Prepared Statement of

The Federal Trade Commission on
Scams Related to the Economic Stimulus

Before the

Senate Committee on Homeland Security and Governmental Affairs

"How the FTC Works to Halt Fraudulent Schemes Exploiting the Economic Downturn and the Stimulus Package"

Washington, D.C.
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Chairman Lieberman, Ranking Member Collins, and members of the Committee, I am Jon Leibowitz, Chairman of the Federal Trade Commission ("Commission" or "FTC").[1] I appreciate the opportunity to appear before you today to describe the ways fraudulent marketers have used the economic stimulus program to bilk consumers. Like a cop on the beat, during these difficult economic times, the Commission is on the job, enforcing the law, and working with a heightened urgency. This testimony will highlight *Operation Short Change*, a law enforcement sweep the Commission announced on July 1st that targeted, and continues to target, entities defrauding American consumers hit by the economic downturn.

Job losses, foreclosures, and dwindling retirement accounts are forcing increasingly more Americans to search for ways to make ends meet. Opportunistic fraudsters have quickly adapted their schemes and sales pitches to take advantage of consumers during the economic downturn, with some capitalizing on the economic stimulus package. Using come-ons that offer the lure of free government grant money, these and other schemes have defrauded tens of thousands of consumers out of millions of dollars, and have been the focus of the Commission's ongoing law enforcement program[2] and consumer outreach efforts. Most recently, the Commission

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[1] The views expressed in this statement represent the views of the Commission. My oral presentation and responses to questions are my own and do not necessarily reflect the views of the Commission or any individual Commissioner.

[2] The FTC has broad law enforcement responsibilities under the Federal Trade Commission Act ("FTC Act"), 15 U.S.C. 41, *et seq*. The statute provides the agency with jurisdiction over most economic sectors. Certain entities or activities, however, such as banks, companies engaged in common carrier activity, and companies engaged in the business of insurance, are wholly or partly exempt from FTC jurisdiction. In addition to the FTC Act, the agency has enforcement responsibilities under more than 50 other statutes and more than 30 rules governing specific industries and practices.

announced *Operation Short Change*,[3] a law enforcement sweep targeting fraudulent schemes designed to profit from the economic downturn. Together with fourteen state partners, the Department of Justice, and other agencies prosecuting criminal law violations, the Commission announced more than 120 law enforcement actions. *Operation Short Change* is one of a series of recent FTC fraud sweeps brought with our law enforcement partners: together, we have brought 389 legal actions in four sweeps in the last six months. These sweeps demonstrate the tremendous value of cooperation between the FTC and other federal and state partners.

Today's testimony highlights the agency's current experience with and efforts to combat fraud exploiting the economic stimulus program and other fraudulent schemes preying on financially-distressed consumers. The testimony also describes the tools the Commission uses to further its critical consumer protection mission.

I. Financial Distress Fraud

This past February, in the face of troubling economic times, Congress passed and the President signed the American Recovery and Reinvestment Act of 2009, an economic stimulus package that was widely reported as injecting $787 billion into the economy. Con artists were quick to adapt their schemes, exploiting the news stories to target financially distressed consumers.

Prominent among these are scams promoting free government grants. *Operation Short Change* targeted these fraudulent schemes and those just one or two steps removed – scams that use the economic downturn to prey on financially distressed Americans. The Commission's

[3] Press Release, Federal Trade Commission, FTC Cracks Down on Scammers Trying to Take Advantage of the Economic Downturn (July 1, 2009), *available at* http://www.ftc.gov/opa/2009/07/shortchange.shtm.

recently filed cases fall into four broad categories of familiar fraud: (1) government grant scams, (2) job placement scams, (3) phony income-generating opportunities, and (4) credit-related scams. This testimony focuses on government grant-related scams, with an overview of other cases the Commission has recently brought. The Commission's program to combat these types of fraud centers around its enforcement of Section 5 of the Federal Trade Commission Act ("FTC Act"), which prohibits unfair or deceptive acts or practices affecting commerce.[4]

A. Government Grant Scams

Con artists have sought to exploit the American Recovery and Reinvestment Act of 2009 by selling purported access to or expertise in obtaining free government grants. The FTC searched the Internet to identify those websites promoting ways to obtain a piece of the economic stimulus, and in March 2009, held a press conference to warn consumers to beware of such scams.[5] The event was highly successful at generating media that reached consumers, as the story was picked up by national and regional media outlets. The FTC warned specifically of websites promising government grant money to start a business, take a vacation, or just pay bills. Typical of hucksters chasing consumer dollars, some websites even used the image of President Obama and Vice President Biden to add legitimacy to their misrepresentations. Many of these schemes require consumers to pay substantial amounts of money in a fruitless attempt to obtain a much larger grant. Others simply ask consumers to provide personal information or send a very small payment to get information on how to get free government grant money. The scammers'

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[4] 15 U.S.C. § 45(a).

