

**IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION**

_____)	
FEDERAL TRADE COMMISSION,)	
)	
Plaintiff,)	Civil Action No.
)	
v.)	
)	
MONEYGRAM INTERNATIONAL, INC.,)	
)	
Defendant.)	
_____)	

COMPLAINT FOR INJUNCTIVE AND OTHER EQUITABLE RELIEF

Plaintiff, the Federal Trade Commission (“FTC” or “the Commission”), for its complaint alleges as follows:

The FTC brings this action under Sections 13(b) and 19 of the Federal Trade Commission Act (“FTC Act”), 15 U.S.C. §§ 53(b) and 57b, and the Telemarketing and Consumer Fraud and Abuse Prevention Act (“Telemarketing Act”), 15 U.S.C. § 6101, *et seq.*, to obtain permanent injunctive relief, rescission or reformation of contracts, restitution, the refund of monies paid, disgorgement of ill-gotten monies, and other equitable relief against the Defendant relating to its failure to take timely, appropriate, and effective measures to mitigate fraud in connection with its processing of money transfers sent by U.S. consumers. Defendant’s acts and practices violate Section 5(a) of the FTC Act, 15 U.S.C. § 45(a), and the FTC’s Trade Regulation Rule entitled “Telemarketing Sales Rule,” 16 C.F.R. Part 310.

JURISDICTION AND VENUE

1. This Court has subject matter jurisdiction pursuant to 15 U.S.C. §§ 45(a), 53(b), 57b, 6102(c), and 6105(b), and 28 U.S.C. §§ 1331, 1337(a), and 1345.

2. Venue in the United States District Court for the Northern District of Illinois is proper under 15 U.S.C. §§ 53(b) and 6105(b), and 28 U.S.C. § 1391(b) and (c).

PLAINTIFF

3. Plaintiff, the FTC, is an independent agency of the United States Government created by statute. 15 U.S.C. §§ 41-58. The FTC is charged, *inter alia*, with enforcement of Section 5(a) of the FTC Act, 15 U.S.C. § 45(a), which prohibits unfair or deceptive acts or practices in or affecting commerce. The FTC also enforces the Telemarketing Sales Rule, 16 C.F.R. Part 310, which prohibits deceptive or abusive telemarketing acts or practices. The FTC is authorized to initiate federal district court proceedings, by its own attorneys, to enjoin violations of the FTC Act and the Telemarketing Sales Rule, and to secure such equitable relief as may be appropriate in each case, including rescission or reformation of contracts, restitution, the refund of monies paid, and the disgorgement of ill-gotten monies. 15 U.S.C. §§ 53(b), 57b, 6102(c), and 6105(b).

DEFENDANT

4. Defendant MoneyGram International, Inc. (“Defendant” or “MoneyGram”), is a Delaware corporation headquartered at 1550 Utica Avenue South, Minneapolis, Minnesota 55416. MoneyGram transacts or has transacted business in the Northern District of Illinois and throughout the United States.

COMMERCE

5. At all times relevant to this complaint, Defendant has maintained a substantial course of trade in or affecting commerce, as “commerce” is defined in Section 4 of the FTC Act, 15 U.S.C. § 44.

BACKGROUND

Defendant's Money Transfer System

6. Defendant offers money transfer services to consumers worldwide through a network of approximately 180,000 agent locations in 190 countries and territories. Defendant is the second largest money transfer service company in the United States, after Western Union.

7. Consumers wishing to send funds using Defendant's money transfer system may initiate a transaction by going to one of Defendant's agent locations, completing a "send form" designating the name of the recipient and the city, state/province, and country where the money transfer is to be sent, and providing the agent with the amount to be sent in cash. For transfers of \$900 or more, the sender must visit one of Defendant's agent locations, in person, to complete the transfer. For transactions of up to \$899.99, consumers also have the option of sending an eMoney transfer over the Internet to over 170 countries and territories using MoneyGram's eMoney Transfer Same Day Service and paying either by credit card or bank account debit.

8. Consumers must pay a transaction fee to Defendant. The fee varies depending upon the amount being sent. According to Defendant's Web site, consumers must pay a \$60 transaction fee to transfer \$1000 from the United States to Canada using Defendant's money transfer system.

9. As of February 2007, for money transfers sent by consumers in the United States, recipients can collect the transferred funds at any agent location within the receiving country designated by the sender at the time the money transfer is initiated. Prior to February 2007, recipients were able to collect the transferred funds at any agent location worldwide.

10. Prior to disbursing funds to recipients, Defendant's agents are required to make recipients complete a "receive form." For money transfers of less than \$900, the sender has the

option of using a “Test Question and Answer,” enabling the recipient to claim the funds without presenting government-issued photo identification by correctly answering the sender’s test question. For amounts of \$900 or more, Defendant’s policies require that agents verify the recipient’s identity “by examining a document that contains the person’s name, address and preferably photograph, such as a driver’s license, passport, alien identification card or other government issued documents verifying nationality or residence.”

11. While Defendant’s agents can initiate money transfers through computer terminals at their various locations, all money transfers between agent locations are channeled through a centralized computer system controlled by Defendant. It is this system that coordinates and makes funds available to successfully complete the transaction, and both sending and receiving agents must have active accounts within Defendant’s system to conduct money transfers.

12. Funds transferred through Defendant’s system can be available to recipients within as little as ten minutes of the sender’s transfer. Once Defendant’s agents have disbursed the funds, the sender cannot obtain a refund of the amount transferred even if the sender is the victim of fraud. Unlike with credit card charges, consumers who send money transfers through Defendant’s system cannot obtain chargebacks from Defendant.

