

ARTICLES FOR 4-29-16 ROUNDUP

State Prosecutors Accuse Student Loan Giant Of Wrongdoing

Navient Corp., formerly Sallie Mae, encouraged call center workers to rush struggling borrowers off the phone rather than explain debt-relief programs.

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Navient Corp., the nation's largest student loan company, violated state laws that ban unfair or abusive practices by paying call center workers based on how quickly they could get struggling borrowers off the phone, a group of more than two dozen state attorneys general alleged.

The states' findings are the result of a two-year investigation launched at the end of 2013 that analyzed thousands of Navient documents, more than 4,000 consumer complaints, and an unspecified number of recordings of calls between borrowers and Navient call center workers.

The coalition of 29 state attorneys general, led by Illinois Attorney General Lisa Madigan, shared their findings with Navient on April 13 and proposed terms for a legal settlement, officials said. The company has not yet formally responded.

The allegations are devastating, several officials involved in the investigation said, calling into question Navient's ability to provide basic customer service to the more than 12 million Americans whose private and government student loans it services. The company formerly was known as Sallie Mae, and the investigation covers practices under both names.

The findings raise the specter of higher costs and reduced profitability for Navient, which in recent years has been in the crosshairs of state prosecutors, federal banking and consumer regulators, and the Department of Justice for allegedly mistreating student loan borrowers.

Navient has generally denied wrongdoing. Patricia Christel, a company spokeswoman, didn't respond to a request for comment. "We're working aggressively with the regulators to make sure that they understand what we are doing, how we run our business, and certainly more than willing to work with them to improve the way the federal student loan program works and operates," CEO John Remondi told investors last week.

Maura Possley, a spokeswoman for Madigan, declined to comment.

The investigation found that Navient, a prominent Department of Education loan contractor, inappropriately steered borrowers desperate for help into plans that temporarily defer required payments. But those plans allow loan balances to grow. Navient employees instead should have steered borrowers to White House-promoted plans that could've allowed zero payments based on earnings and eventually debt forgiveness, officials said.

Navient employees did this, officials alleged, because it was faster to enroll borrowers in temporary plans — and get them off the phone — than in income-based plans.

In 2013, before the company changed its name to Navient, Remondi told investors that it was "very expensive work" to enroll borrowers in income-based plans. A Huffington Post investigation in 2013 revealed that the company was failing to enroll many of its distressed borrowers in income-based plans.

Borrowers who use temporary deferment or forbearance plans are more likely to default on their federal student loans, according to a 2006 Education Department study. In 2014, fewer than 5 percent of loan balances enrolled in the two most popular income-based plans were delinquent, according to a separate Education Department review.

Deferment and forbearance plans “should not be the first option” for struggling borrowers, the Education Department told financial aid administrators in November 2012.

The investigators found that employees often didn’t know the basics about the federal government’s income-based plans. Data from Google appears to back up that claim. The company has a major call center in Fishers, Indiana. People in no city in America search more often for the term “ibr” — short for the government’s Income-Based Repayment plan — than folks in Fishers.

The White House will announce on Thursday a public relations effort to increase the number of borrowers enrolled in income-based plans. White House officials previewed the effort in March, when they described the campaign as a “call to action” for employers and others “to help more borrowers better understand their options,” even though the Obama administration already paid loan contractors such as Navient nearly \$804 million last year to do exactly that.

Navient’s practices seemed to strike vulnerable borrowers particularly hard. Severely disabled Americans with federal student loans are eligible to have their debt extinguished as a result of their disability. Investigators found evidence Navient employees weren’t informing these borrowers about their rights. The company’s response in those cases, officials said, amounted to “tough luck.”

Similarly, Navient employees demanded payment from borrowers with federal student loans who may have been eligible for debt forgiveness because their school abruptly shut down or defrauded them. Company employees, officials said, rarely bothered to inform debtors about options.

The company’s practices extended to private student loans, or those without government backing. Distressed borrowers who called Navient requesting lower monthly payments often were given the runaround, winning temporary relief from one Navient employee, only to have the offer rescinded by another Navient worker.

The company has previously and repeatedly claimed that it offers a “highly successful” private loan modification program. Officials said the state investigators found that Navient employees often squeeze struggling borrowers for as much money as possible, and that loan modifications generally are offered only when borrowers claim they can’t pay anything.

