

FRAUD AFFECTS EVERY COMMUNITY

October 29, 2014

Panel 5: Fraud Research: Building on Solid Data

- **James Greiner**, Harvard Law School
- **Billy J. Hensley**, National Endowment for Financial Education
- **Gary R. Mottola**, FINRA Investor Education Foundation
- **Ryan Sandler**, Bureau of Economics, Federal Trade Commission

Fraud Affects Every Community

Federal Trade Commission
October 29, 2014



Who Are the Victims?

“The evidence is mixed”

Variables examined...

- Age
- Gender
- Race
- Income
- Education

Could depend on type of fraud

The screenshot shows the Financial Fraud Research Center website. The header includes the Stanford Center on Longevity logo and the FINRA Investor Education Foundation logo. The navigation menu contains links for Home, About, Research, Resources, Updates, and Fraud News. A search bar is located in the top right corner. The main content area features a large banner for "The State and Future of Financial Fraud: 2011 Post-Event Resources" with a background image of a \$50 bill. Below the banner is a "RESEARCH" section with six article tiles: "Fraud News", "Introduction to Research", "Surveys and Data", "Research Archive", "Research Implications", and "Funding". To the right of the main content is a sidebar with a search bar, a "SEARCH RESEARCH ARCHIVE" section with filters for "2013 fraud news" and "Choose a Category", a "SIGN UP FOR UPDATES" section, a "FEATURED RESEARCH" section with links to "Financial Fraud and Fraud Susceptibility in the United States", "Scams, Schemes, & Swindles", and "Consumer Fraud in the United States", and an "OTHER RESOURCES" section with links for "Fraud Facts", "Law & Policy information", "Consumer Support", and "Graphs, Videos, & Other Multimedia".

Some New Data from the FINRA Foundation

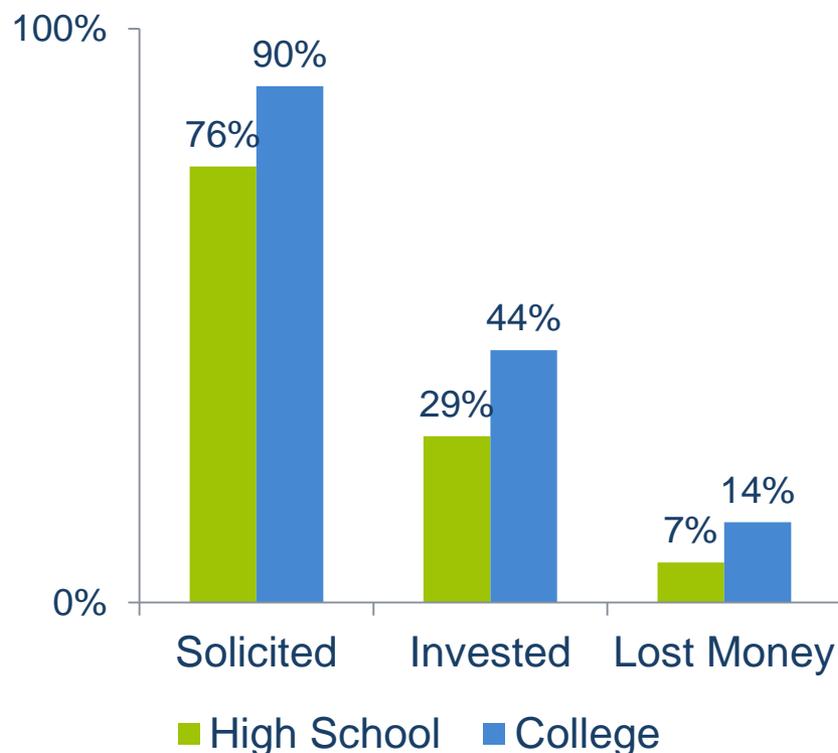
Older at Risk

Americans age 65 and older are more likely to be targeted

and 34% more likely to lose money once targeted than respondents in their 40s.



Education Level Related to Victimization



The Role of Race



STANFORD
CENTER ON
LONGEVITY

FINANCIAL FRAUD RESEARCH CENTER
RESEARCH IN BRIEF

THE IMPACT OF SURVEY CONTEXT ON SELF-REPORTED RATES OF FRAUD VICTIMIZATION

October 2014

Author:
Michaela Beals

Summary

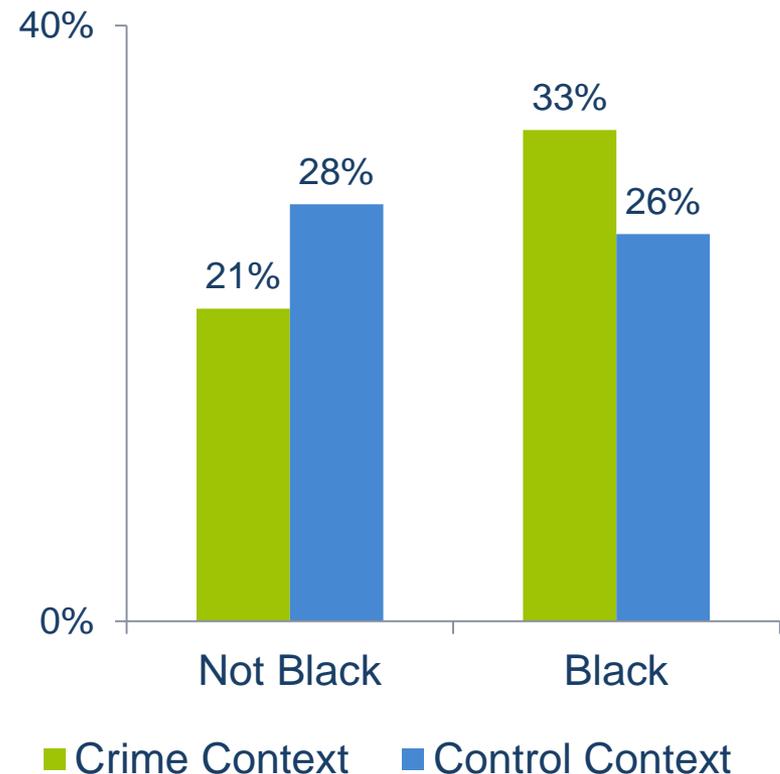
Using data from a survey of U.S. adults (n=3,000) ages 25 to 55, this study examines how survey context impacts reporting of personal financial fraud victimization. Prior evidence from other research domains suggests that the presentation, or context, of a survey can shape respondents' understanding of their task and their interpretation of individual questions in the survey. The current study is designed to explicitly test if survey "context"—defined as the survey title, stated purpose, and a set of six prior items—has an effect on self-reporting of fraud victimization. The study uses an experimental design to compare self-reported fraud victimization among

What's Inside:

Summary 1

Intro & Background 2

Blacks Respond Differently



Does Education Work?

The FINRA Foundation's *Outsmarting Investment Fraud* Program Reduces Response to Fraudsters



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Interpreting New Research: Timely and Relevant Education

Billy J Hensley, PhD

National Endowment for Financial Education

Premise of the Study

- **Examining Financial Education: How Literacy and Interventions Affect Financial Behaviors**

- “What is the connection between financial education, financial literacy, and the choices that people make about their finances?”