Defendant’s Contractual Relationships With Its Agents

13. Defendant requires that its agents sign a written contract in order to become agents and process money transfers on behalf of Defendant. Defendant pays its agents an agreed-upon commission for completing money transfer services on Defendant’s behalf.

14. Defendant’s agents in Canada enter into an “International Money Transfer Agreement” with Defendant under which the agents are “authorized to provide Money Transfer

Services at the [agent locations] in strict accordance with applicable laws, rules, regulations, and terms and conditions of this Agreement.”

15. Defendant’s agents in the United States enter into a “Master Trust Agreement,” under which the agents are authorized to sell Defendant’s products and services, including money transfer services, by executing a “Money Transfer Attachment.” Under the terms of both agreements, Defendant’s agents agree, in part, to: (a) comply with all applicable laws, including those “relating to . . . the prevention of money laundering;” (b) “take such actions as reasonably requested by [Defendant] to prevent fraudulent” transactions; (c) “prominently display” Defendant’s signs; and (d) maintain records for a specified period of time.

16. Defendant’s International Money Transfer Agreement also provides that Defendant has the right to inspect its agents’ books and records to determine whether its agents are in compliance with Defendant’s policies and procedures and any applicable laws relating to money laundering.

17. Under the International Money Transfer Agreement, Defendant has the right to terminate agents: (a) for failing to comply with the terms of the agreement; (b) exceeding its authority under the agreement; (c) when there is reason to believe the agent is violating “any international or local laws applicable to its business and/or to the provision of” money transfer services; or (d) if it is determined that the agent made a false or misleading statement to Defendant.

Defendant’s Written Policies and Procedures on Installing and Monitoring Its Agents

18. In accordance with the Bank Secrecy Act and the Patriot Act, on or about July 1, 2003, Defendant adopted a written policy entitled “Know Your Agent” or “KYA,” as part of its “Anti-Money Laundering Compliance Program.” The stated purpose of this policy was to

“avoid installing agents who may be money launderers or other criminal offenders.” With limited exceptions, the policy applies to all agents. Defendant’s KYA policy provides for reviews of prospective agents, as well as on-going “risk-based” training, visits, and monitoring once an agent has been approved.

19. According to Defendant’s KYA policy, the initial review of prospective agents includes criminal background checks and checking the names of prospective agents and shareholders against the Office of Foreign Asset Control database and government watch lists. The review also includes reviewing the accuracy of information provided by applicants against various public records databases.

20. Defendant’s KYA policy provides numerous reasons an agent application may be rejected, including, among others: “a criminal conviction for a financial or money laundering or related crime;” an inability or unwillingness to provide “adequate proof of ownership of the business;” information or statements inconsistent with Defendant’s own search results; and news stories that connect the applicant to “any possible criminal activity or investigation.”

21. Once an agent has been approved, according to Defendant’s KYA policy, the agent is subjected to an ongoing compliance monitoring and training program, which includes transaction monitoring and agent visits.

22. Defendant’s KYA policy also indicates that foreign agents “will be subject to a program of reviews” with “greater emphasis . . . placed on agents transacting high volumes or operating in high risk jurisdictions, or agents where weaknesses have been identified as a result of ongoing monitoring programs.”

23. As described below, Defendant has not adhered to its own KYA policy with respect to its agents in that it has failed to conduct adequate background checks of prospective

agents; failed to adequately train and monitor agents; failed to investigate, suspend, or terminate suspicious agents; and failed to adopt other reasonable measures to prevent fraud-induced money transfers.

**FRAUDULENT TELEMARKETERS HAVE INCREASINGLY USED
MONEY TRANSFER SYSTEMS TO FACILITATE FRAUD**

24. Money transfers have increasingly become the payment method of choice for telemarketing scams that prey on U.S. consumers. Fraudulent telemarketers prefer to use money transfer services to facilitate their telemarketing scams because, among other reasons, they can pick up money transferred within as little as ten minutes and, oftentimes, the payments are untraceable. For example, money sent to Canada can be picked up at any agent location within Canada. Therefore, it is difficult for law enforcement to identify the recipient of the money transfer.

25. According to the Federal Trade Commission's February 2008 report on Consumer Fraud and Identity Theft Complaint Data, 28% of all complaints received for the year 2007 involved wire transfers as the method of payment, an increase of 5% from the year 2006.

26. For cross-border frauds alone, the increase has been even more dramatic. According to the Federal Trade Commission's March 2004 Cross-Border Fraud Trends Report, and its March 2008 Cross-Border Fraud Complaints Report, consumer complaints that involved the wiring of funds from the United States to Canada more than doubled from 2003 to 2007. By 2007, 72% of all complaints involving Canada reported using money transfer services as the method of payment.

27. According to a 2008 survey conducted by the FTC, at least 79% of all transfers of \$1000 or more from the United States to Canada over a four-month period in 2007 using Defendant's money transfer system were fraud-induced.

28. Between January 2004 and December 2008, the average individual consumer fraud loss reflected in complaints to Defendant from U.S. consumers about money transfers to Canada was approximately \$2132.51.

**DEFENDANT'S MONEY TRANSFER SYSTEM
HAS REGULARLY BEEN USED TO FURTHER FRAUD**

29. Perpetrators of many different types of mass marketing scams have relied on money transfer systems, including Defendant's system, as a means of fraudulently obtaining money from U.S. consumers. All of these scams operate deceptively. According to Defendant's own records, most of the scams involve fraudulent telemarketing in violation of the FTC's Telemarketing Sales Rule.

