

FTC Fraud Affects Every Community Workshop
October 29, 2014
Segment 2
Transcript

Experiences with different kinds of frauds and from very different communities. We have Anne Schaufele, a staff attorney from Ayuda's Project End, eradicating notario fraud. Next, we have Brian Ross, who's the Director of Financial Education from the Department of the Interior. And next, we have Heather Hodges, she's Pro Bono Counsel with the Neighborhood Legal Services Program. We have John Breyault, he's the Vice President of Public Policy, Telecommunications, and Fraud at the National Consumers League. And I'm going to jump for a minute to our monitor, where we have Jane Duong, who is the Director of Programs and Advocacy for the National Coalition for the Asian Pacific American Community Development . Jane, can you hear us?

JANE DUONG: Yes, I can, can you hear me?

PATRICIA POSS: Perfect. Perfect. Thank you, it's going to work. OK. And next, we have Melissa Armstrong, who's the Assistant Chief Litigation Counsel for the US Securities and Exchange Commission. And on the far end, we have Courtney Gregoire, who is a senior attorney in the Digital Crimes Unit at Microsoft.

So what do all these folks have in common? We do have a diverse group. So each panelist will have about 10 minutes to discuss a type of fraud and its impact on a particular community. The panelists will share the context of the community affected, to help us understand how the scams creep in and prey on members of that community.

I also have asked each panelist to share their expertise and, if they have time-- if they have time, I know we're going to be tight with all of these folks-- what remedies and prevention programs-- to kind of help us start talking about what remedies and prevention programs might be effective, if they've seen them work, and why.

John is going to play kind of a special role in this panel. I've asked him-- I'll call on him a couple of times to provide some insight on the trends in the reports that he's seen from the National Consumers League.

So let's get started. Anne, I believe you have slides, do want to-- I'll pass you along here.

ANNE SCHAUFELE: So I am, as Patty mentioned, from Ayuda, a nonprofit that provides social, legal, and interpretive services to low-income immigrants in the DC metro area.

We started this project a couple years ago to specifically address notario or legal services fraud, which Ayuda has seen for all 40 years of its existence. Notario or legal services fraud, I'll sort of describe the problem, some of the remedies that exist, and then talk about a specific case study and end with some suggestions for ways that we can improve our ways of addressing this issue.

So, first of all, just to introduce this issue, there is no right to legal representation in immigration proceedings. You have a right to counsel, but you don't have a right to have government-appointed counsel. So with that, we have, unfortunately, a real access to justice issue. And so, we recognize that there are individuals in the community who have responded to that need by providing legal services, even though they don't have the capabilities. They have not gone to law school, they have not passed the bar, but they hold out a shingle that makes someone think that they can provide a legal service that's so badly needed.

About 10% of 200 immigrants seeking legal services that we interviewed a couple years ago had been the victims of notario or legal services fraud. And the next slide will sort of give you a sense of why this might happen. So there's a cultural and sort of linguistic issue with the word "notario." So it's really just a false cognate for notary. It's not a direct translation, but it makes someone think that if they are a notary, they could call themselves a notario, and that may mean that someone in the community will think of them as an attorney.

And they'll think of them as an attorney because of these examples from Nicaragua, Mexico, and El Salvador, where you have notarios who are actually trained attorneys. So in Mexico, someone who's been an attorney for five years, is over the age of 30, has committed no crimes, passes a rigorous exam, you know, it's someone who has a stature in the community, can then become a notario. So after they're already an attorney. So it's almost someone better than an attorney.

But here in DC, and we often tell our clients this, a notary is anyone who's above the age of 18, who is a person of good moral character, who lives or works in DC, who pays \$75 and submits a bond, they can be a notario, a notary. And a notary is really someone who can authenticate your signature on a document. We try to stress that with our clients, because that is a cultural misrepresentation.

But those individuals in our community are also calling themselves all kinds of other things. So these are some signs from DC, Maryland, and Virginia to just give you a sense of what we're seeing in home country and then what we're seeing here locally.

So here locally we have-- notario fraud, we see a sort of an umbrella, so we have individuals who call themselves paralegals, we have individuals who call themselves attorneys. They include a license number on their advertising-- you can't quite see but it's in that third advertisement on the bottom, which is a local newspaper advertisement.

Then we also find that there are issues with Department of Homeland Security or Immigration Customs Enforcement impersonators. Or even impersonators of US Citizenship and Immigration Services. So they set up shop.

We had someone in Maryland who drove around with a pickup truck, with a big ICE logo on the side, he wore a gun in his holster, he presented himself as someone who worked directly with Immigration Customs Enforcement, and therefore had an in with the government. And we see that, unfortunately, more frequently than we'd like.

We also have a lot of businesses that call themselves multi-services providers. So they're providing all kinds of services, like travel agency, remittances, they'll prepare your taxes. So it's a one-stop shop, which is very helpful for some of the consumers who can only take off a few hours from work. And if they're able to address all of their needs, legal and otherwise, in one place, that's quite convenient.

We also have the problem of notario fraud, where we have people on the net who are charging immigrants for forms that are free, that are provided for free on USCIS's website. And then I got coined something called the Notario Fraud 2.0, which is the partnership with attorneys. So these are sometimes incompetent, or dishonest, or absentee, or disbarred attorneys.

And we also have the problem of notarios who are foreign attorneys, so they are licensed in their home country. And there's a carveout in immigration where foreign attorneys can practice immigration law, but only outside of the US, and only before the Department of Homeland Security. So this is sort of a carveout that exists because they understand that there is work that has to be done at the embassy abroad. So those individuals can provide representation, but they can't provide it here in this country, and they can't be charging for those.

Who can provide representation are, of course, licensed attorneys. A carveout again for accredited representatives of the Board of Immigration Appeals, so these are accredited representatives at a nonprofit organization. You can also provide services if you're a law graduate, or a law student, under supervision of an attorney, and you're not charging for your fees. Also, reputable individuals of good moral character is another carveout. So these carveouts exist because they recognize that there's an access to justice issue, but a reputable individual of good moral character can only provide the service if they're doing so for free. So I think that this exists to protect a priest who might be helping fill out a form, someone in your community, a family member. But those people are not allowed to charge, and that is what distinguishes them from these individuals on the slide right now.

So, when the fraud exists-- and all of this slides before, were of companies and businesses who defrauded immigrant consumers in this area-- these are some of the realm of what we have to work with. So we started Project End with the idea that we would serve as a liaison on the civil and criminal side and directly represent the victims on the immigration side. We can also take some civil complaints, but of course our work is limited, because I'm the only attorney at the project, so my work is limited. Especially because the number one concern with our clients is usually, how can I fix any damage done to my immigration case. So we usually have to address that concern first, because we go with what the client wants to work on first.

And then if we are able to take civil action, we can make-- we always make complaints to the Federal Trade Commission, but we can also use the state's Consumer Protection Statute to bring a private right of action under the Consumer Protection Statute. We can use-- if a state has Notario Fraud Statute, which about 21 states do, we could use that. We can use common law fraud, breach of contract, negligent misrepresentation, unauthorized practice of law, and all of those remedies on the civil front can give us an injunction, a consent agreement, a cease and desist order, restitution, and/or monetary damages.

And then the criminal side, I want to highlight a few crimes because these are crimes that are qualifying crimes for the U Visa. So I think it's important to recognize that blackmail, extortion, perjury, obstruction of justice-- and I'll add stalking and witness tampering-- if those are crimes that the notario has committed, we believe that if that person has suffered substantial physical or mental harm because of those crimes, and if they have also been helpful, or are willing to be helpful with the prosecution or investigation of those crimes, that those immigrants who have been victims of a crime should be able to qualify for the U Visa. So that's something we wrote a manual on that's free on our website. And we're happy to have immigration practitioners download that manual and use that to help their clients.

