



# UNMASKING THE UN-CARRIER

Deception and Disparate Impact at T-Mobile

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## EXECUTIVE SUMMARY

Since rebranding itself as the “Un-Carrier” in 2013, T-Mobile has spent billions of dollars cultivating a pro-consumer image that has helped make the company the fastest growing mobile service provider in the country. However, a wide-ranging investigation by Change to Win Retail Initiatives (CtW) shows that central aspects of the company’s Un-Carrier program that promise simplicity and affordability are based on false and misleading claims.

This deception results in unexpected obligations for the company’s subscribers—too often leaving consumers with hundreds or even thousands of dollars in unanticipated charges, at the mercy of aggressive debt collectors and with little recourse to dispute charges. These deceptive practices cause particular harm to low income consumers who cannot afford unexpected expenses, a population that T-Mobile targets and depends on for its success.

CtW’s research is based on an in-depth analysis of more than 5,500 consumer complaints filed with federal government agencies and the Better Business Bureau (BBB) since 2013, when T-Mobile launched its Un-Carrier initiative. CtW focused on four categories of complaints: deceptive “no contract” advertising; deceptive rebate advertising and reimbursement problems; debt collection problems; and coverage problems. CtW also reviewed the company’s marketing across media platforms and in visits to nearly 200 T-Mobile stores nationwide.

### DECEPTIVE MARKETING

The Un-Carrier marketing platform makes two central claims that are misleading:

T-Mobile claims to offer service plans with “No Annual Contract”

T-Mobile say it pays consumers’ early termination fees (ETFs) or equipment installment plans (EIPs) if they switch from a competing carrier

Both of these claims misrepresent fundamental facts about the underlying terms and conditions, causing consumers to be deceived and harmed.

### *Misleading “No Contract” Claims*

T-Mobile boldly claims in its advertisements that it offers “no contracts” or “no annual service contracts,” but in reality, T-Mobile’s equipment financing program keeps most customers in a two-year contract, just like before. More than 90 percent of T-Mobile’s subscribers have a 24-month equipment installment plan (EIP) that is linked to a month-to-month service agreement. Termination of the service agreement results in a customer’s outstanding balance for any phones and equipment becoming due immediately, an amount that is often larger than the traditional “early termination fee” because of the high cost of smartphones.

And so, for many smartphone customers—and two-thirds of Americans use smartphones—the only practical difference between using T-Mobile’s “no contract” plan and a traditional service contract is that a T-Mobile EIP may be more expensive to break than a two-year service agreement.

The company has faced regulatory scrutiny for its no contract claims. The Attorney General of Washington State concluded that the company had misrepresented consumers’ ability to cancel service without penalty. Yet T-Mobile continues to claim it has “no contracts.”

### *Broken Promises to Pay Consumers’ Early Termination Fees*

T-Mobile is the only company in the industry with a standing offer to buy out customers’ service contracts and equipment. However, advertisements highlighting this offer mislead customers about what is required to receive the benefit. Most prominently, T-Mobile promises to “pay” customers’ ETFs or EIPs from other carriers, but customers must pay upfront and will later be reimbursed with a prepaid VISA card, if they meet all requirements, including buying a new phone from T-Mobile.

CtW’s analysis of complaints indicates that processing and payment of ETFs and EIPs can take significantly longer than the eight weeks the company claims in its fine print. Customer complaints also suggest that T-Mobile may be denying complaints improperly, even after a customer has submitted the required documentation. The misrepresentations about ETF and EIP reimbursement payments fall hardest on low-income consumers for whom the misrepresentation about the timing, form of payment and qualification process cause serious financial hardship and harm credit standing.

## **DISPARATE IMPACT ON LOW-INCOME COMMUNITIES AND COMMUNITIES OF COLOR**

A key component of T-Mobile’s marketing and brand identity is appealing to low-income, urban consumers. T-Mobile leads its competitors in number of prepaid phone customers, who generally have worse credit quality and lower incomes than postpaid subscribers. T-Mobile also reports that 53 percent of its subscribers are people of color, among whom African American and Latino households face a particularly stark income disparity, earning significantly less than the average for all U.S. workers.



