

# CONSUMER AWARENESS

---

The Buying Decision

Advertising

Misrepresentations, Scams, and  
Fraud

Combat Strategies

Making a Complaint

How to Cancel a Contract

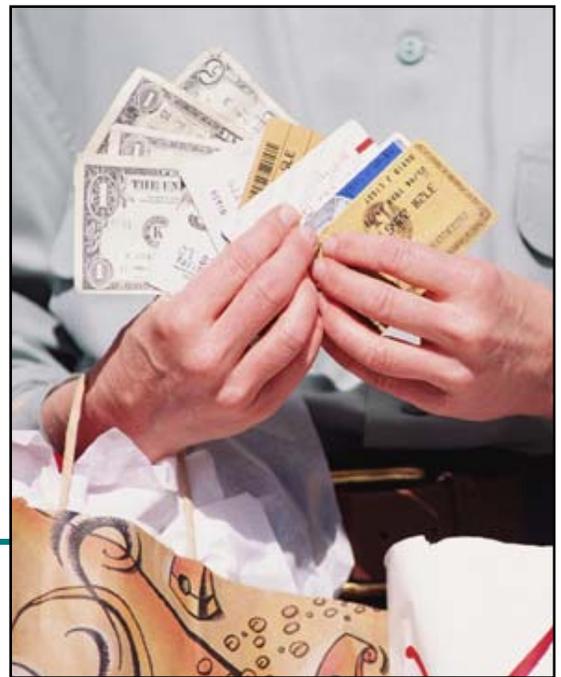
Consumer Laws and Consumer  
Rights

Sources of Help



# CONSUMER AWARENESS

---



## [Top](#) [Purpose and Agenda](#)

The purpose of this topic is to provide you with the necessary knowledge to be better informed consumers, by providing information on frauds and other scams and strategies to combat them. It will identify both consumer laws and resources to assist you in dealing with scams. Specifically, we will cover:

- Key terms and definitions
- The buying decision
- Advertising
- Misrepresentations, scams, and frauds
- Combat strategies
- Consumer Laws and Consumer rights
- How to complain
- Sources of help

## [Key Terms and Definitions](#)

### **Introduction**

According to the U.S. Office of Consumer Affairs, telemarketing fraud costs consumers over \$40 billion every year. We are constantly approached by people trying to take our money. Is this legal? Some offers are truly fraudulent and are illegal, most however, are simply scams and misrepresentations. We are susceptible to these offers because we all want to get a good deal and spend as little as possible.

### **Key Terms**

#### **What is the difference between frauds, scams and misrepresentations?**

- Fraud is a deliberate deception. It is usually illegal and there are numerous consumer laws to protect us.

- Scams are unfair acts of exploitation, they are not necessarily illegal. Scams take advantage of areas where there are no consumer laws to provide protection.
- Misrepresentations are also not necessarily illegal. They are simply misleading by making you think the deal is different than it really is. A key point to remember is that while some business practices may be unethical, they are not illegal.

## [Top](#) [The Buying Decision](#)

**Buying is a process of making choices.**

### **Want or Need?**

A need is necessity, such as clothes, food, shelter, fixing the car or appliance, or replacing it if it no longer works. Your quality of life will be degraded if the purchase is not made. To want something means it is wonderful to have, but can be done without. It may feel like a need, but, really isn't. A new car when the old one is still good, the latest fad toy, a new computer or new software, a big screen television are examples of wants, not needs.

### **Brand name, store brand or generic?**

The product with the store brand or a plain generic label may have been made by the same manufacturer. How much are you willing to pay for status? The brand name will be the most expensive in such items as clothes, food, prescription and nonprescription drugs. The store brand, often the same item with the store's label, will cost less and the plain generic "unbranded" items will be the least expensive. Sometimes there are less expensive product lines within the same company, all selling the same product. For example, Chrysler "Town and Country," Dodge "Caravan"—identical except for interior differences and minor trim changes but very different in price.