And additionally, on the immigration side and sort of tied, there's prosecutorial discretion, which exists also to protect victims of a crime who are being helpful, currently. So it's essentially asking the government to allow that person to stay, or to allow them to terminate their removal proceedings because of certain positive equities, and they're enumerated in Morton Memos, which the Department of Homeland Security should follow.

And then, also, ineffective assistance of counsel if the person who had been providing the service previously had done damage to a case that the person could have moved forward on. What we're seeing from our clients is that the damage includes not just monetary damage, but really severe damage to the immigration case, which can result in their detention and/or their removal from the US.

Some of the issues that we have on the civil side are just how many places there are to make consumer complaints. So, in addition to making the consumer complaint with the Federal Trade Commission and Consumer Sentinel, if we take a typical Maryland case, I also have a lot of other places I can submit the complaint. So, ideally, all of the agencies would like to have the complaint, right? So if I have a typical complaint in Montgomery County, I can submit the complaint to the Montgomery County Consumer Protection Agency, to the Montgomery County State's Attorney's Office, to the Maryland Office of the Attorney General, to the Maryland Unauthorized Practice of Law Committee. And then, also, the Executive Office for Immigration Review has asked for our complaints, and then, also, the USCIS Fraud Detection and National Security Office, and sometimes, even ICE.

So there are like eight places which the advocacy community has a really hard time choosing where to submit the complaint. And what we'd like is that law enforcement would act as Consumer Sentinel, and have that be really the repository of all complaints about notario or legal services fraud. But what we found on the local level is that, unless we highlight a complaint locally, it's not addressed. I've never received a call to follow up on a complaint I've made through Consumer Sentinel. So I think that's an issue that we face. We also can't submit all of the material that we might have about a complaint in Consumer Sentinel, so that's sort of one of our obstacles moving forward.

I thought I'd give a practical case that we've worked on, just to sort of give you a sense of what our community looks like, and who they are being affected by. So R.E. Services was run by Ramon Escarfullet, who is not an attorney, and is not licensed as a tax preparer in Maryland, although he advertises as being able to provide tax and immigration services.

So, he'll help you anything. And he did. And from anywhere from 10 to 30 years, depending on who you ask, he was in the community. Unfortunately, he took advantage of some changes in policy-- not changes in the law-- but changes in policy, to define them to the immigrant community as changes in the law, saying that there was a 10 year rule. And that if he would allow them to apply for asylum for them, they could get in removal proceedings, for the purpose of requesting cancellation of removal. Which was an idea that no immigration attorney would advise the client to make without careful consideration and without making sure that they satisfied all of the elements for cancellation of removal, and the clients that he put in removal proceedings did not.

So he took clients who were undocumented, who had never had any contact with law enforcement, with the Department of Homeland Security, and he placed them in removal proceedings for the cost of \$4,500.

He also had a lot of other schemes that we've now found out about, after he was prosecuted. So what we did to build this case, was to find enough victims who would come forward. And finding the victims meant reaching out to listservs of immigration practitioners. We see immigration practitioners as the front line to having contact with affected immigrants in our area.

We also did some outreach with the Office for Latino Affairs, outreach with other services providers, and basically flagged this individual's name and said, if you have had a client who received services from this person, please ask them to come in for a consultation. And once we had a few consultations, and had a group of victims together, we liaised with law enforcement and made the complaints. He has offices in D.C. and Maryland, so we worked with the Montgomery County State's Attorney's Office, and the DC Office of the Attorney General, and the DC Unauthorized Practice of Law Committee.

We thought that the collaboration was really important for this case and worked well. On the criminal side, he has now been-- he plead guilty to a violation of the Maryland Immigration Consultant Act, which is the state's notario fraud statute, and to the unauthorized practice of law. He did not plead guilty to theft, but we think that the remedy-- the other remedies-- were sufficient, because that would also provide about \$8,000 of restitution to those poor victims.

It came out during the trial that he had-- or before the trial-- that he had already been sanctioned twice by the Maryland Unauthorized Practice of Law Committee for-- seven years ago was the first sanction-- so it didn't quite work, just with the civil sanctions. He'd also been sued on the civil side, and that hadn't worked, but it did work to put him behind bars.

So on October 1 of this year, he started his six month sentence. And this was publicity that we received from NBC and Univision about the case. NBC, on that screen shot, you'll see his office was inside of a medical complex, and that was the medical complex, and then that's a picture of him, which Univision put on. And the photo then allowed lots more victims to come out. So we always knew there were many, many, many more people affected by him. And we were very concerned there were many people affected by him who are now deported.

But we wanted to see, the folks who were still here, what we could do to help. So since October 1, we've received about one new victim every two days. So 10 more victims. And we knew that. We knew that going into it. And we had our phone number directly on the Univision newscast, because we wanted more people to come forward. And now we're basically working on what the next steps are on the case. And I won't discuss that further, because they're ongoing.

And I'll end with just, what we've seen, and from the grassroots level, as being helpful for our advocacy, or some things that I think would help. And I would say that this is particularly for the Latino community, for the Spanish speaking community, but that this issue affects many other communities. I have a lot of Indonesian clients, I have clients from Togo, from Nigeria, from Morocco, so this is really a global issue, and a global misconception, about who can provide legal services. But my action items have to specifically do with the Latino community because they are most affected by notario or legal services fraud.

So I think what was helpful with the Ramon Escarfullet case, were letters of support that we received from law enforcement saying that these victims were being helpful in a criminal prosecution. Because then on the immigration side, we can use those letters. So that's something that I think is a very easy act of law enforcement, and something that they ought to do, because this is someone who's important. To have their complaint-- you can't move a case forward without their complaint-- so I think it's helpful to, in exchange, provide a letter. And I think the Federal Trade Commission could as well.

Also, I think it's important to let our immigrant clients know that Consumer Sentinel is accessible by the Department of Homeland Security. So while they're not concerned about immigration status, it is a database that is accessible, so that means if you're putting your address into that database, it's a concern that I would have as their advocate. And so I do think it's worth flagging with the consumer before they put their address into another government database.

I also think that this case allowed the Montgomery County State's Attorney's office to, on the news, tell immigrant consumers that what they're concerned about is the story that the client-- or the consumer-- has, and not their status. So I think that these cases sort of highlight that if we can have law enforcement say that, publicly, those public statements matter a lot. And it's something that we can then go back to the clients who do trust Ayuda as a nonprofit and nongovernmental organization. We can say that we have the confidence that the law enforcement will care about your story.

I think it would be helpful to have more Spanish speaking investigators and advocates. Especially investigators, so that if there's a sting operation, the investigator is someone who looks like the community that would be affected. I think they'll be more effective that way.

I think it would also be helpful to make sure that State bars know that they're empowered to act on the Unauthorized Practice of Immigration Law. We have some state bars who think they can only act on the Unauthorized Practice of Law within state law. And if they don't act on Unauthorized Practice of Immigration Law, there's no other body to do it. So they really do need to act, especially where they have Unauthorized Practice of Law Committees.

And then my last one-- I think that this would help with collaboration-- would be an online repository of sanctioned notarios. So individuals who have been prosecuted, like Ramon Escarfullet. I want to make sure that he never harms anyone else, and I'm very concerned his business is still operating. So I think it would be really valuable if there was a website where, just like the Executive Office for Immigration review has a website of accredited representatives and sanctioned attorneys, it would be helpful to have a website of sanctioned notarios. These are people who have already been prosecuted, civilly or criminally, so they have had their due process. And it would just be helpful for consumers moving forward to know who those people are. So, I'll end with that.

