

Pyramid Schemes Briefing – Hosted by Rep. Linda Sanchez

Attendance:

William Keep – Dean of the New Jersey School of Business

Sally Greenberg – National Consumers League

Congresswoman Linda Sanchez

Brent Wilkes – One of the directors for LULAC

Liliana Morales – Victim

Briefing Attendees: approx. 15 staffers; Peter Vander Nat, senior economist at the FTC; and a NY Post Reporter

Pyramid schemes target vulnerable communities; they conceal themselves as legitimate work-from-home and multi-level-marketing companies operating within people they consider unsophisticated and identify as low-income, low-socioeconomic status, and especially those that are undocumented.

William Keep

- A. Multi-level marketing companies obtain rewards on fees and/or purchases
 - a. Offer rewards, but that leads to the majority of the investors losing the vast majority of their investment.
- B. Pyramid schemes do not have significant retail sales
 - a. Tupperware is one of the handful of multilevel marketing companies that release the report of their retail sales.

Brent Wilkes

- A. Pyramid schemes target marginalized and vulnerable communities
 - a. Non-hispanic whites will make an average of double the earnings of Hispanics over the course of their lifetime.
 - b. These predatory practices are a significant part of the continuation of this income inequality

- i. Pyramid schemes affect Latinos' opportunity at wealth creation.
 - 1. Fraudsters ask them to use their family as a source for their networking.
 - a. Hispanic culture is generally very trusting, and these practices are eroding the trust that is characteristically present in Hispanic homes.
 - b. Other institutions like check cashing & fast loan establishments and home loans with ballooning interest rates also harm the community.

B. LULAC holds financial literacy workshops across the nation

- a. Credit Smart, Pocket Smart to name a few, operate in an effort to teach African
- b. Americans and Hispanics how to better manage their money and generate wealth
 - i. Over 45K Latinos have attended these workshops over the past 15 years

C. Multi-Level Marketing Plan

- a. Most already have a target
 - i. Specific pitches with which engage a particular audience
 - ii. Top dogs of these companies recruit members of the community they are targeting to become the recruiters since people are more likely to be receptive.
 - iii. Target close knit family communities
 - 1. Use your family
 - 2. Latinos and blacks tend to have a large, very trusting community so when they come to pitch the ideas, the communities already trust them
- b. Change Latino culture
 - 1. Making them distrustful
- c. Latin Organizations are concerned with undocumented immigrants

1. Most vulnerable
2. Have lower incomes and SECs
3. Keep in the shadows
4. Trick them and they do not go to the police
5. Never complain

D. Congress needs to protect the vulnerable communities from these kinds of companies.

Liliana Morales

A. What happened

- a. Wanted to purchase a house and send her daughters to college
- b. Was recruited by a friend -- \$85 inspection fee for Kit
- c. They told her she needed to be a consumer first and then she could be a contributor it would take \$4,000 to be a supervisor
- d. She had to go out, recruit and had to pay money. She was not earning, only investing
- e. Worked 60 hours
- f. No compensation, the more investment, the more that was required of her, economically and labor-wise, was trained to be more effective
- g. Product claims to cure diabetes, cancer, gave energy, lowered cholesterol – a lot of people have these problems

B. Atlanta

- a. Told them she was undocumented but they said it didn't matter because many didn't have documents/legal status

C. People were told that if they told ICE they were associated with Herbalife nothing would happen

D. Lost \$40,000

Sally Greenberg

A. From the National Consumers League – Fraud Center: which identifies fraud

B. Wrote to FTC and asked to look into Herbalife as well as a hedge fund