

**Before the Committee on Commerce, Science, and Transportation
Subcommittee on Surface Transportation and Merchant Marine
United States Senate**

For Release on Delivery
Expected at
10 a.m. EST
Thursday
May 4, 2006
CC-2006-044

Household Goods Moving Fraud

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Chairman Lott, Ranking Member Inouye, and Members of the Subcommittee:

Thank you for the opportunity to testify today on household goods transportation fraud. This is a serious problem with thousands of victims across the country. Although the vast majority of the well over one million interstate household goods shipments each year are conducted by hard-working professionals and honest household goods carriers, our investigations have found criminal elements that operate at the fringe of the industry and victimize the public.

In April 2005, we testified before your Committee and highlighted this problem, among other issues related to the surface transportation reauthorization bill. We discussed legislative proposals to better protect consumers from household goods fraud, and Congress subsequently incorporated several provisions in SAFETEA-LU¹ to strengthen consumer protection. We want to continue to work with the Congress and the Department to remove the criminal element from this important industry, and we appreciate the opportunity to update the Committee on our investigative work in this area.

Since 2000, we have investigated alleged household goods fraud committed against about 8,000 victims nationwide by 25 household goods carriers, operating under 107 different names, along with their officers and employees. These investigations resulted in 90 convictions and nearly \$16 million in fines, restitution, and other monetary recoveries. The offenders were sentenced to jail terms totaling over 175 years, with some receiving prison terms exceeding 12 years. Another 25 individuals who were indicted remain fugitives.

The criminal conduct we have targeted through our investigations consists of holding a customer's household goods hostage while demanding significantly larger sums of money than quoted. In carrying out this crime, the perpetrators engage in extortion, conspiracy, wire fraud, mail fraud, money laundering, and falsification of bills of lading and shipment weight documents. Thanks to SAFETEA-LU, there is now a specific criminal statute that makes holding household goods hostage a Federal felony.

Our household goods criminal investigations are often conducted with the FBI and with the assistance of the Federal Motor Carrier Safety Administration (FMCSA). In several cases, we carried out undercover operations in which our agents and those from the FBI posed as consumers to catch perpetrators in the act. In many cases, state and local law enforcement officials also participate in the

¹ The Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users.

investigation. Here are some examples of investigations that resulted in significant and successful prosecutions.

- After extorting over \$2.3 million from 1,200 victims, the owner of a now-defunct Florida carrier, Majesty Moving and Storage, was convicted of extortion, wire fraud, conspiracy to commit money laundering, and creating false bills of lading. He was sentenced to more than 12 years in Federal prison. At the defendant's January 2005 sentencing, the judge expressed outrage for the ordeals that victims had been through at the hands of the defendant who had made himself rich "victimizing people who simply wanted their belongings moved... ." Fifteen other company employees were also convicted, while 2 other employees remain fugitives.
- Four individuals who operated Starving Students Moving and Storage, in Brooklyn, New York were prosecuted for defrauding approximately 150 customers and holding the customers' household goods hostage. Two received Federal prison sentences of 12½ years. In addition to the prison sentences, the defendants were ordered to pay over \$2.5 million in fines and restitution. Starving Students conducted similar business practices under 4 other company names.
- Ego Line Moving & Storage of California defrauded approximately 500 victims nationwide of over \$1.5 million during a 3-year period. Sometimes, if a customer refused to pay significantly inflated charges, their household goods were simply tossed out of the truck. Four persons were convicted in Federal court for this scheme, and 3 were imprisoned.
- Three employees of All Points USA, a Florida moving company, were convicted of various offenses in Federal court including wire fraud, mail fraud, extortion and conspiracy. The 1,100 victims of the fraud suffered losses of more than \$2 million over the course of the 4-year conspiracy. One employee was sentenced to 7 years in Federal prison while the other 2 received 5-year sentences. All 3 were ordered to pay a total of over \$1 million in restitution. The 2 owners of the company are believed to have fled the country and remain fugitives.