PATRICIA POSS: Another speed talker. And some great ideas there for collaboration already coming out. Why don't we move on to Brian. If you want to address your community.

BRIAN ROSS: Thank you very much, and thank you for allowing me to be here this morning. I'm very thankful for that. And I also want to recognize the efforts of Shawn Spruce and Sarah Dewees from First Nations, who've been integral to our work.

I'm sure a lot of you are asking the question, what does the Department of Interior have to do with this. The agency that I represent is called the Office of the Special Trustee for American Indians. We were created in 1994. To give you a brief overview of what that means, you're probably familiar with the Bureau of Indian Affairs, which is part of DOI. In the simplest of terms, the BIA manages tribal resources-- land, minerals, et cetera. The Office of Special Trustee was created to manage the funds that are derived from those resources. We manage about \$5 billion in tribal trust funds, and individual and in money accounts.

So you can probably begin to see how our work with people's money can, from time to time, show us examples of people being taken advantage of out there, and that's what I'd like to share with you today.

About 100 days ago, the US Senate confirmed Vince Logan as the special trustee for our agency. One of his primary areas of focus is financial education. While our agency has been involved in financial education for some time, when he came on board he made it such a priority that he created the position of Director of Financial Education, a position that I'm very fortunate to have, and a position that I take very seriously.

Part of his motivation in creating this position, and focusing on financial education, involves, again in part, some of the frauds, swindles, and thefts that we have witnessed being perpetrated out in Indian country. I'll show you some examples, or share with you some examples, that we've come across, but I probably need to explain certain cultural implications.

I grew up in one of the poorest counties in Oklahoma. And I grew up in Cherokee Nation, I'm Cherokee. One of the things that I know about many native cultures is that if there is someone who has taken advantage of you, it's a similar dynamic with the elderly, where there is shame and embarrassment. And they don't necessarily come forward to report these incidents. But I have observed that that is a cultural dynamic within native communities. So we don't have widespread reporting of some of the frauds and swindles that are taking effect out there.

Some of the sources of income that exist in Indian country come in the form of per capita distributions. A lot of times this is a result of gaming operations within tribes, where each individual of a tribe over a certain age will receive a distribution, almost quarterly, if not more frequently than that. And even those that are minors, the funds are going into an account held in trust for them.

The recent settlement of the Cobell litigation resulted in thousands of dollars being distributed out in Indian country. And on a tribal specific level, the Obama Administration has settled approximately 80 individual lawsuits with tribes during his time in office.

I was at the National Congress for American Indians as recently as yesterday in Atlanta, and the Secretary of Interior, Sally Jewell, was reporting on some of the efforts of the Administration to settle some of this litigation. Well, some of the settlement resulted in pretty large distributions to tribal communities. And Keepseagle is another settlement that you might be familiar with.

So there are a number of instances that we have encountered where native people have received large sums of money. And they have not always been prepared to receive large sums of money. But what's not unique is that these litigation settlements have resulted in headlines. And the headlines have caught the attention of scamsters and fraudsters. So what we're seeing out there-- and I'll use the remainder of my time sharing some specific examples of what we're seeing-- of course, we're seeing identity theft, we are seeing affinity fraud, predatory lending.

But there's a couple of instances that I'd like to share with you that you may find unique. I certainly did. One instance is encouraging people to attend real estate investment seminars. And what's being reported back to me is, the way this works is they bring them in, maybe with a dinner or some sort of incentive, and there's a low buy-in process. Maybe \$200, \$300, to get involved in receiving some sort of instruction DVD.

And then that takes them on to the next level, where they are asked to spend nearly \$10,000 for coaching on how to buy real estate. And the incentive is, they're given the opportunity to not use their own money to purchase real estate, but the promise that the company or the perpetrators will promise to buy it with them. You go find the property, we'll use our money, and when we sell it, we'll split the profits. And you probably aren't surprised to hear that, somehow, the properties that are presented are never quite good enough. They don't quite work. They aren't up to expectations. And so this is something that has come across my desk on a number of occasions.

The last one I'll share with you is particularly heartbreaking, but I know that it can probably be echoed across this table and across this room. One beneficiary that I worked with on a number of occasions, who I sat down and did one on one financial education sessions with, came to me one day and said, Brian, I'm finished. I don't need any more financial education.

So I said, well okay, great, you've graduated.

But he said, no, my ship has come in.

Well I said, great, sit down and tell me about this.

And he said, well, I got a call from an attorney, and one of my relatives has passed away. And it just so happens that this was a relative that I knew when I was younger, who traveled a lot. This relative lived over in Europe.

And I said, well I'm sorry for your loss.

He said, well we weren't close, but we used to travel together back in the day, and he's pretty well off, and he's passed away.

I said, well, what is the result of this for you.

He said, well, I stand to inherit quite a bit of money.

I said, well that's fantastic. I said, what are your plans. Are you going to travel, are you going to retire?

He says, well first I just have to pay another \$5,000 to the attorney.

I said, oh, wow. That's when things started going off, and he said and the attorney office is out of Nigeria.

And I think that even some of the most sophisticated of us can be blinded by desperation. And so I don't think that that is unique to Native America, I don't think it's unique to Indian country. But it certainly is an affirmation that those of us in financial education have to keep up the fight. And so I appreciate the opportunity to share a couple of thoughts with you today, and I look forward to hearing from our next speaker. Thank you.

PATRICIA POSS: Thank you, Brian. Heather?

HEATHER HODGES: Good afternoon, everybody, thank you for inviting me to be here-- good morning, everybody. Thank you for inviting me to be here today. I'm pleased to be here today because at Neighborhood Legal Services Program, we agree that when you're trying to develop interventions for protecting low-income consumers, that it's important that they are grounded in a deep understanding of the community you're trying to help and serve.

That is, in fact, how we approach all the work we do on behalf of our low-income clients. And it's also how we learned about the specific problem of students in area job training programs, primarily east of the Anacostia River, who are carrying large debts because they had previously been enrolled, or recruited by, expensive for-profit universities that offered them easy loans that turned out to be difficult for them to repay when enrollment and graduation did not lead to the promised good paying jobs. NLSP is a nonprofit law firm that provides free legal representation to low-income DC residents, and we've done so since 1964. Since that time, we've been committed to the idea that in order to best serve low-income residents, our lawyers need to be situated in the communities we serve. One of our offices is located in Ward 7, it's that little house

you see up in the corner. It's a little house on the corner of Polk Street, just off of Kenilworth Avenue, near 295. It is literally a house. There are five lawyers in there.

Ward 7 is a collection of diverse, vibrant, historic, mostly African American at this point, working class neighborhoods. But it's also the home of many residents who are challenged to find employment. The unemployment rate for Ward 7 can be nearly double that of the entire District of Columbia.

Low-income district residents seeking to enter the workforce frequently struggle with problems that prevent them from engaging in a focused job-seeking effort, or cause prospective employers to reject their applications. Those challenges include a lack of stable housing, or a lack of an address-- a permanent address. The lack of affordable day care, disputes over custody and visitation, that bring them into family court. Lack of adequate health care, criminal records, poor credit histories, lost driver's licenses.

All of those issues are common barriers that we see among job seekers which exacerbate the traditional challenges to finding a job, such as the lack of academic credentials, including a high school diploma, and marketable job skills.

In the face of these barriers to employment, you can understand the appeal of promises made by recruiters from for-profit universities that enrollment will lead directly to a great paying career. Although the district has several major universities, they are out of reach academically and financially for some of the local communities we serve. We have learned that some of the job seekers we work with, and have tried to help, have tried enrolling at our only public university, the University of the District of Columbia, but had to drop out for financial or academic reasons.

