

**PREPARED STATEMENT OF THE FEDERAL TRADE COMMISSION
PROTECTING MILITARY SERVICEMEMBERS AND VETERANS FROM
FINANCIAL SCAMS AND FRAUD**

Before the

**COMMITTEE ON OVERSIGHT AND REFORM
SUBCOMMITTEE ON NATIONAL SECURITY
UNITED STATES HOUSE OF REPRESENTATIVES**

WASHINGTON, D.C.

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I. INTRODUCTION

Chairman Lynch, Ranking Member Grothman, and distinguished members of the Subcommittee, I am Malini Mithal, Associate Director of the Division of Financial Practices within the Bureau of Consumer Protection at the Federal Trade Commission (Commission or FTC).¹ I appreciate the opportunity to appear before you today to discuss financial fraud that affects the military community.

Combatting financial fraud aimed at military consumers is an important part of the Commission's law enforcement agenda. Some frauds exploit circumstances common to the military community, including the demands of deployment and frequent relocations. Others target recent enrollees who are living on their own and earning a paycheck for the first time. And some bad actors use false military affiliations or tout bogus offers for veterans in a cynical ploy to take advantage of servicemembers and their families.

Military frauds cause great harm to individual victims and their families, and undermine military readiness and troop morale.² The Commission's efforts to curb such nefarious practices is an essential component of our consumer protection mission. This testimony gives an overview of the FTC's work to track and detect military fraud, enforcement actions involving the military community, as well as the FTC's military-specific consumer education and outreach efforts.

¹ This written statement presents the view of the Federal Trade Commission. The oral statement and responses to questions reflect my own views and do not necessarily reflect the views of the Commission or any Commissioner.

² See Department of Defense, Office of the Under Secretary of Defense for Personnel and Readiness, Report on the Military Lending Act and the Effects of High Interest Rates on Readiness, May 2021, at 18 (noting that predatory financial practices can negatively impact financial readiness and, in turn, military readiness), *available at* https://finred.usalearning.gov/assets/downloads/FINRED-MLA_ReportEffectsHighInterestRatesOnReadiness-May2021.pdf.

II. TRACKING AND DETECTING FRAUD THREATS

The FTC's enforcement and outreach work often flow from the Commission's active monitoring of the marketplace, which allows us to understand, identify, and combat threats to both military consumers and the public at large.

One of our most powerful tools in obtaining information about fraud is the FTC's Consumer Sentinel Complaint Network, a secure online database of consumer reports. Sentinel includes complaints reported directly to the FTC as well as to dozens of state law enforcement organizations, other federal agencies, and non-governmental organizations such as the Better Business Bureau. Servicemembers and military civilians can provide service and installation details, giving vital information to government agencies, including Department of Defense law enforcers and policymakers.³

The Commission monitors and analyzes Sentinel data with respect to both military-specific and other trends. This work informs the Commission's consumer protection work, assists our law enforcement partners, and provides public transparency about high-level complaint patterns. In 2020, the Commission launched a new informational tool that identifies and makes public emerging trends, as revealed in Sentinel data, concerning problems military consumers are experiencing in the marketplace, including reported financial losses.⁴

In 2021, Sentinel received over 200,000 complaints from military consumers, with reported monetary harm of over \$267 million.⁵ The top complaint categories for military

³ For example, out of the total reports from military consumers in 2021, 91% included military branch information and 80% included information about rank.

⁴ <https://public.tableau.com/app/profile/federal.trade.commission/viz/MilitaryReports/Infographic>.

⁵ These include reports from active duty servicemembers (18,544), military retirees/veterans (162,067), reservists and national guard members (10,914), and spouses and dependents of active duty servicemembers (14,711). Consumer Sentinel Data Book 2021 at 17, available at <https://www.ftc.gov/reports/consumer-sentinel-network-data-book-2021>.

consumers were: identity theft; imposter scams;⁶ online shopping and negative reviews; credit reporting; banks and lenders; debt collection; scams involving prizes, sweepstakes and lotteries; fraudulent business and job opportunity offers; auto-related problems; and bogus investment schemes.

We review these complaints to find potential law enforcement targets and witnesses, and to coordinate with federal, state, and local law enforcement partners.