30. In these scams, consumers are instructed over the telephone to send money transfers through Defendant's money transfer system. The telemarketers use false or misleading statements to induce consumers to pay for purported goods or services. The telemarketers sometimes employ counterfeit checks in their schemes to further induce consumers to send money transfers. Consumers never receive the promised goods or services, let alone anything of value, in exchange for their payments. Consumers' payments through Defendant's system often exceed \$1000 per transaction. These scams include, but are not limited to:

- a. *Lottery or prize scams:* Lottery or prize scams are the most prevalent scams that have used MoneyGram's money transfer system. In a typical lottery or prize scam, the perpetrators of the

scams either call U.S. consumers on the telephone, or mail them a piece of direct mail. Direct mail solicitations provide a telephone number for consumers to call. The perpetrators tell consumers, who are often elderly, that they have won tens of thousands or even several hundred thousand dollars in a sweepstakes or lottery and that in order to collect their winnings, consumers must first pay a fee to a supposed third party, often characterized as taxes, custom, insurance or courier fees. Consumers pay these “fees” but never receive any winnings. (*See* FTC Consumer Alert on International Lottery Scams, available at www.ftc.gov/bcp/edu/pubs/consumer/alerts/alt022.shtm.) These transactions violate § 310.3(a)(4) of the Telemarketing Sales Rule, as they are induced by false or misleading statements. According to Defendant’s own records, Defendant received 9717 complaints about this type of scam between January 2004 and December 2008.

b. *Advance-fee loan scams:* In a typical advance-fee loan scam, the perpetrators of the scams either call U.S. consumers on the telephone, send them a piece of direct mail, or place a general advertisement in a classified ad or on the Internet. Direct mail pieces and general advertisements contain telephone numbers to call. Consumers that respond are promised guaranteed cash loans or lines of credit, regardless of their credit scores. The perpetrators

do not disclose any fees or costs to obtain the loans or lines of credit during the call, but subsequently require that consumers pay advance fees characterized as “insurance,” “processing,” or “paperwork” fees before consumers can obtain the loans. Consumers never receive the loans or lines of credit promised. (See FTC Consumer Alert on Advance-Fee Loans, available at www.ftc.gov/bcp/edu/pubs/consumer/alerts/alt028.shtm.) These scams violate § 310.3(a)(4) (by making false claims) and § 310.4(a)(4) (by requesting a fee in advance for a loan) of the Telemarketing Sales Rule. According to Defendant’s own records, Defendant received 5349 complaints about this type of scam between January 2004 and December 2008.

c. *Mystery shopping scams:* In a typical mystery shopping scam, the perpetrators of the scams either call U.S. consumers on the telephone or send them a piece of direct mail containing a telephone number to call. The perpetrators claim to be hiring consumers to visit and inspect a retail establishment, such as Wal-Mart, to evaluate the MoneyGram transfer operations. Perpetrators typically send consumers a cashier’s check, instructing them to deposit it into their checking account and to send the majority of the money by money transfer to a particular country, write up a report on the transaction, and keep the remainder of the money as their fee. The cashier’s checks are counterfeit, and consumers thus

effectively send a large sum of their own money. (*See* FTC Consumer Alert on Mystery Shopping, available at www.ftc.gov/bcp/edu/pubs/consumer/alerts/alt151.shtm.) These transactions are also induced by false statements and thus violate § 310.3(a)(4) of the Telemarketing Sales Rule. According to Defendant's own records, which categorize these complaints as "employment scams," Defendant received 1710 complaints about this type of scam between January 2004 and December 2008.

31. When consumers send the money transfer from one of Defendant's agents located in the United States, the perpetrators of the scams described above in Paragraphs 29 and 30 frequently collect the funds from one of Defendant's corrupt or complicit agent locations.

A DISCRETE SET OF DEFENDANT'S CANADIAN AGENTS HAS RECEIVED AND PAID OUT THE MAJORITY OF FRAUD-INDUCED MONEY TRANSFERS FROM U.S. CONSUMERS TO CANADA

32. Defendant's own records show that most fraud-induced money transfers to Canada have been received and paid out by a distinct subset of Defendant's Canadian agents. This subset of Canadian agents generally has received extraordinarily high numbers of money transfers from the United States but has processed few, if any, money transfers within Canada.

33. In 2006, for example, Defendant had 1458 Canadian agents that received at least one transfer from the United States. According to Defendant's own records, these agents collectively received \$100,464,671 from the United States. Defendant did not receive a single fraud complaint about 1199 of those agents, or approximately 82.2% of them. The average money transfer received by these 1199 agents was approximately \$440.

34. By contrast, Defendant's own records show that it received five or more fraud complaints about 151 of its Canadian agents in 2006, or approximately 10% of them. These agents collectively received \$83,371,776 from the United States and accounted for 96% of the total fraud complaints Defendant received about transfers from the United States to Canada. The average money transfer received by this set of agents was approximately \$1705.

35. Thus, the 151 Canadian agents for which Defendant had five or more fraud complaints in 2006 accounted for 82.9% of all of the money transfers that were sent by U.S. consumers to Canada that year and 96% of the fraud complaints Defendant received about the same.