Frustrated job seekers may be for-profit universities as the only realistic option left for easily obtaining academic credentials, job skills, and more importantly, much needed assistance with job placement. However, as many of you in this room know, some of these institutions have drawn scrutiny for their high pressure recruitment tactics, that include misleading applicants about job placement rates, and pressuring them into taking out loans to cover high tuition costs. In the meantime, a growing body of research shows that students who attend these institutions have no great competitive advantage in the marketplace-- in the job marketplace-- over those students who attend cheaper, or in the case of UDC's community college, free community colleges.

Thus, for job seekers in the neighborhoods we serve east of the Anacostia River, these for-profit universities can turn out to be another dead end when enrollment fails to lead to employment.

Instead, enrollment results only in debts that they cannot pay because they're still not working. They, in fact, may end up in a much worse economic situation than they were before they were-- if they had never enrolled.

Carolyn and Sharon are two examples of job seekers who we have encountered. Carolyn is a middle-aged mother, who before finding her way to a free job training program in Ward 7-- and that, actually, in the top left hand corner, is a job training program that's run out of the Cement

Mason Union Hall, two blocks from our Polk Street office. Carolyn had enrolled at UDC using Pell Grants to finance her education. However, she did poorly academically, and lost her financial aid. In order to remain enrolled she would have to pay her own way until she raised her GPA and became eligible again for financial aid. But this was not feasible at the time, because Carolyn was relying on Temporary Assistance for Needy Families, or welfare, to support her family. Despite these clear, academic, and financial challenges that included no income beyond her TANF payment, a recruiter at a for-profit university told her that she should enroll at the institution, and that she should work towards her doctorate.

Carolyn agreed to enroll, and was then promptly asked to take out \$5,000 in loans to cover the tuition costs for two classes, which were remedial English and remedial math. Neither of these courses would count toward a degree, and Carolyn would not be permitted to move into the degree track until she passed both classes.

Carolyn rethought her decision, enrolled in a free local job training program, and called the for-profit university to try to withdraw before classes were scheduled to start. The institution made it very difficult for her to withdraw over the phone, and pushed hard for her to try the classes. They eventually let her withdraw, but they charged for a \$500 early withdrawal fee. This is despite the fact that Carolyn was on TANF, and unemployed at the time. So, while she was left without a degree, she had accumulated another debt.

Or consider the case of Sharon. Sharon was a teenage mother who also receiving TANF, who enrolled in a for-profit university that promised her a lucrative career in the medical field. Like Carolyn, she had previously attempted to attend UDC, but withdrew when she became pregnant.

A woman overheard Sharon talking about finding a training class while Sharon was standing outside of a public benefits office in Anacostia one day. The woman told Sharon that the for-profit university that she worked for was recruiting students, that they gave generous financial aid, and that it was easy to get in.

Sharon, a teenage mother, was sold on both the convenience and the cost factor. The admission process at the for-profit university was seamless. Sharon called them, said she was interested, they gave her an appointment two days later, she was told to bring her high school diploma, or a transcript, her birth certificate, and a photo ID. That was it.

When she arrived, she was asked a few questions about her interests, and why she wanted to be a medical assistant, which was her chosen field. After that, they made a copy of a high school diploma, and told her she was accepted. She was in college.

Sharon told us, you pretty much find out the same day that you're in. You don't have to do any type of assessment test. It's easy, you know, it's easy to get in. So that's when I was like, cool. You don't have to take a test or anything, or get bad news that you failed. You're just in. So I was like, oh, perfect.

And then he was like, when you can-- when can you start? He said you can start the following class if you want. I got my books the same day. And then I went to financial aid. Everything was OK, until the end.

So at the beginning, she was offered many promises about job placement, easy access the student loans, she finished her program and that's when the problems began. After graduation, she was offered almost no assistance with job placement, and no real guidance on how to manage her debt.

She was able to find a job on her own, after struggle, but when she lost it, she was left homeless. She continued to ask for job placement assistance from her institution, but received little. What started out as a \$6,000 debt has now grown to almost \$11,000. She's now in a transitional housing program that is also helping with job retraining. But she's also back on TANF. She has her family, and her student loan debt remains a significant problem to completely stabilizing her family. Because, as you can imagine, she is challenged to find affordable rental housing because of her now bad credit.

These stories are compelling, but not unusual, in the communities that we serve. The abuses for for-profit universities are well documented. The crack downs by federal agencies on these practices have been front page news. However, it is not clear to us that everyone in the communities we serve is getting the message.

So many still unemployed or underemployed job seekers like Carolyn Sharon find their way to high quality, supportive job training programs, and that is where we encounter them. NLSP has placed significant resources into helping low-income students remove barriers to employment, and part of that effort includes partnering closely with local job training programs. We still are still here regularly from the program staff that their students have been, or are being, targeted by for-profit universities.

I share information I learn about legal developments regarding for-profit universities with our community partners. In September, I alerted them to the fact that the Consumer Financial Protection Bureau had sued for-profit college chain Corinthian Colleges for its illegal predatory lending scheme. This was September, two month ago.

The response I received from one of the staffers, and you can see it coming in all caps, "This is wonderful news. I mean, it's depressing to see all those categories of the systematic, ugly, manipulative ways these schools took advantage of eager and poor students. But I'm optimistic that future students won't have to stop similarly. But why stop at Corinthian? Let's get..." And then she proceeded to list five more, so this is just two months ago.

So we still have a real problem in Ward 7 and the other low-income communities we serve. So the question for us, as the legal aid lawyers based in that community, literally in that community, is how do we help those individual job seekers in the communities we serve to better evaluate the promises made by these institutions. And more importantly, what are the opportunities for systematic impact?

The initial challenge for us in direct services is a basic one, but it's a difficult one. Reaching and educating job seekers about what we know about some of the predatory tactics of some of these institutions, and the remedies that are available to them. People won't ask us for legal help if they don't think they have a legal issue. So we have to frame it for them.

Moreover, to the extent that these victims are men, they are not inclined to ask us for help. Because men are non-traditional legal aid clients. For a number of reasons. And that's another panel conference.

Very quickly, we've identified two solutions for making these interventions. First, we serve as a resource for the staff at the job training programs. We provide them with information on legal development, such as the enforcement efforts that federal agencies are taking. We conduct legal information programs on site for their students, which is what you see in that top left-hand corner, is two of our staff attorneys who walk the two blocks to that job training site at the Union Hall. And they push out this information directly to the students.

And we connect our partners to the work of Consumer Protection agencies locally and federally. We've had FTC attorneys come out into this neighborhood, which is Deanwood. Come over to the Deanwood Public Library, and deliver information directly to the residents of that community. They, in turn, help us identify students who might benefit from legal assistance because of their debt collection issues, like Sharon and Carolyn. And we also are working with them now to interview more students about their experiences to determine how we might make more pointed and earlier interventions.

Last, a second, very important intervention point is the public library system. And in particular, the computer rooms in the libraries. Library computer use is highest in the District's poorest neighborhoods east of the river. A recent study showed that 40% of library users in the District were using library computers to look for work. This is consistent with national data that shows that 40% of library computer users received help with career needs in the branches. This is not surprising.

A study by the Gates Foundation of public library use reported that low-income adults are more likely to rely on the public library as their sole access to computers and the internet than any other income group. Based on this information, we successfully applied for a grant, supported by DC public library, from the District's One City Fund for a project staff attorney to circulate amongst the library branches and provide legal information to job seekers in the branch. And that's what you see in the bottom left-hand corner, is my colleague Dan Choi, in a computer lab. There are job seekers there, we can't show them for privacy reasons, but he's literally in the branches to help triage situations for them.

It is our hope-- and next to him, actually, is a stakeholder group that we also convene in the library, made up of job training programs, government agencies, library personnel, legal services providers, to talk about this particular issue, as well as other challenges facing job seekers.