- *John G. Lynch, PhD, University of Colorado-Boulder; Daniel Fernandes, PhD, Erasmus University; and Richard G. Netemeyer, PhD, University of Virginia*

Premise of the Study

- Meta-Analysis
 - Drew data from published results
 - Solicited additional information from study authors as needed
 - Creates a single measure for comparing studies
- 201 studies
- 585,168 participants
- Recoded data in the original studies to homogenize variables and scales

Premise of the Study

- 15 studies that documented behavior (RCT)
- 75 studies that documented behavior (non-RCT)
- 24 studies exploring links between behaviors and existing financial literacy (advanced statistics)
- 87 studies exploring links between behaviors and existing financial literacy (basic statistics)

Context for the Study

- Few people question the need for consumer savvy in today's world of personal finance.
- What does spark debate is how to build financial literacy in ways that lead to healthier financial behaviors.
- This debate is magnified due to the lack of agreement and evidence about what works.

Context for the Study

- Findings vary widely when researchers investigate the strength and dynamics of the relationship between knowledge and how it affects their financial behaviors.

Key Findings

- 1. The amount and timing of financial education matters**
- 2. Behaviors and literacy as measured to date are weakly linked**
- 3. Findings from past investigations merit revisiting**

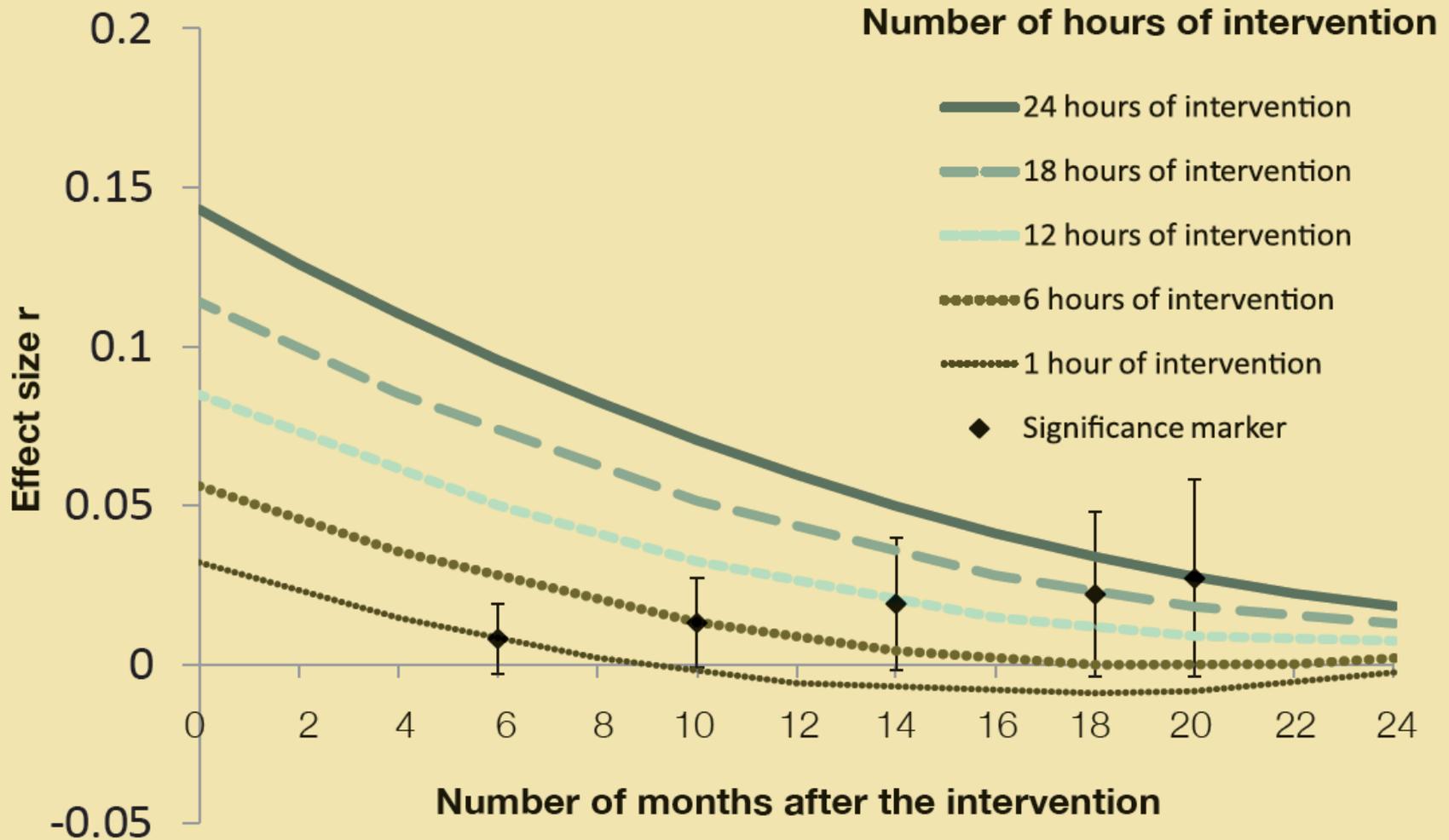
The Amount and Timing of Financial Education Matters

- The impact of education on behavior varies with how much education people receive and when they get it in relation to relevant decisions or behaviors.
- Large interventions with many hours have larger effects than short interventions —at least if behavior is measured soon after the intervention.

The Amount and Timing of Financial Education Matters

- Effects on behavior from all types of interventions are larger when measured right after the intervention than after a delay.
- The data show eventual diminishing returns as time elapses.

The Case for Timely Financial Education



The Challenge

- How do we define “timely” and “relevant” in our work?
- How do we deliver education close to the point in time when those receiving the education might act on it?

A Question for Consideration

- Based on these data:
 - *Should financial education take place throughout life and always link to an upcoming financial decision?*

Behaviors and Literacy as Measured to Date Are Only Slightly Linked

- Approximately 0.1% of the variability in whether people perform healthy or unhealthy financial behaviors is explained by whether or not they were given a financial literacy intervention.
 - ***An effect size below 0.1% is small. Effect sizes at 0.4% and above are large.***

Encouraging and Troubling Points

- The strongest findings among those that involved high school instruction report the largest effect size.
- Effects were slightly lower for studies of low-income consumers in relation to the general population.

A Question for Consideration

- Should more research of financial education focus on the examination of pedagogical best practices and the means for implementing them to raise the effectiveness of intervention based education?

Past Investigations Merit Revisiting

- The impact of education in this study is lower than interventions in comparable domains, such as workplace education or career counseling.

Past Investigations Merit Revisiting

- The lifetime of education may have more impact than what is seen in single-dose interventions.
 - *EXAMPLE: 20 years of advertising has more effect than exposure to a single billboard.*

Past Investigations Merit Revisiting

- A new study suggests that finance-relevant traits are wild cards not properly accounted for in past investigations.
 - Propensity to plan for the use of money
 - Confidence in one's ability to find relevant financial information

Implications for Financial Educators

1. Due to the impact of timing, identify teachable moments
2. Learn from those who have demonstrated greater impact
3. Share effective interventions and best practices
4. Use research findings to guide practice

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Knowing When to Quit: Demographics and Notifications

Ryan Sandler

FTC

October 29, 2014

Any opinions expressed in this presentation are my own and do not necessarily represent the views of the Federal Trade Commission

Suntasia Marketing

- ▶ Telemarketing fraud
 - ▶ Callers pretended to be from consumer's bank
 - ▶ Tried to "confirm" account information to determine "eligibility"
- ▶ Sold essentially worthless subscriptions
- ▶ \$172 Million in Sales

Joe Smith
1234 Anystreet Court
Anycity, AA 12345

1234

Pay to the order of _____

_____ Dollars

Bank Anywhere

|| 123456789 || 123456789123 || 1234

Routing Number Account Number Check Number

Notification Letters

- ▶ FTC Lawsuit filed July 23, 2007
 - ▶ Control of Suntasia handed over to a receiver, who shut it down.
- ▶ During litigation, company wanted to resume billing consumers
- ▶ Over FTC objections, Judge approved a plan to send “opt-in” and “out-out” letters

Opt-in/Out-out Letters

Product Letterhead

NOTICE OF CANCELLATION RIGHT

Date

Our records show that you are a member of (Product name) and this is an important notice to you regarding that membership. On July 23, 2007 (Product name) was sued by the Federal Trade Commission in the United States District Court in Tampa, Florida. The Court appointed a Temporary Receiver to take control of operations. As a result, your checking account has not been charged for your membership in (Product name) since late July, 2007.

