

**Paperwork Reduction Act Supporting Statement for a
FTC Survey on Consumer Fraud
(Requested Reinstatement OMB Control No. 3084-0125)**

The Federal Trade Commission (“FTC” or “Commission”) proposes to conduct a third survey about consumer experiences with consumer fraud. The Commission’s first consumer fraud survey was conducted in 2003 and a report, “Consumer Fraud in the United States: An FTC Survey,” was issued in August 2004.¹ The second survey was conducted in November and December of 2005. A report, “Consumer Fraud in the United States: The Second FTC Survey,” detailing the results of the second survey was issued in October 2007.² As with the two previous surveys, the results of the proposed survey will be used by the FTC to estimate the incidence of various types of fraud in the general population and among various demographic groups. The survey will also help the FTC target its enforcement and consumer education efforts concerning consumer fraud.

After the 2005 survey was conducted, at the FTC’s request, the Office of Management and Budget (“OMB”) granted discontinuation of the prior clearance extended to this survey. The FTC now requests, however, that OMB reinstate that clearance *with changes*, to conduct the follow-up survey.

A. JUSTIFICATION

1. & 2. Necessity for Information Collection/How the Data Will Be Used

The FTC proposes to survey 3,500 consumers in order to gather specific information on the incidence of consumer fraud in the general population. All information will be collected on a voluntary basis and no identifying information about the participants will be collected. Subject to OMB approval for the survey, the FTC has contracted with a consumer research firm to identify consumers and conduct the survey. The results will assist the FTC in determining the incidence of consumer fraud in the general population and whether the type and frequency of consumer frauds is changing, and will inform the FTC about how best to combat consumer fraud.

As was done in 2005, the proposed survey will oversample demographic groups that the 2005 and 2003 surveys found to be at an elevated risk of becoming victims of consumer fraud, including Hispanics, African Americans, and Native Americans. The purpose of the oversampling is to acquire information on what additional factors affect victimization within those demographic groups, and which frauds they are most likely to experience.

The questions will be similar to those in the 2005 survey. In preparing the current survey instrument, some questions from the 2005 survey were dropped and some were changed to add

¹ The Report is available at <http://www.ftc.gov/reports/consumerfraud/040805confraudrpt.pdf>.

² This report is available at <http://www.ftc.gov/opa/2007/10/fraud.pdf>.

clarity to the questions and therefore the results. Moreover, some new questions have been added to this survey to explore the prevalence of some frauds that were not included in the 2005 survey and to explore possible differences between consumers who are victimized and those who are not.

When repeating a survey at different points in time, there is a choice and trade-off between leaving the questions unchanged to further comparisons between the results obtained from each survey and, alternatively, altering the topics covered to better reflect a more current landscape, in this case, for consumer fraud. Favoring the latter aim, and to better reflect fraudulent offers currently being promoted to consumers, the Commission proposes to: (i) eliminate a fraud category and associated questions that were included in the 2005 survey; and (ii) add questions about three other types of fraud that were not included then. In addition, changes have been made to the questions asked about several other types of fraud to improve the degree to which the questions reach the types of fraud in which the Commission is interested.³

3. Information Technology

Though use of electronic media to conduct the survey is theoretically possible, it would be infeasible. One frequently used method of conducting a survey via electronic media involves the use of the Internet and participants in a contractor's Internet panel. This, however, is unsatisfactory in a survey such as the proposed fraud survey where the goal of the project is to estimate the prevalence of fraud victimization in the population as a whole.⁴

The Commission explored the feasibility of using an automated interactive technology – either interactive voice recognition (“IVR”) or telephone dial entry (“TDR”) – to conduct the survey. Rather than reducing respondent burden, one reason to use IVR or TDR technology would be to reduce the cost of administering the survey. Also, there have been some suggestions in the literature that consumers may provide more honest answers when the questions are asked by an impersonal computer than when the questions are asked by a real person as in a traditional

³ The changes being made are discussed in more detail in response to A. 15 (“Program Changes or Adjustments”) below. As noted therein, the areas of overlap between the 2005 and currently proposed survey account for 80 percent of all incidents of the 14 specific types of frauds covered by the 2005 survey.