It is our hope that by continuing to be a highly localized resource to job training programs, and by using the local libraries as a platform for pushing that consumer protection information to job

seekers and other patrons, that we can help job seekers in low-income residents make more informed decisions about whether to enroll in a for-profit university, as well as assist those who may have been victimized. I apologize for going over time, but thank you.

PATRICIA POSS: Thank you, Heather. So we'll take a little break here, and John, how does this mesh with what you're seeing with the reports at NLC?

JOHN BREYAULT: Sure. So, for those of you not familiar with the National Consumers League, we're the nation's oldest consumer advocacy organization. And a big part of my job there is running our fraud.org campaign, which is centered around a website at fraud.org, where we collect consumer complaints, among other things and publish annually a list of top 10 scams. We also look in through that data to identify trends emerging from the data during the year to issue fraud alerts about scams that we're seeing on the rise. We contribute our complaints directly to FTC. We also make them available to more than 90 federal, state, local, and international law enforcement and consumer protection agencies.

You know, what we've been hearing from the previous three speakers is very typical of what we-- the kind of complaints that we're getting at NCL, through fraud.org. So, for example, Anne talked about the notar-- the folks in her community, who are driving around and impersonating immigration agents, for example. In our last-- one of our last fraud alerts, we were seeing, specifically, a quick rise in complaints from consumers who were saying they were contacted over the phone by folks who were allegedly with a government agency, like the IRS, with immigration. And threatening them with some kind of dire consequence in an effort to extract the payment from them.

So a typical example would be someone who receives a call from local-- say it's-- someone saying they're with local police. And we are going to be collecting on a debt that you have failed to pay. Or, claiming to be a loan-- loan collection agency.

What we have been led to believe from these complaints, and similarities we're seeing, is that these are consumers who have filled out an application online for an online payday loan. And these are-- we think that those websites where they are filling out this information are little more than lead generators for scammers who want to make phone calls to consumers. We do know that scammers are trading lists amongst themselves of vulnerable consumers.

Just as advertising and things like that are targeted at specific communities, scammers do the same thing. And they look for communities like recent immigrants, for example, to contact. With scams that are targeted specifically at them.

With regards to what Brian was talking about, this is something we definitely see as well, in the investment fraud. I think it's-- you know, when you were talking about how media coverage of a settlement for a particular community is picked up, not just by regular consumers, but also by people who want to take advantage, we definitely see that popping up in our complaint data as well. It's not one of the top scams that we see. But certainly given the amount of money that a scammer can get from even one victim of this scam, it's one I think has a disproportionate impact on vulnerable consumers.

And finally, the job seeker scams. I think the closest analogy to what we're seeing in our data is mystery shopping scams. So, what we'll see is-- one of our top scams for years has been fake check scams. These are where a consumer receives a check in the mail, and they are told to cash this in a personal account, and then wire a portion of those funds back to either the scammer themselves, or a third party. Before the bank finds-- and once the bank finds out that it's a fake check, the consumer's left with a negative balance, and owing the bank money.

A common variation on this has been a-- website postings, newspaper ads, signs in neighborhoods, of folks looking for mystery shoppers who will go out and mystery shop say, a Walmart location, or a Western Union. And they're told to-- again, it's the same scam, you're depositing the check. And I think it's particularly concerning to us-- is as the recession continued on, was how many consumers were out of work, and we're looking for ways to supplement their income. And so, as you talked about, Heather, folks who are already on the margins of society and looking for ways to find a job, to find employment, to help supplement their income, are vulnerable to these sorts of scams. And so we certainly see that in our data as well. So I'll stop there. But happy-- I think we're going to circle back after Melissa and Courtney speak, so I'll definitely be happy to do that.

PATRICIA POSS: Actually, next we're going to go to Jane, who is with the National CAPACD. She is with National CAPACD in the San Francisco office, but she is sitting in the FTC's regional office in San Francisco. Jane, I'll let you share what information you have.

JANE DUONG: Great. Can you folks hear me OK?

PATRICIA POSS: Yes. You sound great.

JANE DUONG: Great. So good morning, and thank you for the opportunity to present with you today. And really grateful for the other panelists. I think that I'm nodding my head furiously over here because I think that a lot of the things that Anne, Heather, and others described, are also very common with the Asian American Pacific Islander community which I work with.

So, my role, actually, with National CAPACD-- which is an acronym that stands for the Coalition for Asian Pacific American Community Development-- is as the Director of Programs and Advocacy. Our mission at National CAPACD is to improve the quality of life of Asian Americans, Native Hawaiians, and Pacific Islanders whom are low income. And we work in partnership with a membership base of about 100 different community-based organizations. That are providing a full range of services. They're those neighborhoods institutions that are anchoring the community and providing resources and access to social services, as well as helping people to navigate the new system here in the United States. Accessing housing, and a full range of services, as well as you know, getting registered to vote and the like.

So, at National CAPACD, we support a lot of these programmatic services that help to improve the economic vitality of these communities, and we seek to advance policy change at the federal level.

One of the things that we operate is a HUD Housing Counseling Intermediary, where we work with about 20 different organizations around the country that serve the AAPI community-- the Asian American Pacific Islander community. And work with probably about 25 different languages and dialects are part of the capacity of our network that provide a full range of services, from pre-purchase, post-purchase, foreclosure prevention, as well as homeless and rental assistance programs.

So today, what I'd like to do, is actually to share some of the things that our network of counselors around the country have been able to observe, as a part of this housing crisis, and I think we've heard a lot about it over the last several years. And I think, certainly, the Asian American and Pacific Islander community has not been immune to some of the challenges that have existed in the housing world.

To maybe start this off, I want to provide a little bit of background on the Asian American Pacific Islander community, that has made members of our community particularly vulnerable to fraud in the housing sphere. So, I think that Quyen addressed earlier this morning that the AAPI community is quite diverse. It incorporates upwards of 30 different ethnic groups, coming from various national origins. As I mentioned, our housing counseling network currently serve about 25 different languages and dialects. They tend to be working with new immigrant communities that are living in pretty isolated areas with limited access to information and education to properly shop for mortgages and other financial products. And they are-- many times, learning a new system of doing work, in that the mortgage system works completely different here than in their home countries. And many of these individuals do not know where to turn to for information. So, very few are relying on government institutions or financial institutions. They tend to rely primarily on the family and friends. And this data is also confirmed in a survey that we conducted with our members around access to other financial products, like bank accounts, credit cards, and the like. And so, not just for mortgage products, but all sorts of financial products.

And then, of course, compounding these challenges, we know that at least 40% of our community members have difficulty communicating in English. About 70% of Asian American households speak a language other than English at home. And so, having to negotiate terms of mortgage-- that already is very difficult in English-- is further complicated. So, this has led to massive miscommunication at best, and outright fraud in many other circumstances.

So thinking about sort of the full range, from origination of thinking particular to mortgage fraud. Because many of our AAPI communities have felt so isolated, they have tended to rely on individuals within their community that speak their language and understand their culture. And this overreliance has meant that many home owners and homebuyers have been susceptible to being sold predatory products.

So, we heard quite often throughout our network that borrowers were negotiating the terms of the mortgage in one language, and then the actual mortgage terms were actually a completely different-- were very different than what was originally negotiated. Many homeowners were also signing documents with incorrect income information, where employment information was either falsified or inflated. Maybe even income documentation that was provided was

subsequently ignored. So a lot of things that I think did not put the homebuyers in the best positions. And most common was that homeowners were listed as self-employed rather than they actually had. And because loan documents, you know, have primarily been in English, they've had to rely and trust on these mortgage professionals. And they don't-- a lot of these homeowners did not have an ability to actually compare what they were given on paper to what was actually communicated. So, I think just really compounding a lot of these challenges and the vulnerability that a lot of these communities face. And the intense trust that they had to rely on with these professionals.