36. Two years later, Defendant's own records continued to show that most fraud-induced money transfers to Canada were received and paid out by a distinct subset of Defendant's Canadian agents. In 2008, Defendant had 1243 Canadian agents that received at least one transfer of \$1000 or more from the United States. These agents collectively received \$118,041,862.45 in transfers of \$1000 or more from the United States. Defendant did not receive a single fraud complaint about transfers of \$1000 from the United States or more regarding 1001 of those agents, or approximately 80.5% of them.

37. By contrast, Defendant's own records show that it received five or more fraud complaints about transfers of \$1000 or more from the United States regarding 131 of its Canadian agents in 2008, or approximately 10.5% of them. These agents collectively received \$93,728,340.58 in transfers of \$1000 or more from the United States and accounted for 95.4% of the total fraud complaints Defendant received about transfers of \$1000 or more from the United States.

38. Thus, the 131 Canadian agents for which Defendant had five or more fraud complaints in 2008 accounted for 79.4% of all of the money transfers of \$1000 or more that were sent by U.S. consumers to Canada that year and 95.4% of the fraud complaints Defendant received about the same.

39. Defendant's Canadian agents responsible for paying out fraud-induced money transfers from U.S. consumers have permitted fraudulent sellers or telemarketers to use fake or non-existent identifications to collect money transfers of \$900 or more.

a. For example, fraud complaints about Ontario agents that Defendant received for the period from January 2006 to May 2008, show that 2655 Ontario driver's license numbers were recorded by the agents in connection with receiving and paying out the money transfers. However, 2610 of these license numbers (98.3%) were never issued by the Province of Ontario and were, in fact, invalid driver's license numbers.

b. Defendant's own records show that its agents have permitted the same individuals to return multiple times in one day to collect fraud-induced money transfers using false or non-existent identifications.

c. In other cases, Defendant's agents have participated directly in the underlying frauds and simply recorded false identification information into Defendant's computer system in order to pay out fraudulently-obtained funds.

40. Many of Defendant's Canadian agents that have received fraud-induced money transfers from U.S. consumers and paid out such transfers to the fraudulent telemarketers have either been active or complicit participants in the underlying scams. In some cases, the sellers or telemarketers who have operated the telemarketing scams have been Defendant's Canadian agents themselves.

41. At least 65 of Defendant's Canadian agents have been charged with, are currently being investigated for, or have otherwise been involved in, acting collusively in the frauds employing MoneyGram's money transfer system. These include:

- a. *Project Civil* (Dec. 19, 2006), arrest and indictment of 22 Canadian citizens, including three MoneyGram agents, in a cross-border telemarketing scheme involving lottery schemes and fraudulent loans and grants; *see also U.S. v. John Bellini, et al.*, No. 07-0142 (C.D. Cal. December 18, 2007), related criminal case;
- b. *FTC v. B.C. LTD. 0763496, d/b/a Cash Corner Services, Inc., et al.*, No. C07-1755 (W.D. Wa. 2007), a case in which the FTC obtained a preliminary injunction and subsequently a default judgment against one of Defendant's former agents located in British Columbia in a fraudulent lottery and prize promotion scam; *see also U.S. v. Odowa Roland Okumose*, No. 07-01647M (C.D. Cal. Oct. 5, 2007), related criminal case charging the owner and operator of Cash Corner Services with mail and wire fraud;
- c. *U.S. v. Dan Agbasi, et al.*, No. 07-Cr-1504 (M.D. Pa. Dec. 19, 2007), indictment of nine individuals, including at least three

MoneyGram agents located in Toronto, Ontario, for conspiracy to commit mail and wire fraud in an international telemarketing scam involving numerous schemes, including sweepstakes and lottery, advance fee loan, and Internet overpayment scams;

d. *Project Calculateur* (July 9, 2008), investigation of 25 money transfer outlets located in Montreal, Quebec, including 19 MoneyGram agents, in a mass telemarketing identity theft criminal organization that used these outlets to process customer payments;

e. *Project Marathon* (July 24, 2008), search warrants executed and numerous individuals arrested in Ontario and charged with fraud in relation to advance fee loan scams, involving at least 23 MoneyGram agents; and

f. *Project Cinquante* (March 24, 2009), search warrants executed on 16 MoneyGram agents located in Montreal, Quebec, in relation to a mass-marketing fraud ring that operated grandson scams, lottery scams, and mystery shopper scams directed at U.S. and Canadian consumers.

DISCRETE AGENTS IN THE U.S. AND OTHER COUNTRIES ALSO HAVE PAID OUT A SUBSTANTIAL NUMBER OF FRAUD-INDUCED MONEY TRANSFERS

42. In recent years, fraud-induced money transfers sent by U.S. consumers within the United States and to other countries have also been substantial and increasing. From 2007 to 2008, for instance, Defendant's records show that the amount of money lost by U.S. consumers as a result of fraud-induced money transfers sent within the United States almost tripled. In

2007, U.S. consumers reported losses of at least \$8,371,037.39, while in 2008, consumers reported losses of at least \$23,827,204.99 for these money transfers.

43. Complaints received by Defendant from U.S. consumers about fraud-induced money transfers sent to other countries, such as Jamaica, have also been significant.

44. As with its Canadian agents, discrete agents within other countries, such as the U.S. and Jamaica, have been responsible for paying out the majority of the fraud-induced money transfers by U.S. consumers received in those countries and reported to Defendant.