III. ENFORCEMENT WORK

FTC law enforcement actions illustrate some of the ways deceptive and unfair financial practices harm the military community. Our actions have gone after companies that have targeted the military community with false promises of earning or investment opportunities, deceptive claims and recruiting tactics regarding for-profit schools, illegal practices related to automobile purchases and credit products, and sham charities that exploit the public's desire to help those who have served.

While the FTC remains vigilant in combatting financial fraud and other unlawful business practices, we face difficult challenges. Returning money to defrauded consumers has been a cornerstone of the FTC's enforcement work, including over \$403 million in redress to harmed consumers during fiscal year 2021. However, the Supreme Court in *AMG Capital Mgmt., LLC v. FTC*⁷ held that the FTC does not have the ability to obtain monetary relief pursuant to Section 13(b) of the FTC Act. Federal legislation granting the FTC the ability to

In 2021, Consumer Sentinel received nearly 2.8 million fraud complaints in total, with consumers reporting a total dollar loss of \$5.9 billion. *Id.* at 5.

⁶ These involve scams in which the perpetrators pose as a friend, family member, or romantic interest, or claim affiliation with a company or government agency, in order to induce people to send money or divulge personal information.

⁷ 141 S. Ct. 1341 (2021).

provide redress to wronged consumers, including servicemembers and veterans, is critical. In addition, a recent court ruling⁸ and ongoing lawsuits may affect the Commission’s ability to continue using its administrative process to obtain refunds for harmed consumers – underscoring the pressing need for a 13(b) fix.

A. Deceptive earnings and investment claims.

Some companies target military consumers with military-specific discounts or offers to lure servicemembers and veterans into fraudulent schemes. For instance, in February 2022, the FTC filed suit against fast-food chain BurgerIM, accusing the company of targeting veterans with false promises while withholding information required by the Franchise Rule.⁹ According to the complaint, the chain touted veteran-specific discount programs to lure people into paying tens of thousands of dollars in franchise fees. Although BurgerIM pocketed tens of millions of dollars in such fees, the complaint alleges that the majority of those who paid were never able to open restaurants.

In addition, in April 2022, the FTC sent out \$23 million in refunds arising out of its action against MOBE Ltd. The Commission alleged that MOBE falsely claimed that its business education program would enable people to start their own online business and earn substantial income quickly and easily using a “proven” 21-step system.¹⁰ Defendants eventually revealed that their “proven system” required selling the same memberships to others in the hopes of earning commissions, with many victims experiencing crippling losses or mounting debts. As

⁸ *Jarkesy v. SEC*, 34 F.4th 446 (5th Cir. 2022).

⁹ Complaint, *United States v. BurgerIM*, No. 2:22-cv-00825 (C.D. Cal. 2022), available at https://www.ftc.gov/system/files/ftc_gov/pdf/2022.02.07_complaint_filed_002_0.pdf.

¹⁰ Complaint, *FTC v. MOBE Ltd.*, No. 6:180-cv-0862-ORL-37DCI (M.D. Fla. 2020), available at https://www.ftc.gov/system/files/documents/cases/mobe_complaint.pdf.

part of the scheme, defendants allegedly created and promoted the “Patriot Funnel System,” targeting servicemembers and veterans with military-specific online ads and social media posts. Fortunately, this case was resolved prior to *AMG*. Achieving similar results in future actions could be hindered without congressional action to amend 13(b).

B. Deceptive educational recruitment tactics.

The FTC is also actively engaged in stopping deceptive recruitment practices in the for-profit educational space. Higher education programs have historically sought to enroll veterans because of GI Bill educational benefits, but some have done so through deceptive and predatory recruitment methods.¹¹ Last year, following a \$191 million judgment against the University of Phoenix (UOP) that resolved allegations that the school used deceptive recruitment pitches, the Commission sent payments totaling nearly \$50 million to more than 147,000 students. In addition to the \$50 million distributed as redress, the settlement with UOP required it to cancel \$141 million in debts owed to the school by students harmed by its allegedly deceptive advertising. The FTC alleged that UOP used misleading advertisements, including ads that falsely claimed that UOP’s corporate partnerships with companies like AT&T and Allied Barton offered hiring programs for UOP students who were veterans.¹² In another recent action, the

¹¹ Through the so-called 90/10 rule, Congress capped the percentage of revenue that for-profit schools can earn from U.S. Department of Education programs at 90 percent. Since GI Bill benefits originally were not included in that cap, schools had strong incentives to target veterans. Congress closed this loophole in 2021, but that change does not go into effect until 2023, so veteran’s educational benefits remain a likely target of deceptive practices.