### **Save or spend?**

Should you spend the money now or save it and hope for a better deal at a later date? Would you be better off to earn interest on that money and have to put toward a future goal, or do you really need to buy right now? You must make a conscious choice of what to do with your money.

### **Which product fits your need?**

Think about what features are really important to you. If you find the right product, the one you need, with the right features and price, why would you want to get the more expensive one with features you don't need or can't use?

### **Military Issues**

Servicemembers are particularly vulnerable to consumer scams. They are often young and this may be their first experience away from home. Like many other Americans, young servicemembers tend to be uneducated consumers. Businesses love the military because you have a steady paycheck. They are all aware of the ease of paying by allotment and many businesses will actually have the allotment forms right there for you to fill out. There have even been instances where a business won't take any other method of payment. They like

your steady income and allotment because it is easy to garnish. Servicemembers tend to buy on impulse more than the average consumer. After deployments or extensive TDY periods, its not uncommon to blow all the money saved on things you missed for all those months or to purchase big tickets items because now you have money burning a hole in your pocket. For example, roughly 40% of service members purchase a vehicle after returning from a six-month deployment.

## [Top](#) [Advertising](#)

**The goal:** The goal of the advertiser is to get you to buy his or her product or service, to buy more in terms of quality or quantity than you planned to buy, to spend more than you intended to spend, and, if possible, to get you to buy something you neither wanted or needed in the first place. These are the common types of advertising messages:

**Informative:** Just the facts of the product are presented, in an appealing and understated way, in the belief that the quality of the product will “sell itself.” This is a tactic used to sell big ticket items like luxury cars and jewelry, or to come shop in a store with a high status appeal.

**Emotional:** The appeal is to obtain an emotional response that may have nothing to do with the product itself. This may imply you may be a societal outcast if you do not use this product (deodorant, toothpaste, the latest fad in jeans). It creates the myth of owning the latest “in” thing or service. Often include subtle put-downs of the competition.

Some of these ads are even designed to make you cry. Think of how you have responded to the “pull on the heartstrings” approach!

**Personalized:** Designed to make the customer think that the salesman or advertiser wants you, and only you for a customer. They may send you ‘personalized’ junk mail or call you on the phone and talk to you like you are a long lost high school buddy. Usually tries to tell you that this person has your best interest at heart - as long as you buy the product.

**Association:** Uses familiar people from the entertainment and sports industry to sell the product. The idea is that you can associate with that person on a personal level if you buy the product they endorse.



**Fear:** Part of the emotional appeal approach. Plays on your fear of rejection or loss if you don't use the favored product. This often includes the idea of personal ruin if this product is not used or purchased. Some even make you believe your children's future will be ruined if you don't buy their product.

**Buzz Words:** Words and phrases created to catch your attention, to make you think the product is somehow special or better than the former version or the competition's version. The idea is to make you want to get rid of the other stuff and buy this one in order to have the newest, latest, best. Using these type of words is often called "baiting a sale." The goal of advertising is to inform and create the desire to buy. Does it work? Let's see. Identify the following advertising slogans, which are designed to make you feel you are in control and that it is your decision:

- "Use the card that pays you back" - Discover
- "Get a piece of the rock" - Prudential
- "Have it your way" - Burger King
- "Be all that you can be" - Army
- "Just do it!" - Nike
- "You've come a long way, baby" - Virginia Slims

You all did very well on those slogans, what great memories you have. These are all old advertising campaigns. Now can you tell me, what is the 1st amendment to the constitution? (Answer: Freedom of Speech)

## [Top](#) [Misrepresentations, Scams, and Fraud](#)

Despite all of the warnings and consumer education, there is still an abundance of shady, misleading and illegal business going on in the marketplace. Anyone can be ripped-off if the circumstances are right. Because most businesses are honest, we tend to trust people. An overly trusting attitude and a passive approach to financial management is often our worst enemy.

