

CHAPTER I
INTRODUCTION

Background of the study

The consumer who is most often a victim of fraud is said to be older, widowed, divorced, or single, and less educated than other consumers (Lee & Soberon-Ferrer, 1997). Some of the reasons that older consumers are more vulnerable are their increased fragility and their need to employ others to help with activities in their homes and lives. They frequently need to rely on others for help with home remodeling and other tasks due to failing health and decreased mobility. In addition, contact with others outside their home may become limited as their health declines (Moon, 1990). The elderly population throughout history has been regarded as a susceptible group for unfair business practices (Moon, 1990). Older consumers are most often victims of sales pitches designed to be deceptive, both for purchases and services (Barnhill, 1972). The minimum age for being considered an older consumer varies with the researcher, with 55, 60, and 65 years of age being the most preferred.

Older people are afraid of losing their independence (Schewe, 1990). As people age, they need more help doing many of the things that they had previously been able to do by themselves. They are fearful that mistakes that they may make will result in their family viewing them as incompetent. This in turn could lead to them having to leave their home, and thus leave behind their independence.

Fraud is especially detrimental to the elderly population because of the psychological and financial devastation that can occur (Lee & Soberon-Ferrer, 1997). Older consumers are not typically in the workforce, therefore, their limited income places a different importance on choices that they make when purchasing products or services (Moon, 1990; Waddell, 1975). Financial problems caused by mistakes in the marketplace can be

more devastating for the older consumer. A large financial loss creates a special difficulty because many older consumers are living on fixed incomes (Barnhill, 1972). Many frauds go unreported by the victims. Even when these crimes are reported, the money that the older consumer lost frequently is not recovered.

There is a concern that older consumers may not recognize a consumer problem if they have had one. Even when they know they have been victims of fraud, many older consumers are afraid to admit this for fear that they will be deemed incompetent to take care of themselves (Alston, 1986; Burton & Hennon, 1980; Friedman, 1992). If older consumers do not realize and report that they have been a victim of a crime, law enforcement agencies are unable to help them.

Older consumers in our society today are increasing. The number of people over the age of 65 is growing more rapidly than any other segment of the population, and this trend is expected to continue (U.S. Census Bureau, 1996). Older consumers are the main victims of the itinerant workers who are known to commit home repair frauds. The consumer life cycle model indicates that for those who are older, retired and living alone, typical problems in the marketplace involve exploitation of their loneliness by door-to-door salespeople (Stampfl, 1978).

Mistakes made in the marketplace by older consumers are extremely detrimental to their well-being, both financially and psychologically. Limited and fixed incomes, and the threat of losing their independence contribute to the possible negative impact of these mistakes. Also, limited physical ability may inhibit older consumers from being able to go out and shop for services and products. Victims of fraud may lose confidence in their ability to make decisions about purchases.

A large percentage of consumers over the age of 65 own their own home. A U.S. Bureau of the Census study indicates that 77% of

those over age 65 own a home, and 84% of those consumers have finished paying their mortgage on the home (Stanfield, 1996). This makes their home one of their largest assets. As people age they are less able to take care of their homes, while the homes are more in need of repairs as they age. Because it is more likely for problems to occur in an aging home and more difficult for the older consumer to repair problems that may arise, this group is especially susceptible to home repair fraud.

Home repair fraud is a problem in many parts of the country (Alston, 1986). This type of fraud is different from many of the other kinds of fraud because it involves the scam artist approaching the victim at his or her door. Frequently older consumers are the target victim for this type of fraud. The offer of home repair is made, often with a low price being quoted. If the job is completed, it often is shoddy work (Mazzone, 1994). The scam artist will then demand a price that is much higher than what the victim had expected. The scam artist then uses pressure to get the victim to pay the money (Mazzone, 1994). Also some of the scam artists may steal from the older consumer while another member of the group distracts the person. The items may not be missed until sometime later, and at that point it is unclear when they disappeared (Mazzone, 1994).

