

**PREPARED STATEMENT OF
THE FEDERAL TRADE COMMISSION**

on

*“Soldiers as Consumers: Predatory and Unfair Business Practices
Harming the Military Community”*

Before the

**SENATE COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION
UNITED STATES SENATE**

**Washington, D.C.
November 20, 2013**

I. INTRODUCTION

Chairman Rockefeller, Ranking Member Thune, and distinguished members of the Committee, I am Charles A. Harwood, Deputy Director of the Bureau of Consumer Protection of the Federal Trade Commission (“Commission” or “FTC”).¹ I appreciate the opportunity to present the Commission’s testimony on consumer protection issues impacting servicemembers and their families and the Commission’s work in this area.

All consumers, including servicemembers, are potential targets for fraudsters, and combating fraud is a critical component of the Commission’s consumer protection mission. That said, certain scams are more likely to target the military community, in part because military families may relocate frequently and many servicemembers – for the first time – are living on their own and earning a paycheck. Moreover, frauds against military consumers can undermine military readiness and troop morale. Accordingly, the Commission’s efforts to eliminate such scams through aggressive enforcement and a vigorous, ongoing educational campaign are an important part of our consumer protection work.

This testimony outlines the areas of fraud that are most likely to affect the military community, describes our general enforcement in these areas, and lists some of the FTC’s military-specific consumer education and outreach efforts.

II. FRAUD THREATS TO MILITARY CONSUMERS

The FTC’s consumer protection initiatives include combatting fraud in various areas that affect servicemembers, veterans, and their families. For example, just this summer, the Commission brought a case alleging that one of the nation’s largest refinancers of veterans’

¹ This written statement presents the views of the Federal Trade Commission. Oral statements and responses to questions reflect the views of the speaker and do not necessarily reflect the views of the Commission or any Commissioner.

home loans made misleading claims directed at current and former servicemembers.² In the case, which was the first action to enforce the Mortgage Acts and Practices – Advertising Rule (MAP Rule), the Commission alleged the company violated by falsely representing that low interest, fixed-rate mortgages were available at no cost.³ The Commission also alleged that the company violated the Do Not Call provisions of the Commission’s Telemarketing Sales Rule. To resolve the allegations, the company agreed to pay a \$7.5 million civil penalty, the largest fine the Commission has ever obtained in a case alleging Do Not Call violations.

Enforcement actions like these often flow from the Commission’s active monitoring of the marketplace, which allows us to understand, identify, and ultimately eliminate threats to both military consumers and the public at large. As part of this monitoring, the Commission relies on the complaints we collect directly from consumers, our law enforcement experience, and collaborative initiatives with law enforcement partners, consumer groups, industry, academics, and others.

One of our most powerful tools in obtaining information about frauds is the FTC’s Consumer Sentinel Complaint Network, a secure online database of more than 8 million consumer complaints available only to law enforcement. The database includes complaints that are reported directly to the FTC as well as to dozens of state law enforcement organizations, other federal agencies, and non-governmental organizations such as the Better Business Bureau. These complaints act as an invaluable investigative tool for the thousands of federal, state, and local law enforcement agencies that have registered as members of Consumer Sentinel.

² *United States v. Mortgage Investors Corp. of Ohio, Inc.*, No. 8:13-cv-01647-SDM-TGW (M.D. Fla. June 25, 2013), available at <http://www.ftc.gov/os/caselist/1223084/index.shtm>.

³ The MAP Rule was promulgated by the FTC and recodified by the Consumer Financial Protection Bureau as Mortgage Acts and Practices – Advertising (Regulation N). See Mortgage Acts and Practices – Advertising Rule, 16 C.F.R. Part 321, recodified as Mortgage Acts and Practices – Advertising (Regulation N), 12 C.F.R. Part 1014. The *Mortgage Investors* complaint included alleged violations of the MAP Rule and Regulation N.