⁴ See, e.g., Dillman, Don A., Glenn Phelps, Robert Tortora, Karen Swift, Julie Kohrell, Jodi Berck, and Benjamin L. Messer, “Response rate and measurement differences in mixed-mode surveys using mail, telephone, interactive voice response (IVR) and the Internet,” *Social Science Research*, 38 (2009), p. 2. (“Internet access in the US has been increasing with about 67% of American adults (18 and older) having access to the Internet access from home in March 2007, but this coverage is not sufficient for general public surveys.”)

telephone interview.⁵ Studies, however, have also found that response rates are lower when automated systems, rather than people, are used to administer surveys.⁶ Ultimately, the Commission concluded that the benefits of using IVR or TDR technology to administer the fraud survey were more than offset by the reduced response rates that would likely result from using these technologies.

While actual persons will be used to conduct the interviews, the contractor will use CATI (Computer Assisted Telephone Interviewing) technology to assist the process.

4. Efforts to Identify Duplication/Availability of Similar Information

There is no current information available elsewhere that can be used to explore and compare consumers' fraud experiences, other than the FTC's 2003 and 2005 surveys. The 2011 survey is designed to improve and expand upon the information gained through the earlier surveys. Efforts to identify duplicate sources of information included a review of studies, data, hearing transcripts, news articles, and information found through contacts with consumer groups, governmental agencies, and academic researchers.⁷

5. Efforts to Minimize Small Organization Burden

Not applicable. Only individual consumers will be interviewed.

⁵ See, e.g., Kreuter, Frauke, Stanley Presser, and Roger Tourangeau, "Social Desirability Bias in CATI, IVR, and Web Surveys," *Public Opinion Quarterly*, 72 (Special Issue 2008), pp. 847-865.

⁶ See, e.g., Kreuter, Presser, and Tourangeau; Dillman, Don A., Glenn Phelps, Robert Tortora, Karen Swift, Julie Kohrell, Jodi Berck, and Benjamin L. Messer, "Response Rate and Measurement Differences in Mixed-Mode Surveys Using Mail, Telephone, Interactive Voice Response (IVR) and the Internet," *Social Science Research* 38 (March 2009), pp. 1-18; and Tourangeau, Roger, Darby Miller Steiger, and David Wilson, "Self-Administered Questions by Telephone," *Public Opinion Quarterly*, 66 (Summer 2002), pp. 265-278.

⁷ The Commission is familiar with recent work on consumer fraud published by the AARP. See, Karla Pak and Doug Shadel, "AARP Foundation National Fraud Victim Study," AARP Foundation, March 2011. While this research is studying consumer fraud, it is not seeking to measure the prevalence of fraud as is the FTC work. Rather, the AARP work seeks to explore possible differences between those who become victims of different types of frauds and the general population.

6. Consequences to Federal Program and Policy Activities/Obstacles to Reducing Burden

If this information is not collected, the FTC will lack information to address important issues and to more effectively target future law enforcement and consumer education actions. The survey scope and burden has been reduced as much as possible short of sacrificing the statistical value of the information to be collected.

7. Circumstances Requiring Collection Inconsistent with Guidelines

The collection of information in the proposed survey is consistent with all applicable guidelines contained in 5 C.F.R. § 1320.5(d)(2).

8. Public Comments/Consultation Outside the Agency

a. Public Comments

As required by 5 C.F.R. § 1320.8(d), the FTC published a notice seeking public comment on the proposed collections of information. See 75 Fed. Reg. 53,697 (September 1, 2010). No comments were received. Pursuant to the OMB regulations that implement the PRA (5 CFR Part 1320), the FTC is providing a second opportunity for public comment while seeking OMB approval for study.

b. Consultation Outside the Agency

The design of the 2011 survey, as well as the instruments used in the earlier surveys, were reviewed by FTC's survey consultant, Manoj Hastak, Ph.D., Professor of Marketing at American University's Kogod College of Business Administration in Washington, DC.

Moreover, the methodology of the 2005 survey, which forms the basis for the 2011 survey, has been well received by academia and government agencies. For example, the results of the 2005 survey were presented at a meeting on "Elder Mistreatment and Abuse and Financial Fraud," held at the National Academy of Sciences in June of 2010, where it was favorably reviewed by Professor Roger Tourangeau, Director of the Joint Program in Survey Methodology, at the University of Maryland. The 2003 survey was cited in a commentary in the Fall 2004 issue of the University of Maryland Law Journal of Race, Religion, Gender & Class. Also, the study was a reference for research by the Canadian Competition Bureau and it was mentioned in a British report for the Organisation for Economic Co-operation and Development. The 2003 survey was also reviewed by officials with the U.S. Department of Justice and the AARP.