Statement of the problem

Reports on studies about telephone and mail fraud are prevalent in the literature about fraud, but few research studies address home repair fraud as a separate issue. Home repair fraud is not a new fraud. There are studies dating back to the 1950's that indicate that this type of fraud was occurring. Much of the literature about home repair fraud is from before 1980 (Friedman, 1992). Home repair and improvement schemes were first on the list of the most prevailing problems for older consumers in a

study done by the National Retired Teachers Association and the American Association of Retired Persons in the 1970's (Waddell, 1975).

Home repair fraud has its own unique properties that make it different from the other types of fraud that occur in our society. Home repair can be a large expense as evidenced in the study by Friedman and Wasserman (1978). Among the six purchases that they studied, home repair had the second highest average cost. Older consumers are more likely to own homes and need help with repairs, so home repair fraud is mostly targeted at older consumers, while other types of fraud occur in all segments of the population (Friedman, 1992). Older consumers are more likely to be at home since a large percentage of this age group are no longer in the workforce. Home repair fraud is also more commonly offered door-to-door, rather than by solicitation through phone calls or the mail.

Home repair scams occur throughout the United States in all types of communities. According to experts that investigate these crimes, most of these scams are never reported so there are no accurate numbers on how many people have become victims. Many of the scam artists who conduct these frauds are experts at deception and make a living solely on income received by preying on the older segment of the population (investigator, personal communication, March 23, 1998).

Accurate statistics for home repair fraud are not available. Police departments do not keep separate records of fraud crimes (Friedman, 1992). The law enforcement agencies in Montgomery County, Virginia, do not keep fraud reports as a separate category in their files or statistics. According to an investigator for the Department of Professional and Occupational Regulation, the statistics for home repair fraud are not kept separately by many agencies (investigator, personal

communication, March 23, 1998). This is one reason that the statistics for home repair fraud are largely unknown.

The Virginia Department of Agriculture and Consumer Services (VDACS), Office of Consumer Affairs, had three reports in the past three years in Montgomery County that they consider home repair complaints. One was for an electric lift chair. The second one involved servicing an air conditioner, and the third was for replacement windows. The couple with the lift chair were having problems dealing with the company from which they had purchased the chair. The chair had begun to make noises and three service calls to their house resulted in no change to the chair. The woman with the air conditioner problem was not happy with the repairs the company had done. She asked them to bypass the old line and install a new one but they did something else instead. In the end they replace the line as per her first request. She wanted them to refund the money related to the first repair. The woman with the replacement windows was having problems with air leaks and sweating around the windows and was not happy with assistance of the company that she had hired to install the windows.

Even if the statistics for home repair fraud were kept, there is no way to know if they are accurate. Home repair fraud often is not reported by the victims, therefore, it is difficult to ascertain accurately the number of people being affected by this type of fraud. Fraud is considered a property crime and not a violent crime. Therefore, when home repair fraud is reported, typically overworked law enforcement agencies do not give as much time to this crime as they do to other crimes. This study was conducted to better understand home repair experiences and home repair fraud that is encountered by older consumers. For this study, older consumers were defined as individuals who are participants in senior programs.

Research questions

This study was conducted to gain information about the home repair experiences of older consumers. The following research questions were addressed in this study:

1. What experiences have older consumers had with home repair services?
2. What types of home repair services are being offered door-to-door to older consumers?
3. What have the older consumers done to report negative experiences with home repair?
4. What information sources are being used by older consumers and how do they prefer to get information?
5. How do older consumers like to learn new things?

Theoretical background

Consumers make decisions based on information that they already know or by researching the topic for which a decision is necessary. For decisions in the marketplace, consumers who gather information about the product or service are able to make a more informed decision. Comparison shopping allows a consumer to recognize a good price relative to other aspects of the product or service, such as quality and completion time. By making comparisons and gathering information consumers can increase their alternatives and make better decisions.

This study was based on the decision making approach presented by Deacon and Firebaugh (1988). Decision making involves using goals and values to develop alternatives and then making a decision based on those alternatives. The three steps that they outline in the decision making process are

- 1) recognizing that a decision is needed;
- 2) developing and considering alternatives; and
- 3) choosing among the alternatives.