To ensure that servicemembers and their families can easily file consumer protection complaints with the FTC, in 2002 the FTC and the Department of Defense (DoD) jointly created Military Sentinel, a subset of Consumer Sentinel. Military Sentinel centralized the online collection of fraud complaints from the DoD and military communities. It also allows complaints to be recorded by branch of service and installation, giving government agencies – including DoD law enforcers and policymakers – vital information to better protect servicemembers and military civilians.⁴

The Commission is also working with the Departments of Veterans Affairs, Defense, Education, and Justice, and the Consumer Financial Protection Bureau (CFPB) to collect, through an online complaint system, feedback on problems with educational institutions experienced by the military community.⁵ Veterans, servicemembers, and their families pursuing higher education through the Post-9/11 GI Bill and other education benefits can provide feedback on their schools through gibill.va.gov/feedback. When feedback is received, agencies will contact the school on behalf of the student and request a response within 90 days, and the complaints will be forwarded to Consumer Sentinel.

Data from Consumer Sentinel shows that the FTC received more than 42,200 fraud complaints from the military community out of the more than 1 million fraud complaints received in calendar year 2012.⁶ The top complaint categories for military consumers were: debt

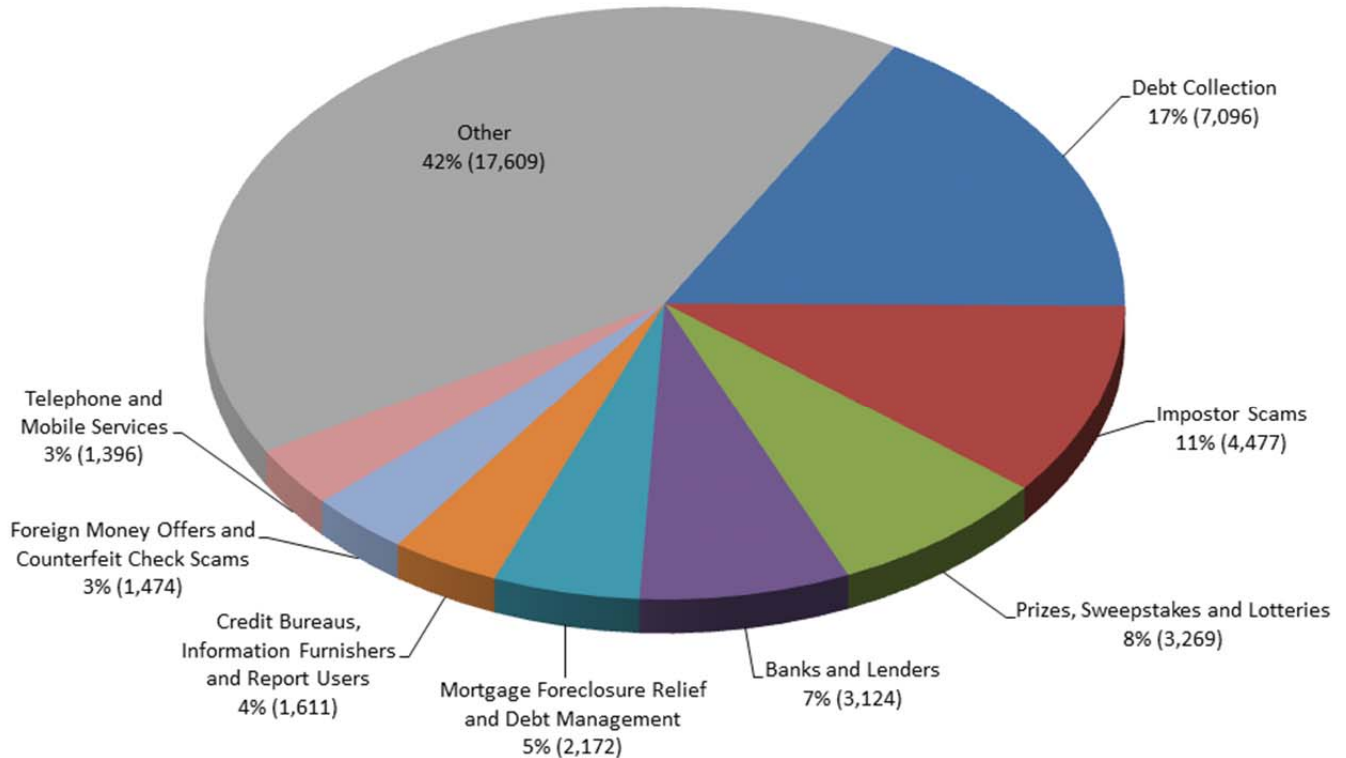
⁴ In 2011, the FTC's main Consumer Sentinel website was revamped to ensure that visitors to this complaint portal can provide the same military-specific demographic information. As a result, the Military Sentinel portals for different parts of the U.S. Armed Forces now direct visitors to the main Consumer Sentinel website.