(Product name) and the Temporary Receiver have developed a business plan to manage future operations of the company.

The business plan is set up to automatically continue your membership unless you decide to cancel it. If you continue your membership, (Product name) will resume charging your checking account the monthly fee of \$ in the near future. **Please respond to this notice within 20 days from the postmark date of this notice.**

(Product name) has been upgraded with additional discounts and benefits. A description of those discounts and benefits is attached to this notice.

If you wish to cancel your services and your membership please complete the information below and mail the notice to us in the enclosed self-addressed envelope. You may also cancel your services and your membership by calling 1 800.....

Product Letterhead

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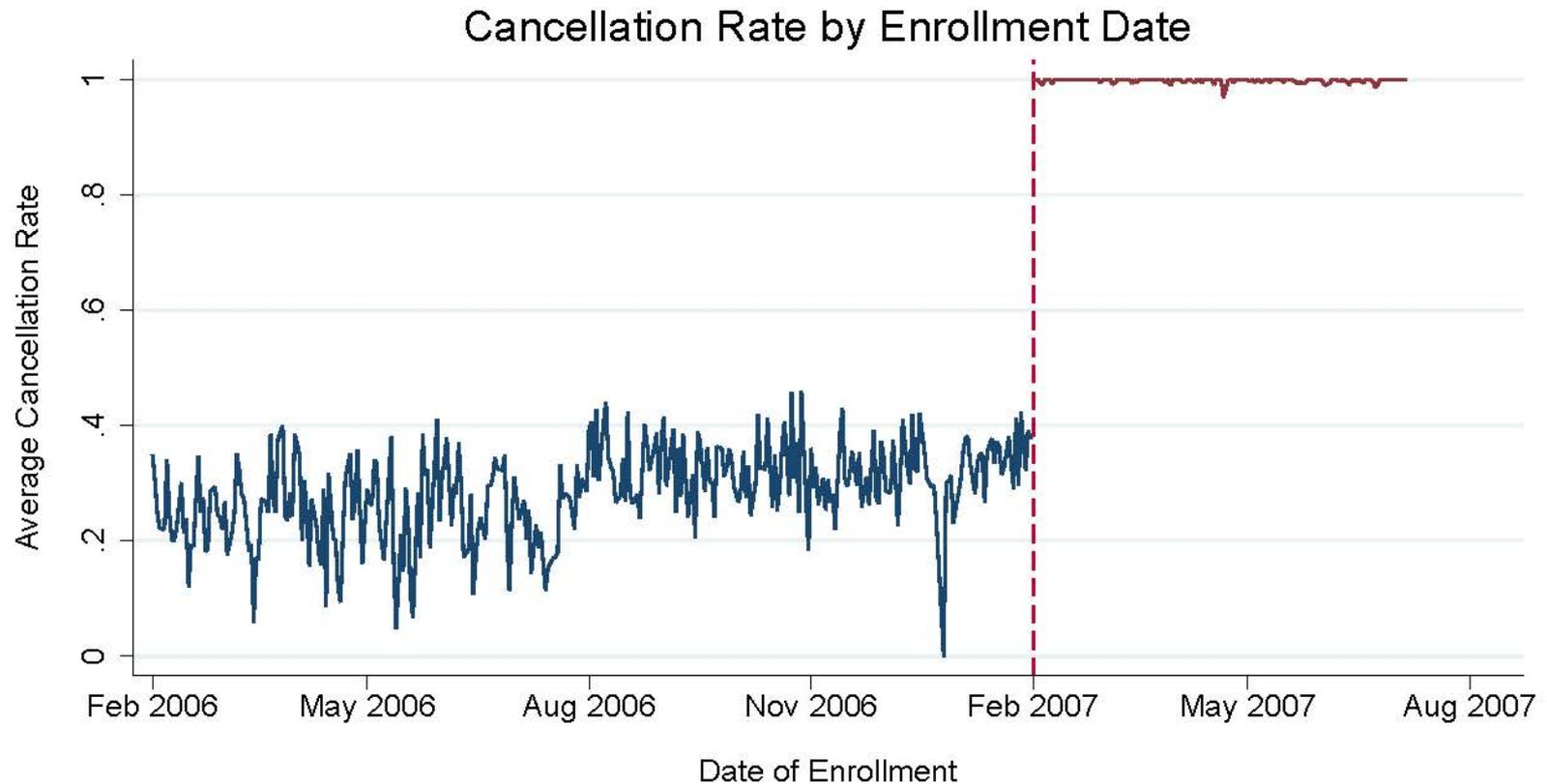
(Product name) and the Temporary Receiver have developed a business plan to manage future operations of the company.

The business plan is set up to automatically cancel your membership unless you decide to continue it. If you continue your membership, (Product name) will resume charging your checking account the monthly fee of \$ in the near future. If you do nothing, your checking account will not be charged and your membership will be cancelled.

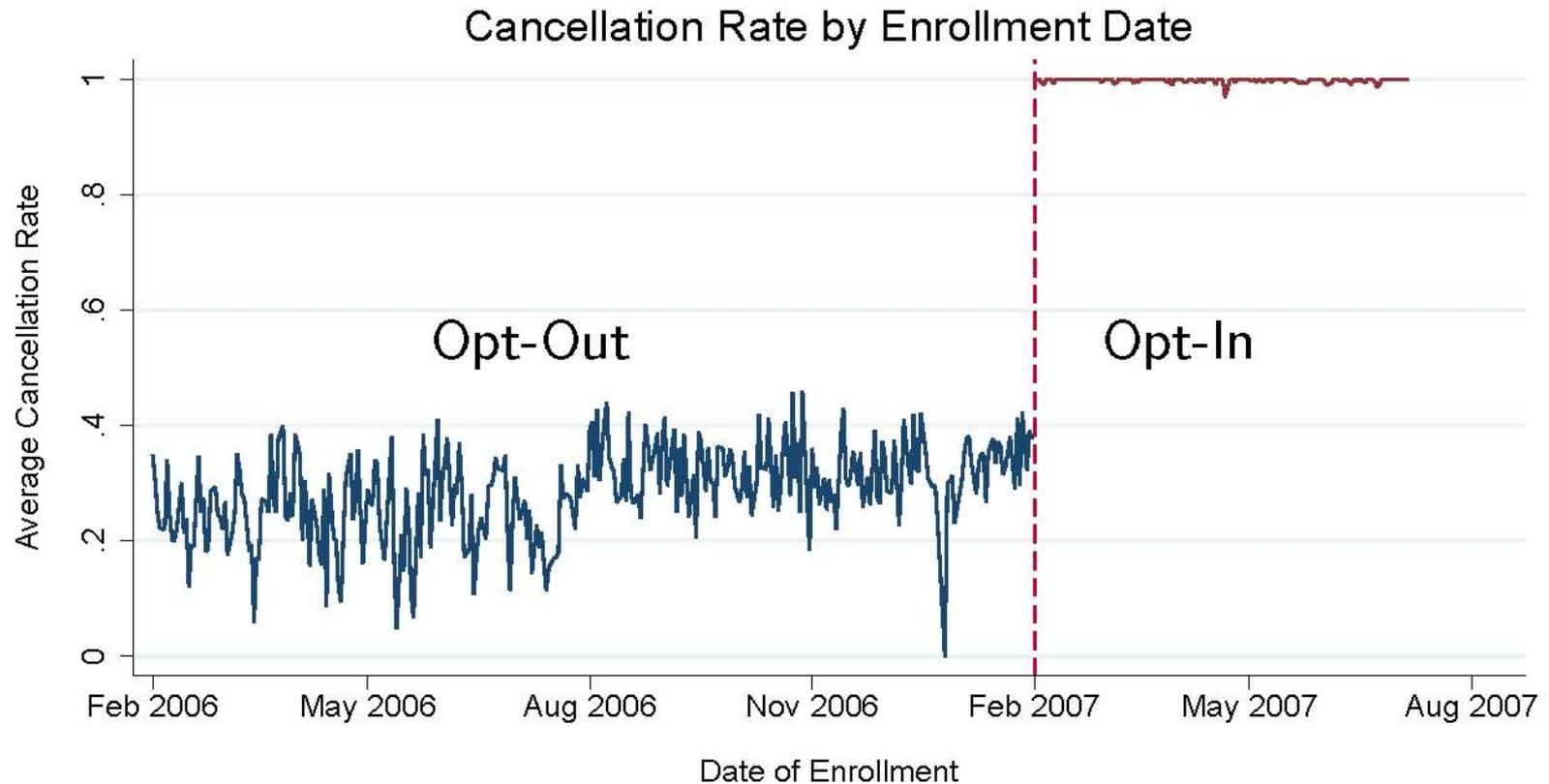
(Product name) has been upgraded with additional discounts and benefits. A description of those discounts and benefits is attached to this notice.