The victims of these crimes come from all walks of life. They include retirees, disabled veterans, single parents, young professionals, and families who many times have entrusted almost all of their possessions to companies who appear legitimate but soon reveal their criminal nature. In

some instances, the victims never see their belongings again, or they recover their damaged possessions many months later. Sometimes their goods are looted and sold, or end up in the homes of the perpetrators. Here are a few examples of how victims suffered from this particularly cruel form of extortion.

- Household goods belonging to a mother and infant were held hostage for more than a year because the mother did not pay the carrier's demand of a five-fold increase in the cost of their move from New York to Florida.
- A West Virginia couple paid \$5,000 in bogus charges after the carrier threatened that they would never again see their household goods, which included a piano that had belonged to the couple's deceased son. Although they eventually received their goods, the piano had been damaged beyond repair.
- An elderly New York couple, intimidated and fearing physical harm from a moving crew, paid \$5,000 for a move quoted at \$1,500.
- A Massachusetts woman testified at trial that she felt "violated" when a carrier loaded her goods on a truck and demanded \$16,000—more than four times the company's estimate of \$3,600.
- A family of nine, moving from Illinois to California, took only clothes and a few other personal possessions. The rest of their belongings, including the textbooks for the home-schooled children, were loaded onto a truck. The moving company refused to deliver their household goods until they paid \$7,700 for a move quoted at \$1,500. Unable to pay, they were forced to live 6 weeks in an empty house. To this day, family members are overcome with emotion when recalling their ordeal.

Criminal enterprises, like the one that victimized that family, first came to our attention when the Interstate Commerce Commission (ICC) was terminated at the close of 1995, and authority for regulating interstate household goods transportation was transferred to the Department of Transportation. FMCSA now has responsibility for day-to-day regulation of interstate household goods movers, although its role is more limited than the ICC's.

Under current statutory provisions, customers are responsible for resolving their own loss or damage disputes with movers by going to court or using an arbitration program that each household goods carrier is required to establish. Our office has authority to investigate fraud involving any entity regulated by the Department. In

the case of household goods fraud, we open investigations when there are allegations that large numbers of consumers have been victimized through schemes to hold their household goods hostage. Generally, we do not investigate individual consumer complaints.

We recognize that FMCSA has increased the attention it pays to household goods enforcement and outreach over the last several years. We have not assessed the effectiveness of the increased activities. However, based on our review of the new SAFETEA-LU provisions and audit work we have carried out in other areas of FMCSA's programs and operations, we would make the following 3 recommendations for FMCSA in the near term as it moves to better protect the consumer.

- First, SAFETEA-LU requires that the Department establish a database for consumer complaints on household goods carriers and make the information available to the public. We understand that FMCSA maintains a database at its headquarters that lists complaints broken into categories, including goods being held hostage.

FMCSA is working to establish a system meeting the public access requirement. Such a system will enable the public to identify carriers with multiple complaints, and perhaps avoid carriers with a track record of complaints of holding household goods hostage. SAFETEA-LU gives FMCSA until August 2006 to meet the database and public access requirement. FMCSA informed Congress in 2003 that it would develop a web-based report providing public access to mover complaint history in response to a 2001 Government Accountability Office recommendation. As the busiest time for moving—summer—is fast approaching, FMCSA should promptly complete its work to make this information available to the public in time for this year's moving season.

Aside from providing consumers with a tool for making better-informed decisions when selecting a mover, public access to complaint information may have the added benefit of improving the information FMCSA has to conduct its enforcement and oversight operations. Our audit work regarding motor carrier safety information has shown that when data are made public, greater attention is devoted by the agency to ensuring that the data are complete, timely, and accurate. Such improved data can be used by FMCSA to better target its enforcement work and assess the success of its outreach efforts.

- Second, the Committee's attention to cross-border trucking safety issues raised in our previous audit work helped clearly establish the authority of

state enforcement personnel to place commercial vehicles “out of service,” if they do not have valid operating authority from FMCSA. By this action, a vehicle must cease operations until proper operating authority is obtained.