⁵ This initiative was launched pursuant to Executive Order 13607 (Apr. 27, 2012), *available at* <http://www.gpo.gov/fdsys/pkg/FR-2012-05-02/pdf/2012-10715.pdf>. The order addresses reports of misleading or predatory behavior towards military consumers and their families.

⁶ These figures exclude Do Not Call registry and identity theft complaints.

collection; imposter scams;⁷ fraud involving offers of prizes, sweepstakes, or gifts; unlawful banking or lending practices; and scams that offer mortgage foreclosure relief or debt management services.⁸

Top Complaint Categories for Military Consumers in Consumer Sentinel Network Complaints¹
January 1 – December 31, 2012



¹Percentages are based on the 42,228 military consumer complaints. These figures exclude Do Not Call registry and identity theft complaints.

Note: The section of the chart labeled “Other” represents complaints regarding over 100 other types of products, such as credit cards, unsolicited emails, advance-fee loans and credit arrangers, and spyware/adware/malware.

Source: Consumer Sentinel Network.

⁷ These involve scams in which the perpetrators pose as a friend, family member, or romantic interest, or claim an affiliation with a company or government agency, in order to induce people to send money or divulge personal information.

⁸ Complaint data for 2013 shows similar patterns. From January 1, 2013 to September 30, 2013, we received approximately 33,923 fraud complaints from military consumers. Top complaint categories included: imposter scams (9,209); debt collection (4,174); banks and lenders (3,194); and prizes/sweepstakes/lotteries (2,225).

Notably, these complaint trends largely mirror those of the general population and include some of the FTC's highest consumer protection priorities – which we further describe below.⁹

In particular, many of these categories touch on the FTC's aggressive work to stop frauds related to consumer financial products and services, which has been one of the FTC's top priorities – particularly in the wake of the economic downturn. Since 2008, the FTC has been especially active in halting frauds targeting financially distressed consumers. We have brought:

- 42 cases and obtained monetary judgments totaling more than \$190 million in the mortgage foreclosure relief area;
- 34 cases and obtained more than \$300 million in judgments in debt relief matters;
- 20 cases and obtained over \$120 million in monetary judgments protecting payday loan borrowers victimized by deceptive or unfair practices; and
- 22 cases and obtained more than \$165 million in debt collection monetary judgments.¹⁰

In addition, the FTC has continued its efforts to eliminate fraud in the other areas raised in the complaints. For instance, since 2009, the FTC brought 22 law enforcement actions targeting purveyors of fraudulent business opportunity, work at home, and job scams, and filed 8 actions against scams offering prizes or sweepstakes.

The FTC's enforcement work has protected hundreds of thousands of consumers from unlawful practices, including members of the military community. In some instances, the FTC takes action against scammers that target the general population but tailor their practices to

⁹ One exception to this comparison is mortgage foreclosure relief and debt management services. This was the sixth highest complaint category for military members, in contrast to the fifteenth highest for the population as a whole.

¹⁰ The monetary judgment amounts listed in this testimony include judgments that were suspended based on defendants' ability to pay.

deceive military consumers. For example, in *FTC v. Goldman Schwartz*, the Commission presented evidence that a defendant debt collector that allegedly used a series of unlawful tactics in attempting to collect debts from consumers, used military-specific threats when attempting to collect from military consumers.¹¹ One military consumer reported that the collector identified itself as a “military liaison,” threatened to disclose a purported debt to the consumer’s commander, and told the consumer that indebtedness is grounds for dismissal from the military and that the collector would ruin the consumer’s military career. Similarly, in *FTC v. NHS Systems, Inc.*, the Commission presented evidence that fraudulent telemarketers that preyed on the general public obtained some military consumers’ financial information by falsely claiming to be calling from the IRS to offer special tax rebate checks to servicemembers.¹²

The FTC also targets frauds that specifically focus on servicemembers, veterans, and their families. As noted above, earlier this year the FTC filed a case against one of the nation’s leading refinancers of veteran’s home loans, which led to a settlement in which the refinancer agreed to pay a \$7.5 million civil penalty.¹³ In offering refinancing services to current and former military consumers, the defendants allegedly: misrepresented the costs and potential savings of the services; continued to call military consumers, even after the consumers had informed the defendants that they did not wish to receive further calls or that their telephone numbers were listed with the National Do Not Call Registry; and implied that the loans they offered would come from Veterans Affairs or another government source. Along with the \$7.5 million civil penalty, as part of the settlement the defendants agreed to an order imposing strong injunctive relief.