¹² Complaint, *FTC v. University of Phoenix, Inc.*, No. 2:19-cv-05772-ESW (D. Ariz. 2019), available at https://www.ftc.gov/system/files/documents/cases/university_of_phoenix_ftc_v_uop_complaint_signed.pdf. Similarly, in February of this year, the FTC worked with the U.S. Department of Education as they announced the cancellation of more than \$70 million in debt for defrauded DeVry University students. FTC Press Release, *FTC Enforcement Action Leads U.S. Dept. of Education to Forgive \$71.7 Million in Loans for Students Deceived by DeVry University* (Feb. 16, 2022), <https://www.ftc.gov/news-events/news/press-releases/2022/02/ftc-enforcement-action-leads-us-dept-education-forgive-717-million-loans-students-deceived-devry>. This was on top of more than \$100 million that the Commission has already returned to DeVry students. The Commission alleged that DeVry deceived students, including veterans, about their job prospects and earning potential. FTC Press Release, *DeVry*

Commission sued Saint James School of Medicine, a for-profit medical school in the Caribbean that allegedly used false guarantees of student success to lure consumers—including veterans—into enrolling in its program.¹³

For-profit schools have also used third party marketers in deceptive campaigns, going as far as to buy leads from marketers impersonating the military to lure consumers interested in serving our country to enroll in their schools. In *Sunkey Publishing*, the FTC’s complaint charged the defendants with running online ads—like “Army.com: Enlist, Reenlist, Benefits” and “Join the U.S. Air Force: Contact a U.S. Air Force Recruiter!”—and employing websites including army.com, armyenlist.com, and navyenlist.com, even though they had no affiliation with the military.¹⁴



Example of website used by Sunkey Publishing

University Agrees to \$100 Million Settlement with FTC (Dec. 15, 2016), <https://www.ftc.gov/news-events/news/press-releases/2016/12/devry-university-agrees-100-millionsettlement-ftc>; Complaint, *FTC v. DeVry Educ. Grp., Inc.*, No. 2:16-cv-00579-MWF-SS (C.D. Cal. 2016) available at https://www.ftc.gov/system/files/documents/cases/161215_devry_stipulationrefinalorder.pdf.

¹³ Complaint, *FTC v. Human Resource Development Services, Inc.*, No. 1:22-cv-1919 (N.D. Ill. 2022), available at https://www.ftc.gov/system/files/ftc_gov/pdf/DE%20-%20-%20Complaint%204142022.pdf.

¹⁴ Complaint, *United States v. Sunkey Publishers Inc.*, No. 3:18-cv-01444-HNJ (N.D. Ala. 2018), available at https://www.ftc.gov/system/files/documents/cases/sunkey_filed_complaint.pdf.

Although the defendants promised to use consumers' information only for military recruitment purposes, the FTC alleged that they sold this information to for-profit schools. According to the complaint, the defendants' sales representatives also bombarded consumers with calls and texts in which the representatives identified themselves as being from "Military Verification" and solicited interest in "military friendly colleges." And the defendants allegedly used the email addresses they collected under the guise of military recruitment to advertise other products as well, like online dating, mortgages, credit services, and scholarships.¹⁵

The Commission followed up the *Sunkey* action by going after an operator of for-profit schools that bought leads from Sunkey, Career Education Corporation (currently operating as Perdoceo Education Corporation). In June 2021, the FTC sent nearly \$30 million in consumer redress pursuant to a settlement with the defendants that also required the school to reform its lead generation practices to ensure compliance with the law.¹⁶

Another example of deceptive recruitment tactics comes from the FTC's administrative case against Victory Media. Victory Media published magazines like *G.I. Jobs* and the *Guide to Military Friendly Schools*, and ran websites including militaryfriendly.com and militaryspouse.com.¹⁷ According to the FTC's complaint, the company claimed to help servicemembers find the right educational choice through an online Matchmaker tool that purported to search schools it deemed "military friendly," but in reality only showed schools that

¹⁵ The FTC has aggressively pursued the perpetrators of government impersonation scams, and this past December the FTC launched an advance notice of proposed rulemaking to combat government and business impersonation fraud. FTC Press Release, *FTC Launches Rulemaking to Combat Sharp Spike in Impersonation Fraud* (Dec. 16, 2021), <https://www.ftc.gov/news-events/news/press-releases/2021/12/ftc-launches-rulemaking-combat-sharp-spike-impersonation-fraud>.

