Consumers Union
NONPROFIT PUBLISHER OF CONSUMER REPORTS

Testimony of

Charles Bell, Programs Director

Consumers Union

before the

Committee on Commerce, Science and Transportation

U.S. Senate

Hearing on

The Economy and Fraud: Protecting Consumers During Downward Economic Times

July 14, 2009

101 Truman Avenue, Yonkers, NY 10703-1057 • (914) 378-2000

Introduction

Mr. Chairman, Members of the Committee:

Thank you very much for the invitation to testify on ways to protect consumers against deceptive practices, fraud and scams during the current economic downturn. We commend you for holding this hearing to focus attention on ways to protect consumers and encourage a safer marketplace.

Consumers Union[1] is the independent, non-profit publisher of *Consumer Reports*, with circulation of over 7 million (*Consumer Reports* plus ConsumerReports.org subscribers). As part of our work, we regularly research and report on misleading and deceptive practices that affect consumers. We report on scams and fraud both to alert consumers, so they can protect themselves; and to alert law enforcement agencies and policymakers, so they can take action to directly curtail and stop these unethical, deceptive and/or fraudulent practices.

Over the last several months, we have reported on a variety of anti-consumer practices that are affecting financially-distressed families which we think are worthy of attention by your Committee.

[1] Consumers Union, the nonprofit publisher of *Consumer Reports*, is an expert, independent organization whose mission is to work for a fair, just, and safe marketplace for all consumers and to empower consumers to protect themselves. To achieve this mission, we test, inform, and protect. To maintain our independence and impartiality, Consumers Union accepts no outside advertising, no free test samples, and has no agenda other than the interests of consumers. Consumers Union supports itself through the sale of our information products and services, individual contributions, and a few noncommercial grants.

These diverse financial come-on and ripoffs come in a variety of forms and permutations, and unfortunately do not lend themselves to a one-size-fits all, silver bullet solution. However, we believe that given the risks to consumers, everyone must do more:

- Consumers must be ever on their guard, and be very, very skeptical of offers of financial help and extra income, particularly when those offers come from businesses they don't know, or have an unfamiliar track record. They should seek second opinions and advice from knowledgeable and respected sources of information, including trusted friends, consumer protection agencies and watchdog groups, government agencies, attorneys, homeownership counselors and others, prior to handing over cash, or signing contracts or agreements that obligate them financially.
- Businesses that sell products with high fees or financial traps built into them should withdraw or redesign such products, or in other cases provide much better disclosure, counseling and protections for customers. In addition, businesses have an important role to play in strengthening the protection of sensitive customer information, to prevent security breaches and identity theft.
- Media and internet companies that accept advertising should carefully scrutinize advertisements for products or services that make unsupported promises, take advantage of financially-stressed consumers, or make unfair, unethical or questionable claims. As a matter of corporate responsibility, companies that accept advertising should not be setting consumers up for financial heartbreak. To their credit, some internet search companies now specifically warn consumers about web sites that could include spyware or malware. These companies may be able to do much more to reduce and suppress deceptive ads, and warn consumers against financial scam web sites that receive failing grades from watchdog groups and/or government regulators.
- State and federal regulators should step up enforcement of companies that deceive and defraud consumers, and impose sharp criminal and civil penalties for companies that violate the law.
- State and federal policymakers should consider new consumer protections to protect consumers against unfair and deceptive practices that target financially-distressed households. In particular, legislation pending before Congress to establish a Consumer Financial Protection Agency would greatly help to protect consumers in good times and bad, and ensure that laws against deceptive practices and fraud are effectively enforced.
- Economic fraud has a high financial and personal cost for consumers, could undermine public confidence in the marketplace and a renewed economy. Consumer protection should be a pillar of economic reconstruction, to ensure that people who work hard and save for the future will not be unfairly deprived of their income and assets.

Rising Unemployment Fuels Consumer Financial Distress

As the Committee is well aware, this is a very tough time for workers and consumers. The official unemployment rate is 9.5 percent, the highest in 25 years. 14.7 million people are unemployed, and another 9 million people are working part-time because they can't find a full-time job. This is now the worst recession in post-World War II history in terms of total jobs losses. Mass layoffs — job cuts of 50 or more people by a single employer — are at their highest since continuous tracking began in April 1995, according to the U.S. Department of Labor.

The bleak employment picture contributes to severe financial distress for families and individuals throughout the country. According to Economy.com, 15 million home-owning households are "under water," meaning that the owners' mortgage balance is higher — often considerably higher — than the value of the homes.[2] As many as 3.5 million families may lose their homes to foreclosure this year,[3] and Consumers Union estimates that every 13 seconds, another home goes into foreclosure. Home equity loan and credit card delinquency rates were at record levels in the first quarter of the year, and tens of millions of households are struggling with bills they can't pay.