If you wish to continue with your services and your membership please complete the information below and mail the notice to us in the enclosed self-addressed envelope. You may also continue your services and your membership by calling 1 800.....

Responses to the Opt-in/Opt-Out Letters



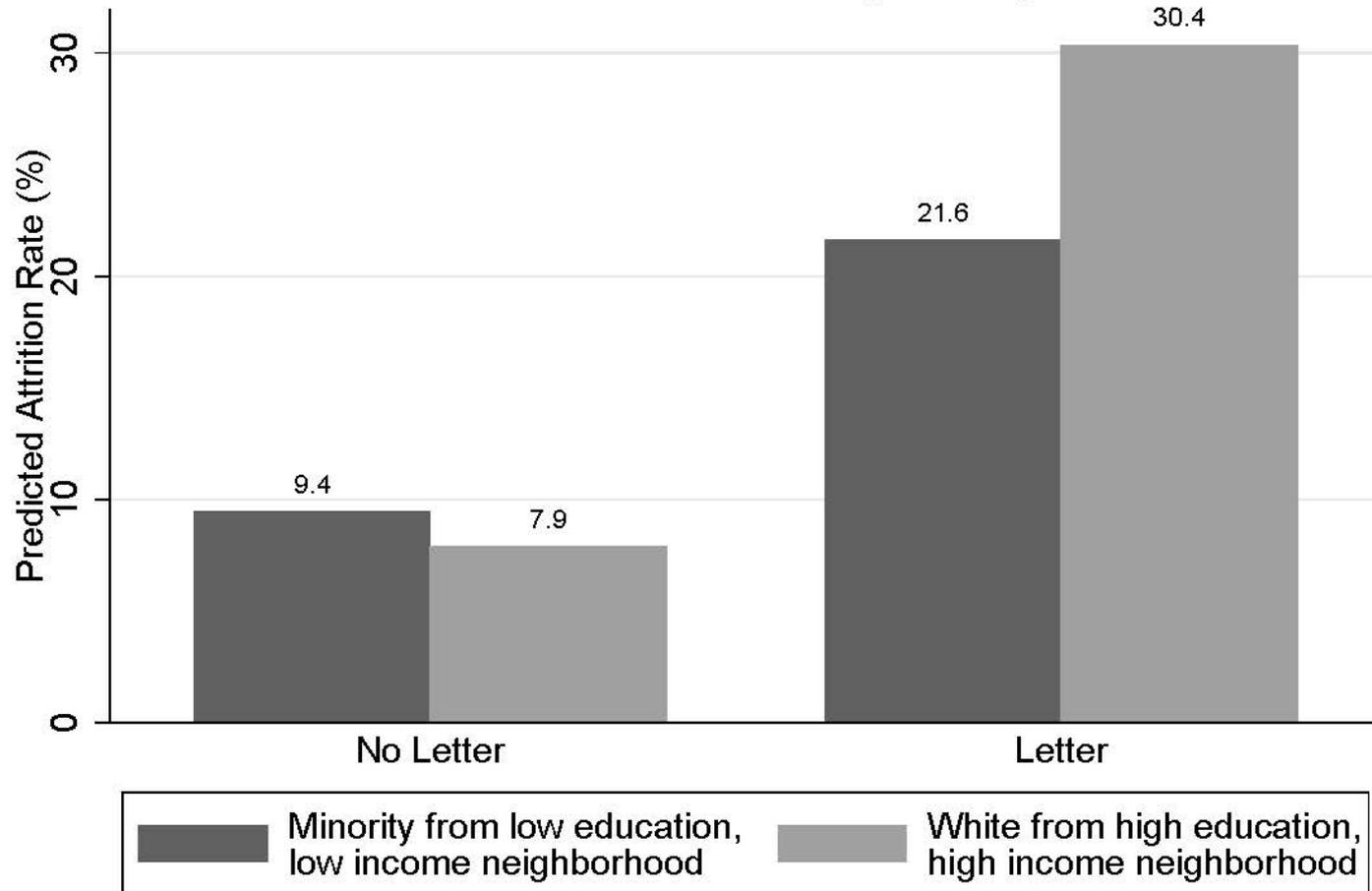
Responses to the Opt-in/Opt-Out Letters



How Did the Opt-Out Response Vary By Demographic Groups?

- ▶ Suntasia Database did *not* contain consumer demographics
- ▶ We used aggregate demographics from the US Census based on address
 - ▶ Income, Education by Census Block Group (Areas with 600-3000 people)
 - ▶ Homeownership, race/ethnicity by Census Block (39 blocks/group)
 - ▶ Supplement race/ethnicity with last name frequencies
- ▶ Note: These are neighborhood characteristics, and all highly correlated with each other

Predicted Attrition From Receipt of Opt Out Letter



For more, see:

Letzler, Robert and Sandler, Ryan and Jaroszewicz, Ania and Knowles, Isaac T and Olson, Luke, “Knowing When to Quit: Default Choices, Demographics and Fraud” (October 8, 2014).

Available at SSRN: [http:](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2512276)

[//papers.ssrn.com/sol3/papers.cfm?abstract_id=2512276](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2512276)

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Remedying Financial Distress: What Works?

Jim Greiner

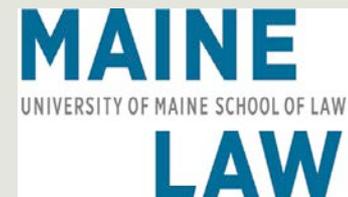


HARVARD
LAW SCHOOL

Dalié Jiménez



Lois R. Lupica



Debt Collection, Debt Management: Some Contradictions

■ Debt collection litigation

- ❑ Excellent defenses available to consumer/defendants
 - Debt buyer plaintiff: lack of proof of ownership of the debt
 - Any plaintiff, credit card debt: lack of proof that amount correct . . .
But . . .
- ❑ Default rates in many courts > 90%

■ Management of debt

- ❑ Programs to help consumers pay (e.g., medical debt); bargaining can also work . . . **But** . . .
- ❑ Programs underutilized, bargaining infrequently attempted

■ Bankruptcy system

- ❑ Discharge can provide clean financial slate, ease stress, *renew (!)* access to credit . . . **But** . . .
- ❑ Most economists think bankruptcy underutilized

Result: Consumers Vulnerable to Fraud

▣ Debt collection litigation

- ▣ Robo-signing of lawsuits, affidavits
- ▣ Filing lawsuit w/ intent to “pursue” only if defendant defaults

▣ Debt management

- ▣ Some debt settlement companies
- ▣ Some debt management companies

▣ Bankruptcy

- ▣ Some “bankruptcy assistance providers”
- ▣ Some collectors harass until payment from immune assets, income streams

Why????