¹⁶ FTC Press Release, *FTC Sends Nearly \$30 Million in Refunds to People Tricked into Enrolling by School Operator's Lead Generators* (June 9, 2021), <https://www.ftc.gov/news-events/news/press-releases/2021/06/ftc-sends-nearly-30-million-refunds-people-tricked-enrolling-school-operators-lead-generators>.

¹⁷ Complaint, *In re Victory Media, Inc.*, Docket No. C-4640 (2018), available at https://www.ftc.gov/system/files/documents/cases/162_3210_c4640_victory_media_complaint.pdf.

paid to be included, regardless of whether the school had any characteristics that would justify a “military friendly” designation. And the company also allegedly endorsed certain individual schools in articles, emails, and social media posts, without disclosing that the schools paid to be endorsed.¹⁸

C. Illegal auto-related and financing practices.

Unlawful sales and financing tactics can have an outsized impact on military personnel and their families, for example, with respect to motor vehicle sales and financing. Buying a car is one of the largest financial decisions a person will ever make. Young servicemembers are an attractive target for unscrupulous auto dealers: they have a steady paycheck, they often have no or minimal credit history, and a vehicle purchase may be their first big, complex financial transaction.

In two 2017 FTC public events on military consumer protection, representatives from the Armed Forces repeatedly emphasized that unscrupulous auto sales practices are a major source of concern.¹⁹ Participants highlighted predatory practices included “payment packing” (slipping

¹⁸ The FTC has been challenging deceptive endorsement practices for decades. In addition, in May 2022, the FTC proposed revisions to the Guides Concerning the Use of Endorsements and Testimonials in Advertising, which reflect the new ways that advertisers reach consumers to promote products and services, including through social media. See FTC Press Release, *FTC Proposes to Strengthen Advertising Guidelines Against Fake and Manipulated Reviews* (May 19, 2022), available at <https://www.ftc.gov/news-events/news/press-releases/2022/05/ftc-proposes-strengthen-advertising-guidelines-against-fake-manipulated-reviews>. In addition, the FTC recently put hundreds of major companies on notice of a number of endorsement practices the agency determined to be unfair or deceptive in prior cases; these companies could incur significant civil penalties if they engage in these practices. See FTC Press Release, *FTC Puts Hundreds of Businesses on Notice about Fake Reviews and Other Misleading Endorsements* (Oct. 13, 2021), available at <https://www.ftc.gov/news-events/news/press-releases/2021/10/ftc-puts-hundreds-businesses-notice-about-fake-reviews-other-misleading-endorsements>.

¹⁹ Military Consumer Financial Workshop, Panel 1: Military Consumers’ Experience in Auto Purchase, Financing, and Leasing (San Antonio, TX, July 19, 2017), <https://www.ftc.gov/news-events/events/2017/07/military-consumer-workshop>; Protecting Military Consumers: A Common Ground Conference (Los Angeles, CA, Sept. 7, 2017), <https://www.ftc.gov/news-events/events/2017/09/protecting-military-consumers-common-ground-conference>; The Road Ahead: Selling, Financing & Leasing Motor Vehicles, Panel 1: Military Consumers and the Auto Sales and Financing Process (San Antonio, TX, Aug. 2, 2011), <https://www.ftc.gov/news-events/events/2011/08/road-ahead-selling-financing-leasing-motor-vehicles/>; see also FTC, *Staff Perspective: A Closer Look at the Military Consumer*

unwanted add-ons into a purchase agreement), bait-and-switch tactics, and extra junk fees.