Prosecutors may go after other student loan companies after they wrap up the Navient investigation, officials said.

The state attorneys general are demanding reforms aimed at improving customer service. For example, prosecutors want Navient to stop giving its call center employees financial incentives to rush distressed borrowers off the phone. When borrowers struggling with federal loans call the company, state prosecutors want Navient to begin by asking for borrowers’ earnings information so they can immediately inform borrowers about income plan options.

Officials told Navient that they expect call center employees to know when federal borrowers may be eligible for debt forgiveness under special circumstances, such as if the former student’s

school abruptly shut down, if the borrower is severely disabled, or if the Education Department previously determined that the borrower's former school defrauded its students.

Prosecutors also demanded that the company have customer service representatives specially dedicated to helping borrowers enroll in income-based plans. They want the company to increase the amount of training it gives its call center workers.

State officials have not yet formally suggested to the company how much money they are seeking to remedy the alleged mistreatment of borrowers.

State prosecutors are working closely with the federal Consumer Financial Protection Bureau, which over the last few years has publicly warned that its examiners found similar practices pervasive throughout the student loan industry. The consumer bureau told Navient in August that its enforcement staff had found enough evidence to indicate the company violated federal consumer protection laws, and was considering suing the company for allegedly cheating borrowers.

UPDATE: April 28 — Following publication of this article, Navient spokeswoman Patricia Christel supplied the following statement:

The allegations, all of which are sourced to unnamed people, are simply inaccurate. As we have discussed publicly and disclosed in our periodic filings with the [Securities and Exchange Commission], we have been involved in good faith discussions with various state attorneys general and the [Consumer Financial Protection Bureau] going back to 2014 and we will not comment on any specific aspects of those discussions or any possible outcomes. The bottom line is that borrowers whose loans we service are more likely to enroll in income-driven repayment plans. While quoting unnamed sources and unconfirmed information may create interest, the facts are that Navient has a long public and well-documented record of assisting borrowers to successfully manage their student loans.

Attorney General Kamala D. Harris Files Multiple Charges in Long Beach Human Trafficking Case

LOS ANGELES - Attorney General Kamala D. Harris today announced that her office has filed six felony charges against Andrew Jordan, 36, in Los Angeles County Superior Court for allegedly committing human trafficking, pimping, pandering, domestic violence, assault, and a racially motivated hate crime. He was held to answer on these charges on February 3, 2016, and Jordan pled not guilty as charged.

“Human trafficking dehumanizes victims and will not be tolerated in California,” said Attorney General Harris. “We must continue to support victims of human trafficking and help them seek justice. I thank our California Department of Justice attorneys and Special Agents, as well as the Long Beach Police Department, Los Angeles Sheriff’s Department, and the Long Beach City Prosecutor’s Office for their commitment to fighting human trafficking.”

On August 26, 2015, detectives from the Long Beach Police Department’s Vice Investigations and Gang Enforcement Sections, with the assistance of the Los Angeles County Sheriff’s Department’s Custody Investigative Services, Operation Safe Jails, and the Los Angeles Human Exploitation and Trafficking Task Force, identified a 23-year-old human trafficking victim who was in custody on a prostitution charge.

At Jordan's preliminary hearing on February 3, 2016, the victim testified that she was forced by the defendant to perform commercial sex acts with other men. Jordan drove her to an area of Los Angeles she was unfamiliar with and forced her to solicit sex acts from cars passing by. He monitored her whereabouts and ordered her to send him text messages every time she was picked up and every time she completed an act. He collected the money in between and forced her to stay out until she met a quota that the defendant set. She described how the defendant beat her severely when she broke his rules and called her racially degrading slurs to further punish and control her. He coerced her into getting a tattoo of his name on her wrist. The defendant also controlled all of her personal belongings. She testified that she was scared to run away as he kept tabs on her by constantly driving up and down the street. It was not until she was in custody that she was able to tell an officer that she was being abused.

Human traffickers often use verbal and physical abuse to instill fear in their victims, break down their sense of self-worth, and maintain control. This prevents victims from seeking help or running away. Traffickers also often keep control of a victim's personal belongings, identification, and keys and take victims to work in unfamiliar settings, to further isolate them. Traffickers also force or coerce their victims into getting tattoos featuring the trafficker's name or moniker to represent ownership.