¹¹ *FTC v. Goldman Schwartz, Inc.*, No. 4:13-cv-00106 (S.D. Tex. Jan. 14, 2013).

¹² *FTC v. NHS Systems, Inc.*, No. 09cv2215 (E.D. Pa. May 15, 2008).

¹³ See *supra* note 2.

Additionally, the FTC's enforcement work extends to scams that target military families indirectly, including scams that prey on consumers that want to assist the U.S. Armed Forces community. For instance, as part of a coordinated federal-state crackdown on fraudulent telemarketers, the FTC brought an end to an allegedly sham non-profit that falsely claimed to provide financial assistance to the families of American soldiers fighting overseas. The Commission alleged that the defendants falsely claimed that donations would be used to provide care packages to veterans in VA hospitals and to support veteran's memorials.¹⁴ As part of a settlement to resolve the FTC's allegations, the defendants agreed to a monetary judgment of more than \$13 million and an order prohibiting future deceptive conduct.¹⁵

Finally, the Commission's enforcement work addresses practices of importance to the military community. For example, buying a car can be one of the most expensive and complicated financial transactions a military consumer will make. Since 2011, the FTC has brought 11 auto-related actions, involving a variety of unlawful conduct.¹⁶ Many of these cases targeted practices that were identified in a series of three public roundtables that the Commission held on consumers' experiences when buying, financing and leasing motor vehicles.¹⁷ Some of the roundtable panels specifically addressed practices that target military consumers, including various sales pitches geared to servicemembers and made on or near military bases, or on the

¹⁴ See *FTC v. Am. Veterans Relief Foundation, Inc.*, No. CV09-3533 (C.D. Cal. June 3, 2009).

¹⁵ This judgment was partially suspended based on the defendants' inability to pay the full amount.

¹⁶ See, e.g., *FTC v. Matthew J. Loewen*, No. 12-CV-1207 MJP (W.D. Wa. Oct. 29, 2013) (Final Judgment and Permanent Injunction); FTC, *FTC Halts Two Automobile Dealers' Deceptive Ads*, Sept. 3, 2013, available at <http://www.ftc.gov/opa/2013/09/autoads.shtm>; FTC, *FTC Charges that Auto Loan Schemes Falsely Promised They Could Stop Consumers' Cars from Being Repossessed*, April 4, 2012, available at <http://ftc.gov/opa/2012/04/autoloans.shtm>; FTC, *FTC Charges Businesses Exposed Sensitive Information on Peer-to-Peer File-Sharing Networks, Putting Thousands of Consumers at Risk*, June 7, 2012, available at <http://www.ftc.gov/opa/2012/06/eprn-franklin.shtm>; FTC, *FTC Takes Action To Stop Deceptive Car Dealership Ads*, Mar. 14, 2012, available at <http://www.ftc.gov/opa/2012/03/autoloans.shtm>.

¹⁷ See *Public Roundtables: Protecting Consumers in the Sale and Leasing of Motor Vehicles*, Notice announcing public roundtables, requesting participation, and providing opportunity for comment, 76 Fed. Reg. 14014 (Mar. 15, 2011).

Internet.¹⁸ As part of the roundtables, the Commission also invited (and received) public comment on how these and other practices may impact members of the military.¹⁹

III. MILITARY CONSUMER EDUCATION AND OUTREACH

In addition to aggressive law enforcement, consumer education and outreach is an essential tool in our consumer protection and fraud prevention work. The Commission's education and outreach program reaches tens of millions of people a year, mostly through our websites, where people can access print, video, and audio information.²⁰ The FTC is widely known for its clear, understandable information and practical advice on dozens of consumer protection issues, including many issues affecting military consumers.

To better reach out to servicemembers and their relatives, the FTC maintains a *For Military Families* page on its consumer education website.²¹ The page gathers the Commission's resources for servicemembers, veterans, and their families in one place to help them quickly find the consumer information of most use to them. These resources include materials that focus on the unique challenges faced by military families and emphasize the special rights that military families have when dealing with certain consumer protection issues. For example, the FTC released a consumer education post just a couple of weeks ago that provides information to veterans on how to avoid pitfalls in picking the right college.²² The post includes advice on how

¹⁸ The second roundtable particularly focused on these issues, and included several consumer military advocates on the discussion panels. Agendas, transcripts, and webcasts from the roundtables are available online. See <http://www.ftc.gov/bcp/workshops/motorvehicles>.