**DEFENDANT HAS BEEN AWARE THAT ITS SYSTEM HAS BEEN USED
FOR FRAUD-INDUCED MONEY TRANSFERS**

Defrauded Consumers Have Regularly Complained to MoneyGram

45. When consumers realize that they have been defrauded, they sometimes contact Defendant to report the fraud. Defendant's own records show that from January 2004 through December 2008, Defendant received approximately 20,688 complaints from U.S. consumers who reported that they lost at least \$44,117,383.17 as a result of fraud-induced money transfers to Canada. Defendant received an additional 20,415 complaints from U.S. consumers who reported that they lost at least \$40,507,593.57 as a result of fraud-induced money transfers within the United States. Thus, at a minimum, from January 2004 through December 2008, Defendant received 41,103 complaints from U.S. consumers who lost at least \$84,624,976.74 as a result of consumer frauds employing Defendant's money transfer system.

46. The true scope of fraud-induced money transfers facilitated by Defendant greatly exceeds the amount reflected in Defendant's consumer complaint files for at least two reasons:

a. The majority of consumers do not complain to Defendant.

Only approximately 25% of consumers who send fraud-induced

transfers through Defendant's system actually report the fraud to Defendant, according to the 2008 survey of 1000 randomly selected U.S. consumers referenced in Paragraph 27 above; and

b. Defendant's records have not captured all the complaints it has received from consumers because Defendant has not logged all of the complaints into its consumer complaint database.

47. Since at least January 2004, Defendant has been aware that: (a) there is a large volume of fraud directed at U.S. consumers employing its money transfer system; (b) some of its Canadian agents were not following Defendant's policies; and (c) some of its Canadian agents were likely complicit, or directly involved, in the frauds. Of all the different types of fraud tracked by Defendant, including consumer fraud and internal agent fraud, consumer fraud consistently accounts for the highest volume of fraud involving MoneyGram's money transfer system. In addition, according to Defendant's own records, from January 2007 through May 2008, 89% of consumer fraud reported to Defendant worldwide, in dollars, was from U.S. consumers.

Third Parties Have Warned Defendant About Fraudulent Telemarketers and Sellers Using Defendant's and Western Union's Money Transfer System

48. Defendant has ignored third parties that have warned it about telemarketers and sellers utilizing its money transfer system to perpetrate fraud. For example, during law enforcement conferences in Canada in January 2003 and March 2004, law enforcement officials publicly discussed the widespread use of Defendant's system for fraud and Defendant's failure to address the problem. One of Defendant's fraud investigative analysts was present at these conferences and informed the manager of Defendant's Fraud and Compliance Departments of

the law enforcement representatives' statements about Defendant, including their belief that Defendant was part of the problem rather than the solution because of its unwillingness to terminate suspicious agents.

49. In December 2005, forty-seven states and the District of Columbia issued press releases and held press conferences concerning a settlement with Western Union addressing the use of Western Union's money transfer system to assist individuals and groups in committing fraud on individuals. As part of the investigation, seven states surveyed consumers who wired \$300 or more to Canada in July 2002. The survey revealed that 29 percent of the Western Union money transfers in excess of \$300 from the United States to Canada were induced by fraud and represented 58 percent of the total dollars transferred and an average of over \$1500 per transfer.

50. Western Union entered into an Assurance of Voluntary Compliance ("AVC") with the forty-seven states and the District of Columbia relating to these fraud-induced money transfers. Under the AVC Western Union agreed, among other things, to:

- a. post prominent warnings to consumers of the dangers of fraud-induced money transfers on a new front page of its send form;
- b. send monthly anti-fraud e-mails to agents;
- c. revise Western Union's agent training video and agent manual to address the issue of fraud-induced transfers;
- d. provide enhanced training of agents with elevated fraud levels at their locations;

- e. terminate agents involved in fraud, and terminate or suspend agents that do not take reasonable steps requested by Western Union to reduce fraud;
- f. adopt good faith efforts to develop a computerized system to spot likely fraud-induced transfers before they are completed; and
- g. increase anti-fraud staff at Western Union.

51. Despite widespread publicity of this AVC against its main competitor, Defendant made very few changes to the operation of its money transfer system or its fraud detection program following announcement of the settlement, and even subsequently installed agents in Canada that Western Union had previously terminated for fraud or suspected fraud.

52. A similar multi-state group of State Attorneys General notified Defendant in February 2006 of their concern that the same practices which were a problem in Western Union's money transfer system also existed in Defendant's money transfer system.

53. Law enforcement has, on occasion, identified for Defendant specific Canadian agents that appeared to be either complicit or directly involved in the telemarketing scams using Defendant's money transfer system. Defendant has ignored such warnings, allowing such agents to keep operating months or even years prior to terminating these agents or taking any remedial action against them. For example, in July 2004, the Commercial Crime Section of the Royal Canadian Mounted Police ("RCMP") alerted Defendant to an "increase in US and UK telemarketing victims being instructed to send monies via MoneyGram in lieu of their so-called 'lottery winnings fee' to various payees" and that the operators of these scams "have obtained these type[s] of outlets with the sole intention of using [them] to further crimes." The RCMP

identified five MoneyGram outlets “of particular concern” that formerly operated as Western Union franchises. Of these five agents, one remained in operation until May 2005, another until March 2006, two others until January 2007, and a fifth agent was still operating in 2008, despite fraud complaints reported to Defendant by consumers.

Defendant’s Fraud Department Has Warned Managers of the Nature and Scope of These Problems

54. In memoranda, reports, e-mails, staff meetings, telephone calls, face-to-face discussions, and other communications with Defendant’s management and executives, Defendant’s employees have regularly discussed the problem of consumer fraud involving Defendant’s money transfer system and the role played by Defendant’s own agents in this problem. Defendant’s employees have also identified for Defendant’s management specific agents that were suspicious and that should be terminated. Despite these communications, Defendant has failed to take appropriate corrective actions to address the problem of fraud-induced money transfers and the role played by Defendant’s agents.