[5] Press Release, Federal Trade Commission, FTC Warns Consumers About Economic Stimulus Scams (March 4, 2009), http://www.ftc.gov/opa/2009/03/stimulusscam.shtm.

goal is to obtain consumers' financial account information, which they often use to run up additional charges. The Commission alerted consumers that whatever a website may say, the federal government does not award grants to individuals to pay personal expenses or bills, and the official source for information on available federal government grants is at www.grants.gov, a free website operated by the U.S. Department of Health and Human Services.

As part of the Commission's efforts, it reached out to industry for help in pulling down ads for such scams. At the agency's request, major online ad networks have agreed to screen out ads touting the economic stimulus as providing grant opportunities for individual consumers. For instance, after being contacted about this problem, Facebook voluntarily pulled off the offending ads. The Commission wants to commend these networks for their help. The Commission also issued an alert to consumers to beware of scams relating to the economic stimulus package, stating particularly that the promise of stimulus money in return for a fee or financial information is always a scam.

The Commission initiated several recent law enforcement actions against government grant scams that explicitly and implicitly used the economic stimulus to bilk consumers out of money in order to get "free government grant money." Just last week, some of the defendants allegedly responsible for the "Grant Writers Institute" grant scam agreed to a preliminary injunction halting their operation pending final resolution of the matter by the court. On July 24th, at the request of the FTC and the Attorneys General of Kansas, Minnesota, and North Carolina, a federal district court had entered a temporary restraining order shutting down Grant

Writers Institute, its related entities, and its principals ("GWI").[6] The complaint charged that GWI falsely claimed that consumers were eligible for grants as part of the recently announced economic stimulus package. For example, consumers who called GWI in response to a mass-mailed postcard heard a recording that said, "If you've been reading the papers you know that recently our government released $700 billion into the private sector. What you probably don't know is that there is another $300 billion that must be given away this year to people just like you." The recording continued, "And if you're one of the lucky few who knows how to find and apply for these grants, you will receive a check for $25,000 or more, and we guarantee it . . . If you don't get a check for $25,000 or more, you pay nothing."

GWI telemarketers routinely represented to consumers that they were guaranteed a $25,000 grant from the U.S. Government, and initially pitched a $59 book titled "Professional Grant Writer 'The Definitive Guide to Grant Writing Success.'" GWI and its North Carolina-based telemarketers, who also were named as defendants in the complaint, then called consumers who had bought the book, convincing many to pay hundreds of dollars or more for grant research, writing, or coaching services by falsely claiming a 70 percent success rate in securing grant funding. In reality, few, if any, consumers ever received any grant money.

Other scams wave the promise of free government grant money as a lure to obtain consumers' financial account information and initiate recurring charges. Just two weeks ago, a U.S. district court shut down several Web sites that scammers allegedly had been using to falsely claim that they could help consumers get free government grant money, and a preliminary

[6] *FTC v. Affiliate Strategies, Inc., et al.*, No. 5:09-CV-04104-JAR-KGS (D. Kan. July 24, 2009) (temporary restraining order).

injunction hearing relating to the other defendants is scheduled for September 11. On July 27, 2009, the Commission had filed suit against Grant Connect, LLC, its related entities, and its principals ("Grant Connect"), whose websites and employees misrepresented the likelihood that consumers would get grants and/or free money using the services of Grant Connect.[7] One of these websites displayed pictures of President Obama and Vice President Biden and proclaimed, "CHANGE Is Here! $15 Billion in FREE Government MONEY for you." In addition to misrepresenting the availability of grants, as well as their expertise and success in obtaining government grants for consumers, the Commission charged that the defendants made unauthorized charges and debits to consumers' accounts for undisclosed monthly memberships by deliberately obscuring key terms and conditions in dense language and buried hyperlinks.

In a similar case filed June 23rd, the Commission alleged that website operators using names like Grants for You Now[8] represented that consumers who purchased their product would be likely to receive a government grant. The website, ornamented with the image of a suitcase bursting with money and boldly identifying specific federal government grants for housing and education, proclaims that "anyone who needs money for" paying off debt, home repair, and personal expenses can "benefit." Instead, the complaint charges, consumers who purchased the defendants' software program unwittingly enrolled in a negative option continuity program, subjecting them to recurring monthly charges of nearly $100.