¹⁹ See <http://ftc.gov/os/comments/motorvehicleroundtable/index.shtm>.

²⁰ Consumer information can be found in English at <http://www.consumer.ftc.gov> and in Spanish at <http://www.consumidor.ftc.gov>.

²¹ FTC Consumer Information, *Military Families*, available at <http://www.consumer.ftc.gov/features/feature-0009-military-families>.

²² FTC Consumer Information, *Choosing a College: 8 Questions to Ask*, available at <http://www.consumer.ftc.gov/articles/0395-choosing-college>.

to determine whether a school will provide credit for military training and how to find out more about the veteran-specific resources available from a school.

Some of the FTC's other military-specific resources include information on:

- understanding the protections that servicemembers and their dependents have with respect to payday loans (and certain other financing),²³
- placing an active duty alert on a credit report, so as to better prevent creditors or collectors from attempting to collect a debt while a servicemember is overseas, in violation of the Servicemembers Civil Relief Act;²⁴
- protecting personal information and limiting the harm from identity theft;²⁵
- identifying dishonest pension advisors that try to bilk money out of veterans over 65 by providing poor (and often very harmful) advice about veteran's pensions;²⁶ and
- spotting and avoiding scams that claim to be soliciting donations to support military veterans and families of active-duty personnel.²⁷

These resources comprise one component of the Commission's continuing effort to assist military communities in identifying, eliminating, and avoiding fraud.

To ensure that such educational materials have the maximum impact, we work with an extensive network of partnerships with other agencies, industry groups, consumer advocates, and community organizations to leverage resources and reach as many consumers as possible. For

²³ FTC Consumer Information, Payday Loans, *available at* <http://www.consumer.ftc.gov/articles/0097-payday-loans>.

²⁴ FTC Consumer Information, Active Duty Alerts, *available at* <http://www.consumer.ftc.gov/articles/0273-active-duty-alerts>.

²⁵ FTC Consumer Information, Identity Theft: Military Personnel & Families, *available at* <http://www.consumer.ftc.gov/articles/pdf-0016-military-identity-theft.pdf>.

²⁶ FTC Consumer Information, Veterans' Pensions: Protect Your Money From Poachers, *available at* <http://www.consumer.ftc.gov/articles/0349-veterans-pensions>.

²⁷ FTC Consumer Information, Charitable Solicitations for Vet & Military Families, *available at* <http://www.consumer.ftc.gov/articles/0121-charitable-solicitations-vet-military-families>.

example, the FTC works with the DoD to disseminate articles, podcasts and blog posts using MilitaryOneSource.mil (a counseling hotline and website), military media, resource fairs, and other special projects.²⁸ Since 2009, the FTC has presented more than 30 podcasts and scores of webinars to servicemembers, their families, and the financial counselors that serve them.²⁹

In the last several years, the FTC has expanded its existing partnerships with several military agencies and organizations, including the DoD and the CFPB. Staff from the FTC and these agencies meet regularly to discuss coordination and collaborative efforts. For example, the CFPB's Office of Servicemember Affairs shared the FTC's new article on how veterans can protect their pensions with hundreds of leaders in the military community.

We are constantly searching for new and better ways to build on these partnerships. For instance, in 2012, the FTC launched a pilot program to improve our consumer protection outreach and assistance to military legal service personnel.³⁰ The program focused on the Navy's Mid-Atlantic Regional Legal Services Office, the largest of the U.S. Navy's commands. As part of the program, the FTC provided the Office with access to Consumer Sentinel as a law enforcement agency, established a dedicated email contact at the FTC to enable the Office to receive timely assistance with consumer protection issues, and collaborated with the Office to create a 60 to 90 minute video loop of consumer protection materials. The FTC hopes that these efforts will help us create a blueprint for furthering our consumer protection outreach to the military.

²⁸ For instance, in 2009 the Naval Criminal Investigative Services co-branded an FTC identity theft brochure and distributed 200,000 copies to naval personnel throughout the world as part of a three-month program focusing on identity theft prevention and recovery.