## UNFAIR DEBT COLLECTION PRACTICES AT THE UN-CARRIER

Consumer complaints analyzed by CtW paint a picture of a company without a consistent, clear or fair process to dispute billing issues and collections notices. A full 71 percent of consumers with bills in collections said that T-Mobile gave incorrect information about their accounts to debt collection agencies.

Nearly half (49 percent) of consumers with issues related to collections reported little-to-no notice of the debt before it was referred to a third-party collector. Even when consumers challenged a charge, more than 40 percent reported that T-Mobile still sent their debts to collection—despite their disputed status.

## CUSTOMER SERVICE POLICIES INCREASE THE PAIN

T-Mobile's problems of deceptive marketing are well known to the company's customer service representatives: they receive the initial blowback from customers. The company's policies put these workers under intense pressure to meet a strict set of metrics used to evaluate performance. These metrics include benchmarks for the average duration of calls, the percentage of customer issues that are resolved with a single call and the sale of additional services.

These standards may actually be undermining employees' ability to help consumers resolve their issues because service representatives say they do not have the time to process and resolve problems. One long-time call center worker said, "T-Mobile is the only place I have felt like a failure, the metrics are so unreachable. It is the only place where it feels like you have to bend the rules to make it."

## CONCLUSION: THE UN-CARRIER NEEDS REFORM

T-Mobile has transformed itself from a company struggling to maintain market share to the fastest growing carrier in the industry, but the wireless provider has a long way to go to transform itself into a truly consumer-friendly company. To do that, T-Mobile should immediately initiate reforms, such as:

- Abandon claims of "No Contract" and "No Commitment."
- Stop using misleading language in advertisements about buying out consumers' agreements with other carriers.
- Streamline process for ETF and EIP reimbursement.
- Overhaul debt collection policies.
- Align customer service performance metrics with the needs of customers.

Until T-Mobile makes these necessary reforms, consumers should remain vigilant by requesting paper copies of all contracts and reading the complete text of any agreement before signing. Regulators should also examine the company's practices to ensure that consumers are protected from systemic abuses.



## INTRODUCTION

### CELL PHONE IMPORTANCE GROWING—AND GROWING UNEQUALLY

**T**-Mobile US, Inc. has transformed how wireless service is sold and marketed in the United States. As the fastest growing wireless carrier, the company has an outsized influence on the industry's offerings and pricing. In recent years, it has presented itself as an advocate for consumers, standing up to the "duopoly" of larger competitors AT&T and Verizon, and has even gone so far as to depict its brash CEO John Legere as a superhero fighting for consumers against his rivals' influence over the Federal Communications Commission (FCC).

But the reality of T-Mobile's "disruption" to the status quo is not as customer-friendly as the company would have consumers believe. Change to Win Retail Initiatives (CtW) has documented systemic misrepresentation and deception in T-Mobile's marketing that is compounded by unethical debt collection practices and ineffective customer service policies that can aggravate consumers' issues rather than resolve them.

This unethical behavior from the country's fastest growing carrier is particularly troubling because of the expanding role mobile phones play in our lives. Over the past several years, this technology has become a necessity to stay connected with society, with more than 90 percent of Americans owning a cell phone. Smartphones have changed how we look for employment, bank, keep in touch with our friends and family, navigate our world, work and even worship. More adults have a smartphone (two-thirds) than a traditional landline (three-fifths),<sup>1</sup> and this exodus away from landlines towards mobile is accelerating.

However, our society's growing reliance on mobile technology is not evenly distributed. Low-income, Latino and African American households are more dependent on cell phones for communication and Internet access than the general population. Low-income households are the only economic group in which the majority relies exclusively on mobile for phone service, and Hispanics are the only ethnic group in which the majority is wireless only.<sup>2</sup> And while only 4 percent of white Americans heavily rely on their cell phone for Internet access, 12 percent of African Americans and 13 percent of Latinos access the Internet primarily on their phones and have limited other options.<sup>3</sup>

The fact that mobile phones have become a lifeline to information and economic opportunity for many Americans—especially low-income communities and communities of color—should put a spotlight on the wireless industry to ensure that it is treating consumers fairly and equitably. This is especially true for T-Mobile, which has aggressively marketed to these groups. But as the research contained in this report demonstrates, T-Mobile appears have failed to meet that standard of fairness and equity.