DESPITE KNOWLEDGE OR CONSCIOUS AVOIDANCE OF KNOWLEDGE OF THE FRAUD, DEFENDANT HAS CONTINUED TO PROVIDE SUBSTANTIAL ASSISTANCE OR SUPPORT

55. Since at least January 2004 and continuing thereafter, Defendant has knowingly, or with conscious avoidance of knowledge, provided substantial assistance and support to fraudulent telemarketers, including, without limitation, the telemarketers and sellers described above in Paragraphs 24 through 44.

56. In some cases, Defendant’s agents have themselves directly operated the frauds. In other cases, Defendant’s agents have knowingly offered substantial assistance and support to the frauds by paying out funds in direct violation of Defendant’s own policies.

57. Defendant also has provided an essential service to these fraudulent telemarketers and sellers by permitting them access to Defendant's money transfer system despite knowledge, or conscious avoidance of knowledge, of the nature and scope of the fraud involved. Exploiting this access to its full potential, telemarketing scams have received and continue to receive millions of dollars from victimized consumers while generating substantial fees for Defendant.

58. In direct contradiction to its own fraud prevention policies and its contractual agreements with its agents, Defendant has failed to: (a) conduct adequate due diligence into prospective agents; (b) train and monitor its agents; (c) investigate, suspend, or terminate suspicious agents; and (d) take other reasonable efforts to prevent fraudulent telemarketers and sellers from using Defendant's money transfer system to perpetrate their frauds.

59. Defendant has consistently failed to take timely, appropriate, and effective measures to mitigate fraud in connection with its processing of money transfers sent by U.S. consumers despite knowledge, or conscious avoidance of knowledge, that: fraudulent telemarketers and sellers have extensively accessed and exploited Defendant's money transfer system; Defendant's money transfer system has played an integral role in the scams; and a number of its agents were complicit with, or involved in, the frauds.

Defendant Has Failed to Conduct Adequate Background Checks on Prospective Agents

60. Despite Defendant's own policies, Defendant has failed to exercise due diligence in conducting background checks on its prospective agents.

61. Defendant has approved agent applications without conducting adequate criminal background checks and without otherwise adequately reviewing the accuracy of information provided by applicants against various public records databases.

62. Defendant has installed agents without performing adequate background checks or has failed to monitor such agents after installation, including in 99 instances where Defendant's agents in Canada had been previously terminated or suspended by Western Union for fraud or suspected fraud, or were subsequently terminated or suspended by Western Union after becoming MoneyGram agents. From January 2004 through December 2008, Defendant received 6157 fraud complaints from U.S. consumers about these 99 agents, reporting losses totaling \$12,485,052.81. Thirty-five of these agents were still operating in March 2009.

Defendant Has Failed to Adequately Train and Monitor Agents

63. Despite Defendant's own policies, Defendant has failed to adequately train and monitor its agents. Defendant has not provided its agents with adequate ongoing training to ensure compliance with Defendant's policies and procedures.

64. Defendant has not undertaken regular reviews of agent transactional activity to determine whether agents have falsified documentation or facilitated fraud.

65. Defendant has not subjected agents operating in high-risk jurisdictions, such as high-crime areas in Canada, to on-site visits to determine whether these agents have been complying with fraud prevention policies, record-keeping arrangements, and MoneyGram's anti-money laundering (AML) policy. In fact, Defendant rejected the recommendations of its own Fraud Department employees that it undertake such audits.

Defendant Has Failed to Investigate, Suspend, or Terminate Suspicious Agents

66. Defendant did not have any formal written policy relating to payout restrictions, suspensions, or terminations of its agents for fraud until November 2008. That November 2008 policy was largely ineffective in addressing the problems with Defendant's corrupt or complicit agents.

67. In numerous instances, law enforcement and Defendant's own employees have urged Defendant to undertake fraud prevention measures and have presented Defendant with specific proposals for preventing or reducing fraud-induced money transfers. Defendant has typically rejected or ignored these proposals, claiming that they were too costly or that consumer fraud prevention was not the Defendant's responsibility.

68. In direct contradiction to its own policies and agreements, Defendant has allowed its money transfer agents to continue operating without investigating, monitoring, auditing, suspending, or terminating such agents despite overwhelming evidence that such agents were either complicit, or directly involved, in telemarketing fraud.

69. Defendant's management and executives were aware of the following, but failed to take timely, appropriate, and effective remedial action:

- a. Agents that were the subject of high levels of fraud complaints and paid out large volumes of fraud-induced money transfers;
- b. Agents that violated Defendant's own policies and procedures;
- c. Agents with high dollar amounts and/or high volumes of money transfers received from the United States, but limited or suspicious send activity;
- d. Agents located in high-crime areas; and
- e. Agents operating in residential areas or operating out of unmarked storefronts.

70. As described above in Paragraphs 48 through 53 law enforcement and Defendant's employees have identified specific Canadian agents that appeared to be either complicit, or directly involved, in the telemarketing scams using Defendant's money transfer system that were the subject of thousands of consumer complaints to Defendant. Despite such warnings, Defendant typically allowed Canadian agents identified as suspicious or corrupt to keep operating for months or even years prior to terminating or taking any remedial action against such agents.