9. Payments or Gifts to Respondents

Not applicable.

10. & 11. Assurances of Confidentiality/Matters of a Sensitive Nature

Survey participants will not be asked to provide any personally identifying information. The Commission will not receive any information about the identity of individual respondents.

12. Estimated Annual Hours Burden

The FTC will pretest the survey on approximately 100 respondents to ensure that all questions are easily understood. This pretest will take approximately 17 minutes per person on average⁸ and 28 hours as a whole (100 respondents x 17 minutes each). Answering the final survey will also require approximately 15 minutes per respondent on average and 875 hours as a whole (3,500 respondents x 15 minutes each). Thus, cumulative total burden hours for the first year of the clearance will approximate 903 hours.

13. Estimated Annual Cost Burden

The cost per respondent should be negligible. Participation is voluntary, and will not require any labor expenditures by respondents. There are no capital, start-up, operation, maintenance, or other similar costs to the respondents.

14. Estimated Cost to the Federal Government

The total cost to the Federal government for the information collection will be approximately \$217,500. To obtain a contractor to review the survey questionnaire, identify the consumers, conduct the surveys, and provide the resulting data to Commission staff will cost \$199,000. In addition, the Commission staff time necessary to identify a contractor and to assist the contractor in completing its duties is estimated to require approximately 300 staff hours and cost approximately \$18,500. The cost of Commission staff time is necessarily an estimate because several factors in this calculation may vary, including the number of staff involved and the actual amount of time required. Clerical and other support services and costs of conducting the study are included in this estimate.

15. Program Changes or Adjustments

As noted in conclusion to A. 1 & 2 above, the Commission faces a choice between not changing the survey questions so that the results from the proposed survey can be used to compare corresponding results from the earlier surveys -- and altering the questions and/or topics to reflect more upon the current landscape of frauds. The Commission proposes to eliminate a fraud category and associated questions that were included in the 2005 survey in order to

⁸ Staff originally estimated 15 minutes to complete the pretest, the same time as that needed for the actual survey. The revised estimate takes further into account the presumed added time required to respond to questions unique to the pre-test itself.

accommodate other questions about several types of fraud that were not included in that prior survey.⁹

Questions have been added to learn about the extent consumers are being victimized by several types of fraud not included in the 2005 survey. These include: (i) mortgage foreclosure rescue frauds; (ii) false representations that a person can help a consumer obtain a free government grant; and (iii) situations where a consumer is sent a check that turns out to be counterfeit, with instructions to cash the check and forward some of the proceeds to another person. In recent years, the Commission has brought numerous law enforcement actions against persons who are operating the first two types of fraud. Further, a large number of complaints about each of these types of frauds have been received in the Commission's Consumer Sentinel database of consumer complaints.¹⁰

The 2005 survey included questions about instances in which a consumer had been billed for adult information services – such as adult entertainment, gambling or psychic services – provided either over the Internet or by pay-per-call telephone service that the consumer had not agreed to purchase. None of the participants in the 2005 survey, however, reported encountering this problem. Additionally, the Commission's enforcement experience suggests that this problem has been largely, if not totally, eliminated. Thus, it does not appear necessary to maintain the questions about this problem in the current proposed survey.

Beyond adding new fraud categories and deleting one of the prior ones from the 2005 survey, questions covering two other fraud categories from the 2005 survey have been revised: (i) debt relief services; and (ii) prize promotions and lotteries.

The Commission has devoted significant resources to problems in the debt relief area in the past few years, including amending the Commission's Telemarketing Sales Rule to prohibit debt relief firms from collecting fees before they provide the relief they promise. While some questions about debt relief scams were included in the 2005 survey,¹¹ the increase in knowledge about this sector made it clear that the questions needed to be improved.

⁹ The "accommodation" is a recognition of both practical time limits (obtaining full respondent cooperation) and contractual ones (regarding provisional terms with the contractor pending OMB's grant of clearance).