Stopping these illegal tactics is a top priority for the FTC, and the agency has brought dozens of enforcement actions against dealers allegedly engaged in these types of practices.²⁰ Last month, the Commission issued a notice of proposed rulemaking in the auto dealership space, drawing extensively on the FTC's military consumer protection work.²¹ Among other things, the rule would prohibit a number of misrepresentations that are particular issues for servicemembers, such as whether vehicles can be moved across state lines or out of the country, whether and under what circumstances a vehicle may be repossessed, and whether the dealer or its products or services were endorsed by or associated with any government agency, including the Department of Defense or its military components.

Home purchases represent another major purchase for military personnel and civilians alike, and we have taken action to protect the military community in this area. For example, the FTC brought an action against one of the nation's largest refinancers of veterans' home loans, alleging that it made misleading claims directed at current and former servicemembers, including falsely implying a government affiliation.²² According to the complaint, the defendants misrepresented the costs and potential savings of their refinancing services; implied that the loans they offered would come from Veterans Affairs or another government source; and falsely represented that low interest, fixed-rate mortgages were available at no cost. To resolve these

Workshop at 2 (Feb. 2018) (relaying panelists' descriptions of challenges faced by servicemembers in auto transactions and noting some cases FTC has brought to address alleged unlawfulness in these areas).

²⁰ FTC, *Notice of Proposed Rulemaking: Motor Vehicle Dealers Trade Regulation Rule* (June 23, 2022), pp. 12-22 (discussing auto industry issues and enforcement actions by FTC, CFPB, and states), available at https://www.ftc.gov/system/files/ftc_gov/pdf/P204800%20Auto%20Rule%20NPRM.pdf.

²¹ FTC, *Notice of Proposed Rulemaking: Motor Vehicle Dealers Trade Regulation Rule* (June 23, 2022).

²² Complaint, *FTC v. Mortgage Investors Corporation of Ohio, Inc.*, 8:13-cv-1647 (M.D. Fla. 2013), available at <https://www.ftc.gov/sites/default/files/documents/cases/2013/06/130627mortgageinvestorscmpt.pdf>.

allegations, the company agreed to pay a \$7.5 million civil penalty.

Fraudulent schemes also target the end of the credit lifecycle, and the FTC has a long history of going after extortionist debt collectors, including those that target the military. In our enforcement work, the Commission has brought actions that successfully shut down collectors that allegedly falsely threatened to take action under the Uniform Code of Justice against a servicemember who was the victim of identity theft, threatened to disclose a purported debt to the consumer's commanding officer, and threatened to ruin a consumer's military career.²³

D. Bogus military charities.

Finally, some bad actors exploit the goodwill people have toward the Armed Forces in an effort to take advantage of the general public. For instance, in 2018 the Commission and partners in every state worked together on Operation Donate with Honor, an enforcement sweep involving more than 100 actions against bogus charities with names like "Help the Vets" and "Veterans of America." The Commission has continued its vigorous enforcement in this area, obtaining orders in 2019 and 2020 in cases against sham charities using names like "American Veterans Foundation" and "Saving Our Soldiers."²⁴

The Commission will continue to deploy every tool at our disposal to eradicate nefarious financial practices that harm servicemembers and their families. That includes seeking monetary

²³ Complaint, *FTC v. Bam Financial, LLC*, 15-cv-0672-JVS-DFM (C.D. Cal. 2015), available at <https://www.ftc.gov/system/files/documents/cases/151104bamcmpt.pdf>; Complaint, *FTC v. Goldman Schwartz Inc.*, 4:13-cv-00106 (S.D. Tex. 2013), available at <https://www.ftc.gov/sites/default/files/documents/cases/2013/01/130131goldmanschwartzcmpt.pdf>.

²⁴ Order, *FTC v. Am. Veterans Foundation, Inc.*, No. 8:19-cv-00744-VMC-TGW (M.D. Fla. 2019), available at https://www.ftc.gov/system/files/documents/cases/172_3163_avf_order_3-28-19.pdf; Order, *FTC v. Outreach Calling, Inc.*, No. 1:20-cv-07505-MKV, available at https://www.ftc.gov/system/files/documents/cases/de_42_-_redacted_order_as_to_gelvan_and_corporations_entered.pdf.

relief, as returning money to defrauded consumers is a fundamental part of the FTC's consumer protection mission. However, as previously noted, the FTC's ability to return money to servicemembers and other consumers harmed by scam artists and other defendants will continue to be severely constrained absent Congressional action to provide the FTC with the authority to obtain monetary relief under Section 13(b) of the FTC Act.