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[7] *FTC v. Grant Connect, LLC, et al.*, No. 2:09-CV-01349-RLH-RJJ (D. Nev. July 27, 2009) (complaint).

[8] *FTC v. In Deep Services, Inc.*, No. EDCV-09-1193-SGL (PGWx) (June 23, 2009) (complaint).

After a painstaking investigation that was part of Operation Short Change, on June 25th the Commission alleged that an individual operating as "Cash Grant Institute"[9] placed robocalls containing prerecorded messages to consumers throughout the United States, advertising "free grant money available from federal, state and local governments." The complaint describes the numerous techniques defendants allegedly used to create a false aura of legitimacy, such as placing pre-recorded calls purportedly coming from the Cash Grant Institute in Washington, D.C., a website that includes images of President Obama and the U.S. Capitol building, and brazenly advertising a website as the "source of free money from the government."[10] The Commission charged that the defendants did not provide grants; instead, they just redirected consumers to other websites purportedly providing grant-related services. In each of these cases, the Commission acted aggressively to put an immediate end to the alleged fraud, seeking and obtaining temporary restraining orders from federal district courts.[11]

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[9] *FTC v. Paul Navestad*, No. 09-CV-6329T (W.D.N.Y. June 25, 2009) (complaint).

[10] Another pending case alleging fraud in the promotion of government grants illustrates how hucksters attempt to falsify trust relationships to convince consumers to divulge their financial account information. In *FTC v. NHS Systems, Inc.*, No. 08-CV-2215 (E.D. Pa. May 15, 2008), the Commission alleged that defendants' telemarketers led consumers to believe they were calling from U.S. government agencies and promised consumers that they were selected to receive grants or tax refunds that would never have to be repaid. In fact, the Commission charged, the telemarketers' come-ons were simply a ruse to obtain consumers' financial account numbers and to initiate hundreds of dollars in unauthorized charges to their accounts. The Commission moved aggressively to bring this scheme to a halt, obtaining a temporary restraining order and preliminary injunction from a federal district court.

[11] When the Commission discovers an entity is engaged in outright fraud – whether perpetrated through telemarketing or cloaked as a business opportunity – it uses aggressive law enforcement tools to bring the perpetrators to justice. After assembling a case against a suspected fraud, the Commission often applies to a federal district court for an *ex parte* temporary restraining order to halt the deceptive conduct and an asset freeze to preserve the possibility of returning money to consumer victims. Indeed, in many of the telemarketing and

B. Other Economic Distress Frauds

In a time of economic distress with many Americans out of work, con artists see the opportunity to take advantage of those seeking simply to earn an honest day's wage. Recognizing that out of work Americans can least afford to fall victim to scams, the Commission aggressively pursues employment scams.[12] As part of *Operation Short Change*, the Commission charged two schemes that targeted consumers who were searching for jobs. In its case against Career Hotline, the Commission charged that the defendants falsely "guaranteed" to obtain jobs for consumers in exchange for a fee ranging from $89 to $195.[13] Similarly, the Commission's complaint against Wagner Borges Ramos, operating as Job Safety USA, alleges that the defendant told job seekers that the only thing standing between them and a new job making

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business opportunity cases the Commission has brought, such as those described herein, staff has sought and federal courts have entered temporary restraining orders or preliminary injunctions.

Even after cases result in the successful entry of permanent injunctions against defendants, the Commission continues to monitor defendants' compliance with court orders, and brings actions against defendants who are in contempt. For instance, in *FTC v. Vocational Guides*, No. 3:01-CV-00170 (M.D. Tenn. April 6, 2009), the Commission obtained an order of contempt against defendant Timothy Jackson for his role in operating Grant Information Services, a government grant scam that misrepresented to consumers the availability of federal government grants to pay for personal needs. The defendant, who originally was under order for his involvement in a postal job scam, was permanently banned from all telemarketing and found jointly and severally liable for over $7.6 million in consumer injury.

[12] The Commission has actively pursued cases against fraudsters who falsely represented that they were affiliated with or endorsed by the U.S. Postal Service, and that postal jobs were available in areas where their ads appeared. In one recent case filed against U.S. Work Alliance, the Commission charged a nationwide marketing operation with allegedly violating federal law by deceiving consumers into buying $120 to $140 worth of materials they thought would help them get federal postal jobs. *FTC v. U.S. Work Alliance, Inc.*, No. 08-CV-2053-WSD (N.D. Ga. June 19, 2008) (complaint).

[13] *FTC v. Career Hotline, Inc.*, No. 09-CV-1483-T17 (M.D. Fla. Aug. 4, 2009) (complaint).