When the economy falters, it's prime time for ploys that claim to help consumers out of money messes. Unfortunately, as Linda Stern of Reuters has written, "…stocks and bonds might be down and out, but there is a bull market in cons."[4] Consumers are at risk for a variety of get-rich-quick schemes and financial cons that target them specifically because they need fast help and/or are increasingly desperate. While many such frauds exist in both good times and bad times, the con artists expand their marketing efforts in recessions, and come up with very clever angles to attract new victims.

---

[2] Nocera, Joe. "From Treasury to Banks, An Ultimatum on Mortgage Relief," The New York Times, July 11, 2009.
[3] Ibid.
[4] Stern, Linda. "Personal Finance: Beware Scams and Sales Pitches," Reuters.com, July 8, 2009.

Five Types of Recession-Oriented Financial Scams

In March 2009, Consumer Reports published "Financial Traps are Flourishing," an article that profiles five types of costly financial traps that prey on financially-distressed consumers in troubled times.[5] A common theme of these consumer rip-offs is that "their financial fine print could leave [consumers] in worse shape than before." Here are some examples of how financially-stressed households are affected by these practices.

1. Foreclosure Rescue Scams

First-time homeowners Kari and Roger Mizer of Springfield, Ill., faced foreclosure on their home in 2007 after the monthly payment on their adjustable-rate mortgage hit $1,850. It was just $900 when they bought their house two years earlier.

Frustrated after being turned down for refinancing by more than 40 lenders, the Mizers had hope when they received a letter from a mortgage-restructuring firm that claimed to have a 95.5 percent success rate in stopping foreclosures. "As a member of the Better Business Bureau, you can trust us and avoid numerous dishonest scams," said a letter they say they received from Augustus, Rae and Reed, based in St. Marys, Pa.

The Mizers checked with the Better Business Bureau and found no complaints. So the couple said they tapped Roger's 401(k) retirement plan in May 2007 to pay the firm's up-front fees of $1,347.

"They told us we shouldn't communicate with the mortgage company anymore because they would do that instead and work out a repayment plan to save our house," says Kari Mizer, a school food-service worker. When she began getting calls a month later from the mortgage lender about foreclosure proceedings, she was told that the firm had never contacted the bank.

[5] Consumer Reports. "Financial Traps are Flourishing," March 2009.

The Mizers' home was put up for sale by the court around Christmas 2007 and auctioned off. They are now renting a house.

"All of the people who we talked to about refinancing or finding some way to keep our home acted like it was no big deal, that it's just a house after all. But this was our home, and I cried for days because losing it was like going through a death in the family," Kari Mizer says. The Mizers' experience with a "rescuer" that charges an up-front fee for help that never comes is a common foreclosure-prevention trap. In fact the Mizers were among more than 200 Illinois consumers cited in a complaint against Augustus, Rae and Reed filed by Illinois Attorney General Lisa Madigan in September 2008.

The complaint contends that the firm violated state law by charging for services that it did not provide, in many cases failing to negotiate at all or simply submitting paperwork that consumers easily could have provided themselves. The state is seeking the return of fees and the imposition of penalties. In other cases, homeowners are pressed into signing documents that transfer the title of their home to the scammer.

Public notices of foreclosure proceedings usually trigger mail, phone, and even door-to-door solicitations. But consumers should steer clear of any company that initiates such contact, demands a fee before providing services, or advises cutting contact with the mortgage company. That can delay legitimate options for preventing foreclosure proceedings. If anyone asks for an up-front fee or payment of any kind for counseling, that's a signal that you're dealing with a possible pretender.

What consumers should do: Consumers anticipating problems making mortgage payments should seek legitimate free or low-cost help as soon as possible. Consumers can contact a housing counseling agency certified by the Department of Housing and Urban Development (www.hud.gov/foreclosure or 800-569- 4287). Their agents can assess options and advise you in negotiating with the lender. Advice is also available at the Homeowner's Hope

Hotline, at 888-995-4673 (see box below). Another good source of help is the Institute for Foreclosure Legal Assistance, www.foreclosurelegalassistance.org, which funds and trains groups nationwide that give subsidized legal representation to families facing foreclosure.