# CONTRACT FREEDOM



## THE MAKING OF THE UN-CARRIER

T-Mobile was created in 2001, when German communications giant Deutsche Telekom bought cell service provider VoiceStream Wireless. For more than a decade, T-Mobile lagged behind its three largest competitors—AT&T, Verizon and Sprint—in number of subscribers. In the early part of this decade, T-Mobile hemorrhaged lucrative post-paid contract customers, losing more than 4.6 million between 2010 and 2012.<sup>4</sup>

After a proposed merger with AT&T was blocked by federal regulators in 2011, the company appointed John Legere as CEO in late 2012 to lead a turnaround.<sup>5</sup> Beginning in March 2013, Legere spearheaded the rebranding of T-Mobile as the “Un-Carrier” and began rolling out a series of initiatives that addressed customer “pain points”—areas of frustration among wireless customers who have traditionally had little choice in an uncompetitive market.<sup>6</sup>

The Un-Carrier platform has had ten phases at the time of publishing. The first was Un-Carrier 1.0 introducing Simple Choice, a new kind of cell phone plan that “eliminated annual service contracts and provided customers with affordable rate plans.”<sup>7</sup>

To build its Un-Carrier brand, T-Mobile has poured a disproportionate amount of money into marketing. It nearly doubled ad spending between 2011 and 2014, when the company spent \$1.4 billion on advertising and marketing.<sup>8</sup> The company outspends its largest competitors on a relative basis – its ad spend per dollar of sales is 92 percent higher than AT&T and 138 percent higher than Verizon.<sup>9</sup> Advertisements for Un-Carrier programs are often irreverent, bold, and directly attack competitors.

Another differentiator is T-Mobile’s aggressive outreach to low-income consumers and communities of color. The company has rolled out a series of advertisements and initiatives to attract customers with low credit scores, who typically have below-average incomes. Nearly half of the company’s subscribers have sub-prime credit. Through sponsorship deals and retail location placement, the company has particularly targeted Latino communities.<sup>10</sup> People of color make up 53 percent of the company’s consumer base.<sup>11</sup>

Its iconoclastic image and extensive marketing efforts have helped T-Mobile attract fifteen million new customers (an increase of 35%)<sup>12</sup> and grow its sales by more than \$4 billion since the launch of Un-Carrier.<sup>13</sup> The company’s strategy has tethered its growth to its large market share among marginalized consumers, yet it has not been fair or transparent in its techniques for winning their business.



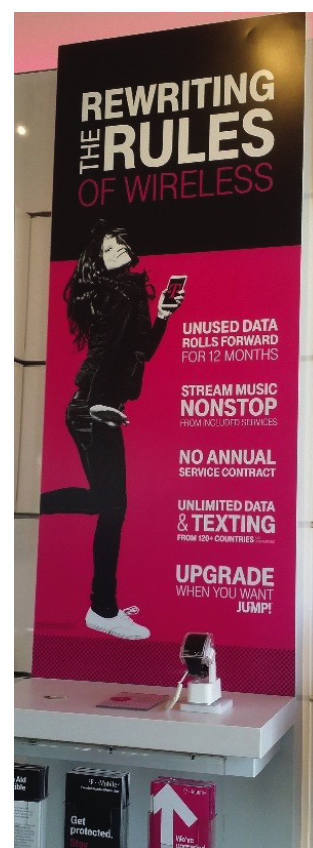
## THE UNDERBELLY OF THE UN-CARRIER

**R**esearch by CtW Retail Initiatives shows that central aspects of the company's Un-Carrier program that promise simplicity and affordability are actually premised on misleading claims. This deception results in unexpected charges and obligations—too often leaving customers with hundreds or even thousands of dollars of surprise charges and penalties that may land them in collections. These deceptive practices cause particular harm to consumers who cannot afford unanticipated expenses, a population that T-Mobile targets and depends on for its success.