As we-- you know, and I think, certainly we all know, sort of the outcome of this is that there was a severe decline in home ownership. And I think that broadly in the Asian American community, I think home ownership rates were pretty level through the crisis. But we know that in specific communities, there were some that were especially hard hit. So here in California, in the Hmong community in the Central Valley, between 2008 and 2009, at the height of the crisis, we saw that home ownership rates within that one year dropped 10 percentage points. So we can suspect that, or we can guess that there was a lot of predatory lending that was happening in that particular community.

We saw something very similar in Queens, New York with the South Asian community. In particular, with the Bangladeshi and Pakistani community. Where, similarly, a community organization that we worked with looked at surnames of-- South Asian surnames in the notices of foreclosure sale and trustee sale, and found that-- that South Asian homeowners were probably seven times more likely to seven times more than their representation in that community to be in a foreclosure in Queens, New York.

Certainly as we progressed through the crisis, we observed that there were sort of newer instances of fraud with the creation of the Making Home Affordable Program through the Treasury Department and loan modifications that were being more readily available. We saw all sorts of professionals coming out of the woodwork that were offering services to help people to modify their loans, charging upwards of \$2,000. We even heard of a situation of a homeowner being charged \$7,000 to navigate the loan modification process. Usually with no results, or no intent of achieving any kinds of results. And you know, through our housing counseling network, these services are free, and I think a lot of community members actually don't know that these resources are available, and that they shouldn't be paying for them.

So an example for a mother in Queens, New York, also from this organization, working in the South Asian community. She ended up-- because she was so embarrassed by her situation, she didn't answer her phone calls or anything like that. She privately went to a realtor, who was asking \$2,000 to get her through the foreclosure crisis. They immediately came back and said, oh, the banks denied your request. And she was devastated, and she'd be in the home for about 10 years, and she really didn't know what to do. Luckily, she was able to connect up with some helping counselors within our network, and they were able to actually help her to get a loan modification. And unfortunately, there are so many others that don't make their way to a counseling agency.

We've also heard this in Los Angeles, in the Thai community. Where there was an attorney that was advertising in the Thai newspaper, was going around to the Thai temples, that was also something similar services. And actually, skipped the country after collecting all these fees and not doing anything. And so, unfortunately, this is quite common in our community.

So I think that in most of these situations, predatory players have really exploited the fact that mainstream financial institutions have not taken proactive steps to provide information, education, and other financial services that are-- in language, that are-- culturally relevant.

And these predatory players have been very successful in being culturally competent in a way that our government agencies and institutions have not been able to-- including community-based organizations. And so I think that part of our job is to figure out how we can combat that.

So just another story, we heard of, in the Laotian community in St. Paul, we heard of folks offering free trips back to Laos, back to the homeland, if you refinanced your home. And so those are some of the examples of ways that people were able to get through to homeowners and get them in the doors. And certainly, local ethnic newspapers, which is, I think, really prevalent in the Nepali newspaper, in the Chinese newspaper, in the Thai newspaper, around the country. I think we've certainly seen a lot of those ads that have proliferated.

So to combat some of these issues, we feel that it's, as I stressed throughout, is to be able to cultivate and build a capacity of trusted community sources of information. So this is a lot of what we did at the height of the foreclosure crisis, is to build out this network of housing counseling organizations that were trained and qualified to be able to provide this information. And to do so, add a disinterested third party in the transactions. So not a real estate professional, and not a financial institution, as an example.

And I think, certainly, our 20 organizations is not sufficient. And I think that there's more that can be done around building up that capacity. Unfortunately, at the start of the foreclosure crisis, there were only five HUD-certified housing counseling organizations that had any capacity to serve the Asian American and Pacific Islander community. And so, I think that certainly a lot of folks have been in a disadvantaged position to be able-- to even be able to access the help that is available out there.

I would say that our effort doesn't stop there. You know, I think that we can do more around outreach campaigns, about the types of fraud that exist. And I think, certainly, the work that National Consumers League in identifying those things, I think are really helpful. And then providing a lot of the tools and resources that are in language so that we can have alternative sources of information that are credible, that are out there, that are proliferating in our community. And you know, not just specific to mortgages, but also other things related to debt relief, credit repair. You know, thinking about how homeowners get out from the other side and how they sort of get back on their feet. That there is-- I think, we're beginning to hear a lot more about services that are out there to help people to their credit. But again, are taking money away from our communities. And I would say that, similar to what other folks have said, thinking about how we make a complaint system accessible for community members, that people feel like there are actually real solutions on the other end of it. And then working with community

ambassadors within community organizations, that can serve to act as an intermediary in order to access some of these fraud complaint systems. I think that we found, for example, with the CFPD's complaint line, that housing counselors on the ground have been really crucial in saying, your case should be one that should be reported. And working to work with the homeowner to make those complaints known.

I think that, a lot of times, these communities feel so isolated and they're often victims of a lot of different kind of scams, and I think oftentimes they don't realize that it is a trend that is not unique to their community. And how to get the message out that the more we say something and do something about this work, hopefully we can change the system. So, and as I said, the bottom line is that we need to do a much better job of marketing and selling credible sources of information to our community. And we need to do a better job of that than the predatory lenders that exist. So, thanks so much for your time.

PATRICIA POSS: Great. Thank you, Jane. We really appreciate you getting up early this morning to join us.

JANE DUONG: It's my pleasure.

PATRICIA POSS: Stay there, though, we may-- hopefully, we'll have some time for questions. OK. Melissa, you're up. Let's hear from you.

MELISSA ARMSTRONG: Thank you, Patty. I want to echo everyone's thanks for-- to the FDC, for organizing this workshop. It's really a wonderful opportunity. I should say, at the outset, before I begin, that my remarks today are-- express my views only, and do not reflect the views of other members of the staff, or the commissioners, or the commission itself.

But I'd like to talk today about a case that the SEC brought about six months ago in Massachusetts, it's called TelexFREE. The commission alleges that TelexFREE was a Ponzi and pyramid scheme that disproportionately targeted and affected members of the Brazilian and Dominican immigrant communities. It's an interesting scam, because it did have a legitimate side. They sold a real product called VOIP, Voice Over Internet Protocol, that would allow international long distance calling over the internet.

So that did exist. But the real money, we allege, was in multi-level marketing. the company would recruit promoters, and their only real responsibility was to take stock ads and upload them onto internet sites. And so you would see internet sites that would have tens of thousands of duplicate TelexFREE ads up there. But that sort of gave it a gloss of being kind of legitimate, because you were technically doing a little something. But really, the way that it worked, we allege, is that promoters would purchase memberships upfront, and then they'd get small weekly payments. So, for example, you might buy a \$300 package get \$20 a week, or you'd buy a \$1,400 package, and then you'd get \$100 a week back.

Promoters could buy as many memberships as they wanted. And most importantly, their payments were not tied to actual product sales. You were guaranteed this money in return. Many promoters who ran these numbers realized that this sounded like a very good deal, and so they

would buy in for tens of thousands of dollars. We know of at least one victim who borrowed, I think, \$50,000 from his mother and gave it all to the company. And it was her entire retirement.

On the pyramid side, promoters got commissions for recruiting new promoters. So the company would pay you between \$10 and \$100 for each person that you brought into your network, and then they would also receive commissions on the ads placed by the people they recruited, and their recruits' recruits, and so on, down the pyramid.

By the time the SEC filed its complaint, TelexFREE, we allege, had collected about-- well, over hundreds of millions of dollars from hundreds of thousands of promoters. It'd promised to pay them back, to the tune of about \$5 billion. But compare that to their actual VOIP product sales, which were about \$1.3 million.