Hypothesis

Individuals in financial distress have trouble *deploying* professional (legal and financial) knowledge due to problems stemming from

- ▣ Cognitive, emotional, behavioral, and psychological challenges
- ▣ Debilitating feelings of shame, guilt, or hopelessness
- ▣ Lack of self-agency
- ▣ Failures in plan-making and plan-implementation

Example # 1

- Q: How did you feel about coming to court [on a debt collection suit]?
- A: *I felt nervous because this is my first time. It feels like you are being scolded. I'm pretty sure if we had money, we wouldn't be here. ...*

Example # 2

- Q: How did you feel when you were first notified of the lawsuit in the summons and complaint?
- A: *Awful. [Speaking about when she was served ...] I was at work and I had to go outside the building to talk to the sheriff. It was embarrassing.*

Hypothesis: How To Provide Self-Help Info

❑ Not enough to provide information

❑ Must provide **self-help materials**

❑ At right time

❑ In understandable format

- Cartoons!!! (NOT photographs)
- Writing: short, choppy sentences; simple vocabulary; forget grammar

❑ In way that relaxes, encourages, affirms, entertains, and induces self-agency

❑ That distills to do's and don't's (eliminate judgment)

❑ From a trusted source

But Who Knows How To Do All This?

- **Adult education:** e.g., how to communicate complex ideas
- **Psychology:** e.g., how to affirm a sense of self, self-agency
- **Public health:** e.g., how to get people to attend an unpleasant event (like a flu shot clinic)
- **Behavioral economics:** e.g., how to get people to make, implement plans
- **Sociology:** e.g., how to combat paralysis from austere courtroom setting

What Legal Research Contributes

From Statistics: Testing, Testing

□ During construction of self-help materials

- Gathering initial statistics (e.g., default rates in debt collection)
- Interviews with members of population
 - Information on challenges they face
 - Feedback on specific materials

□ After construction: randomized control trials!!! Here:

- Debt collection only: Boston Municipal Court
- Much larger, more aggressive: Maine

From Statistics: Testing, Testing

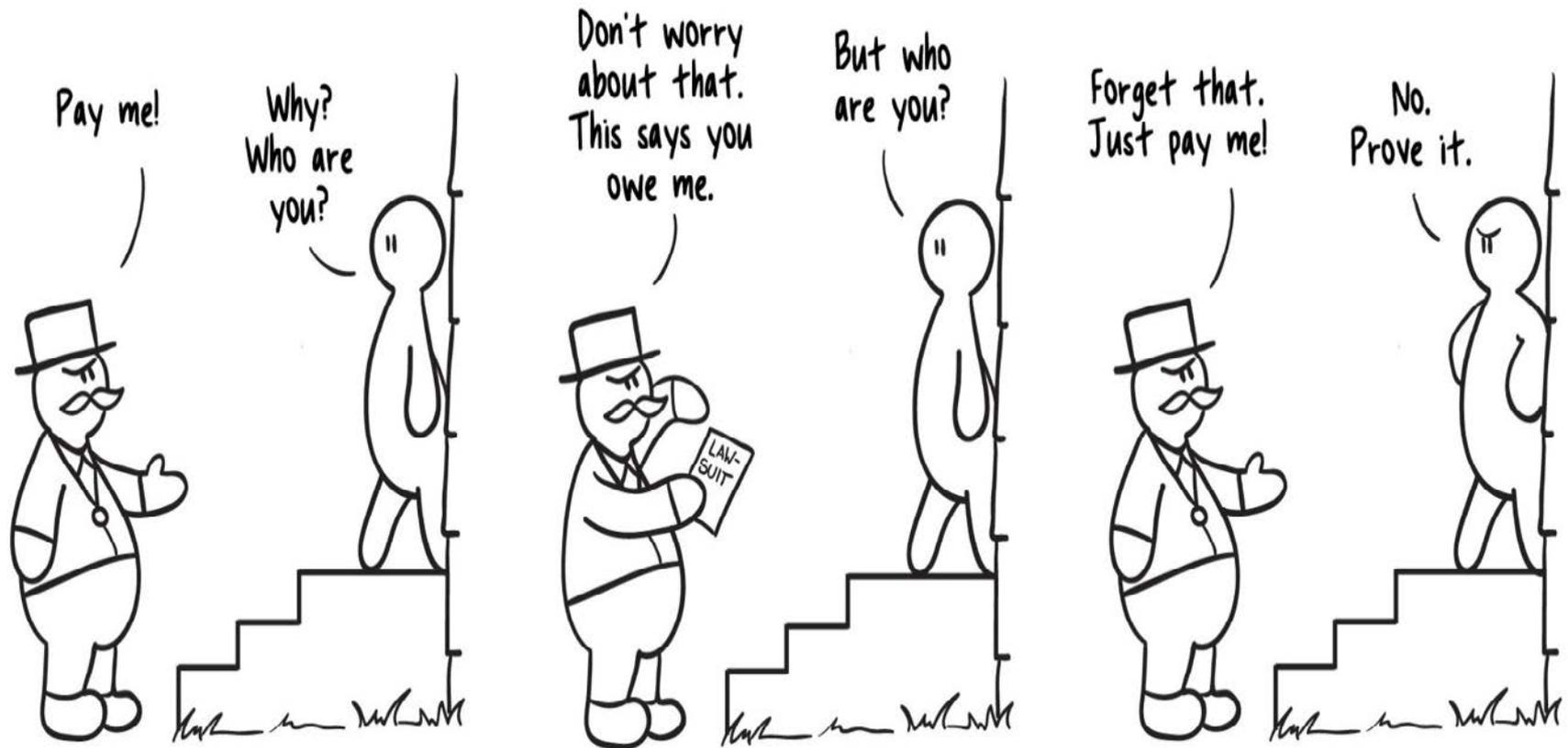
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Address Emotion-Based Paralysis: Spur To Action!