What policymakers and regulators can do: With a projected 3.5 million mortgage foreclosures set to take place this year, the FTC's current and future investigative and enforcement work in this area is needed now more than ever. Consumers Union supports proposed state and federal legislation that would prevent foreclosure rescue scams by creating additional protections for consumers who pay fees for rescue and loan modification services. In addition, Congress could pass legislation to create a Consumer Financial Protection Agency, which would meet a critical public need for stronger consumer protection in financial services, both by more carefully reviewing the financial products that are offered, and strengthening enforcement in response to consumer problems and complaints.

2. Hard-sell reverse mortgages

Helped along by television ads featuring actor James Garner and other celebrities, financial firms are enticing seniors to take equity out of their homes through reverse mortgages. Federally insured reverse mortgages allow homeowners 62 and older to borrow against home equity and receive tax-free cash. The money borrowed plus interest is repaid only after the homeowner dies or moves out. The industry is expecting growth of these loans to accelerate since the lending limit has risen to $417,000.

But a reverse mortgage should be a last resort. When homeowners use it to splurge on travel or pay off credit cards, they lose an important safety net that might be needed for an emergency. Lenders, though, are promoting a wide range of uses for reverse-mortgage cash. Financial Freedom Senior Funding Corp. of Irvine, Calif., suggests using the money for "special things you've always wanted to do, such as travel or hobbies." Financial Freedom is a subsidiary of IndyMac Bank, which was taken over by the Federal Deposit Insurance Corp. in 2008. A sale of IndyMac is pending.

The dangers are outlined in a lawsuit filed against Financial Freedom. The suit claims that the company advised its business partners to encourage seniors to take out as much money as possible in reverse mortgages so that the fees and interest paid to lenders would be maximized. The complaint goes on to say that Financial Freedom encouraged and trained partners, some of whom were insurance agents, to sell insurance products to seniors with the money gained from the reverse mortgage. In turn, Financial Freedom would obtain additional interest on the extra money borrowed.

The plaintiff, Betty Adcock, 80, says she was persuaded to replace her home equity line of credit with a reverse mortgage. Her daughter, Carol Anthony, had already helped her establish a $150,000 no-fee home equity line for emergency expenses. During the first three years, Adcock had borrowed about $19,000. But her daughter said at a December 2007 Senate committee hearing that "in place of the no-fee home equity loan, she now had a reverse mortgage that charged 18 closing fees." The fees totaled a staggering $16,791.23, Anthony said. The salesman, according to the suit, advised Adcock to choose a reverse mortgage payment option that required her to take out $1,002.88 monthly, increasing the amount of interest she would have to pay. The suit claims that the reverse mortgage required that Adcock immediately make home repairs of about $5,500 and pay Financial Freedom for monitoring whether the repairs were done. On the date the loan closed, she owed $56,741.59. With the help of her daughter, Adcock paid off the reverse mortgage six months later at a final cost of $71,942. Financial Freedom denies the allegations.

What consumers should do: Consumer Reports recommends that consumers considering tapping home equity can contact a HUD-approved counselor (800-569-4287 or www.hud.gov/offices/hsg/sfh/hecm/hecmlist.cfm). A free session with a trained counselor can help evaluate all of the choices. If you opt for a reverse mortgage, don't sign any documents until they have been reviewed by a lawyer you trust.

What policymakers can do: Consumers Union believes that sellers of reverse mortgages should be required to make sure the loan is suitable for the borrower, and that is one-on-one premortgage counseling for all reverse mortgages. There should also be caps on origination fees for all reverse mortgages and better restrictions on sales practices.

Sen. Claire McCaskill has proposed legislation aimed at preventing fraud, and requiring that ads for government-backed mortgages present a balanced view of their risks and benefits. At her request, the GAO is conducting an ongoing investigation of the federally-insured mortgage program.

Legislation is currently pending in California that would extend requirements for beefed-up independent counseling and cross-selling restrictions to lenders who aren't federally-insured. Minnesota legislators supported a bill requiring lenders to show reasonable grounds for concluding that a reverse mortgage is suitable for each borrower, and Vermont has passed a law requiring face-to-face counseling.

3. High-fee debt settlement

Marissa Ruiz, 40, of Pasadena, Calif., was struggling to make minimum payments on more than $10,000 worth of credit-card debt in May 2007 when she saw an online ad from Debt Settlement USA that persuaded her to sign up.

"They said they'd work with your creditors to reduce your total debt and get it all paid off, and that's what I wanted to do," says Ruiz, a single parent supporting four children, ages 11 to 17, on a modest income as a children's social worker. She says the company told her to stop sending payments to creditors, a tactic often used by debt-reduction companies. Instead she was supposed to save $141.80 per month and tell Debt Settlement when she had at least $1,000 so that the company could begin negotiating discounted payoffs with lenders.