"$11-$15/hour + benefits" was a five-digit "certificate registration number" or "CRN."[14] In truth, the CRN was a ruse used by Borges, allegedly to trick consumers to pay him $98 for a worthless credential for jobs that did not materialize. The Commission sought and obtained *ex parte* temporary restraining orders with asset freezes against both schemes.

The economic downturn has presented other opportunities for scammers seeking to capitalize on the misfortune of those who have seen their jobs disappear or their incomes slide. For example, as part of *Operation Short Change*, the FTC sued John Beck/Mentoring of America and Freedom Foreclosure Prevention Services, two fraudulent schemes using the home foreclosure crisis as fodder for their scams. The Commission charged that the defendants in John Beck/Mentoring of America marketed three get-rich-quick schemes, including how to buy and sell foreclosed real estate, and upsold coaching services for each of them. They allegedly made false and unsubstantiated claims about potential earnings for the users of the systems, duping hundreds of thousands of consumers into paying approximately $300 million since 2004.[15] In the complaint filed against Arizona-based Freedom Foreclosure Prevention Services, LLC ("Freedom Foreclosure"), the Commission alleged that the defendants falsely claimed that business opportunity purchasers – after paying a fee of approximately $1,500 – could easily earn $10,000 per month by simply referring homeowners for Freedom Foreclosure's loss mitigation services. In fact, the Commission charged, homeowners who turned to Freedom Foreclosure for help routinely lost their homes to foreclosures, and none of Freedom Foreclosure's 2,500

[14] *FTC v. Wagner Borges Ramos*, No. PJM 09-CV-1634 (D. Md. June 22, 2009) (complaint).

[15] *FTC v. John Beck Amazing Profits, LLC*, No. 09-CV-4719 (C.D. Cal. June 30, 2009) (complaint).

consultants earned the income they were promised for purportedly "helping" consumers out of foreclosure.[16] Other investment scams, such as the one the Commission alleged against an entity using the name Google Money Tree, simply lure consumers into divulging their financial account information using the false promise of a lucrative work-at-home opportunity.[17] Consumers who purchased the Google Money Tree work-at-home kit expected a small charge of $1.99, but what they got were months of recurring monthly charges they never authorized.

With the tightening of credit in the marketplace, sellers of advance-fee credit cards and debt relief services are also aggressively targeting consumers. As part of *Operation Short Change*, the Commission sued a network of companies, charging that the enterprise tricked consumers into paying hundreds of dollars for credit cards that could only be used to purchase goods from a limited number of online catalog websites.[18] Similarly, the Commission has focused on sellers of debt relief services. For instance, this past June, the Commission sued Mutual Consolidated Savings,[19] a company that allegedly used robocalls to deceptively telemarket a supposed "rapid debt reduction" program that promised to reduce consumers' credit card interest rates and save them money, but only drove them deeper into debt. In each of these

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[16] *FTC v. Freedom Foreclosure Prevention Services, LLC*, No. 09-CV-1167-PHX-PJM (D. Ariz. June 1, 2009) (complaint).

[17] *FTC v. Infusion Media, Inc.*, No. 2:09-CV-01112-RCJ (D. Ariz. June 22, 2009) (complaint).

[18] *FTC v. Group One Networks, Inc.*, No. 8:09-CV-0352-T-26-MAP (M.D. Fla. Feb. 25, 2009) (complaint).

[19] *FTC v. MCS Programs, LLC*, No. C09-5380RBL (W.D. Wash. June 25, 2009) (complaint).

cases, the Commission moved aggressively to halt the ongoing fraud by obtaining temporary restraining orders with asset freezes from federal courts around the country.

II. Law Enforcement Tools

A. Consumer and Business Education

In addition to the Commission's law enforcement activities, the agency reaches out to consumers to give them the tools they need to recognize and avoid fraud. In response to the recent economic downturn, the FTC developed several initiatives to help people manage their financial resources, avoid fraud, and be aware of emerging scams.

Because the announcement of a coordinated law enforcement sweep like *Operation Short Change* generates a great deal of attention from local and national media outlets, the Commission often uses sweep announcements to launch new consumer education campaigns and initiatives. For example, using *Operation Short Change* as a springboard, the Commission developed and released a video to educate the public on business opportunity fraud.[20] The video features a former con artist, Jim Vitale, describing the tools of the trade, including the techniques he used to rush consumers into sending their money. It provides a sobering glimpse into the lives of two individuals who lost money in business opportunity scams, and it gives consumers concrete advice on what they should do before investing in a business opportunity. As a result of significant coverage from national and local media outlets, the Commission's consumer protection message reached more than 35 million Americans.[21]

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[20] A*vailable at* http://www.ftc.gov/multimedia/video/scam-watch/fraud-inside-look.shtm.