From Psychology: Self-Affirmation

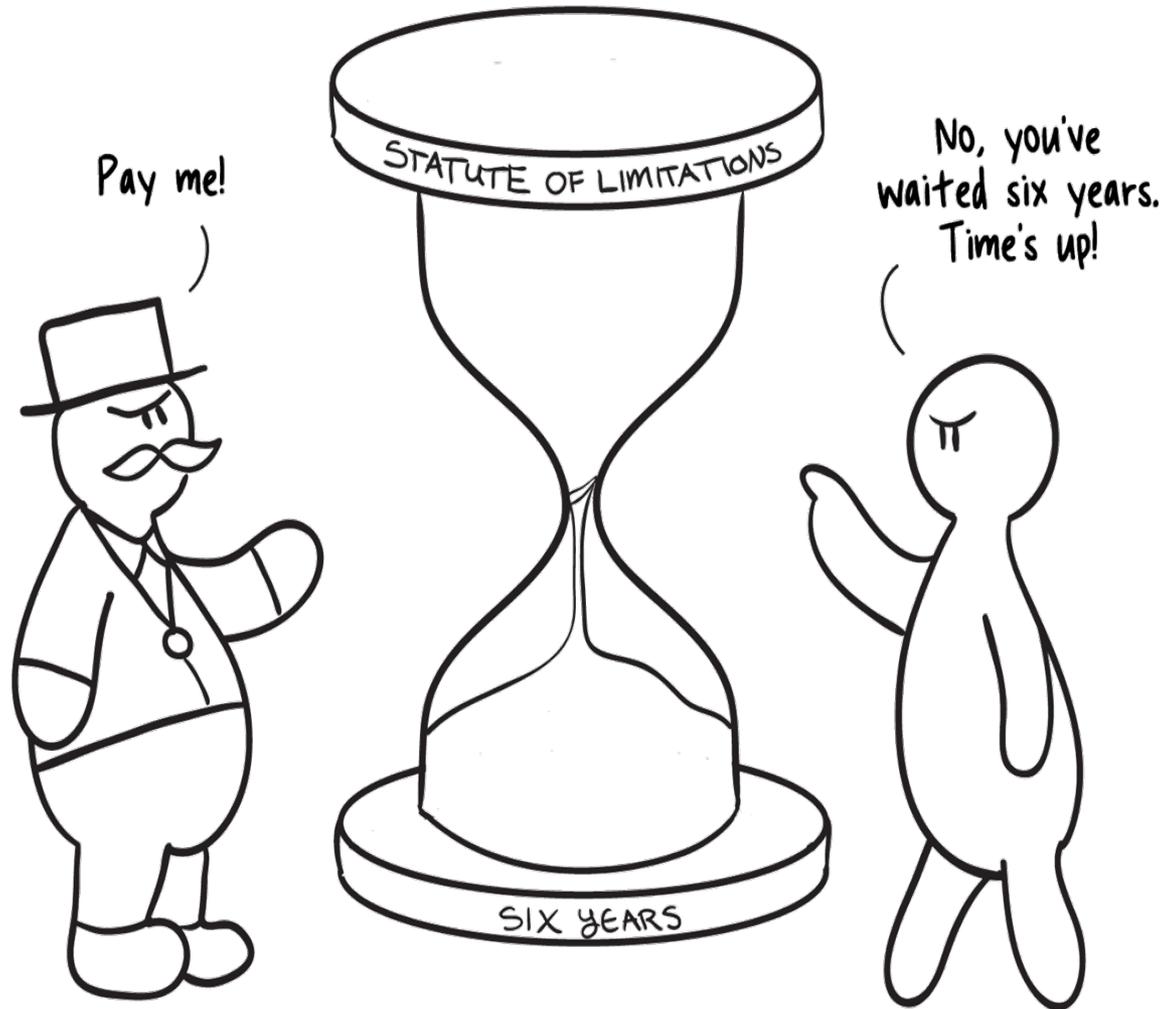
Pick some words that describe you.

Maybe some of these:

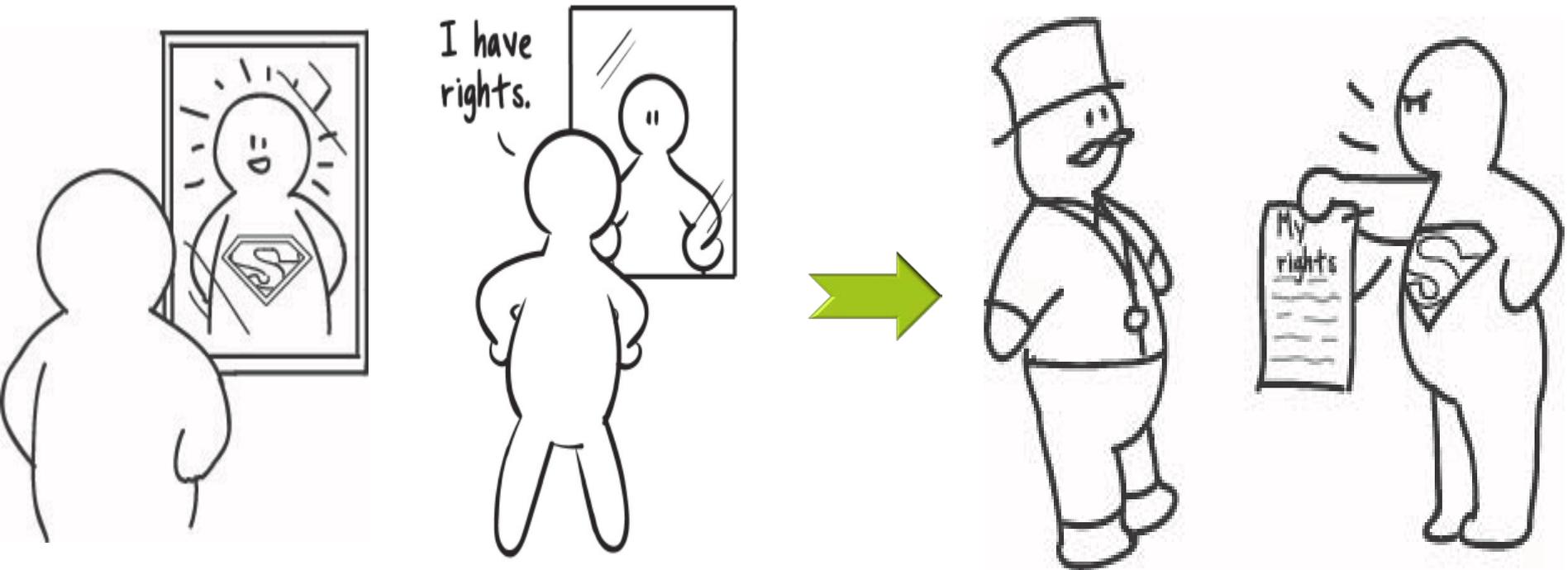
- Kind
- Giving
- Fair
- Honest
- Hard-working