### **Misrepresentations:**

- **Door-to-door sales:** High-pressure sales presentations are given with the hope that you will buy a product you don't need, or which has low value for the price paid, in an effort to get rid of the salesman. The salesman will often offer to perform a cleaning service in your home as a demonstration. These can take hours and it may be hard to get them to leave.



- **Sweepstakes Prizes:** These programs commonly promise winnings with “no purchase required.” Don’t pay for something that is supposed to be free. If you have really won a sweepstakes you pay taxes directly to the IRS not the sweepstakes company.
- **Contests and free gifts:** This is a way of getting the customer to come to the store or order the product even though “purchase is not required.” The merchant hopes that by giving you a free gift, you will feel obligated to spend money. The cost of the gift is in the markup of the product you buy.
- **Unordered merchandise schemes:** Various businesses, charities in particular, send out merchandise to a consumer who has not ordered it in the hope that the consumer will feel obligated to pay for it or send in a donation. There is no obligation to send money and any unordered merchandise may be considered a gift and kept.

#### Scams:

- **Free inspection deals:** Offering a free, no obligation inspection of your car or some part of your house. Invariably, something will be found wrong and it will need to be fixed. The repair is often overpriced - the cost of the inspection is actually in the repair cost.
- **Get rich quick deals:** The advertiser has a secret, which will make you rich very quickly. He or she is willing to share with you – for a price! Send in your money for their book, seminar, tape or videos that will tell you everything you need to know.
- **Photo and Buying Clubs:** Often targeted to the military, these “clubs” appear to provide low-cost equipment and processing or have a catalog with brand-name goods. You sign an expensive contract to join and then are hit with high prices, high shipping costs, shipping delays, unavailable products and/or shoddy merchandise. These schemes usually use high-pressure sales tactics and temporary locations as a mask, which make them difficult to track down later.
- **Title loan companies:** These companies use the title of a car as collateral on a loan, they are, in effect, a pawnshop for cars. You do not leave the car but you do leave the title as security and may even be asked to leave a set of keys. The keys will allow for easy repossession later. Some states restrict the annual interest rate, often to 30%, but some do not. For example, in Florida recently, they were charging 22% per month – 264% per year.
- **Work-at-home schemes:** The idea is to sell the supplies to the person who wishes to work at home. Once the supplies have been purchased, the ‘contract’ gets canceled and the person is stuck with the supplies that they cannot return.
- **Payday Loans:** It is often difficult to avoid taking on additional debt when faced with “too much month left at the end of the money.” In most cases, if money is tight a few

days before payday, it will be just as tight on payday. The costs are very high. If you need to borrow \$100 from one of these outlets, you simply write a check for \$100 (post-dated a maximum of two weeks). You will receive only \$82.50 in cash, in exchange for giving written permission to debit your checking account for the full \$100 on payday. The difference is the 'service fee'. This is an especially large threat to our personnel stationed in states without a usury law. The normal disclosure form presented at the time you take on one of these loans will show at least 400% *interest*. The trouble really starts when this or any other check you have written bounces. All the normal bad check charges apply. These charges must be paid in cash. Now the only likely source of quick cash is, you guessed it, back to the payday loan industry. It is easy to see how someone can soon be borrowing an entire paycheck in order to pay last payday's loans, then borrowing that money again to pay rent or food. Once started, it just doesn't end without yet another source of ready cash.

### Fraud:

- **Auto repair frauds:** Companies may use such tactics as misdiagnosing, doing unnecessary repairs, installing used parts and overcharging. Most states have an Auto Repair Facilities Act
- which means that you must be provided a written estimate of the repairs and that the actual cost will not exceed this by more than 10% or you must be contacted and give permission for the repairs. If you don't give permission and the work is done anyway, then you don't have to pay for it.