IV. EDUCATION AND OUTREACH

In addition to the Commission's law enforcement actions, education and outreach is a critical part of our consumer protection and fraud prevention work. The Commission's education and outreach program reaches tens of millions of people a year, including through agency websites and social media presence.

In 2013, the FTC created MilitaryConsumer.gov, a resource to inform servicemembers, veterans, their families, and the network of professionals that counsel them about fraud and other consumer issues affecting the Armed Forces. The same year, the FTC worked with the Department of Defense's Office of Financial Readiness and the Consumer Financial Protection Bureau's Office of Servicemember Affairs to launch the first Military Consumer Protection Day. The initiative features a network of partners sharing online content, giving presentations, and hosting conversations on social media. For the past nine years, the FTC has worked closely with its partners on Military Consumer Month through joint branding, coordinating messaging, and virtual presentations, webinars, and other events to reach the military community. In 2016, the initiative was expanded from one day to a full month every year (July), with dozens of federal, military, and state partners joining the agencies on social media and at virtual events. The Military Consumer network of partners includes federal and state agencies, military agencies,

state attorneys general offices, military relief and support organizations, consumer advocacy groups, and military trade associations.

One area of particular educational and outreach focus is identity theft.²⁵ An FTC analysis of five years of Consumer Sentinel data suggests that active duty servicemembers experience disproportionate instances of theft from their financial accounts compared to the general population.²⁶ ID theft is often carried out by an individual whom the victim knows, and military consumers were twice as likely to report that the perpetrator was a family member or someone they knew.²⁷ And ID theft feeds into many of the financial frauds discussed above: active duty servicemembers report problems with debt collectors and credit bureaus at more than twice the rate of other adults, with many of these complaints arising from underlying instances of identity theft.²⁸

The FTC also coordinates closely with the Department of Veterans Affairs (VA) to develop and disseminate information about avoiding scams and recovering from ID theft. The FTC has given scores of webinars and presentations to veterans, many hosted by the VA's identity protection program and its economic development initiatives. For instance, in January 2022, FTC staff spoke at the VA's virtual program, *Evolving Identity Theft Tactics & Protections*. In September 2021, FTC staff spoke on a virtual presentation about avoiding scams

²⁵ Addressing data breaches that expose sensitive information, a major source of ID theft, is an area of robust FTC enforcement and outreach. FTC, Data Security, <https://www.ftc.gov/datasecurity>.

²⁶ FTC Press Release, *Active Duty Servicemember are More likely to Report Identity Theft than Other Adults, New FTC Data Shows* (May 21, 2020), <https://www.ftc.gov/news-events/news/press-releases/2020/05/active-duty-servicemembers-are-more-likely-report-identity-theft-other-adults-new-ftc-data-shows>.

²⁷ Nearly 14% of the reports indicate that a family member or someone they knew stole their identity, compared to just 7% of other adults. Reports indicate that this often happens when people have access to important documents or financial records left behind during military reassignment.

²⁸ In 2021, military consumers filed 12,315 complaints about credit bureaus, information furnishers, and credit report users (out of a total of 592,928) and 5,897 complaints about debt collectors (out of a total of 151,335). Consumer Sentinel Data Book 2021, *supra* n.5.

and identity theft as part of a VA program for new veterans and servicemembers transitioning into civilian life in the Baltimore area.²⁹ And in two days, as part of this year's Military Consumer Month, FTC staff will be speaking at a two-day virtual event hosted by Veterans' Affairs on identity theft and other consumer protection issues.

V. CONCLUSION

The Commission will continue to take action to protect servicemembers and the broader military community from fraud and related threats. Combatting these practices is an important part of the FTC's consumer protection mission, and we will use every tool at our disposal to do so. We look forward to continuing to work the Subcommittee and Congress on this important issue.

²⁹ One resource that the FTC regularly highlights is free electronic credit monitoring services for active duty members, which the nationwide consumer reporting agencies are required to offer under the FTC's military credit monitoring rule. 16 C.F.R. pt. 609.