The defendant has remained in custody since his September 2015 arrest. The next court date is a pre-trial conference on April 27, 2016 and jury trial is set for May 19, 2016.

"This case is another great example of how our partnerships with other law enforcement agencies and non-profit victim advocacy groups protect and support victims of Human Trafficking," said Long Beach Police Chief Robert Luna. "We commend the proactive work of our detectives and will continue to dedicate resources in an effort to combat these violent acts and bring those responsible to justice."

"I want to commend Long Beach Police, the Sheriff's Department, and the Attorney General's Office for their quick work to apprehend and file charges on this extremely dangerous person," stated Long Beach City Prosecutor Doug Haubert. "Our office is proud to partner with these agencies to stop human trafficking and assist the survivors."

Attorney General Harris has made fighting human trafficking a priority for the California Department of Justice, and has advocated for increased collaboration between federal, state and local law enforcement agencies during the investigation and prosecution of the crime of human trafficking.

Earlier this month, Attorney General Harris announced her sponsorship of Assembly Bill 1731 by Assembly Speaker Emeritus Toni Atkins (D-San Diego) to combat human trafficking. The bill creates the Statewide Interagency Human Trafficking Task Force, which would be a permanent collaborative entity led by the California Department of Justice in partnership with other government agencies. In addition to her sponsorship of AB 1731, Attorney General Harris also announced her support for AB 1730 by Speaker Emeritus Atkins, a bill to establish housing programs that provide trauma-informed mental health services for child sex trafficking victims.

Last year, the Office of the Attorney General released a resource guide to help companies comply with the California Transparency in Supply Chains Act. The law requires large retailers and manufacturers doing business in California to disclose on their websites their "efforts to eradicate slavery and human trafficking from [their] direct supply chain for tangible goods offered for sale."

In 2012, Attorney General Harris created a Human Trafficking Work Group and released a report, *The State of Human Trafficking in California*, which discussed the growth of human trafficking crimes statewide and the challenges with combatting them effectively.

Schuette: Human Trafficking Commission Holds Second Meeting of 2016

LANSING – The Michigan Human Trafficking Commission held its quarterly meeting today at the Department of Attorney General. The Commission, chaired by Schuette’s office and comprised of victims’ advocates, law enforcement officials, medical professionals and representatives from state and local government is focused on improving the lives of victims and works to prevent human trafficking in Michigan.

Schuette recently voiced support for legislation introduced in the House based on legislative recommendations from the Commission.

“The Michigan Human Trafficking Commission continues to bring awareness and find solutions to end the tragedy of human trafficking,” said Schuette. “Together we are dedicated to fighting this issue and finding ways to help the victims of this horrific crime reclaim their lives.”

At today’s meeting, the Commission heard from Valiant Richey, Senior Deputy Prosecutor in King County Washington. Richey is responsible for prosecuting cases involving the purchase of children for sex and training law enforcement, service providers, and the general public on sex trafficking throughout Washington State. In 2013, he was appointed to Washington State’s Commercially Sexually Exploited Children Statewide Coordinating Committee.

Richey also talked about a program in King County, Washington, that was developed in conjunction with Google and Bing to create awareness for an intervention program designed to reduce the demand for prostitutes. When individuals seeking to buy sex, type certain search terms into Google or Bing advertisements aimed at deterring their behavior will appear on their list of search results. The advertisements will also direct them to intervention services. This program is designed to reach individuals at the moment and time they are searching for these illegal services.

Today’s meeting also introduced a new appointee to the Commission, Hassan Beydoun, Majority Legal Counsel for the Michigan House of Representatives. Beydoun was appointed as a representative of the legislature and will serve on the Commission through March 17, 2017. A complete list of all the Commission members can be found on the Human Trafficking webpage.

Background on Human Trafficking

Around the country, and right here in Michigan, children, women and men are forced into prostitution, domestic servitude and other labor for little or no pay, resulting from the use of force, fraud or coercion.

Demand for illegal activities such as paid sex fuels human trafficking, turning daughters and mothers into victims, permanently impacting the lives of those involved, their families and their loved ones.