The company failed. It filed for bankruptcy. But a lot of people at the top made out with a lot of money.

So how did TelexFREE recruit its promoters and get people involved? It had a lot of different media and strategies that it used, but the message was always consistent. You could go from having nothing to having it all, in a very short time, with this program.

The organizers would travel from city to city, and they would host very lavish promotional events, at hotels. Promoters would show up, and they'd give them--they'd give the organizers sort of a rock star treatment. There'd be limos and champagne, and the recruiters would sign up-- line up to shake their hands. And then, during the events themselves, recruiters would give testimonials about how their lives had changed using the Telex programs. People would get up and say, I'm a millionaire now, because I participated in this program.

They might also be presented with, like, large mock fake checks from organizers, to show and demonstrate their reward. The events were taped and recorded. The recordings could then be embellished with music or graphics, and uploaded to YouTube, where they could reach an even broader audience. There were hundreds, if not thousands, of these videos on the internet by the time the SEC filed its complaint.

And they made similar use of other social media. You could find these promotional videos on Facebook, on Instagram, Twitter, you name it. As TelexFREE would gain traction in a specific community, though, its recruiting efforts would become more targeted and more personal. Promoters would rent out storefronts in promising neighborhoods, that they would then turn into training centers. The training centers were nothing more than recruitment centers. They would have multiple pitch sessions a day, just trying to get people in the door. And once they get in the door, they get hooked on the program.

Several of the organizers of TelexFREE had ties to Brazil and the Dominican Republic. And they exploited those ties to recruit immigrants from those communities. Promotional materials were typically in Portuguese or Spanish, not in English. And they sold a version of the American dream that was meant to appeal specifically to recent immigrants. It was the possibility of getting

out of poverty without having to have labor, without having to speak English, it was a chance to get ahead.

One tactic that I wanted to highlight is the use of church leaders to recruit new victims. Ministers in predominantly Brazilian churches were brought in as early promoters and they would then use their position with their congregants to bring them into the scam. One top promoter, who often boasted that he was the first US promoter to become a millionaire, made a large donation to one of these churches. And then the church made what was effectively a Telex promotional video. Talking up the program, talking up the promoter, and basically giving the program its stamp of approval.

You can see how immigrant communities would be an ideal target this scam, for several reasons. Members of the community were often eager to break out of their low wage jobs, but lacked skills that would allow them to do that. They're less likely to report the fraud to authorities if they're here illegally or their family members are. And in some ways, the product kind of fits the community, also. Because it's-- a recent immigrant would have a need for international long distance calling so that they could talk to their families.

Like all pyramid schemes are, this prod-- this operation was unsustainable. In March of this year, about a month before the SEC filed its complaint, TelexFREE changed its compensation rules, to require that promoters actually sell the product. And the promoters, you might imagine, like, they just got rioted. They said that the product couldn't be sold, they started trying to pull their money out, and very quickly everything unraveled.

TelexFREE filed for bankruptcy when it couldn't meet its obligations, and actually, the next day, the SEC filed its complaint. And moved for a temporary restraining order, and most importantly, an asset freeze. A month later, the US Attorney for Massachusetts charged two of the organizers with conspiracy to commit wire fraud. One was arrested, and the other fled to Brazil. But each of those people had earned millions and millions of dollars before everything fell apart.

So, talking a little bit about what remedies are available generally when the SEC is involved in a case. We have-- we are only a civil enforcement agency, we don't have any kind of criminal authority. But what we can do, is we can go in and we can obtain an injunction to stop the fraud. We can obtain an asset freeze that will allow us to go to the banks that are holding money. And we had some luck, actually, repatriating funds that have been sent overseas.

We can also ask that the-- if they-- if there is a web element to this scheme, we can have a TRO that instructs the defendants to disable their website. And we've had some luck with TROs, taking them to social media outlets, and having them, like, demonstrating that their websites on their sites, violate their terms of use. And then getting them to voluntarily take them down, even if the TRO wasn't specifically directed at third parties.

Then, we are able to seek disgorgement. We have authority to set up distribution funds if we are able to recover some. So that, you can't get back all your money, but you can get back some of it. In TelexFREE, they set up a web page at the FBI where victims could report their involvement in

the scheme. And they chose the FBI because it's not a mandatory immigration reporter. Which was a real concern for how to reach victims who are afraid to come forward.

So, that's sort of what-- and then, I want to talk a little bit more generally about what the SEC can try to do, in terms of prevention. When we see cases, and something like TelexFREE comes to light, we put out press releases. And we tried to develop investor alerts, that sort of help investors see and recognize a pyramid scheme, or a Ponzi scheme for what it is before they get involved.

We have an office of Investor Education and Advocacy-- one of my colleagues from that office is here today-- and they really work for-- on outreach and prevention.

And we have a newly established pyramid scheme task force that is going to look specifically about how we can enhance our prevention tools in this-- in these particular kinds of cases. So, thank you.

PATRICIA POSS: Thank you, Melissa. We really appreciate you coming today. OK. We're onto our last speaker, Courtney Gregoire, who is from Microsoft.

COURTNEY GREGOIRE: Thanks, Patty, and thank you for-- thank you the opportunity to speak today. I want to talk-- I have to say, I'll be echoing a lot of the remarks you've heard-- but a little bit unique, in terms of the fraud scheme. I want to talk a little bit about the technical support scam frauds. And I'll talk a little bit about how the multi-vectors they're impacting.

But first, a brief introduction. As mentioned, I'm a senior attorney with Microsoft's Digital Crimes Unit. We are a group of about 70 attorneys, investigators, insider experts, globally based. I'm based out of Redmond. Who work on the offense against cybercrime. Our mission is really to create a safer internet. And we have three main pillars of work. We have teams that work day in, day out focusing on malware and botnets, robot networks that infect large scale number of servers and computers. We have teams that focus solely on intellectual property crimes and how those have been evolving. And I lead our efforts on what we call our Vulnerable Populations work. So both addressing online child exploitation and consumer fraud. In this case, that's impacting most vulnerable.

So, what I wanted to talk a little bit about today is the nature of what we're calling these technical support scams. These are the phone calls that you may have received yourself, because I've received a couple myself. That are literally a cold call representing themselves as Microsoft or Office or a representative another technology company. Or, to be perfectly honest, just someone who wants to help you with your "slow computer." And you're "slow computer" clearly has malware and viruses on it. And these individuals really do not have very many skills. But when you're talking about targeting folks who are less comfortable with technology in the first place, anything they can show you on your computer is going to be eye opening.

We think about this as kind of three vectors that we have seen. There are a lot of folks engaged with these cold calls. There is significant internet search engine advertising, in which these companies set up very legitimate looking websites. They are technical support, they are to help

your computer run faster, or access your files, or address any of your technical support needs. And they really do create networks of these websites. So that when we, as an individual company, and be perfectly honest, our fellow technology companies try to take down some of them for violations of terms of use. They've got a network of over 100 websites and different filed enterprises. And so it's a difficult challenge for us to address, solely from that vector. And lastly is the scary-- the old scareware-- this is now the same concept. This is, you're doing anything on your computer, and up comes a pop up ad that says your computer's infected with malware or virus. Call this number and let's get it cleaned.

So, let me just give you the nature of exactly how-- and there's some variations on this-- but how this scheme plays itself out. You're on the phone with one of these fraudsters and they say, I know you're having slow experiences with your computer. Can you give me remote access to your computer? And by a very simple system, you usually typically just reroute your computer to their website, you're giving their technician remote access to your computer. And to establish their legitimacy, they ask you to pull up a couple files that they will show have exclamation points in them. Or have the word "stop." Or have the word "virus." Something that is actually totally benign on your computer, and that is your indication that you absolutely have to get your computer cleaned right now.