The company deducted $121.54 from her checking account as the first of 10 monthly payments required for fees, Ruiz says. She'd handed over more than $600 by the time she quit the plan five months later because she believed she was getting nothing in return, other than being hounded by calls from bill collectors.

Debt Settlement USA's president, Jack Craven, says his company contacted Ruiz's creditors in July 2007 to notify them that she had granted the company limited power of attorney. He says she was not advised to stop paying creditors. Ruiz disputes that, and the written instructions she received from Debt Settlement state: "Do not speak to creditors." Ruiz says she contacted Debt Settlement to end its involvement. The company says that it tried to follow up but that she did not respond.

Ruiz then sought help from Clearpoint, a nonprofit financial-counseling agency that she had also spotted on the Internet. The credit counselor didn't require fees to help her develop a budget and contacted her creditors to discuss a realistic repayment plan. Ruiz says she negotiated directly with some lenders, such as Washington Mutual and JCPenney, that would agree to settle her bills for less than half of what she owed if she could pay the settlement amount in a few timely payments.

To earn the money to do that, she took on a part-time job. In one year, she slashed her debt from almost $13,000 to $3,000. "It hasn't been easy, and it still shocks me that I did it, but it feels great," Ruiz says. "Now when I hear ads on the radio all the time from these kind of companies, I get so angry because I don't want anyone else to get sucked in like I did."

People using settlement companies could face problems in the time before debt negotiations usually begin. The original debt might soar as missed payments lead to penalty fees and other charges, and the credit rating plunges further.

Regulators say that under the typical arrangement, companies charge up-front fees totaling 15 percent of the debt to be settled, a monthly service fee of $50 and if they do reach a settlement, a contingency fee of 20 percent or more of the amount they've allegedly saved. And the Internal Revenue Service might consider forgiven debt to be taxable income.

"Most consumers end up quitting these programs within the first two years after being subjected to constant collection calls and paying fees that can run into the thousands while receiving none of the benefits they were promised," says Googel, the assistant attorney general in West Virginia.

Wesley Young, legislative director of the Association of Settlement Companies, a trade group, says that 40 to 55 percent of consumers complete the programs but that lack of savings discipline is the most significant factor in the dropout rate. But in a May 2004 case against debt-settlement services brought by the Federal Trade Commission, a court found that less than 2 percent of consumers enrolled in the defendants' debt-negotiation programs, 638 out of 44,844, completed them.

In the past two years, West Virginia has charged nine debt-relief companies with violating state law by charging excessive fees for their services, along with other violations. The companies agreed to stop doing business with West Virginia residents and to refund $735,000 in payments collected from 490 residents.

What consumers should do: Consumers struggling with credit-card debt should first consider negotiating directly with creditors. "Now is a better time than ever before to do this because card issuers are finally realizing that if we, their customers, go under, they will go down with us," says Curtis Arnold, founder of CardRatings.com, a site that evaluates credit cards. "So they are reaching out to offer repayment plans to card members carrying significant debt loads." Chase Card Services spokeswoman Tanya Madison says Chase will negotiate with some debt-settlement companies at a cardholder's request but will not offer more favorable terms than the customer would receive by negotiating directly with the bank. People needing help can find a nonprofit credit counselor through the National Foundation for Credit Counseling (www.debtadvice.org). Those counselors will divide a set monthly payment among creditors to pay off the balance in full over time at reduced interest rates. Based on financial circumstances, the service might be provided free or for set fees: an enrollment charge of no more than $25 and a monthly fee of no more than $50.

What policymakers can do: We urge the FTC to undertake a vigorous enforcement program against debt collection abuses, such as:

- Prohibiting debt collectors who pursue debts in court or in arbitration without evidence of the essential facts of the debt, or without holding any license required by state law. The FTC must require that no collection activity can commence without proof of indebtedness by the consumer, date of the debt, identity of the original creditor, itemization of all fees, charges and payments, and itemization of all post-default charges and credits.
- Stopping debt collectors' attempts to collect on time-barred debts, deceptive settlement agreements, putting old debt on new credit cards, and cross-debt collection by refund anticipation lenders.
- Restricting debt collectors from accessing a consumer's financial account. At a minimum, there should be a requirement for express, informed, written permission.

With respect to debt settlement companies, the FTC's own workshop showed that these services often don't benefit the consumers who pay for them. HR 2309 would direct the FTC to consider issuing regulations in the area of debt settlement. The FTC should ban the charging of advance fees in debt settlement and cap fees based solely on a low percentage of the amount by which the debt is actually and permanently reduced below the amount owed when the debt settlement contract was first signed.