Human trafficking is the second-largest and fastest-growing criminal industry in the world, after drug trafficking. Victims of human trafficking are in bondage through force, fraud or coercion, solely for the purpose of sex or labor exploitation. Children are especially vulnerable. According to the U.S. Department of Justice Bureau of Justice Statistics, 2,515 incidents of human trafficking were recorded nationwide between January 2008 and June 2010. Of those

incidents, 1,016 involved the sexual exploitation of a child, 1,218 involved the sexual exploitation of adults, and 350 involved labor trafficking.

For more information, please visit the Attorney General's human trafficking webpage.

Rutledge and World Cup Champion Lauren Holiday Featured in PSA

LITTLE ROCK – Arkansas Attorney General Leslie Rutledge has partnered with the Foundation for Advancing Alcohol Responsibility as part of Alcohol Responsibility Month to release an underage drinking prevention public service announcement. The PSA features Rutledge and Lauren Holiday, member of the 2015 U.S. Women's World Cup soccer team, discussing the importance of talking with children and teens about the dangers of underage drinking, and the benefits of living a healthy, active lifestyle.

“Underage drinking is not only dangerous and harmful to one's health, but it is also illegal,” said Attorney General Rutledge. “Parents have the greatest impact on a child's life and the decisions he or she makes. I encourage all parents to have conversations with their child about the risks of underage drinking. It may save a life.”

In the PSA, Rutledge and Holiday encourage parents to start the conversation early about making smart decisions.

“April is Alcohol Responsibility Month, and as we celebrate our 25-year anniversary, we want to remind parents how far we've come with the conversation about alcohol,” said Ralph Blackman, president and CEO of the Foundation for Advancing Alcohol Responsibility. “Underage drinking declined 19 percent while conversation about underage drinking between parents and their kids increased 62 percent. We are very pleased to be able to work with Lauren Holiday and Attorney General Rutledge this year to continue this increase in conversation between parents and kids, in hopes that it helps kids realize the importance of saying yes to a healthy lifestyle and saying no to underage drinking.”

Three Officials Criminally Charged Over Flint Water Crisis

By KRIS MAHER

Two Michigan environmental regulators and a Flint water-plant supervisor were charged Wednesday in the first criminal case stemming from federal and state probes into lead contamination of the city's drinking water.

Michigan Attorney General Bill Schuette announced charges against Stephen Busch, who was a district supervisor in the Michigan Department of Environmental Quality's Office of Drinking Water and Municipal Assistance during the water crisis, Michael Prysby, a former district engineer with the DEQ, as well as Michael Glasgow, a supervisor at Flint's water-treatment plant.

Messrs. Busch and Prysby were each charged with three felony counts, including for allegedly misleading federal environmental officials and tampering with evidence related to lead testing of Flint's water. Mr. Prysby faces an additional felony count for authorizing the operation of the Flint water-treatment plant when he allegedly knew it couldn't provide safe drinking water. The men face two misdemeanor counts.

Mr. Glasgow was charged with one felony count of tampering with evidence and a misdemeanor count of willful neglect of duty. Prosecutors allege that he tampered with 2015 water monitoring reports.

Attorneys for the three men couldn't immediately be reached to comment.

Ari Adler, a spokesman for Michigan Gov. Rick Snyder, said Wednesday of the criminal charges that the governor has supported the investigations into Flint's water crisis. "The governor has said from the beginning of this crisis that the state will vigorously pursue any evidence of wrongdoing and hold people accountable," Mr. Adler said.

Bringing criminal charges against government officials for failing to safeguard public drinking water is highly unusual, but legal experts had expected prosecutors to act given the severity of Flint's lead contamination and public outcry.

Charges involving illegal discharges into waterways, while still rare, have been more common against government employees, said David Uhlmann, a law professor at the University of Michigan and former chief of the Justice Department's Environmental Crimes Section.

While violations of federal drinking-water standards are fairly common, few rise to the level of seriously jeopardizing the public's health, according to Mr. Uhlmann. He said he couldn't find a single criminal charge brought under the federal Safe Drinking Water Act in federal court involving public drinking-water systems between 2005 and 2014.

Still, he said prosecutors could face an uphill challenge in Flint. "What happened in Flint is a terrible tragedy, but that does not mean that state and city officials acted with the criminal intent required to sustain a conviction," he said.

Flint's drinking water became contaminated when the city switched to using the Flint River as its water source from April 2014 to October 2015. During that time, state regulators failed to require the use of a chemical to prevent corrosion and lead leached into drinking water from aging lead service lines running to homes.