This report details the ways in which the Un-Carrier revolution has fallen short of its promises, and how these lapses have a disproportionate impact on low income consumers and communities of color. It is based on a comprehensive review of the company's marketing across various media platforms and through visits to nearly 200 T-Mobile stores across the country.<sup>14</sup>

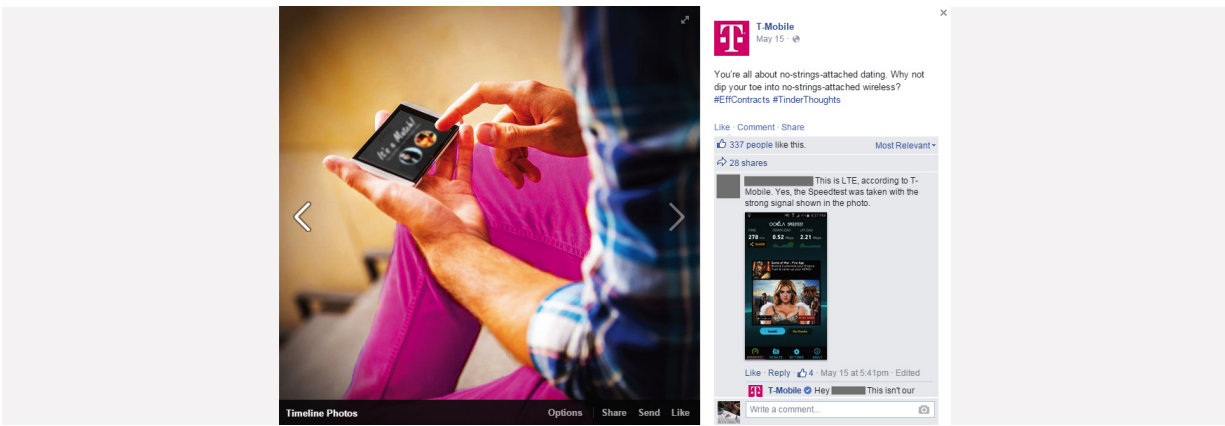
CtW also conducted an in-depth analysis of more than 5,500 consumer complaints about T-Mobile filed since the company launched Un-Carrier in 2013 with the Consumer Financial Protection Bureau (CFPB), the Federal Trade Commission (FTC), the Federal Communications Commission (FCC) and the Better Business Bureau (BBB). CtW focused on four categories of complaints: deceptive “no contract” advertising; deceptive rebate advertising and reimbursement problems; debt collection problems; and coverage problems.

According to literature on consumer behavior, most consumers do not report bad corporate behavior, and these complaints likely represent a small fraction of the total number of customers who have had similar problems with T-Mobile.<sup>15</sup> Additionally, T-Mobile has a higher rate of aggregate complaints than AT&T and Verizon based on data from the BBB, for which we had information on competitors.



In-store advertisements repeat the claim that T-Mobile wireless service does not require customers to enter into binding contracts. For example, this in-store sign, photographed at a California location in Summer 2015, is prominently located and announces “No annual service contract” as one way T-Mobile is “rewriting the rules of wireless.”





This Facebook image, shared by T-Mobile with its 5.1 million followers, is typical of the company's irreverent strategy for promoting its no contract policy. It reads: "You're all about no-strings-attached dating. Why not dip your toe into no-strings-attached wireless? #EffContracts #TinderThoughts."

## "NO CONTRACT" CLAIMS UN-TRUE

The foundation of the Un-Carrier initiative is T-Mobile's claim of "freeing" consumers from the traditional two-year service agreements that have been commonplace in the mobile market. T-Mobile was the first wireless carrier to offer so-called "no contract" plans that eliminate two year service contracts and do away with phone subsidies.<sup>16</sup> With other carriers following T-Mobile's lead, the company's practices should be carefully scrutinized.