4. A credit card for anyone

The pitch sounds alluring: "If you have been turned down for credit recently because of your credit score, Continental Finance is here to help you with the second chance you have been waiting for."

But the "second chance" provided by Continental Finance Classic MasterCard could cause cardholders' credit scores to dive further. Designed for borrowers with subprime credit, commonly defined as a credit score below 660, the card comes with fees galore. The initial credit limit is $300, but it is immediately reduced by a $50 annual fee and a $200 account-processing fee, leaving available credit of only $50 at the outset. In addition, there's a monthly account-maintenance fee of $15, a $5 fee for online payments, a $25 fee if the credit line is increased, which can happen after six months, a $15 replacement fee if the card is lost or stolen, and a $35 over-the-limit fee. The annual interest rate on balances: 19.92 percent.

Issued by First Bank of Delaware, Continental Finance cards are among those labeled "fee harvester" credit cards in a 2007 report issued by the nonprofit National Consumer Law Center.

In late 2008, First Bank of Delaware agreed to pay $304,000 in penalties and to overhaul procedures to settle charges filed in June 2008 by the FDIC. The complaint said that marketing for Continental Finance MasterCards issued from March 2006 through June 2008 and other cards issued by the bank failed to adequately disclose significant up-front fees and misrepresented what the consumers' initial available credit would be.

CompuCredit, an Atlanta financial services and marketing company, was also named in the complaint. CompuCredit was First Bank of Delaware's partner in marketing and servicing cards issued under other brand names such as Imagine MasterCard. Filings with the Securities and Exchange Commission show how lucrative the credit-card business is. In 2007, CompuCredit reaped $673.9 million in credit-card fees, up from $436.7 million in 2006. Under CompuCredit's 2008 settlement with the FDIC, the company has agreed to reverse $114 million in fees charged to consumer accounts arising from deceptive marketing allegations. The company also will pay a $2.4 million civil penalty.

The FDIC order requires that the company disclose information about fees and other restrictions affecting available credit prominently on the same page in its solicitations. "No changes in our existing marketing materials are necessary because in 2006 we made changes in our solicitations that address the agencies' concerns about placement of fee-disclosure information," says Tom Donahue, a CompuCredit spokesman. The Federal Reserve Board has approved new rules for credit cards that limit total security deposits and fees during the first 12 months to 50 percent of the initial credit limit.

What consumers should do: A better alternative for consumers seeking to rebuild poor credit histories is a secured credit card, which requires a cash deposit of at least $200 to $300 as collateral. The amount of cash deposited will typically be the initial credit limit. Making timely payments should boost the credit score, so look for a card that reports to the three major credit bureaus and has no application fee. Interest rates on such cards recently were in the mid-to-low teens, and annual fees should be no more than $50.

5. Uninsured savings accounts

In early December, when the average interest rate on one-year certificates of deposit offered by U.S. banks was hovering at 3.2 percent, an online bank's offer sounded enticing: rates of 5.5 to 6.5 percent on one-year CDs. The bank says its "Premium" CDs are for the investor who is "looking for an alternative to the low rates offered by most domestic banks" and a guaranteed rate of return to avoid market fluctuations.

That high rate might be "guaranteed," but there's no federal guarantee backing the money you deposit. That's because the offer came from Millennium Bank in St. Vincent and the Grenadines, in the West Indies, and the bank is not FDIC-insured. Millennium says it is a wholly owned subsidiary of United Trust of Switzerland and devotes space on its Web site to describing Swiss banking. It notes that "the main reason for Swiss Banking is to keep one's financial status private, protecting personal assets along with receiving a higher return."

Millennium encourages customers to use its secure online banking services, but it says there is no Web site providing information about United Trust of Switzerland because its "premier private clients" don't trust the security of public Web sites.

We checked with the Swiss Federal Banking Commission, which says that United Trust is registered as a management-consulting firm and that neither it nor Millennium Bank is supervised by the commission. The International Financial Services Authority in St. Vincent confirms that Millennium is registered as an offshore bank operating on the island but would not comment further.

When we asked Millennium employee Bob Kelty how the bank invested depositors' money to achieve such high returns, he declined to explain, saying, "That's proprietary information."

What consumers should do: Some CDs, money-market accounts, and other savings alternatives might not be FDIC-insured, so you need to be careful and shop around. Bankrate.com, which publishes online bank data, lists federally insured banks, along with a "Safe & Sound" rating assessing overall financial stability.