Whether a series of bureaucratic missteps or criminal misconduct left the city of nearly 100,000 exposed for months to potentially hazardous levels of lead has been a question at the heart of efforts to understand what went wrong in Flint.

Gov. Snyder and others have pegged most of the blame for the contamination on state regulators who he said failed to follow a federal regulation intended to keep lead out of drinking-water systems. Mr. Snyder said he was misled by those regulators and didn't know the scope of the problem until October. He also called the federal regulation "dumb and dangerous" and has called for the state to implement rules that go well beyond what the federal government requires.

Mr. Snyder, who has been under political pressure and calls for his resignation, said this week that he would drink Flint tap water for at least a month.

Despite the release of tens of thousands of emails and other documents by the Snyder administration, state and federal officials have yet to pinpoint why Flint didn't put measures in place that would have prevented the corrosion of lead pipes and subsequent contamination.

Mr. Glasgow, the supervisor at the Flint treatment plant, testified at a state legislative hearing last month that he wanted more staff and other changes before using the Flint River as a water source

but was denied by officials in Flint, which was then run by a state-appointed emergency manager.

In an April 17, 2014, email, Mr. Glasgow told DEQ officials that he needed more time to train additional staff and update monitoring plans for the system. He expressed concern that the plant wasn't prepared to begin distributing water to homes.

"I have people above me making plans to distribute water ASAP," Mr. Glasgow wrote. "If water is distributed from this plant in the next couple of weeks, it will be against my direction."

Mr. Glasgow also testified at the legislative hearing that during a meeting at the Flint water-treatment plant shortly before the city started using the Flint River, he asked Mr. Prysby of the DEQ how often he would need to monitor levels of an anti-corrosive chemical. Mr. Glasgow testified that Mr. Prysby said the city wasn't required to add the chemical and the discussion moved on.

Shortly after that meeting, on April 25, 2014, Flint's mayor and others held a news conference to mark the flow of Flint River water into the city's distribution system.

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AG Rosenblum and Consumer Financial Protection Bureau Launch Managing Someone Else's Money Guides for Oregonians

Free, Plain-language Guides Designed to Help Financial Caregivers Understand Their Fiduciary Duties

Attorney General Ellen Rosenblum today joined the Consumer Protection Financial Bureau (CFPB) to launch the CFPB's Managing Someone Else's Money Oregon-specific guides for financial caregivers. The guides will help caregivers, particularly those who handle the finances of older Oregonians, carry out their duties and responsibilities in managing someone else's money. The CFPB selected Oregon as one of six states to create a set of state-specific guides.

"Managing money or property for a loved one can be overwhelming," said Attorney General Rosenblum. "When I became the agent under a power of attorney for my 90-year old mother, I was surprised that I received no information for a role that gave me so much power! It is important to educate Oregonians on how to effectively manage someone else's money, spot financial exploitation and avoid scams. These guides do exactly that, and I couldn't be more pleased that the CFPB selected Oregon."

At the launch event, Attorney General Ellen Rosenblum joined CFPB Assistant Director of the Office for Older Americans Nora Dowd Eisenhower, and Oregon Department of Human Services Aging and People with Disabilities Director Ashley Carson-Cottingham to discuss the Oregon guides for financial caregivers. Other experts from various organizations were on hand to provide information on consumer protection for older adults and combating frauds and scams.

"While most financial caregivers have the best of intentions, they may not fully understand their duties as a fiduciary or know the best ways to go about helping another person successfully navigate their financial matters," said CFPB Assistant Director Nora Dowd Eisenhower. "We hope the specially adapted Oregon version of our Managing Someone Else's Money guides we are releasing today will provide guidance for people undertaking this important duty."

The CFPB released four guides to help family members and friends who manage money for a loved one in Oregon. Many older Oregonians experience impaired money skills as they get older, making them more vulnerable to scams and fraud. Even mild cognitive impairment can significantly impact an older adult's ability to handle finances and to detect fraud or a scam. A younger person with a disability may be vulnerable as well if they lack capacity to handle their own finances. The fiduciaries often lack the proper training to serve as a critical source of support for those who lack the ability to manage their own money.