71. Defendant also tolerated widespread violations of its policies and procedures designed to safeguard the integrity of its money transfer system. For example, according to Defendant's own records, in 2007, Defendant's Canadian agents did not record driver's license or identification information for 1187 transfers of \$1000 or more sent from the United States to Canada. These transfers totaled \$1,223,209.84. In 2008, Defendant's Canadian agents did not record driver's license or identification for 2747 transfers of \$1000 or more sent from the United States to Canada. These transfers totaled \$2,767,108.91.

**Defendant Has Failed to Take Other Reasonable Measures
to Mitigate Fraud in Connection With Its Processing of Money Transfers**

72. Defendant has actively discouraged its employees from devoting time or resources to the investigation and prevention of fraud-induced money transfers. In particular, Defendant has:

- a. Discouraged and prevented its employees from enforcing or complying with Defendant's own fraud prevention policies and exercising Defendant's contractual rights against suspicious or corrupt agents;

- b. Failed to implement an effective system for tracking consumer and agent complaint data;
- c. Ordered Fraud Department investigators to stop spending time on consumer fraud and focus instead on fraud against Defendant or its agents that have a direct financial impact on Defendant; and
- d. Failed to adopt employees' recommendations to terminate its suspicious agents at all or in a timely manner.

73. Defendant's employees who advocated consumer fraud prevention measures, enforcement of contracts with agents, and cooperation with law enforcement on fraud matters, or who raised concerns about management's failures in these areas, were discouraged from speaking up or taking action, and in some instances, were disciplined or fired.

**MONEYGRAM HAS RESISTED MAKING
EFFECTIVE CHANGES TO PREVENT FRAUD**

74. In January 2007, the FTC served a Civil Investigative Demand ("CID") on Defendant requesting, in part, documents and information about its Canadian agents, its policies and practices in addressing fraud-induced money transfers, and policies and practices in terminating agents. In December 2007, the FTC notified Defendant that it was expanding its investigation to review Defendant's own business practices. In April 2008, the FTC served a second CID on Defendant requesting, in part, additional documents and information about Defendant's Canadian agents and its policies and practices addressing fraud-induced money transfers.

75. Defendant entered into an AVC with forty-four states and the District of Columbia which contains provisions somewhat similar to those in the Western Union AVC. The effective date of the agreement was June 30, 2008. The AVC is only in effect for five years.

76. Despite awareness of the states' and the FTC's concerns relating to consumer fraud involving its money transfer system, Defendant continued to fail to take timely, appropriate, and effective measures to mitigate fraud in connection with its processing of money transfers sent by U.S. consumers.

77. After signing the AVC, Defendant continued to allow agents that generated a significant number of complaints from U.S. consumers about fraud-induced money transfers to operate. For example, according to Defendant's own records, from May 24, 2008 to December 2008, Defendant received 224 fraud complaints about one Canadian agent, reporting losses of \$455,800.91. This amounts to over one fraud complaint per day, seven days a week, from the date when Defendant received its first fraud complaint regarding this agent to the last complaint reported in 2008. The average consumer loss for each complaint was \$2034.83.

78. According to Defendant's own records, the number of consumer complaints Defendant received about fraud-induced money transfers to Canada using Defendant's money transfer system continued to rise through 2008. In 2007, Defendant received a total of 5273 complaints from U.S. consumers who reported that they lost at least \$10,030,001.03 through these transfers. In 2008, Defendant received a total of 6797 complaints from U.S. consumers who reported that they lost at least \$14,693,396.60 as a result of these transfers. Thus, from 2007 to 2008, the number of fraud complaints increased by 1525, and the reported consumer loss by \$4,663,395.57.

79. In addition, Defendant's records show that the use of Defendant's money transfer system to facilitate fraud has been increasing in the United States and other countries, such as Jamaica. For example, Defendant's records show that in 2007, Defendant received a total of 4869 complaints from U.S. consumers who reported that they lost at least \$8,371,037.39 as a result of fraud-induced money transfers received and paid out by Defendant's U.S. agents. In 2008, Defendant received a total of 10,429 complaints from U.S. consumers who reported that they lost at least \$23,927,204.99 as a result of fraud-induced money transfers received and paid out by Defendant's U.S. agents. Thus, the amount of money U.S. consumers claimed to have lost due to fraud-induced money transfers paid out in the U.S. almost tripled from 2007 to 2008.

80. Only recently, in or around February or March 2009, under pressure from federal law enforcement, did Defendant finally take any meaningful action to terminate many of its corrupt or complicit U.S. and Canadian agents.

81. Notwithstanding Defendant's recent actions, there are still MoneyGram agents operating in some places with high levels of fraud reported by U.S. consumers.

VIOLATIONS OF SECTION 5 OF THE FTC ACT

82. Section 5(a) of the FTC Act, 15 U.S.C. § 45(a), prohibits "unfair" or "deceptive" acts and practices in or affecting commerce. Under Section 5(n) of the FTC Act, an act or practice is "unfair" if it causes or is likely to cause substantial injury to consumers that is not reasonably avoidable by consumers and that is not outweighed by countervailing benefits to consumers or competition. 15 U.S.C. § 45(n).

COUNT I

Unfair Acts or Practices

83. Defendant's acts and practices in connection with processing money transfers sent by U.S. consumers through Defendant's money transfer system, as discussed in paragraphs ¶¶ 23 and 29 – 81 have caused or are likely to cause substantial injury to consumers that is not reasonably avoidable by consumers themselves and that is not outweighed by countervailing benefits to consumers or competition.