In online, broadcast, print, and in-store advertisements, the company boldly announces—with little nuance or caveat—that it has "no contracts" or "no annual service contracts." These claims are misleading because T-Mobile has simply swapped out two-year service contracts for equipment installment plans (EIPs) that continue to tether consumers to the company.

Ninety-one percent of T-Mobile's postpaid subscribers are enrolled in an EIP, which links the month-to-month service contract to a 24 month equipment financing agreement.<sup>17</sup> This arrangement means that early termination of the service contract results in all outstanding balances on phones and other equipment becoming immediately due. T-Mobile does not subsidize the cost of phones, which means that equipment costs may make T-Mobile's "un-contract" more expensive to exit than a traditional service contract for customers. Two-thirds of Americans use smartphones,<sup>18</sup> which can cost over \$700 per device, or more than double a traditional termination fee. The basic fact that the equipment and service contracts are linked is not mentioned in many of T-Mobile's advertisements. T-Mobile's broadcast and billboard advertisements generally contain no disclaimer or explanation that consumers who use an EIP to pay for their phones are in effect entering a two-year service contract.<sup>19</sup>

These basic facts about the EIP are also obscured by in-store advertisements. Across the country, CtW researchers visited 176 stores and found advertisements with claims that T-Mobile has no annual contracts in 88 percent of stores visited. In the retail setting, advertisements about the terms of a contract or transaction may be even more convincing to a consumer than the advertisements on social media or on other platforms, because they are in closer proximity to the transaction and appear to be descriptive of what the customer should expect from T-Mobile.

Further obscuring the way that equipment ties customers to T-Mobile, much of the company's aggressive marketing of its phone upgrade programs, JUMP! and JUMP! On Demand, does not adequately disclose that a phone upgrade would restart the two-year clock on any financing agreement.<sup>20</sup>

### *Consumers report confusion and financial harm*

Consumers have complained to regulators and the Better Business Bureau (BBB) that T-Mobile is deceptive about the terms of its service agreements and EIPs. For instance, more customers have complained to the BBB about T-Mobile's advertising and sales practices than about any other carrier—despite the fact that T-Mobile has significantly fewer customers than AT&T and Verizon. The Consumer Financial Protection Bureau (CFPB), Federal Communications Commission (FCC) and Federal Trade Commission (FTC) have also received large volumes of complaints about T-Mobile.

One T-Mobile customer's complaint to the FTC reads:

“Due to all of the issues I had with T-Mobile, I switched back to Verizon. I was then charged a \$200 ‘Contract Termination Fee,’ but I never signed a contract with them, and they advertise ‘No Annual Contacts.’”

The company is on notice that its “no annual contracts” advertisements are misleading. In 2013, the Washington State Attorney General filed an Assurance of Discontinuance, in which it disclosed that it had investigated the company for its advertisements touting “NO ANNUAL CONTRACTS.”<sup>21</sup> The Attorney General concluded that the company had misrepresented “consumers’ ability to obtain services and telephone equipment without incurring a financial consequence for cancelling Respondent’s services.”<sup>22</sup>

Since then, the company has implemented minimal changes, disclosing EIP terms in small print under the descriptions of individual phones in its stores and online, but it has not changed its online, broadcast and in-store advertisements as of November 2015, which continue to misrepresent the penalties associated with cancelling service.

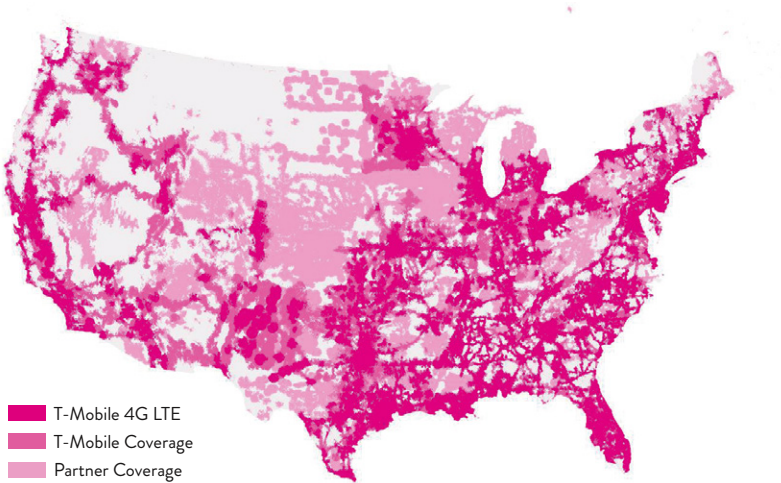
### *Coverage issues compound misleading contract claims*