- **Identity theft:** This has become a serious problem which can ruin your credit and your good name. The availability of personal information has made it very easy for thieves to steal your identity and use it to open credit accounts, bank accounts, and get loans. To protect yourself, check your credit report every six months and shred financial data before dumping. In fact, in one year alone, over 350,000 people called TransUnion to report identity theft.
- **Internet Scams:** Policing the Internet is very difficult so many scams are able to continue running for long periods of time. Before giving out banking or credit card information be sure you are working with a secure site that will encrypt your data. You also want to know who you are working with and to have an alternate way to contact them (phone number and address). That way if there is a problem and the site has been

shut down, you have some recourse. A few of the more common problem areas are: on-line auctions, general merchandise, money offers, and internet access services. Losses to these scams topped \$7.2 million in 2002. In an on-line auction, you risk paying for goods you may never receive. Some sites offer insurance for your purchase. It is wise to use a credit card so you can dispute the charge, or use an escrow service, which allows you to receive and inspect the merchandise before paying.

- **Ponzi scheme:** This is a highly complicated stock investment scheme which appears, to the victim, to be a foolproof way to make money in the market. It is actually a pyramid stock swindle involving the purchase and sale of non-existent stock, over and over, until it ends because the list of prospects has been exhausted or a sufficient number of complaints has brought it to the attention of law enforcement and the media. It is not unusual for the total amount of money involved in a successful Ponzi scheme to reach into the millions of dollars. They are well suited for the internet.
- **Pyramids:** This is a money making scheme where the person at the bottom of the pyramid buys his or her way into the program which promises to make them a lot of money. In order to make money, the person has to go out and find other people who will buy their position in the pyramid. The person has to pay money to buy the right to go up to the next level. A chain letter, which says to “send a dollar to the person on the list and send out six letters to your friends” is a simple pyramid. Pyramids should not be confused with legitimate multi-level marketing (MLM) businesses such as Amway, Mary Kay and Avon. While the principle appears to be the same, signing up distributors below you in order to increase your sales and get a commission, the difference is that MLM’s actually have products to sell. The money is made from the sale of those products, not from the sale of positions in the pyramid.
- **Bait and switch:** Advertising a one-of-a-kind or lower priced product, “the loss leader,” in order to get the customer in the store where the salesman switches the customer to a higher priced product; often the advertised product is “sold out.”
- **Slamming/Cramming:** This is the illegal act of switching your long-distance or local telephone company without your permission. You must authorize such a switch for it to be legal. Cramming: This is the addition of unauthorized charges to your phone bill for services you did not agree to.
- **Telemarketing:** Callers represent themselves as a part of a legitimate business whose name you probably recognize. Common examples are: offering lower credit card rates but needing your account number to confirm, offering a guaranteed credit card in exchange for money up front, promising to put you on a “no-call” list to telemarketers but needing your social security and account or credit card number to complete the process.

## [Top](#) [Combat Strategies](#)

Remember how the sales world looks at you: military, possibly young, probably gullible, inexperienced, first steady income, first time away from home, subject to impulse buying.

### **Defend yourself:**

In order to be an aware consumer you need to be on guard for questionable tactics. Awareness equals avoidance.

### **Learn to recognize these meaningless terms:**

- **“Greatly reduced”** - from what?
- **“Below cost”** - and how do they stay in business selling this way?
- **“Now or never”** - creates a sense of urgency on your part to buy or miss the opportunity. Wait a couple of months and you will see this item again. This is used in high-pressure sales a lot, like timeshare vacations and campsites.
- **“Special purchase”** - usually an excuse to raise the price with special features, looks. For example, a “special purchase” pickup in a unique “Texas” style.

### **Be leery of misleading ads:**

- **“We finance E-1’s and up”** – this actually means they prefer the E-1’s because they think they are more gullible. Expect high interest rates.
- **“Specialists in military financing”** – often this means, a good way to start an allotment for something, which is overpriced, and you may not need.
- **“Instant financing” - not quite.** Often the loan paperwork is “sold” to a financial company with high interest rates.
- **“Free ride to store!”** - if they give you a ride, it does two things: (1) it makes you feel obligated to buy and (2) it makes it hard for you to leave! Some sailors have been stranded when they refused to purchase.

