the Washington law, the North Carolina legislature could address several of the problems that currently plague the state debt adjusting law. The incidental language would target firms that engage solely or primarily in debt adjusting because the statute permits only debt adjusting “incidental” to the regular practice of law.¹⁸³ This amendment would allow attorneys to engage in debt adjusting practices as they become pertinent in an ongoing case, but prevent attorneys from engaging in debt adjusting through the attorney exemption when it is their primary business.¹⁸⁴ However, as with the option of outright eliminating the attorney exemption, adopting the Washington approach would require statutory amendments, and thus the same lobbying efforts continue to pose a significant barrier.¹⁸⁵

C. North Carolina State Bar

Since state statutory revision is likely to face many obstacles, the State Bar may consider increasing its regulatory enforcement of

180. *Id.*

181. See Brock, *supra* note 72, at 412 (“[T]he [Washington approach] does not apply to debt settlement companies who purport to be attorneys in name only - those whose business model is clearly that of a debt settlement company, and not a law firm.”).

182. See *id.* (arguing that if an attorney is hired to represent a client in a forthcoming suit brought by a creditor, the attorney should be able to negotiate with the creditor and be regulated by a statute that specifically regulates actual attorney work).

183. See Bronzich, 2011 U.S. Dist. LEXIS 57327, at *22 (identifying how the incidental language specifically targets attorneys whose only practice is debt adjusting).

184. See Brock, *supra* note 72, at 412 (identifying that a benefit of the Washington approach is to allow legitimate debt adjusting services but prevent façade law firms from operating only to debt adjust).

185. See Kraemer, *supra* note 74 (describing the continuous barrier that lobbying poses to modifying the debt adjusting law).

façade law firms. The State Bar has disciplined a façade law firm attorney figurehead previously,¹⁸⁶ demonstrating that it has the capacity to regulate other façade law firms that are reported for potential misconduct.¹⁸⁷ Additionally, the State Bar has numerous rules that would allow it to effectively manage façade law firms.¹⁸⁸ When a façade law firm is operating under a “figurehead” attorney who is licensed in North Carolina, the State Bar can penalize the attorney leading the firm.¹⁸⁹

One state that has relied on the RPC to supervise unlawful debt adjusting practices is New York.¹⁹⁰ In a report on the increase of debt adjusting practices, the New York State Bar concluded that the RPC was adequate to cover the work of attorneys who claim to be acting as an attorney when engaging in debt adjusting.¹⁹¹ For attorneys who are involved in façade law firms but are being punished for conduct other than legal services, the New York State Bar recommended that those attorneys be dealt with under the state debt adjusting statute.¹⁹² Due to the breadth of rules and enforcement mechanisms that the State Bar may utilize, the State Bar may be best equipped to handle exposed façade law firms schemes, especially given the limitations of other regulatory mechanisms.

Some commentators worry that reliance on the State Bar to regulate façade law firm regimes could result in inconsistent enforcement against the firms.¹⁹³ Unlike criminal statutes, ethical

186. See Daniel S. Ruffy Consent Order, *supra* note 9 (providing an example of an attorney who was punished by the State Bar for his conduct in a façade law firm).

187. See Meg Sohmer Wood Consent Order, *supra* note 133, at 4–5 (demonstrating a later use of the Rules and State Bar enforcement to regulate another attorney implicated in a façade law firm scheme).

188. See *id.* (demonstrating that the State Bar can use a plethora of Rules to punish an attorney who has deceived consumers in a façade law firm, such as Rule 7.1(a) and Rule 5.3(a), depending on their actions).

189. See Daniel S. Ruffy Consent Order, *supra* note 9, at 14 (holding that the figurehead attorney should be suspended for five years and cease operations of his façade law firm).

190. See N.Y.C BAR ASS'N., *supra* note 46, at 94 (explaining the impact of the state bar on the increase in debt adjusting in the state).

191. See *id.* (advocating for ethical rules to enforce actions against attorneys who engage in illegal debt adjusting practices).

192. See *id.* (stating that the statutory regime should cover attorneys who are not “acting as attorneys” when engaging in façade law firms).

193. See Brock, *supra* note 72, at 413 (arguing that the variety of punishments available under the Rules of Professional Conduct can result in leniency and uneven enforcement).

violations can result in a wide variety of punishments—from a formal warning to suspension of one’s license to disbarment.¹⁹⁴ A criminal or consumer protection law, on the other hand, prescribes specific punishments for the act, which promotes uniformity in punishment for breaking the law.¹⁹⁵ Consequently, some commentators argue that relying only on ethics rules would result in leniency when reprimanding attorneys who engage in unlawful debt adjusting practices, as the RPC allows for greater flexibility to determine sanctions against the lawyer.¹⁹⁶

In addition, some scholars have expressed concern that State Bars are biased toward lawyers’ interests because State Bar systems are composed of lawyers.¹⁹⁷ Since lawyers are likely to identify with other lawyers, members of the State Bar may be predisposed to defer to another lawyer’s actions, thereby reducing the effectiveness of regulating façade law firms.¹⁹⁸ Some North Carolina consumers have also expressed mistrust of the State Bar examination process and its lack of transparency after experiencing long delays in the progress of their complaint.¹⁹⁹ Thus, some consumers may be hesitant to report alleged wrongdoings to the State Bar.