Recession-Related Internet Scams

Another big category of consumer frauds that target financially-distressed households are internet-related scams relating to employment and work, including 1) job search services; 2) unemployment benefits scams; 3) work-at-home schemes; and 4) web sites that promise access to government grants; and 5) online shopping dangers.

1. Internet Employment Scams

In our June 2009 magazine, in an article entitled "Boom Time for Cybercrime," Consumer Reports warns consumers to be especially careful about cyber-crimes during the economic downturn.[6]

According to the article:

> One in five online consumers were victims of a cybercrime in the past two years, according to the latest Consumer Reports State of the Net survey…. The overall rate of cybercrime hasn't declined much over the five years we've tracked it. Crooks continue to take advantage of new technologies. And consumers, corporations and the government haven't done all they could for protection. The problem stands to get worse as rising unemployment and foreclosures fuel a wave of recession-oriented Internet scams.

The article profiles Dan and Pat Quigley, a couple from Woodinville, Washington. When Dan was laid off from his engineering job with Motorola, he posted his résumé on several major job-search sites, entering personal data such as his name, address, and educational background. He didn't want to leave anything out, but he also worried that "with that info up there, I was essentially painting a target on myself." And soon, Dan began receiving a lot more employment-related spam.

Trying to help in her husband's job search, Pat Quigley visited a legitimate-looking site that promised jobs, but it turned out to be malicious. Then the Quigleys noticed that Pat could no longer access security software sites. Her computer had become infected. Ultimately, the couple was forced to erase Pat's hard drive.

According to Washington state's Attorney General, the Quigleys aren't alone.

[6] Consumer Reports, "State of the Net: Boom Time for Cybercrime," June 2009, p. 18-21.

"We've seen a big spike in complaints about work-related scams, and they're often over the Internet," Rob McKenna, Washington State's attorney general told *Consumer Reports*. "What unemployed people, people in foreclosure, and the elderly all have in common is that they're more vulnerable, more anxious, and they set aside common sense."

Job scams come in a variety of guises, according to the Internet Crime Complaint Center, a partnership between the FBI, the Bureau of Justice Assistance, and the National White Collar Crime Center.

Some scams appear to be offers to process payments, transfer funds, or reship products but are actually fronts for operations that cash fraudulent checks, transfer illegally obtained funds, or receive stolen merchandise for shipment to criminals. Even users of well-known employment sites can be at risk. User IDs and passwords were recently stolen from the internal databases of job sites Monster and USAJobs.

What consumers can do: Avoid job listings that ask you to pay money up front. Make sure that online job-search services you use offer privacy options. Monster, for example, lets you post a confidential version of your résumé that hides your key contact information, among other things. Never post a résumé that includes your Social Security number. Avoid job offers that claim to pay a lot of money for little work.

2. Unemployment Benefit Scams

Some internet frauds directly target the unemployed themselves. Michigan's Unemployment Insurance Agency has warned unemployed workers against using website that charge fees to file their claims for unemployment benefits, and to be wary of emails inviting them to establish direct deposit accounts for their benefits. These "file-for-a-fee" and direct deposit services ask for personal information, exposing users to the risks of identity theft. The filing sites advertise on search engines such as Yahoo and Google, and appear as sponsored-ad listings when individuals search for information on how to file for benefits.[7]

What consumers can do: Bypass the scam offers, and file for unemployment benefits directly with the state agency that is responsible for distributing benefits.

3. Work-At-Home Schemes

The FTC has gone after at least 500 work-at-home schemes in recent years, and internet ads for such services are rampant on the web. Such ads include ads for services that have generated many consumer complaints to the Better Business Bureau, the FTC and state consumer protection agencies.[8]

What consumers can do: It is possible for consumers to work at home – but deceptive offers are plentiful, so consumers shouldn't expect to get rich quick. To avoid scams, the Federal Trade Commission and NASE advise consumers:

- **Don't pay for materials -** Legitimate home product-assembly businesses are local and never ask you to buy the materials.
- **Be wary of network building -** Stay away from multilevel marketing schemes that make earnings contingent on your ability to sign up an ever-growing pyramid of "distributors" who are supposed to do the same and pass sales commissions up the line.
- **Do some sleuthing -** Check the company's Better Business Bureau rating. Also do a search at *www.ripoffreport.com* and *www.complaints.com*.
- **Be a skeptic -** Don't depend on promises of 100 percent satisfaction and money-back guarantees. They might be worthless.

[7] WLKM News, Detroit, MI, June 16, 2009.
[8] Consumer Reports. "Beware of Work-At-Home Stings," June 2009, p. 15.