²⁹ FTC staff have presented webinars for and recorded podcasts for servicemembers and families through DoD's MilitaryOneSource.mil; recorded podcasts and blog posts for DoD's Defense Media Directorate (New Media) and other military media; and presented webinars for DoD's contractors who provide financial counseling to the military community.

³⁰ The project was part of the 2012-2013 FTC Excellence in Government Leadership Fellows Project, a leadership development program run by the Partnership for Public Service.

More recently, the Commission and its partners — DoD, CFPB’s Office of Servicemember Affairs, and Military Saves³¹ – launched a campaign to empower servicemembers, veterans and their families with free consumer resources. On July 17 of this year, the FTC and other campaign organizers hosted “Military Consumer Protection Day 2013” to kick off the campaign.³² As part of the campaign, the FTC created a website, military.ncpw.gov, that offers free tips and tools from government agencies, consumer and military advocacy groups, and non-profit organizations. The site is designed to inform the military community and veterans about consumer issues, such as managing money, dealing with credit and debt, building savings, making wise buying decisions, protecting personal information and avoiding fraud in the marketplace. We regularly update the site and blog with new information from the FTC and partners. Commanders, military financial counselors, and other trusted sources in the community can download or order materials and an outreach toolkit with a sample press release, newsletter article, flyer, and social media posts to help spread the word in the military and veteran communities. Planning is underway for Military Consumer Protection Day 2014 with a growing list of partners.³³

³¹ Military Saves is a part of the DoD’s Financial Readiness Campaign and has been a partner with DoD since 2003. Military Saves is a social marketing campaign to persuade, motivate, and encourage military families to save money every month, and to work with leaders and organizations to be aggressive in promoting automatic savings.

³² FTC, *FTC, Partners to Kick Off First Military Consumer Protection Day July 17*, <http://www.ftc.gov/opa/2013/07/mcpd.shtm>.

³³ Other organizations that partnered on Military Consumer Protection Day 2013 included: federal agencies (Department of Justice’s Civil Division, Consumer Product Safety Commission, FINRA Investor Education Foundation, Food and Drug Administration, Department of Housing and Urban Development, Securities and Exchange Commission, Social Security Administration, U.S. Postal Inspection Service); state and local agencies (the offices of the Attorneys General of California, Colorado, Illinois, Massachusetts, New Mexico, North Carolina, Ohio, Washington, Hawaii and the Los Angeles County Department of Consumer Affairs); military and related organizations (Blue Star Families, National Association of Black Veterans, National Military Family Association, Coast Guard Office of Work-Life, Veterans Enterprises Service and Training); legal services (Pinetree Legal Assistance, Stateside Legal); consumer advocates (National Association of Consumer Advocates); and industry self-regulatory organizations (Better Business Bureau’s Military Line, FINRA Investor Education Foundation, National Futures Association).

The FTC also coordinates with its partners on military consumer protection policy initiatives. For example, the Commission is currently coordinating with the DoD via an interagency group on possible amendments to the DoD's military lending rule,³⁴ which would be issued pursuant to the recently amended Military Lending Act.³⁵ The Military Lending Act restricts covered loans, including certain payday loans by, for example, setting a 36% rate cap. Among other things, the amended Military Lending Act also establishes administrative and civil liability for violations, and gives the FTC enforcement authority for entities subject to its jurisdiction.³⁶ In addition to coordinating with DoD regarding that agency's possible amendments to their rule, the Commission's staff is reviewing complaints and other information for possible violations of these mandates.

IV. CONCLUSION

The Commission will continue to take action to protect servicemembers and the broader military community from fraud and related threats and looks forward to working with you on this important issue.

³⁴ Limitations on Terms of Consumer Credit Extended to Service Members and Dependents, 32 C.F.R. Part 232.

³⁵ See John Warner National Defense Authorization Act for Fiscal Year 2007 ("NDAA 2007" or "Military Lending Act"), Pub. L. 109-364, as amended by the National Defense Authorization Act for Fiscal Year 2013 ("NDAA 2013" or "amended Military Lending Act"), Pub. L. 112-239, codified in 10 U.S.C. § 987. Under the NDAA 2013, DoD is directed to consult with the Commission and other agencies at least every two years, in prescribing regulations under the Act. See 10 U.S.C. § 987(h)(3).

³⁶ See 10 U.S.C. § 987(f).