¹⁰ A total of 16,584 complaints received in the Consumer Sentinel database in 2010 were classified in the category "Mortgage Modification/Foreclosure Relief." This is 1.24 percent of all complaints received into Consumer Sentinel during 2010. Complaints in the category "Grants: Non-Educational" totaled 3,719 during 2010. A total of 28,649 complaints received during 2010, 2.14 percent of all complaints, were classified as "Counterfeit Check Scams." Federal Trade Commission, "Consumer Sentinel Network Data Book for January - December 2010," March 2011, Appendix B-3.

¹¹ Questions about debt relief frauds were not included in the 2003 survey.

The 2005 questions about lotteries and prize promotions included only the possible use of counterfeit checks in questions about foreign lotteries. It is now clear, however, that such fraudulent checks may also play roles in other prize promotions. The questions about prize promotions are therefore altered to capture this possibility.

Dropping one type of fraud and changing the questions on others will, of course, affect the degree to which the Commission can compare the results of the current survey to those from the 2005 survey. It still will be possible to draw comparisons, however, for 10 of the 14 specific frauds included in the 2005 survey, including the three that were responsible for the greatest number of incidents of fraud among all fourteen types.¹² These ten specific frauds accounted for 80 percent of all incidents of the 14 specific frauds in the 2005 survey. In the Commission's view, the loss of comparability that results from the changes proposed is an acceptable trade-off to enable us to obtain a more accurate picture of the types of fraud being promoted to consumers.

Besides changes in the types of frauds covered by the survey and the questions used to identify them, we propose adding to the survey certain questions to help identify characteristics that might be associated with an increased or decreased likelihood of consumers falling victim to fraud. One such set of questions seeks to measure participants' numerical ability. There are five questions in this set and they have been used in several other studies. A paper by Banks and Oldfield looking at assets held by older adults in England found that those who performed better on these numerical ability questions tended to have greater financial wealth and were more likely to hold some of these assets in more complex financial instruments, such as stocks.¹³ Another study found that people with greater numerical ability were less likely to have run into difficulties with a mortgage.¹⁴ A second series of questions asks participants to self-rate themselves on such characteristics as being a planner, being impulsive, being self-controlled, and

¹² The 2005 survey included questions about 14 specific types of frauds. It also contained questions about two more general types of problems – (i) Whether a person had paid for a product or service not specifically covered in the survey but not received it; and (ii) Whether a person had been billed for an item not specifically covered in the survey that s/he had not agreed to purchase.

Beyond the large changes discussed here, minor changes have been made in some cases to the wording of questions in order to increase the clarity of the questions. While the Commission does not believe that these changes make comparisons with the results of the 2005 survey inappropriate, the fact that changes have been made will be noted when the results are reported.

¹³ Banks, James, and Zoe Oldfield, "Understanding Pensions: Cognitive Function, Numerical Ability and Retirement Savings," *Fiscal Studies*, 28 (June 2007), pp. 143-170.

¹⁴ Gerardi, Kristopher, Lorenz Goette, and Stephan Meier, "Financial Literacy and Subprime Mortgage Delinquency: Evidence from a Survey Matched to Administrative Data," Federal Reserve Bank of Atlanta, Working Paper 2010-10, April 2010.

enjoying spending money. Questions similar to these have been used in several studies including papers by Puri, by Bertrand and Morse, and by Stilley, Inman, and Wakefield.¹⁵ Additional proposed questions ask participants to rate themselves in terms of how willing they are to take risks and how patient they are. Finally, following some of the research done by AARP, we also propose to add a question asking participants whether they have experienced a serious negative life event in the last two year.¹⁶

16. Plans for Tabulation and Publication

The results of the surveys will be used to inform the FTC about the incidence of consumer fraud in the general population. The summary of findings will be released to the public to inform the efforts of other consumer protection agencies, including other federal agencies. The collection of the information would begin subject to OMB approval after it completes its review of this clearance request.

17. Display of Expiration Date for OMB Approval

Not applicable.

18. Exceptions to Certification

Not applicable.

¹⁵ Puri, Radhika, “Measuring and Modifying Consumer Impulsiveness: A Cost-Benefit Accessibility Framework,” *Journal of Consumer Psychology*, 5 (1996), pp. 87-113; Bertrand, Marianne, and Adair Morse, “Information Disclosure, Cognitive Biases, and Payday Borrowing,” The University of Chicago Booth School of Business, Working Paper 10-01, October 2009; Karen M. Stilley, J. Jeffrey Inman, and Kirk L. Wakefield, “Planning to Make Unplanned Purchases? The Role of In-Store Slack in Budget Deviation,” *Journal of Consumer Research* 37 (August, 2010), pp. 264-278.