Compounding the deceptive “no contract” offers is T-Mobile's comparatively lower quality of cellular coverage and the company's misrepresentations of its coverage. For the first half of 2015, RootMetrics, a leading verifier of network reliability, rated the company fourth in overall performance.<sup>23</sup>

T-MOBILE'S “NO CONTRACT” ADS  
CALLED OUT BY WASHINGTON  
STATE ATTORNEY GENERAL



IN 2013, THE WASHINGTON STATE ATTORNEY GENERAL DISCLOSED THAT IT HAD INVESTIGATED T-MOBILE FOR ITS ADVERTISEMENTS TOUTING ‘NO ANNUAL CONTRACTS,’ AND CONCLUDED THAT THE COMPANY HAD MISREPRESENTED “CONSUMERS’ ABILITY TO OBTAIN SERVICES AND TELEPHONE EQUIPMENT WITHOUT INCURRING A FINANCIAL CONSEQUENCE FOR CANCELLING RESPONDENT’S SERVICES.”



## T-MOBILE COVERAGE MAP NOT TRUSTWORTHY?

22 PERCENT OF CONSUMERS WITH COVERAGE PROBLEMS SAID THAT **T-MOBILE** USED THE COVERAGE MAP TO ASSURE THEM THAT THEY WOULD HAVE RECEPTION

In some cases, customers feel they have been misled regarding the quality of cellular reception in their residence, yet cannot leave T-Mobile without paying the balance on their EIP if they are outside of a 14-day “buyers’ remorse” period. Seventeen percent of the 5,500 complaints analyzed were about problems with T-Mobile’s network.

When signing up for service, customers are shown a coverage map to demonstrate the quality of service where they live and work, often a make-or-break aspect of the purchasing decision. T-Mobile presents this map as an accurate representation of its network. Yet 22 percent of consumers with coverage problems said that T-Mobile used the coverage map to assure them that they would have reception.

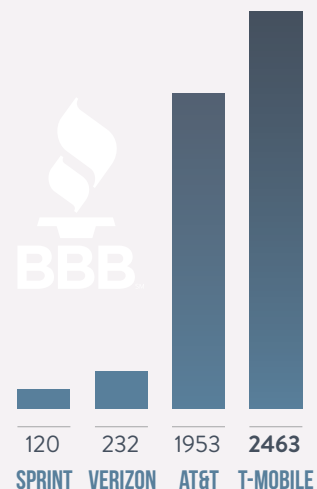
Despite T-Mobile’s recent network upgrades, its network reliability appears to remain inconsistent with the company’s claims. Twenty percent of the complaints that cited deceptive “no contract” claims by T-Mobile also reported problems with coverage. A 2015 complaint to the BBB states:

“ We are having trouble with our T-Mobile service . . . dropped calls not to mention not having a signal to make a call in our home. We have been on them for seven months in regard to these same issues and have done everything they have asked us to do, to the signal boosters, to the wi-fi monitors, and got newer phones to have wi-fi calling in hopes of having better service and nothing is changing. We are within the T-Mobile coverage so we are not sure why this is an issue. We need our phones. . . . After our continued efforts to stay with t-mobile we need reliable service and T-Mobile is telling us we cant give back the phones and we are going to have to pay them \$1700 if we leave them.