When individuals are faced with a decision, alternatives must be generated or identified and a choice must be made in regards to the decision. In this study, participants were asked about the alternatives that they considered and the alternative that they chose. (Deacon and Firebaugh, 1988)

This study inquired about the alternatives that the participants identified before a decision was made about whether or not to accept an offer of home repair. The questions asked the participant to disclose what information was considered before making the decision. This information can then be used to better understand ways that older consumers generate alternatives. Effective consumer education programs for home repair fraud can be developed from this information.

Delimitations

This study was delimited to home repair fraud as the only type of consumer fraud addressed. The study focused only on door-to-door offers for home repair. Subjects for the study were older consumers who are participants in senior programs in Montgomery County, Virginia. Only participants who could be reached by telephone were used in this study. The study was limited to no more than 40 subjects.

Limitations

Older consumers are not likely to report fraud, so accurate information is not guaranteed. The subjects for this study were a convenience sample obtained from group meetings in the county being attended by older consumers, therefore generalizability to the whole population is not possible. The results relied on self-reporting by the older consumers. Self-reporting can lead to inaccurate results.

Significance of the study

This study makes a contribution to the scarce literature on home repair fraud. The benefits of this project are a greater understanding of home repair services that are being offered in Montgomery County. The results of this study can be used to develop educational workshops that will benefit both the older consumers and law enforcement in Montgomery County. It also is a goal of this study that older consumers throughout the state will benefit from this study and the educational program that is developed. A copy of the findings will be provided to state and local agencies so they can better understand what some of the older consumers in this county are experiencing. This study may create interest for further research in this topic by raising awareness of the prevalence of these crimes.

Neither the local agencies, the state Office of Consumer Affairs, nor Virginia Cooperative Extension has a brochure that specifically addresses home repair fraud. The Better Business Bureau (BBB) has a pamphlet titled "Spring Scams" that warns seniors about frauds to be more aware of during that time of year, and it does include information about home repair fraud. This study obtained information that will lead to the creation of a brochure that contains information on home repair fraud and how consumers can protect themselves. Additionally, a consumer education program will be developed to share information about home repair experiences that have occurred in this area, so that older consumers can identify potential fraud situations. This program also will include a suggested procedure for hiring a contractor and what information a contract should contain. Information on where and how to make complaints if they are not satisfied with the work, also will be included.

While there are a number of people who are working to prevent home repair fraud, there is not as much emphasis placed

on this issue as there is on other types of fraud. In the media, telemarketing and investment fraud information is more common. The results of this study will encourage more enforcement and will make local agencies and older consumers more aware of the home repair fraud that is occurring. Some states, such as Illinois, have laws that make crimes against the elderly population impose greater penalties. Virginia currently does not have such a law. This study can be used to investigate the need for this type of law to benefit the citizens of this state.

Definition of terms

The following are the definitions of the terms used in this study.

Older consumer is defined as those individuals who are participants in senior programs.

Home repair is defined as any action that will make changes to the structure or appearance of the home or the property on which it lies.

Montgomery County is a county located in the New River Valley in the southwest part of the Commonwealth of Virginia.

Fraud is a "deliberate deception practiced in order to secure an unfair or unlawful gain or advantage where the seller intentionally misleads the buyer" (Garman, 1996, p. 23).

Scam is defined as an act in which a person willfully performs a deed in order to take advantage of someone else.

Scam artist is defined as someone who performs a scam in order to benefit himself or herself.

Bunko is a "swindle in which a person is cheated at gambling, persuaded to buy a nonexistent or worthless object, or otherwise victimized" (Costello et al., 1991, p. 182).

Summary

Home repair fraud is thought to be widespread in our country, yet there are no accurate statistics on how often this type of consumer fraud occurs. Older consumers are the most affected by home repair fraud because they appear to be the target of the itinerant workers who conduct the scams. Despite the fact that law enforcement agencies are aware of these crimes and are working to prevent them, these scam artists continue to prey on the older consumers in our country. Consumer education is necessary to provide people with the information to protect themselves from becoming a victim of this crime.