Another tactic they will do is take you to the registry of IP addresses by which you've used that computer to call into the internet. And they will make the claim that some of those are foreign. Which clearly means that some unnamed countries are accessing your computer, and you should use their services right now.

The scheme is really typically a \$199 to \$300 one-time fee, but the best is the annual subscription. By which you give them your credit card, and for \$300 to \$600 a year, you will have ongoing technical support.

We have actively been investigating these schemes. And so we've had outside investigators do test purchases and spend the hour with these individuals to see what happens next. And in some cases, they actually do download free antivirus software. They go to Windows Essentials. Or they do another mechanism that is absolutely accessible to the consumer. In other cases, they don't do anything whatsoever. But they're taking you through, with their remote access, that they're accessing different parts of your computer. What we've been most concerned about, and what we're focusing on studying right now is, yes, the fraud in and of itself is harmful. But we are wondering what else they're doing with that remote access. And we have seen them pull documents entitled, "Financial Information," "Mortgage Information" over when they have that remote access.

We're monitoring to see what else they potentially do, and whether they reactivate that remote access after has been closed off with our test purchases.

Another example we've seen is them actually installing a password grabber, that enables them to quickly search all files to find password key log strokes. And that is, I would say, a minority of the scheme, to be perfectly honest, unfortunately, too many people are falling for the \$199 to \$600 scam, and that's enough for these folks to make a significant amount of money.

Here's the global of what we know. We actually commissioned a survey in 2011. Although it was a small sample size of about 2,000 US participants, we heard that 9.3% percent of those were contacted by this scam. That actually was spread disproportionately across all age groups. But the 12.9% that suffered financial loss, as you might expect, fell into the senior citizen category. And that has been our primary focus, as we think about how we address this issue from an education and outreach.

The average loss was about \$453. And just as Melissa mentioned, you know, one of the challenges here is, we are receiving about 1,000 consumer calls a month about this-- the nature of this fraud. We're asking those individuals to provide us as much information as they can, and of course, report to their authorities, the FDC, or their state Attorney General's Office. But they really cannot recall the name of the company, how it was represented, what they did on their computer. And the reality is, we also get a handful of folks who say, it's OK, that person was very nice. They talked to me on the phone for 60 minutes, and that was worth my money.

And that is a challenge that we're facing in terms of how we explain to folks, this is not an activity that makes sense. And it's scaring them, obviously, from the technology platforms. One target company, just to give you a size and scope, we're not seeing one, two, three fraudsters in here. In our about 14 months investigation, we've seen about 50 different enterprises. Some of them have connections to other enterprises. They are incorporated in almost every state in the United States, but they're almost all leveraging Indian call centers. And the dynamic that we are we are faced is, as I mentioned the Digital Crimes Unit is globally based, and we've engaged our Indian team to talk to local law enforcement there.

This probably will not surprise anyone in this room. We have spent over a year trying to find one single Indian consumer victim. And they have been smart not to target that. And so we do believe we've got enough-- and of course the FDC has actually taken enforcement action against a US based enterprises here-- but we do need to get to a point where we actually educate Indian law enforcement that these call centers, maybe unknowingly, are engaged in this widespread fraud.

The bottom corner there is just to give you one company. Over two years, they actually had 125 million impressions. That means the average consumer did a web search on Google or Bing for "support." And their ad popped up. And visually was represented to the customer. Of that 1 million clicks from consumers, we estimate their ad spend about \$1.4 million, which we can only assume is being made up over on their revenue side.

We are attempting to proactively address these tech support scams. The website right there makes it very clear that Microsoft does not call you and tell you you have an infection on your computer and provide services. That is not something we engage in. Microsoft will never ask you for your credit card number over the telephone. Those are the simple things you need to say. It's true, though, they are-- they have broadened their reach, and they're representing themselves as Facebook, as Google, as other tech companies.

We are working with law enforcement because they're getting as many complaints as we are. We have been working with both federal prosecutors and really thankful for the FTCs action.

Just last week, an upstate New York scammer, who was representing himself both as Microsoft or as Facebook, with this exact scheme. The news on the right is an arrest, actually in the UK, on a similar scheme, just in March.

Where we know we need to go is, there are multiple vectors that we need to address this. We clearly need to be sending a much broader deterrence message to these individuals. And so we are hoping to partner with law enforcement and the appropriate agencies. But we do know we need to do some broader education outreach because this is a scheme that's been running for over five years, and clearly has some longevity attached to it. And so we need to find a better way to reach, particularly the senior citizen population and other vulnerable communities, so that they understand that this is a fraud and something that they should not be suspect to. So, with that, I'd love to turn it back.

PATRICIA POSS: Thank you. We are right up against the time. I did get one question. I think you just answered it, Courtney. But it was, is there something you can do technically to address the problem, or is this because education is going to have to be the answer?

COURTNEY GREGOIRE: So, we can technically address some of the web online advertising. However, the cold calling remains a vector that we're not going to be able to technically address. And in fact, in our ability to quote "technically" respond to the web advertising platform, these individuals are intentionally [INAUDIBLE] their identity. They are registering as a medical pharmaceutical company, and then bidding in the tech firm-- the tech support space. We can go find those on a one off basis, and take that down for a violation of terms of use, but they are proliferating in a much faster rate, that they need to receive another message.

PATRICIA POSS: So, several of you answered a lot of the questions that I had. Thankfully, I sent them ahead so you mixed them in, which is probably why we ran a little bit long. Some of you didn't have a chance to address this trusted source issue. I just want to throw, at least, that question out.

For those of you didn't answer it, or would like to add something to it, we have heard it is important that the advice come from a trusted source. A lot of you described how the scam came from a trusted source. But it's important to hear the advice from a trusted source. Do you think that's true? And if so, who are the trusted sources in some of the communities you've identified? Some of the communities identified here today. Anybody want to take a couple minutes to answer that? That's about all we have left.

JOHN BREYAULT: I'll take a stab at it. So, the-- it's an interesting question because certainly I think, if you went around the room today and asked folks, who do you trust more than anybody else, we would get a large percentage, first of all, saying family members, friends. Maybe folks in your church or other community that you work with. And unfortunately, that is exactly the kind of people, as we've heard today, that the scammers also go to. To try and leverage you to commit fraud, as opposed to protecting you from fraud.

The challenge, I think, for consumer education and advocates in the FTC, is how to scale that. How to scale the consumer education message. Because I can talk to my mom, but my mom can't

talk to 10,000 people. It's a scale versus a trust issue. So how do you find that balance? How do you get your message out to enough trusted sources that you can start to tip the scale against the scammers?

I wish I had a great answer for that. I think that the organizations here at the table, many of them working with community based organizations are on the right track. When it comes to getting this information out to the folks in those organizations. Unfortunately, I think many of the cultural dynamics that make the communities that have been represented here at the table, vulnerable to fraud, also make it difficult to reach those communities when they are victims.

So we heard multiple times about the reluctance to report. The language barriers. The cultural reluctance to admit that you have been scammed. So I think that that's going to have to be addressed, as well. And you do address it through finding the trusted sources, but how do you scale it? That's always the thing-- the issue we run into.

PATRICIA POSS: We did hear a lot about collaboration. And that's a great set up for this afternoon. Which the panel right after lunch is going to talk about, consumer education initiatives and kind of an open discussion of how it's phrased, to think about that.

So I'm going to end this panel now. We have just barely an hour for lunch and, as I said earlier, if you leave the building and there are lunch places up the street, you will have to come back through security. So please allow time for that so we can start right at 1:30. Please thank-- help me in thanking all the panelists who did a terrific job. Jane, thank you, too.