Using Analogies



Instill Willingness to Assert Position



Instill Willingness to Assert Position

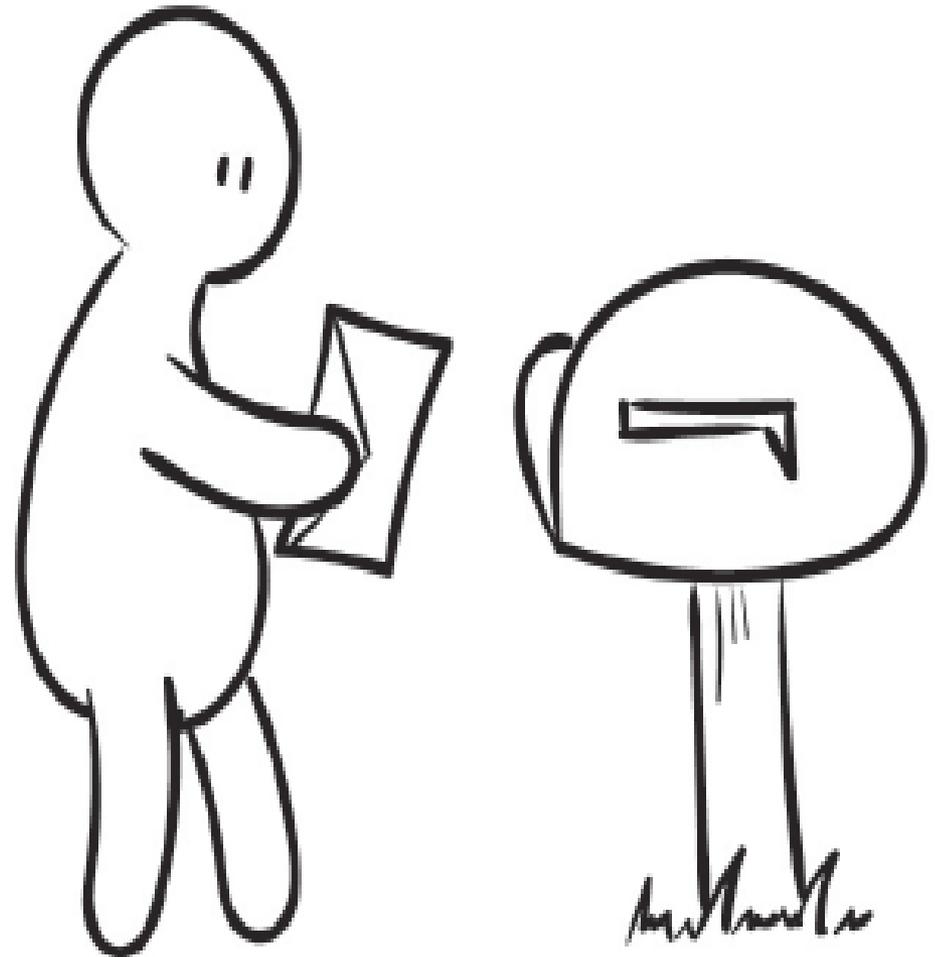


Plan & Intention Implementation Techniques

When do you go to court? The court will mail you a letter telling you when to go.

So, watch for a letter from the court.

The letter will say "*Notice of Small Claims Hearing*" at the top.



Find the court date and time from the Notice.

Plan to be at the court all day!

STATE OF MAINE

Location: MACHIAS DISTRICT COURT
Docket No. MACDC-SC-2014-12345

NOTICE OF
SMALL CLAIMS HEARING

You are hereby notified that the hearing in this small claims action will be held on 07/07/2014 at 09:00 a.m. at the District Court located at:

MACHIAS DISTRICT COURT
85 COURT STREET
MACHIAS ME

_____ *[Signature]*

Find the amount they say you owe.

Do you remember this amount?
Are you sure that it's right?

STATE OF MAINE

Location: MACHIAS DISTRICT COURT
Docket No. MACDC-SC-2014-12345

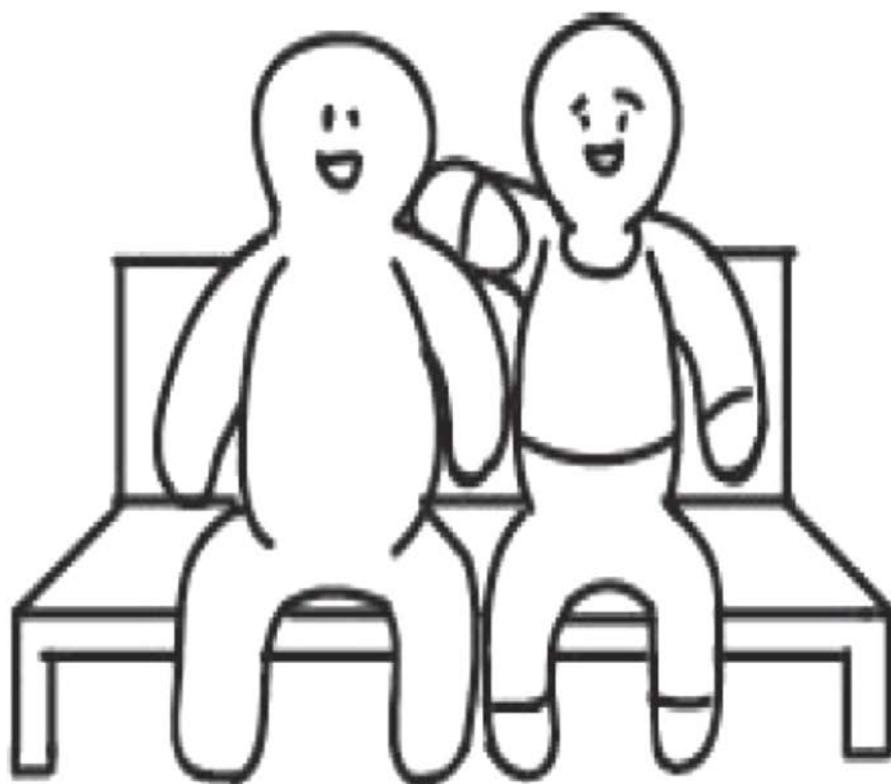
STATEMENT OF CLAIM
(Small Claims)

Defendant owes Plaintiff the principal balance of \$2,222.22, plus interest in the amount of \$2,000.00.

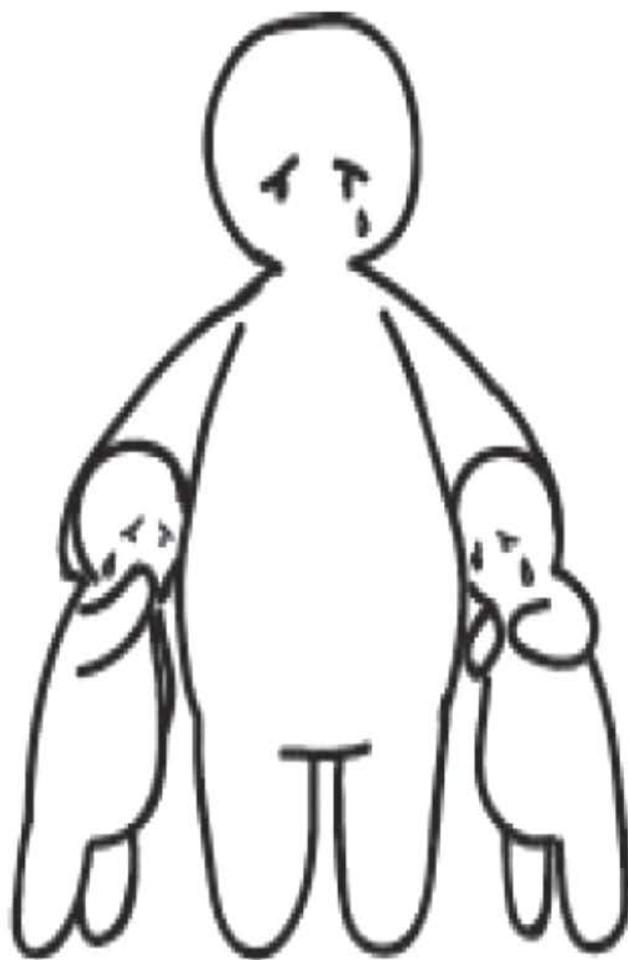
_____ *[Signature]*

Find the court address.

Plan how to get to court early in the morning!



Bring a friend or family member to court with you.



Remember, if the lawyer gets what they want, it could hurt your entire family.