Because our investigations have identified household goods carriers doing business without operating authority or after having their authority revoked, this authority to bar these vehicles from the highways provides state officials with another tool to use against corrupt interstate household goods movers. FMCSA should ensure state enforcement personnel use this tool when possible against unregistered or suspended carriers that hold household goods hostage or commit other fraud. This tool can be used to place “out of service” any vehicles that continue to operate after operating authority is suspended. SAFETEA-LU also allows the Secretary to suspend the registration of a carrier holding a shipment hostage.

- Third, in our view, FMCSA can do more to implement the SAFETEA-LU provision which allows states to enforce Federal consumer protection provisions for individual shippers, as determined by the Secretary. Although legitimate concerns about the potential for inconsistent enforcement by state authorities should be addressed, we view state enforcement as a positive factor. In particular, it would be beneficial to leverage state enforcement resources against movers who hold household goods hostage.

Common Household Goods Fraud Schemes

Our fraud investigations have been concentrated in South Florida, the greater New York City metropolitan area, and California. However, the problem is not confined to those regions, and other states covered in our investigations include Colorado, Illinois, Oregon and Washington state, with victims from all over the country. The number of household goods criminal cases we have investigated has remained fairly constant over the past 3 years, although the number of complaints we receive concerning household goods on our IG Hotline has increased significantly during that time. FMCSA’s hotline for household goods has seen increases as well.

The fraud carried out by Majesty Moving and Storage of Plantation, Florida, illustrates the schemes used by virtually all the operators we have investigated. Majesty, whose owners were sentenced last year, defrauded over 1,200 victims out of over \$2.3 million. To conceal their complaint history and to avoid enforcement action, Majesty frequently operated under a variety of names, such as Apollo Van Lines, America’s Best Movers, Movers Express, Star Movers, and First Class Moving. They also used the name Mayflower Express, for which they maintained

an advertisement in a telephone directory that stated "Mayflower Express – Move with the Name You Trust." This served to confuse consumers into thinking they were dealing with Mayflower Transit, a legitimate and long-established mover. Mayflower Transit successfully sued Mayflower Express to stop the unauthorized use of its Mayflower trade name and logo.

Prior to the advent of the Internet, operators such as Majesty relied primarily on advertising through telephone directories, newspapers, and direct mail. The Internet has broadened the market, and for unscrupulous movers, this enables them to lure customers well beyond their local area.

Majesty used the Internet to bring in most of its customers by subscribing to "find a mover" websites. For a fee, these websites forwarded leads on prospective customers to their subscribers. Carriers such as Majesty in turn contacted potential customers and provided estimates for household goods moves that were often considerably lower than most legitimate carriers.

The estimates were also typically calculated based on volume (as measured in cubic feet) rather than by the common method of calculating based on the actual weight of the goods. Estimating by volume (the amount of space the goods occupied in the truck) created greater opportunities for fraud. Our investigations disclosed that movers would often put small items in large boxes and leave empty space between the truck's bulkhead and the first row of boxes.

Majesty did not provide on-site estimates. Rather, it calculated its volume estimates based upon a written or verbal list of items provided by the customer via telephone, fax or email. To justify charging for additional cubic feet, Majesty often claimed that the customer added items on moving day and withheld items from the original estimate list. Prior to having their household goods picked up by Majesty, customers were required to pay a deposit.

After household goods had been loaded onto the truck, the customer would be informed that they had more goods than originally estimated and that the cost of their move had increased often 2 and even up to 10 times the original price. If a customer protested the price increase and demanded their goods be unloaded, Majesty typically drove away with the customer's goods.

Household goods were then often stored in a rented storage unit located near where they had been picked up. Typically, the first month's rent was free to the movers and they would pay only one additional month's rent. If the customer chose not to pay the inflated "hostage" price, the moving company would not make any further rent payments. The storage facility would eventually seize and auction or otherwise dispose of the customer's goods, due to non-payment of the

rent. In some instances we found that moving company employees had stolen items from customer shipments—even using some of the stolen shipments to furnish their own homes.

In 2004, Majesty’s owner, Yair Malol, was convicted of multiple felony counts of wire fraud, extortion, creating a false bill of lading and conspiracy to commit money laundering. Malol was sentenced to over 12 years in Federal prison and ordered to pay \$986,665 in restitution. When his prison term is completed, Malol will be surrendered to the Bureau of Immigration and Customs Enforcement for proceedings to expel him from the United States. Fifteen other Majesty defendants were also convicted, while eight defendants remain fugitives.