¹⁶ See Karla Pak and Doug Shadel, “AARP Foundation National Fraud Victim Study,” AARP Foundation, March 2011. While Pak and Shadel ask a series of questions about different negative life events, limitations on the length of the survey necessitated limiting this to a single question in the FTC survey.

B. COLLECTION OF INFORMATION EMPLOYING STATISTICAL METHODOLOGY

1. Description of Sampling Methodology

The potential respondent universe for this survey is all U.S. adults age 18 and over. As was done in the 2005 survey, the survey will oversample demographic groups that the earlier surveys found to be at an elevated risk of becoming victims of consumer fraud, including Hispanics, African Americans, and American Indians.

The sample frame will consist of all residential telephone numbers – both cell and landline – in the United States. Numbers will be generated by first selecting a block of telephone numbers – a set of 100 numbers with the same first eight digits – that has at least one listed residential number. Within a block, the specific number to be called will be generated by randomly selecting the last two digits of the number.

Blocks of numbers that include landline phones will first be divided into blocks that cover areas where a high percentage of members of one of four racial or ethnic minority groups – American Indians or Alaska Natives, Blacks or African Americans, Hispanics or Latinos, and Asians – reside and those where the percentage of minorities who reside there is lower. Blocks that include a high percentage of minorities will be assigned to separate strata for each of the four identified minority groups. Within each of these groups, blocks will be further stratified between those that cover urban locations and those that are non-urban. Blocks that do not have a high percentage of minorities will be assigned to one of eight strata depending on their geographic location and whether they are located in an urban or non-urban area.

The number of expected number of interviews to be completed in each stratum are included in Table 1.

When calls are made to landline phones, the specific individual to be interviewed will be randomly selected from among the individuals who reside in the household. This will be done by asking to speak with the household member who most recently had a birthday.

Because it is presumed that cell phones are used by only one individual, no such most-recent-birthday adjustment is needed on calls made to cell phones. However, individuals who answer calls made to cell-only numbers will be screened to determine whether they live in a household that has landline telephone service. Only those who do not have landline service will be included in the cell-only strata.

Sampling will be done on a stratified basis with the strata being defined by the characteristics of the phone line being called. Specifically, each block of telephone numbers will be assigned to one of the 20 strata identified in Table 1. First, blocks that are assigned solely for cell phone service will be separated from those used for landline service. Blocks used for cell

service will be assigned to one of four strata depending on the geographic location of the area code of the number.¹⁷

Table 1. Planned Stratification of Sample

Description of Strata	Number of Interviews in Each Stratum
Calls to Landline Phones, Those With Only Landline Phones or With Both Cell and Landline	
<u>Area Codes and Exchanges with a High Proportion of American Indians or Alaskan Natives</u>	
Urban Locations	38
Non-urban Locations	252
<u>Area Codes and Exchanges with a High Proportion of Asians</u>	
Urban Locations	140
Non-urban Locations	35
<u>Area Codes and Exchanges with a High Proportion of Black or African Americans</u>	
Urban Locations	567
Non-urban Locations	123
<u>Area Codes and Exchanges with a High Proportion of People of Hispanic or Latino Origin</u>	
Urban Locations	561
Non-urban Locations	89
<u>Area Codes and Exchanges Without a High Proportion of Any Minority Group</u>	
Northeast	
Urban Locations	172
Non-urban Locations	70

¹⁷ Additional stratification of cell-only numbers is not feasible because of limitations on the data on the number of cell-only households.

Description of Strata	Number of Interviews in Each Stratum
Midwest	
Urban Locations	172
Non-urban Locations	118
South	
Urban Locations	183
Non-urban Locations	174
West	
Urban Locations	154
Non-urban Locations	65
Total Landline Only or Both Landline and Cell	2913
Calls to Those with Cell Phones Only	
Northeast	67
Midwest	140
South	257
West	122
Total Cell Phone Only	586

2. Description of the Information Collection Procedures

The FTC has, subject to OMB approval, contracted with a survey firm to survey 3,500 consumers. The contractor will conduct a telephone survey of a random sample of adult respondents drawn from all 50 states and the District of Columbia. Random-digit dialing, including an initial call plus up to seven callbacks, will be employed. Respondents who state a preference for Spanish will be interviewed in Spanish.