"I think most people are surprised to learn that financial exploitation of older adults is a very serious issue in Oregon and nationally," said DHS APD Director Ashley Carson Cottingham. "Most financial exploitation cases involve a friend, a family member or a caregiver, and DHS is very excited that these guides will be a resource for financial caregivers who are managing someone else's money. I am really looking forward to our agency's front line staff - Case Managers, Adult Protective Services workers and others, all across Oregon - being able to share these guides with consumers and their families."

To download copies of the guides or order printed versions visit:
<http://www.consumerfinance.gov/managing-someone-elses-money/>

Attorney General Morrissey Applauds Pennsylvania's Expanded Prescription Drug Database, Encourages National Participation

CHARLESTON — West Virginia Attorney General Patrick Morrissey today applauds Pennsylvania's expansion of its prescription drug monitoring program and strongly encourages state leaders to take the necessary steps to join a national database.

Legislation increased the types of prescription drugs tracked by the monitoring program and expanded access to its database, including to doctors and pharmacists.

"No state is safe from the devastating effects of substance abuse," Attorney General Morrissey said. "It's so important for stakeholders to collaborate and come up with strategies to proactively combat this prevalent issue."

Attorney General Morrissey, in an April 12 letter, congratulated members of Pennsylvania's Achieving Better Care by Monitoring All Prescriptions board and urged them to expedite full integration into the National Association of Boards of Pharmacy PMP InterConnect.

The InterConnect hub allows medical professionals, care providers and others in participating states to view prescribing and dispensing records for patients in other participating states. Sharing such data across state lines helps limit the ability of diverters or abusers to work around a state's database and serves as a valuable tool to fight diversion and prescription drug abuse.

The April 12 letter was addressed to Pennsylvania Attorney General Kathleen Kane, Secretary of State Pedro Cortes, Department of Aging Secretary Teresa Osborne, State Police Commissioner Tyree Blocker, Department of Drug and Alcohol Programs Secretary Gary Tennis, Physician General Rachel Levine and Department of Health Secretary Karen Murphy.

View a copy of the letter at: <http://1.usa.gov/20XcDKm>.

Attorney General Morrissey Announces \$8M Settlement with Wells Fargo

CHARLESTON — West Virginia Attorney General Patrick Morrissey today announced an \$8 million settlement with Wells Fargo to resolve a dispute that involved certain marketing practices of its predecessor, Acordia.

The settlement requires Wells Fargo to pay \$8 million to the Office of Attorney General on the state's behalf.

“I take very seriously my office's obligation to protect citizens from questionable marketing practices,” Attorney General Morrissey said. “This settlement is yet another example demonstrating that commitment.”

The lawsuit, filed in Hancock County, alleged marketing practices used by Acordia artificially increased profits of various insurance companies to the detriment of consumers by favoring certain insurance carriers over others. It further alleged these practices amounted to violations of the state's Antitrust Act and its Consumer Credit and Protection Act.

Wells Fargo has denied any wrongdoing. The settlement was reached before the court made any rulings on the issue of fault.

View a copy of the settlement agreement at <http://1.usa.gov/1Ud7du1>.

Marijuana companies join forces to expand beyond state lines

By Alex Halperin

DENVER — Normally, when a company based in one state wants to sell products in another state, it starts calling truckers. For Strainz, a Las Vegas marijuana company, it was more complicated.

By early 2015, Strainz's owners knew they wanted to expand to Colorado and Washington, the states with the most normalized marijuana markets. Despite state laws that allow the sale of marijuana, it remains a federal criminal offense to ship it across state lines. And as Nevada residents, the -husband-and-wife co-founders weren't eligible to apply for business licenses in either state.

The Hempel family's strategy for Strainz is one that marijuana companies are pursuing to build a national presence. Strainz, which recently announced that it has raised \$8 million in funding, formed partnerships with the parent company of Zoots, a Seattle edibles maker, and Bronnor, a Colorado manufacturer.

The factory in Washington that makes Zoots edibles has started making Strainz products, and if all goes as planned, in the coming months Strainz and Zoots products will be rolling out of the Bronnor factory in Denver and one the Hempel family partly owns in northern Nevada.

The arrangement required Bronnor to build the factory in Denver, but Strainz chief executive Hugh Hempel shrugged off the expense with a hint at the profits in store. “Financially it's not a hard thing to justify a \$4 million facility in a reasonably mature market,” he said.