84. Therefore, Defendant's acts and practices as described in Paragraph 83 constitute unfair acts or practices in violation of Section 5(a) of the FTC Act, 15 U.S.C. § 45(a).

THE TELEMARKETING SALES RULE

85. The Commission promulgated the Telemarketing Sales Rule, 16 C.F.R. Part 310, pursuant to Section 3(a) of the Telemarketing Act, 15 U.S.C. § 6102(a). The Rule became effective on December 31, 1995. On January 29, 2003, the FTC adopted an amended Telemarketing Sales Rule with the amendments becoming effective on March 31, 2003.

86. The Telemarketing Sales Rule prohibits telemarketers and sellers from making a false or misleading statement to induce any person to pay for goods or services. 16 C.F.R. § 310.3(a)(4).

87. The Telemarketing Sales Rule also prohibits telemarketers and sellers from, among other things, requesting or receiving payment of any fee or consideration in advance of obtaining or arranging a loan when the seller or telemarketer has guaranteed or represented a high likelihood of success in obtaining or arranging a loan. 16 C.F.R. § 310.4(a)(4).

88. The Telemarketing Sales Rule also prohibits a person from providing “substantial assistance or support” to any seller or telemarketer when that person “knows or consciously avoids knowing” that the seller or telemarketer is engaged in any act or practice in violation of the Telemarketing Sales Rule. 16 C.F.R. § 310.3(b).

89. Pursuant to Section 3(c) of the Telemarketing Act, 15 U.S.C. § 6102(c), and Section 18(d)(3) of the FTC Act, 15 U.S.C. § 57a(d)(3), violations of the Telemarketing Sales Rule constitute unfair or deceptive acts or practices in or affecting commerce, in violation of Section 5(a) of the FTC Act, 15 U.S.C. § 45(a).

90. Defendant or its agents have processed money transfers and provided related services on behalf of persons who are “sellers” or “telemarketers” engaged in “telemarketing,” as those terms are defined in Sections 310.2(r), (t), and (u) of the Telemarketing Sales Rule as promulgated in 1995, renumbered but unchanged as 310.2(z), (bb), and (cc) of the Telemarketing Sales Rule as amended in 2003.

VIOLATIONS OF THE TELEMARKETING SALES RULE

COUNT II

Assisting and Facilitating Telemarketing Sales Rule Violations

91. In numerous instances, in the course of processing money transfers sent by U.S. consumers, Defendant or its agents have provided substantial assistance or support to sellers or telemarketers who Defendant or its agents knew or consciously avoided knowing:

- a. Induced consumers to pay for goods and services through the use of false or misleading statements, including, without

limitation, the statement that the consumer has won and will receive a large cash award if the consumer pays a requested fee or fees, in violation of Section 310.3(a)(4) of the Telemarketing Sales Rule, 16 C.F.R. § 310.3(a)(4); and

b. Requested or received payment of a fee or consideration in advance of consumers obtaining a loan when the seller or telemarketer has guaranteed or represented a high likelihood of success in obtaining or arranging a loan for a person in violation of Section 310.4(a)(4) of the Telemarketing Sales Rule.

92. Defendant's acts or practices alleged in Paragraph 91 constitute deceptive telemarketing acts or practices in violation of Section 310.3(b) of the Telemarketing Sales Rule and Section 5(a) of the FTC Act, 15 U.S.C. § 45(a).

CONSUMER INJURY

93. Consumers throughout the United States have suffered and will continue to suffer substantial injury as a result of Defendant's violations of the FTC Act and the Telemarketing Sales Rule. In addition, Defendant has been unjustly enriched as a result of its unlawful acts or practices. Absent injunctive relief by this Court, Defendant is likely to continue to injure consumers, reap unjust enrichment, and harm the public interest.

THIS COURT'S POWER TO GRANT RELIEF

94. Section 13(b) of the FTC Act, 15 U.S.C. § 53(b), empowers this Court to grant injunctive and such other relief as the Court may deem appropriate to halt and redress violations of the FTC Act. The Court, in the exercise of its equitable jurisdiction, may award ancillary

relief, including rescission or reformation of contracts, restitution, the refund of monies paid, and the disgorgement of ill-gotten monies, to prevent and remedy any violation of any provision of law enforced by the FTC.

95. Section 19 of the FTC Act, 15 U.S.C. § 57b, and Section 6(b) of the Telemarketing Act, 15 U.S.C. § 6105(b), authorize this Court to grant such relief as the Court finds necessary to redress injury to consumers or other persons resulting from Defendant's violations of the Telemarketing Sales Rule, including the rescission and reformation of contracts and the refund of monies.

PRAYER FOR RELIEF

WHEREFORE, Plaintiff, the Federal Trade Commission, pursuant to Sections 13(b) and 19 of the FTC Act, 15 U.S.C. §§ 53(b) and 57b, Section 6(b) of the Telemarketing Act, 15 U.S.C. § 6105(b), and the Court's own equitable powers, requests that the Court:

1. Enter a permanent injunction to prevent future violations of the FTC Act and the Telemarketing Sales Rule by Defendant;
2. Award such relief as the Court finds necessary to redress injury to consumers resulting from Defendant's violations of the FTC Act and the Telemarketing Sales Rule, including, but not limited to, rescission or reformation of contracts, restitution, the refund of monies paid, and the disgorgement of ill-gotten monies; and

3. Award Plaintiff the costs of bringing this action, as well as such other and additional equitable relief as the Court may determine to be just and proper.

Dated: October 19, 2009

Respectfully Submitted,

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