The 2011 survey will involve slightly fewer interviews than were conducted during the 2005 survey – 3,500 interviews rather than 3,888. As such, the precision of the estimates in the new survey should be only slightly less precise than the estimates in the 2005 survey.¹⁸

3. Methods to Maximize Response Rates/Reliability of Sample Data

Several steps have been taken to maximize the survey response rate.¹⁹ First, in drafting the survey questionnaire, staff has taken length into account. Hopefully, this will limit the number of respondents who drop out before completing the questionnaire.

Second, in conducting the survey, anyone who initially refuses to participate will be re-contacted after approximately one week to see if their cooperation can be obtained by a second effort. These second calls will be made by experienced interviewers who have shown strong performance and low refusal rates.²⁰

Third, for each number that is called, up to seven attempts will be made to reach someone there. These call-back attempts will be staggered over different times of the day and over different days of the week, sometimes calling on a weekday evening, sometimes during the day on a weekday, and sometimes during a weekend. In addition to increasing the response rate, making multiple attempts to reach someone at each number should increase the representativeness of the resulting sample if members of certain demographic groups are more difficult to reach.

Besides taking steps to maximize the response rate, data will be collected to permit an exploration of whether those who are more difficult to reach and those who refuse to participate in the study likely differ significantly from those who do participate. A sample of 100 of those who refuse to participate even after being contacted a second time will be asked to answer a small number of questions – primarily demographics. The responses of these people will then be compared to the characteristics of those who complete the survey to see if there are any differences between the two groups.

Further, for each telephone number where an interview is completed, data on how many calls were needed before the interview was completed will be collected. Using these data, it will be possible to examine whether those who are more difficult to reach have different characteristics – and different experiences – than those who were reached more easily.

¹⁸ Reducing the sample size from 3,888 to 3,500 should result in an increase in the standard error of approximately 5.4 percent – the square root of 3,888 divided by 3,500, minus 1.

¹⁹ The response rate in the 2005 survey was 0.23 using Response Rate 3, as defined by the American Association for Public Opinion Research.

²⁰ Those who provide a “hard” refusal when first contacted – *e.g.*, those who ask the caller to take them off of their list or not to call again – will not be contacted again.

As noted above, the 2011 survey will involve interviews with 3,500 individuals, a slight decrease from the 3,888 interviews conducted in the 2005 survey. Because of the decrease in the number of interviews, there will be a slight decline in the precision of the resulting estimates. However, this decline will be very small. The 2005 survey found that 9.4 percent of all U.S. adults who were at least 18 years of age had been a victim of one or more of the specific frauds covered by the survey in the previous year. The standard error of this estimate was 0.54 percentage points.

4. Testing of Procedures or Methods Undertaken

Staff will pretest the survey by sampling 100 respondents to ensure that all questions are easily understood. This pretest is also discussed in Part A above, and is part of the collection of information for which the FTC seeks OMB approval.

5. Individuals Consulted on Statistical Aspect of the Surveys

The study design has been prepared by Keith Anderson, Senior Economist, Bureau of Economics (202-326-3428). It has been reviewed internally by Erez Yoelli, Economist, Bureau of Economics (202-326-2418) and Pauline Ippolito, Deputy Director, Bureau of Economics (202-326-3477). The contractor (Synovate, Contact: Tim Amsbury, 703-663-7290) is experienced in conducting statistically rigorous telephone surveys.

As noted in A. 8 b. above (“Consultation Outside the Agency”), the design of the 2011 survey was reviewed by the FTC’s survey consultant, Manoj Hastak, Ph.D., Professor of Marketing at American University’s Kogod College of Business Administration in Washington, DC. Moreover, the methodology of the 2005 survey, which forms the basis for the 2011 survey, has been well received by academia and government agencies. For example, the results of the 2005 survey were presented at a meeting on Elder Mistreatment and Abuse and Financial Fraud, held at the National Academy of Sciences in June of 2010, where it was favorably reviewed by Professor Roger Tourangeau, Director of the Joint Program in Survey Methodology, at the University of Maryland.