4. "Free Government Grants"

Numerous web ads claim that large sums of government money are available to consumers. If you fall for them, you will likely be enrolled in a grant-search program that could cost up to $90 a month.

"Billions of dollars available in government grants, never repay!" claimed an ad recently at FreshGrants.com. The ad is an enticement for a "Free Grants Kit" that the Web site claims will explain how to apply for government grants for which you may or may not be eligible.

As for "free," that's open to interpretation. You're asked to provide your credit-card info to pay $1.98 for shipping and handling. By ordering the "free" grant kit, you're agreeing to pay fees for monthly access to Grant Funding Search and a trial membership in the Ideal Wealth Builder Club, which includes benefits that "will show you how to turn your debt into wealth." But the ad's fine print said that if you didn't cancel within the free trial period, your credit card would automatically be charged $99.90 in combined membership fees every month. That's how to build wealth, all right, just not for you.

At one such such web site, consumers were invited to fill out a brief form asking for their name, income, and the type of grant the are seeking.[9] A researcher from Consumer Reports Webwatch filled out the form several times in March, and received the same answer every time:

> "Congratulations! You qualify for a free CD (compact disc)! Use this CD to apply for your cash: $150 billion to start your own business! $97 billion to go to school! $144 billion to buy a home!"

[9] The Unsponsored Link (blog), Consumer Reports Webwatch, available at: http://blog.consumerwebwatch.org/2009/05/free_grant_moneya_sham_site_fr.html, http://blog.consumerwebwatch.org/2009/05/govenmentgrantsonlineusanother.html, http://blog.consumerwebwatch.org/2009/03/no_free_government_grants_at_g.html, and http://blog.consumerwebwatch.org/2009/05/stay_away_from_all_grant_instr_1.html

While the CD is free, there's a $3.95 shipping charge. But what probably isn't apparent to cash-strapped consumers desperately scouring the Web for financial aid is the fine print at the bottom of the page (below the screen), which reads as follows:

> "Special Bonus: Order your FREE CD today and receive a free 7 day trial enrollment in the Grant Writing Express Online Help Center which includes 24 Hour Email Access to Grant Specialists, Funding Instruction Courses, and Grant Sources Updated Daily. It also gives you access to our Grant Writing Specialists who are there to Quickly Answer Your Questions about the Grant Process**. This membership continues at the low monthly rate of only $74.95 for as long as you need the help in your Grant Search and Application Process. You can stop your monthly subscription to the help center site anytime in the 7 days and you will not be billed anything. The free trial begins on the day the CD is ordered."**

The FTC has been warning consumers about scam government grant sites at least since 2006, and the Better Business Bureau has received many complaints about these sites. The sites may operate under literally dozens of similar business names; one web site had as many as 30 different business names, acting as "feeder sites" to drive more web traffic to the primary company.

What consumers should do: Avoid website offers that offer easy money from government grants, and instead visit www.Grants.gov, the federal government's gateway to funding opportunities.

5. Online Shopping Dangers

An estimated 1.7 million households were victims of ID theft committed over the Internet, Consumer Reports' State of the Net survey shows. Of the respondents to our survey who fell into that category, two-thirds said the incident occurred because of an online purchase. Other sources of ID theft included hacked computers, e-mail scams, and compromised financial transactions.

In 2008, the Consumer Sentinel Network, a joint project that includes the Federal Trade Commission, National Fraud Information Center, Internet Crime Complaint Center, and some Better Business Bureaus, reported 370,000 consumer-fraud complaints. In 63 percent of those, the defrauders, which include a variety of businesses, initially made contact with the consumer via the Internet.

What consumers can do: Be cautious about with whom you do business. "Someone can set up an e-commerce site in hours," says Brent Remai, vice president of consumer marketing for security software maker McAfee. "And even if a site isn't set up by a cybercriminal, it can be hacked." Even when shopping at a site that seems trustworthy, first check it out with the Better Business Bureau's online division. Consider using a two-way firewall, which blocks software that's on your computer from sending outgoing communications without your knowledge. You can get one free of charge at www.zonealarm.com.

What regulators and policymakers can do about recession-oriented Internet-oriented scams:

Recession-oriented internet fraud and scams do not exist in a vacuum, but are part of a much larger policy challenge reducing internet-oriented scams, fraud and crime. We have three major recommendations:

1) Many of the scams identified above are promoted extensively through online advertising and email, or through fraudulent shopping sites. This underscores the importance of swift enforcement and regular sweeps to detect and alert the public to problems, as have been carried out by the FTC and state regulators on various internet issues.