Nearly all of our investigations involve fraud schemes similar to those employed by Majesty. In another case, involving a California company named Ego Line Moving & Storage, the movers sometimes simply tossed the victims’ possessions from the truck and onto the pavement, rather than store them. Ego Line defrauded approximately 500 victims nationwide of nearly \$1.5 million during a 3-year period.

Owners of a company called Starving Students Moving and Storage, which also did business under three other names, used what Federal prosecutors called a “blizzard of lies” to trick unwitting customers into making large additional payments. If customers balked, their goods were held in a warehouse until more money was paid. The defendants created multiple websites to attract customers, such as “FlatPriceMove.com.” Two of the four defendants in this case were each sentenced to over 12 years imprisonment. Restitution and fines in the case totaled over \$2.5 million.

Starving Students was preceded by yet another company, Jacoby Moving and Storage (Jacoby), owned by Avinoam Damti. Jacoby had been the subject of numerous complaints, and its interstate operating authority was revoked in September 1996 and its intrastate authority was revoked in February 1997. About 2 weeks later, Starving Students applied for operating authority, listing Damti’s brother-in-law as president. Two other companies applied for operating authority in 2000. Each of the three applications listed a different co-defendant as its president, serving to conceal that the fourth defendant, Damti, president and owner of the revoked Jacoby, was the actual owner of all three new companies.

Conclusion

From our perspective, Subtitle B of SAFETEA-LU includes important safeguards for consumers moving their household goods. We also commend the industry for its efforts to educate and assist the public in combating the hostage goods problem. Although it is too early to gauge the full effect of the SAFETEA-LU provisions, we have specific comments on two: the provision creating a Federal felony of holding goods hostage, with a two-year maximum penalty for each count, and another granting states the authority to take enforcement actions under Title 49 of the United States Code and associated regulations.

The new Federal felony sends a strong message that the government takes this criminal conduct very seriously. That alone is likely to have a significant deterrent effect. The existence of a Federal statute may also simplify the prosecution of some of these cases. Up to now our cases have relied on a number of different Federal statutes, such as wire fraud, conspiracy, and extortion, to convict perpetrators of household goods fraud. One significant concern, which we commented on last year, is that the 2-year maximum penalty established by SAFETEA-LU is not on par with other Federal felonies. Federal felonies typically have at least a 5-year maximum penalty, and prosecutors may be less inclined to use the new statute because of the relatively low sentence.

SAFETEA-LU also provides that states can enforce consumer protection provisions for individual shippers, as determined by the Secretary. We previously supported granting states enforcement authority in this area and continue to do so. Currently, states are limited in their ability to enforce some state laws, including certain consumer protection provisions, because Federal law preempts application of these state laws with respect to interstate moves.² While legitimate concerns about the potential for inconsistent enforcement by state authorities should be addressed, we view state enforcement of designated Federal provisions as a positive factor. In particular, it would be beneficial to leverage state enforcement resources against movers who hold household goods hostage.

At present, corrupt household goods movers are generally not Federally prosecuted until numerous victims are identified and a large-scale case is developed. For example, the hostage goods cases we investigate often involve hundreds or even over a thousand victims, with fraud totaling millions of dollars. State authorities are in a better position to pursue cases with fewer victims and smaller losses, and to provide more timely action to stop unscrupulous movers—perhaps even while the hostage goods are still on the truck.

² The Carmack Amendment was enacted in 1906 to establish a uniform system of liability to eliminate uncertainty associated with conflicting state laws on interstate shipments.

Given the large number of victims and the serious impact this crime has on their lives, investigative and prosecutorial resources at all levels must be used to combat household goods fraud. We will continue to do our part investigating these crimes. We will also continue to work with the Congress and the Department, along with consumer groups and industry, to seek ways to remove these criminal elements from the household goods industry.

This concludes our testimony. We would be glad to answer any questions that you have.