*Carefully investigate “free” or “bargain” offers– often they are neither.*

### **Know what you can afford:**

- Analyze your needs and wants before you buy.
- Can you *really* afford it? Putting yourself just a “little” over your budget is still putting yourself over your budget. There are a number of ways to know what you can afford. These include: calculating your budget, preparing a spending plan, and calculating your debt-to-income ratio. All of these should be done before you begin

shopping. For more information refer to the Developing Your Spending Plan module.

### **Know your product:**

- Know the product before you buy it. You can do this by asking questions, obtaining knowledge about the product before you begin shopping and by comparison shopping.
- Comparison shop. Always remember the key phrase – “Everything is Negotiable.”
- Check the guarantee or warranty.

### **How to purchase:**

- Ask questions about the product until you understand it. A good salesman will be able to answer them and will be glad to do so. Make sure you understand the service agreement.
- Don't rely on verbal promises. If you don't have it in writing, it is your word against the salesman's. A verbal promise is only as good as the paper it's written on.
- Don't be rushed into signing anything. If the deal isn't good tomorrow, it isn't a good deal.
- Wait 24 hours before making a major purchase. This “cooling off” period will save you money once you get away from the salesman's hype. You may want to “sleep on it.”
- Be leery of businesses, which have only a P.O. box for an address. Take prompt action if the product isn't what you want or doesn't live up to its advertising - or the salesman's claim. It is easier to do if you keep the receipt.



## [Top](#) [Making a Complaint](#)

**What to do:** If you are unhappy with a product or purchase, you should act immediately to fix it. Following are the steps to take:

- Contact the business first. Start with the salesman. If that doesn't solve your complaint, go to the manager. Make sure you have all of your documentation, a clear

description of the problem and what you would like to have to fix the problem. Be polite! Anger never solves anything and only makes the store personnel defensive. Besides, being polite may put them off guard and help your cause. Sometimes company policy prevents the manager from giving you the help or remedy you desire. Be patient. Save all purchase related paperwork, sales receipts, repair orders, contract and any letters to or from the company.

- If the store manager is unable to help you, write a letter to the president of the company and/or the manufacturer of the product. Try to obtain his/her name and address from the store manager. Fully explain the problem in clear language, include all documentation and anything else you need to tell your side of the story. You are starting a paper trail that will clearly show your good faith efforts to resolve the problem. Sending the letters by
- certified mail with a return receipt, is the best way to verify that it was indeed delivered.

**If you still are not satisfied, take your complaint to a consumer advocate resource.**

- The States Attorney General is the primary resource for people who have been ripped-off. They can take legal action against the company.
- The State Office of Consumer Affairs is able to address consumer complaints of all kinds.
- If you believe that the company has taken advantage of you because of your military status or it is likely to take advantage of other military personnel, you can report it to the Armed Forces Disciplinary Control Board.
- The Better Business Bureau, has a mediation service, at no charge, which will try to resolve your complaint. You will have to agree to accept their decision, in writing, before they will try to help you.

[Top](#)

## [How to Cancel a Contract](#)

**Steps to cancellation:**

**There are 4 basic steps to take to legally cancel a contract:**

- Cancel in writing
- Keep a copy of your cancellation letter
- Send the cancellation by Certified Mail with Return Receipt Requested. This will provide you with a record that your cancellation request was received in case a dispute arises.

- Hold your letter copy and signed return receipt until you get your money back. If you cancel a contract by telephone, be sure to get the name of the person you talked to and follow up your call with a letter following the steps above and use the name of the person you spoke with on the phone. Be sure to act within the three business day window. Saturdays are considered business days while Sundays and holidays are not.

### **Cooling Off Periods:**

Consumers may be able to cancel a purchase contract within three business days. Be aware that cooling off periods do not apply to vehicle purchases and leases or contracts signed at the merchant's place of business, unless actually written into the contract. There are several exceptions to this rule but in many cases your contract is binding the moment you sign, so be very sure of yourself before signing.