   Internet criminals can pivot on a dime to adjust their messaging to fit an economic downturn, a swine flu epidemic, or other crisis. Especially when economic times are hard, it is critical that state and federal consumer protection agencies be provided with ample staff and investigative resources to go after purveyors of fraud, and widely communicate the results of their investigations to the public.

The FTC's Operation Short Change, announced on July 1, is a prominent example of how a high-profile enforcement sweep can expose bad practices, directly halt the operations of specific companies, and send a clear message that such crimes will not be tolerated. In the states, many attorneys general have been active in warning the public about internet scams and pursuing companies engaged in foreclosure scams and questionable debt settlement practices.

2) Media and internet companies that accept advertising should carefully scrutinize advertisements for products or services that make unsupported promises, take advantage of financially-stressed consumers, or make unfair, unethical or questionable claims. While we don't know what the exact standard should be here, we would note that as a matter of corporate responsibility, companies that accept advertising should not be setting consumers up for financial heartbreak.

As noted by Dr. George Blackburn in at FTC staff report regarding weight loss claims, "In the absence of laws and regulations to protect the public against dangerous or misleading products, a priority exists for the media to willingly ascribe to the highest advertising standards, *i.e.*, those that reject the creation and acceptance of advertisements that contain false or misleading weight loss claims."[10]

We would also note that to their credit, some internet search companies now specifically warn consumers about web sites that could include spyware or malware. These companies may be able to do much more to suppress deceptive ads, and warn consumers against financial scam web sites that put them at serious risk, and/or receive failing grades from watchdog groups and government regulators.

3) Consumers Union believes a variety of other new protections to prevent fraud and promote data security are needed, including measures to prevent retail fraud and protect sensitive customer data from security breaches. Businesses should store sensitive data in encrypted form. Two-factor user authentication, using a password and a key with a constantly updated passcode, would provide further protection. Companies should regularly test the security of their Web applications and networks. Programmers should be educated about the latest security measures. Companies entrusted with valuable consumer information should be certified by Trustkeeper and Verisign. Web-hosting companies must tighten policies to fight phishing, including suspending terms-of-service violators and requiring the collection of accurate information about account holders, as the Anti-Phishing Working Group suggests.

Conclusion

[10] Cleland, R.L., et al., "Weight Loss Advertising: An Analysis of Current Trends," A Report of the Staff of the Federal Trade Commission, September 2002, page v.

Mr. Chairman, Members of the Committee, as outlined above, the diverse financial come-on and ripoffs come in a variety of forms and permutations, and unfortunately do not lend themselves to a one-size-fits all, silver bullet solution. However, we believe that given the risks to consumers, everyone must do more:

- Consumers must be ever on their guard, and very, very skeptical of offers of financial help and extra income, particularly when those offers come from businesses they don't know, or have an unfamiliar track record. They should seek second opinions and advice from knowledgeable and respected sources of information, including trusted friends, consumer protection agencies and watchdog groups, government agencies, attorneys, homeownership counselors and others, prior to handing over cash, or signing contracts or agreements that obligate them financially.
- Businesses that sell products with high fees or financial traps built into them should withdraw or redesign such products, or in other cases provide much better disclosure, counseling and protections for customers. . In addition, businesses have an important role to play in strengthening the protection of sensitive customer information, to prevent security breaches and identity theft.
- Media and internet companies that accept advertising should carefully scrutinize advertisements for products or services that make unsupported promises, take advantage of financially-stressed consumers, or make unfair, unethical or questionable claims. As a matter of corporate responsibility, companies that accept advertising should not be setting consumers up for financial heartbreak. To their credit, some internet search companies now specifically warn consumers about web sites that could include spyware or malware. These companies may be able to do much more to reduce and suppress deceptive ads, and warn consumers against financial scam web sites that receive failing grades from watchdog groups and government regulators.
- State and federal regulators should step up enforcement of companies that deceive and defraud consumers, and impose sharp criminal and civil penalties for companies that violate the law.
- State and federal policymakers should consider new consumer protections to protect consumers against unfair and deceptive practices that target financially-distressed households. In particular, legislation pending before Congress to establish a Consumer Financial Protection Agency would greatly help to protect consumers in good times and bad, and ensure that laws against deceptive practices and fraud are effectively enforced.
- Economic fraud has a high financial and personal cost for consumers, could undermine public confidence in the marketplace and a renewed economy. Consumer protection should be a pillar of economic reconstruction, to ensure that people who work hard and save for the future will not be unfairly deprived of their income and assets.

Thank you very much for the opportunity to testify here today about this critically important national issue. We look forward to working with you as you move forward in addressing these issues.