Good Morning, Mr. Chairman.

My name is Yvette Zaragoza and I am a Small Business Program Manager at the Latino Economic Development Corporation. I would like to thank you for the opportunity to give testimony in favor of more regulation of the calling card industry before the House subcommittee on Commerce, Trade and Consumer Protection, because this is a real problem affecting the Latino community in the Washington, DC metropolitan area. My testimony will be based on my inside knowledge of the industry through my previous job as well as my personal experience.

In my previous place of employment, I was a Business Manager for a phone card wholesale company in the metropolitan area. We bought prepaid phone cards from distributors and sold them to more than 100 mini-markets, neighborhood stores, and convenience stores in Maryland, District of Columbia, and Virginia. At least 95% of the businesses were owned by Latinos and other minority groups; the majority of them were located in low-income neighborhoods and their customers represented a wide range of nationalities, mostly recent immigrants.

The reality in the field is very complex and pretty different from any other industry. The target market for prepaid calling cards is composed by some of the most vulnerable consumer groups, including low-income workers and non-English speakers. The marketing efforts are directed to this target market in Spanish but vital information, such as the terms and conditions of use, are disclosed in English. When using the calling cards, customers face hidden fees, rounding the

time up to four minutes, and a lower number of minutes than those advertised or even mentioned by the phone card operator system before making the connection. Roughly half of the cards sold have a face value of $2, making it almost worthless for the customer to spend 10 to 15 minutes to talk to a customer representative of the company, if they can reach them. Even if it was worth the time, there are no clear channels to place formal complaints and no reason for the customer to believe their complaint will be heard.

As a Business Manager of the wholesale company, I received numerous complaints from end customers and business owners every month. Part of our role as responsible wholesalers was to give small business owners an insight on the "rules of the game" in the industry, and educate the end customers on the "good" and "bad" cards in the industry, which changed from month to month, or sometimes from week to week.

On one hand, there are several "good" companies in the business. They launch prepaid calling cards that offer a reasonable number of minutes for the money. They charge small or no connection fees and when the customer makes the phone call, the connection is pretty good, and therefore, they can talk for the time that was advertised. Most of these companies have been in the industry for many years.

On the other hand, the "bad" companies usually offer "introductory fees." These are outrageous amount of minutes for very little money with no connection fees when they are launched, and these terms are heavily advertised, usually in Spanish TV, radio shows and posters. The "introductory fees" hold true usually for a certain period of time and then, at the

peak of their demand and without notice, the number of minutes decreases and the connection fees increase. Some cards might even disappear completely from circulation leaving the customer, the convenience stores and the wholesalers with “invalid” or disconnected cards and therefore bearing the loss.

Some retail stores would give their customers credit and pass the “bad” calling cards to the wholesaler. When the wholesaler tries to pass the credit to the distributor, at least 40% of the time, it wouldn’t work. The wholesaler wouldn’t get credit for those cards and consequently take the loss.

Most of the customers can’t keep track of the change of terms on the new cards. They purchase the most popular cards that either give them much fewer minutes than advertised or no minutes at all because the connection is so bad that they have to hang up after a couple of minutes, and when they call again, they are charged a connection fee. These customers are frustrated and helpless because there is no clear way to get their money back or a channel to make a formal complaint, and no certainty that the complaint would even be heard. In addition to that there are language barriers and lack of knowledge of the US system.

A very small portion of the consumers are knowledgeable of the prepaid calling card scams and call the same country frequently so they have a good idea of how many minutes $2 should give them for their call. They complain about specific cards but know how the “system” works, so they take the time to inquire about the “good” cards at the moment for their country. These consumers try different cards until they find one that works for their country, at least for

some time. When they realize the conditions change, they look for a new card. The general perception of this small group of consumers is that, at the end of the day, they got their money's worth in minutes.

As a native Peruvian, for years I used to communicate with my family using prepaid calling cards and I have been a victim of the scams. Every Spanish speaking relative, neighbor, friend and client that I had the opportunity to talk to about the subject has had the same experience. This is especially true not only for low-income families who cannot afford a land line and standard international rates; it is also true for other groups such as military families and ex-Peace Corps volunteers. Personally, once I stopped working in the calling card industry, it was very hard for me to keep up with the new cards and their reputation and I finally opted for the international services of a reputable firm such as Nextel.

In summary, prepaid calling cards are an invaluable resource for the immigrant community and low-income workers to communicate with their loved ones. However, based on my personal and professional experience with the Latino community, the industry needs to be regulated, especially in the following aspects:

- Use of deceptive marketing practices
- Disclosure of terms and fees charged to the consumer and their expiration date (if that is the case)
- Use of the Spanish language for the fine print
- Compliance with the advertised minutes
- Use of hidden fees

- Registration of each prepaid calling card (issuing company, customer service line and address) and expected time of circulation in the market

Thank you, Mr. Chairman for giving me the opportunity to speak on behalf of the Latino community and express our strong support of the Prepaid Calling Card Consumer Protection Act of 2008.