### **Exceptions:**

- Door-to-door sales – 3 days
- Home improvement, loans, second mortgages, or loans using your home as security – 3 days
- Health club memberships – 3 days
- Telephone solicitations – 3 days from the receipt of the written contract
- Campground membership – 7 days
- Time shares – 10 days

## [Top](#) [Consumer Laws and Consumer Rights](#)

Consumers do have legal rights, both at the state and federal level. Know these rights in order to protect yourself.

### **Federal Consumer Laws**

- **Soldiers' and Sailors' Civil Relief Act:** This Act was passed by Congress in 1940 and provides a number of protections for military members. One of these provides the opportunity for a servicemember to delay a court date when military duties make it impossible to appear. You are guaranteed the right to have your day in court. You can not be tried in absentia.

- **Consumer Bill of Rights:** these are general rights of access to product and price information and the right to an informal dispute process.
- **Fair Credit Billing Act:** this applies only to credit purchases and allows you to withhold payment on a disputed product or service. This law allows you to challenge a credit card charge when the charge was unauthorized or is an error, you never received the product, or the product did not perform as promised.

### State Consumer Protection Laws

- **Lemon Laws:** This is the common name for the Motor Vehicle Warranty Enforcement Act. These laws allow you to take back a new vehicle that has safety or repeat mechanical problems that are a major defect. You are entitled to a refund or a replacement. Some states also have laws regarding used vehicles.
- **Usuary Laws:** A usuary law sets the cap on interest rates, which is the maximum amount of interest you can be charged. Since there is no Federal limit, each state is free to determine their own maximum allowable rate. In many states there is **no** limit to the interest
  - rate you can be charged. Be aware that there are no federal usuary laws.

[Top](#)

### [Sources of Help](#)

**Get your name off solicitation lists:** People are often upset by the amount of solicitations they receive for products or services they do not want. Your handout lists the names and addresses to which you can write to request your name be removed from solicitation lists. Be sure to save your mail for a few months and see all the different versions of your name used and include all these in your letters. The U.S. Post Office can also be of assistance as can the Credit Reporting Agencies. Call 1-888-5OPTOUT to get off their telemarketing lists. Tell them in writing that you do not want your name to be sold or provided to any direct mail organization.

### Local resources:

- **Your Command Financial Specialist & Fleet and Family Support Centers.** Your local FFSC will have a Financial Educator and/or a CFS on staff to provide personal financial information and counseling. They normally work closely with the CFS at the local commands.
- **Navy-Marine Corps Relief Society** has trained budget counselors that can assist in preparing a spending plan.
- **Navy Legal Services** can provide assistance in a dispute over a bill or contract. They strongly encourage service members to come in with a copy of the contract before signing it when making any major purchase.

- **Better Business Bureau (BBB)** has a mediation service, which will try to resolve your complaint. They can also provide you with business performance reports and complaints registered information via an automated telephone recording service.
- **Office of Consumer Affairs** is a good resource for information and general consumer awareness knowledge. They are also able to address consumer complaints of all kinds.
- **Armed Forces Disciplinary Control Board (AFDCB)** is usually reached through Navy Legal Services Offices. You can complain about a company and they will research the complaint. If the complaint is valid and the company will not change its ways, the AFDCB can place it off limits to all military personnel. That means military personnel are prohibited from entering or buying from that place.
- The Department of Defense and the Federal Trade Commission have created the Military Sentinel web site which allows service members and their dependents to file on-line consumer fraud and identity theft complaints. The site also offers educational materials on consumer protection issues. Refer to [www.consumer.gov/military](http://www.consumer.gov/military). Protect yourself as a consumer by becoming aware of tactics used by sellers to induce you to purchase and by knowing your legal rights and use them if necessary. You can learn to recognize a scam by knowing the how and why of scams and fraud and thus not be taken advantage of. When in doubt, check it out! Remember *“caveat emptor.”*

[Top](#)