

**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**



home loans made misleading claims directed at current and former servicemembers.<sup>2</sup> 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.<sup>3</sup> 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.

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

<sup>3</sup> 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.<sup>4</sup>

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.<sup>5</sup> 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](http://gibill.va.gov/feedback). Whh the4h-nrde c6Sd,s – e Tw1e mns, 1d the Cw bte

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

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<sup>7</sup> 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.

<sup>8</sup>

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.<sup>9</sup>

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:

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

In addition, the FTC has continued its efforts to e

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.<sup>11</sup> One military consumer reported that the collector identified himself 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.

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.<sup>14</sup> 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.<sup>15</sup>



Internet.<sup>18</sup> 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.<sup>19</sup>

### **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.<sup>20</sup> 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.<sup>21</sup> 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.<sup>22</sup> The post includes advice on how

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<sup>18</sup> 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>.

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

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

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

<sup>22</sup> 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:

- x understanding the protections that servicemembers and their dependents have with respect to payday loans (and certain other financing);<sup>23</sup>

x

example, the FTC works with the DoD to disseminate articles, podcasts and blog posts using [MilitaryOneSource.mil](http://MilitaryOneSource.mil) (a counseling hotline and website), military media, resource fairs, and other special projects.<sup>28</sup> 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.<sup>29</sup>

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.<sup>30</sup> 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.

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<sup>28</sup> 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.

<sup>29</sup> 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.

<sup>30</sup> 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 Saves<sup>31</sup> – 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.<sup>32</sup> As part of the campaign, the FTC created a website, [military.ncpw.gov](http://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.<sup>33</sup>

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<sup>31</sup> 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.

<sup>32</sup> FTC, FTC, Partners to Kick Off First Military Consumer Protection Day July 17

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,<sup>34</sup> which would be issued pursuant to the recently amended Military Lending Act.<sup>35</sup> 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.<sup>36</sup> 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.

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

<sup>35</sup> 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).

<sup>36</sup> See 10 U.S.C. § 987(f).