The market potential is enormous. In 2015, U.S. customers bought \$5.4 billion worth of legal marijuana products, billions more than they spent on ketchup, salsa, mayonnaise, mustard and hot sauce combined. But while a few big brands dominate each of those condiment markets, the nascent legal marijuana industry comprises thousands of smaller businesses. For the companies that want their brands to grow into the industry's Heinz or Tabasco, expansion is imperative.

Colorado and Washington voters legalized recreational marijuana in November 2012. The following August, then-U.S. Deputy Attorney General James M. Cole released eight priorities for federal marijuana enforcement. They include no distribution to minors and no contact between the industry and organized crime. And then this one, which complicates multi-state growth for entrepreneurs: "preventing the diversion of marijuana from states where it is legal under state law in some form to other states."

Since the Cole memo, pot companies that follow state laws have largely been able to operate unbothered by the Justice Department. Marijuana companies that sell products in more than one state may represent only a small fraction of the U.S. pot industry, but they are among the most ambitious players in the industry.

"Obviously all the conduct involved is criminal" under federal law, said Sam Kamin, a law professor at the University of Denver, "and this shell game does nothing to change that."

The companies involved want to grow without drawing attention from the federal government. But conditions that have led to multi-state partnerships could be irrelevant after Election Day.

The remaining presidential candidates have expressed varying degrees of comfort with the state-level experiments. But they are all hazier on the policy questions that surround federal legalization.

Pressure is likely to grow this year as California, Nevada, Massachusetts, Arizona and perhaps other states are expected to vote on full legalization, while several others will probably vote on medical use.

The next presidential administration, then, will have immense power to shape the industry. It could maintain the current hands-off approach or tear up the Cole memo and enforce federal law.

For the moment, legal marijuana companies are too consumed by the state and local laws that are enforced to worry about federal ones that aren't. The rules weigh heavily on companies that have a presence in more than one state because every state with a legal marijuana industry has its own laws on matters as varied as packaging, dosages in edibles (if they allow edibles) and dispensary security.

California is the largest legal medical marijuana market in the country, with more than \$1 billion in sales last year, but some companies have stayed away because the state is a patchwork of local rules and enforcement priorities. For example, the Bay Area cities of Berkeley, San Francisco and San Jose each has its own packaging requirements for medical marijuana.

The Colorado company Dixie Brands has focused on Western states where recreational use is legal or could be soon. To Dixie, a large potential medical-marijuana market such as New York is less attractive because it can be difficult even for patients with severe conditions to access the drug. The five manufacturers in New York are "fighting over 200 patients," Dixie chief executive Tripp Keber said.

New York is more attractive to Vireo Health, a company that calls its products “pharmaceutical-grade cannabis-derived medicine.” CEO Kyle Kingsley, also a physician, would ultimately like to see Vireo products incorporated into mainstream medical practice and regulated by the Food and Drug Administration. Vireo operates in New York and Minnesota, two states with medical-marijuana laws tightly focused on patients with a legitimate medical need. Neither state, for example, allows dispensaries to sell products designed for smoking. (Vireo’s manufactured products are vaporized or swallowed.)

More than 80 percent of Americans support medical marijuana in some form. Kingsley said that as more conservative states adopt medical marijuana laws, they’ll find Vireo, which has raised \$20 million in funding, a more palatable company than those that also have recreational businesses. Pennsylvania, which became the 24th state to legalize medical marijuana this month, will not allow smokeable products.

“Most states start pretty modestly and then about 18 months in you get an upward increase in patient participation,” Kingsley said. “In Colorado, California and Washington, it really has been a free-for-all.” (Vireo owns both its New York and Minnesota businesses but is seeking partners to expand into new states.)

Not all of the multi-state partnerships are as complex as Strainz’s three-state strategy. More typically, a company might franchise its brand and intellectual property to a partner in another state that follows the same protocols, much like a McDonald’s restaurant that’s owned by a franchise company is indistinguishable to one owned by the corporation.

Tom Downey, a lawyer at the Denver firm Ireland Stapleton, suggested that some of these deals might be more likely to attract scrutiny than others. “The place where people will get in trouble is if it’s masked as a franchise but it’s really [one company] controlling everything,” Downey said. The federal government “will say this is a securities issue.”