194. See *Reporting and Preventing the Unauthorized Practice of Law*, N.C. STATE BAR, <https://www.ncbar.gov/for-the-public/reporting-and-preventing-the-unauthorized-practice-of-law/> [<https://perma.cc/Q9XD-XLDJ>] (last visited Nov. 18, 2025) (stating that the State Bar can implement a range of outcomes after finding an unauthorized practice of law violation, such as issuing a warning, injunction, cease and desist, or suspension of the lawyer).

195. See Brock, *supra* note 72, at 413–14 (arguing that the specific punishments of the existing consumer protection statutes ensures that for non-lawyers, a clear outcome will result from violating the law, which should be applied to attorneys as well).

196. See *id.* at 413 (“However, the penalties to attorneys under ethics rules are not sufficient given the severity of punishment for non-attorneys in the debt settlement area.”).

197. See Leslie C. Levin, *The Politics of Lawyer Regulation*, CTR. ON THE LEGAL PRO.: THE PRACTICE (Feb. 2021), <https://clp.law.harvard.edu/knowledge-hub/magazine/issues/perspectives-on-legal-regulation/the-politics-of-lawyer-regulation/> [<https://perma.cc/C8Y9-KVAC>] (posing the concern that State Bar organizations ran by lawyers could result in bias when regulating the conduct of other lawyers).

198. See *id.* (discussing the “ambient bias” that lawyers hold for other lawyers as a result of the collective identity among lawyers).

199. See Michael Praats & Ben Schachtman, *Concealed Complaints: How Lawyers Under Investigation Continue to Practice Law*, WECT NEWS 6 (Feb. 23, 2023, at 15:50 ET), <https://www.wect.com/2023/02/23/concealed-complaints-how-lawyers-under-investigation-continue-practice-law/> [<https://perma.cc/4B8V-2ULD>] (describing Gary Holyfield, a North Carolina man who reported his attorney to the State Bar after she failed to complete work on his case, but was unaware where his North Carolina State Bar claim stood almost two years later).

Nonetheless, due to the lack of federal options and limitations on statutory revision, the State Bar likely has the best resources to prevent façade law firms from taking advantage of North Carolinians.²⁰⁰ The breadth of rules regulating attorney conduct ensures that an attorneys involved in façade law firms can be targeted for their numerous violations and deceptive misrepresentations to clients.²⁰¹ Moreover, the State Bar presently appears to be the only entity that has the capability to consistently identify and investigate allegations of façade law firms as they have arisen, and will likely continue to be the only authority in the future due to the practical limitations facing other legal regulators and enforcement mechanisms.²⁰²

VII. CONCLUSION

The attorney exemption has undermined consumer protection laws and evaded regulatory oversight since it was added to the Debt Adjusting Act in 2005. Consumers, hoping to address their outstanding debts and improve their financial situation, happen to encounter a seemingly legitimate service to manage their debts.²⁰³ Instead, they become entangled with a deceptive façade law firm that misrepresents or outright deceives consumers about services offered, their authority to negotiate debts, and the ability for the consumer to progress in their debt journey. Despite recurring instances of façade law firms operating within North Carolina, efforts to amend the statutory language and reform the debt adjusting landscape have continuously failed.²⁰⁴

200. See Aaron Hall, *Unauthorized Practice of Law: 10-Year Review of Enforcement Trends (2015-2025)*, AARON HALL, <https://aaronhall.com/unauthorized-practice-of-law-10-year-review-of-enforcement-trends-2015-2025/> [<https://perma.cc/5VQF-LY78>] (last visited Nov. 14, 2025) (describing how North Carolina has mechanisms in place to regulate unauthorized practice of law, such as an unauthorized practice of law committee, and how the state has used its authority to regulate through cease and desist letters and published guidance).

201. For an example of a myriad of rules being used to punish an attorney involved in a debt adjusting scheme, see Meg Sohmer Wood Consent Order, *supra* note 133, at 4–5.

202. See *id.* (demonstrating how the State Bar can officially investigate and then use its enforcement mechanisms against attorneys who facilitate façade law firms in North Carolina); *supra* Part III.3 (arguing that the NC Rules of Professional Conduct provide numerous pathways for the State Bar to punish attorneys attached to façade law firms).

203. See Connolly, *supra* note 3 (discussing how consumers approach façade law firms seeking guidance on their debts, but are deceived and left worse off than they started).

204. See Kraemer, *supra* note 74 (describing the repeated failure of amendments to the Debt Adjusting Act or pass new bills targeting the loopholes in the act).

To overcome the obstacles of statutory reform and limitations of other state and federal laws, the North Carolina State Bar should increase focus and oversight of façade law firms to ensure that the consumer protection laws in place in the state can be used effectively against façade law firms. If the State Bar increases focus on façade law firms operating within the state, it can address the complex façade law firms that are harder to regulate under the Debt Adjusting Act, such as firms operating under a “figurehead” attorney.²⁰⁵ The State Bar, in contrast to other state and federal consumer protection laws, can use the Rules of Professional Conduct and its investigatory and enforcement powers to effectively regulate façade law firms in North Carolina.²⁰⁶ As a result, the current Debt Adjusting Act could remain without alteration, thereby avoiding the challenges of political lobbying while ensuring that a regulator will seek justice when North Carolinians are swindled by the tactics of a façade law firm.

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205. See Daniel S. Rufty Consent Order, *supra* note 9 (providing an example of the North Carolina State Bar using its powers to investigate and punish a figurehead attorney that operated a façade law firm).

206. See *id.* (demonstrating how the State Bar can use the Rules of Professional Conduct and other relevant laws to punish any attorney operating a façade law firm).

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