From Statistics: Testing, Testing

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□ After construction: randomized control trials!!! Here:

- Debt collection only: Boston Municipal Court
- Much larger, more aggressive: Maine



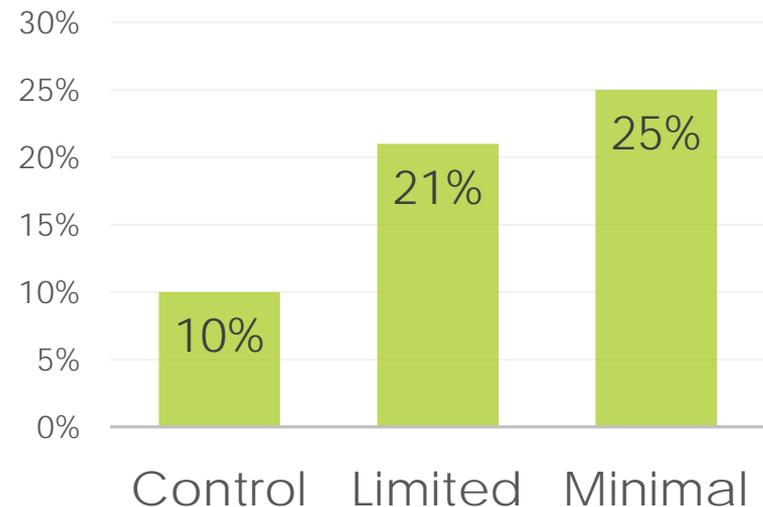
Boston Study

- ▣ **Boston Municipal Court:** 90% default rate, consumer debt collection cases
- ▣ **Study question:** what mailings get consumers to “answer” (file legal paper responding to) lawsuit?
- ▣ **Three groups:**
 - ▣ Control: no mailing
 - ▣ Limited: package containing cartoon-based letter with psychological techniques as above, 3 answer forms, envelopes, map to courthouse
 - ▣ Maximal: same as “Limited” plus postcard the day before and stamps on envelopes

Results: Boston Study

- Statistically significant differences between control and interventions ($p < 0.01$)
- Limited group has about the same answer rate as Maximal.
- Key appears to be letter, not stamps or postcard.

Boston Municipal Court: Answer Rates



Boston Study

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Definitions / Population

- **Financial distress**
 - Consumers (who meet Pine Tree income/asset limits) sued on credit card collection action

- **“Improve financial lives” (outcomes)**
 - Credit scores
 - Credit attributes
 - e.g., number of overdue accounts, available credit, etc.
 - Perceived stress
 - Financial knowledge

Treatment Group (“new drug”)

- ▣ **Self-help packet** containing all information needed for consumer to help herself to:
 - ▣ Defend collection lawsuit
 - ▣ Negotiate with creditors outside of court for other debts
 - ▣ Obtain and correcting credit reports
 - ▣ Filing a no-asset Chapter 7 bankruptcy case

Controls (“old drugs”)

- **Offer of an attorney** to help consumer:
 - Defend lawsuit
 - Negotiate other debts
 - Correct credit report
 - File no-asset Chapter 7 (if appropriate)

- **Incentive (\$) to undergo financial counseling**
(of the type required in bankruptcy)
 - 2 hour course
 - Aim is to help consumer learn enough financial skills so they don't have to file bankruptcy again

Randomized Treatment Groups (300 People/Group)

Treatment Group

- Incentive (\$), placebo counseling
- Assistance packet + telephone advice

Financial Counseling Only

- Incentive (\$), financial counseling
- Assistance packet + telephone advice

Lawyer Only

- Incentive (\$), placebo counseling
- Offer of attorney representation

Both Financial Counseling and Lawyer

- Incentive (\$), financial counseling
- Offer of attorney representation

Self-help v.
attorney
representation

Treatment Group

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- Assistance packet + telephone advice

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Financial counseling v. Placebo counseling

```
graph TD; A[Financial counseling v. Placebo counseling] --- B[Treatment Group]; A --- C[Financial Counseling Only]; A --- D[Lawyer Only]; A --- E[Both Financial Counseling and Lawyer]
```

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Both Financial Counseling and Lawyer

- Incentive (\$), financial counseling
- Offer of attorney representation

Control group

Post Randomization

- ▣ **Follow consumers** for at least 3 years after enrollment
 - ▣ Credit report following is easy, only need consent once
- ▣ **Survey** at enrollment, year 1, year 2
 - ▣ Harder to follow (might move)
 - ▣ At enrollment, ask for two contacts, call them, assure willing to help us reach person consumer; call again in years 1 and 2

Thank you



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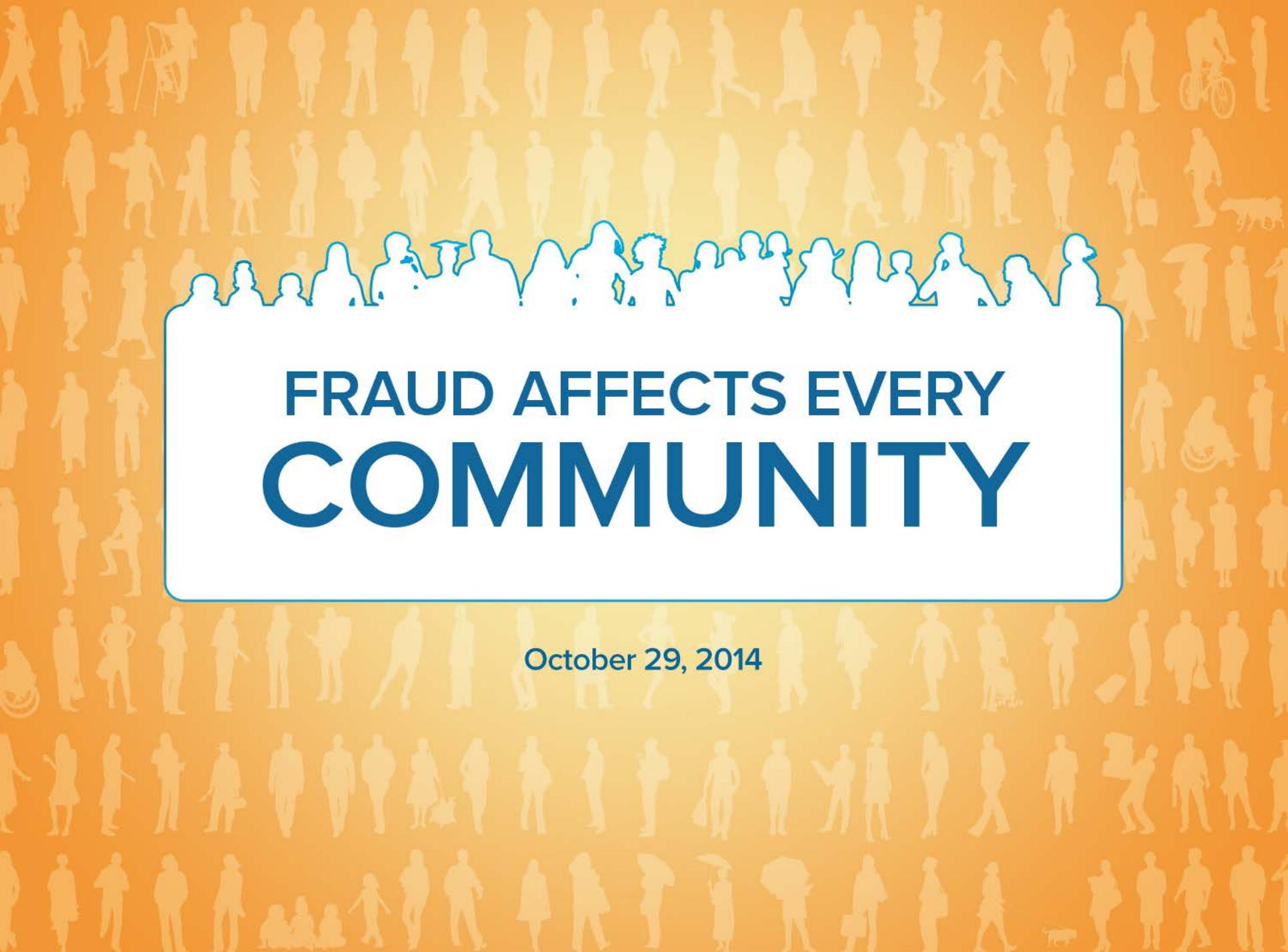
Wrap Up

Monica Vaca

Assistant Director

Division of Marketing Practices

Federal Trade Commission



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