[21] More than 160 stories about *Operation Short Change* aired on news stations across the country, and articles appeared in more than 30 print and online media sources.

Similarly, in conjunction with a federal-state crackdown on mortgage foreclosure rescue scam operators, the FTC produced a toolbox of mortgage-related resources for homeowners in distress; they are featured on a new web page at www.ftc.gov/MoneyMatters. Indeed, groups including NeighborWorks America, and the Homeowners Preservation Foundation – a nonprofit member of the HOPE NOW Alliance of mortgage industry members and U.S. Department of Housing and Urban Development-certified counseling agencies – are distributing FTC materials directly to homeowners at borrower events across the country, on their websites, in their statements, and even on the phone: when people call the nation's major mortgage servicers, they hear about the tell-tale signs of a mortgage foreclosure scam while they are on hold. Next month, the agency will distribute to thousands of community organizations, HUD certified housing counselors, and state attorneys general across the nation copies of a new video featuring the stories of real people who are working with legitimate counselors to save their homes from foreclosure.

The agency has focused outreach efforts on a number of other issues faced by people in economic distress, including stimulus scams, rental scams, church "opportunity" scams, offers for bogus auto warranties, and solicitations for phony charities that play on the public's concern for the welfare of our military troops and public safety personnel, especially at a time when budgets are shrinking.

Finally, in an effort to stem the number of false or misleading claims that consumers see, the agency has a publication for publishers and broadcasters to alert them to the kinds of claims – extravagant earnings promises, for example – that can signal a rip-off. The Commission also offers sample public service announcements that newspapers can run in the business opportunity

section of their classified section to remind readers to do their homework before buying a business opportunity.

B. Policy and Research Initiatives

To complement its law enforcement and educational initiatives, the Commission regularly conducts research to stay abreast of marketplace developments, and ensure the agency is best situated to prevent, deter, and halt consumer fraud. Toward these ends, the Commission has conducted two consumer fraud surveys, in 2003 and 2005, seeking to quantify fraud in the United States, and will continue to conduct research in 2010.[22]

More recently, to examine consumer fraud in depth, the Federal Trade Commission staff held a two-day Fraud Forum on February 25 and 26, 2009. In addition to federal, state and international law enforcers, staff invited consumer advocates, business representatives, criminologists and sociologists, all of whom share a keen interest in understanding fraud, and identifying ways to more effectively protect consumers from fraudulent schemes.[23] The purposes of the Forum were both to gain a greater understanding of fraud and the ways that fraud artists ply their trades, and to harness the collective knowledge and experience of Forum participants to advance anti-fraud initiatives.

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[22] Reports of the results of those two surveys, "Consumer Fraud in the United States: An FTC Survey, FTC Staff Report,"(Aug 2004) ("2003 Survey") and "Consumer Fraud in the United States: The Second FTC Survey, FTC Staff Report,"(Oct 2007) ("2005 Survey") are available at http://www2.ftc.gov/reports/consumerfraud/040805confraudrpt.pdf and http://www2.ftc.gov/opa/2007/10/fraud.pdf, respectively.

[23] Panelists and presenters at the Fraud Forum included 20 representatives from 16 federal, state, and international law enforcement or consumer protection agencies.

The Forum focused on the dynamics of fraud, including common traits of fraudsters and characteristics of victims in order to develop better methods of deterrence and prevention. As a reminder to law enforcement of the threat posed by the economic downturn, Jim Vitale, a former con artist who participated in the forum, aptly noted: "I'd have to say that the potential for business opportunity fraud is greater now than it would be in a booming economy . . . If the right marketing is done, it's [the] perfect storm."[24]

III. Conclusion

The economic downturn and the stimulus package have shown how quickly and easily fraudsters adopt schemes to take advantage of individuals in financial distress. The Commission is committed to using its law enforcement authority aggressively to bring these schemes to a halt, and to continue deploying public alerts and educational materials to help consumers avoid being victimized in the first instance.

Thank you for providing the Commission with the opportunity to appear before the Committee to describe its efforts in this critical area.

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[24] Federal Trade Commission, Fraud Forum, *Panel 1: Becoming a Scam Artist, Understanding the Victim: Exploring the Psychology of Scammers and Victims*, at 45-46 (February 25-26, 2009), transcript available at http://htc-01.media.globix.net/COMP008760MOD1/ftc_web/transcripts/022509_sess1.pdf.