## ADVERTISING/SALES COMPLAINTS

2013-2015

Better Business Bureau





## Switching can have lots of hitches

### REALITY CHECK:

- ✓ **YOU PAY YOUR ETF OR EIP BALANCE (NOT T-MOBILE)**
- ✓ **YOU GIVE T-MOBILE YOUR OLD PHONE**
- ✓ **YOU BUY A NEW PHONE FROM T-MOBILE**
- ✓ **YOU SUBMIT YOUR FINAL BILL FROM PREVIOUS CARRIER (AND HOPE IT DOESN'T GET LOST IN THE SHUFFLE)**
- ✓ **T-MOBILE HAS 8 WEEKS TO SEND YOU A PREPAID VISA CARD (WHICH IS NOT A CASH EQUIVALENT)**

For those who rely on their mobile phones as their only connection to email and the Internet, being locked into an expensive contract with a carrier whose network does not adequately cover your geography can be devastating. In particular, low income consumers may be unable to bear the cost of breaking the contract to switch carriers due to coverage or other service problems.

## T-MOBILE'S BROKEN PROMISES TO PAY CONSUMERS' EARLY TERMINATION FEES

T-Mobile has lured millions of customers away from other cell phone carriers by offering to buy them out of their contracts. In January 2014, T-Mobile announced a permanent offer called Contract Freedom, or Un-Carrier 4.0, to pay early termination fees charged by other carriers if customers switched to T-Mobile. In March 2015, T-Mobile extended the offer to cover the balance on financed phones (EIPs).

These buyout offers have helped drive the company's growth in the year and a half since the initial announcement and have become a central component of the company's marketing. T-Mobile is the only company in the industry with a standing offer to buy out customers' service contracts and equipment.<sup>24</sup>

However, advertisements highlighting this offer mislead customers about what is required to receive the benefit. CtW's analysis of customer complaints ultimately suggests that many consumers are stuck with much higher bills than they expect when they switch to T-Mobile, potentially harming their credit in the process. Customer complaints also suggest that T-Mobile may be denying or delaying reimbursement improperly, even after a consumer has met all of T-Mobile's requirements for reimbursement.

The company has aggressively promoted its offer to pay off new customers' ETFs or EIPs across various social media platforms, using hashtags on social media such as #DitchandSwitch and catchy phrases like "Switch without a Hitch." In a broadcast advertisement, the company announces, "Now T-Mobile will pay off your phone. Stuck in a contract? We've got you covered there, too."<sup>25</sup>



“ For households living paycheck to paycheck, the misrepresentation about the timing, form of payment and qualification process may cause serious financial hardship and harm credit standing.

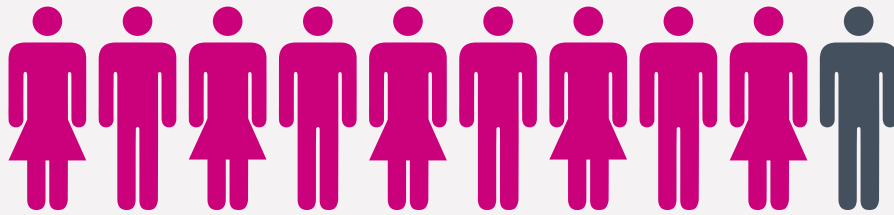
Advertisements like this draw customers into stores with the expectation that they will be able to easily switch to T-Mobile without having to pay their previous carrier’s termination charges. And once consumers are in the T-Mobile retail environment, they are bombarded with similar ads. In visits to 176 locations throughout the country, signs promoting the ease and low cost of switching were nearly universal—present in 97 percent of stores.

The company’s advertisements for the program mislead consumers about the restrictions and conditions on the offer in several ways. Despite T-Mobile’s repeated assurances that the company will promptly pay customers’ ETFs or EIPs when they switch carriers and trade in their phone, the company does not pay the penalty directly to the other carrier. Instead, after customers take a number of steps to qualify, T-Mobile reimburses them with a prepaid Visa card—not cash or a bill credit as many consumers may be expecting. This card is not a cash equivalent. It is not redeemable for cash and expires one year after issuance.<sup>26</sup>

To get the Visa card, customers must submit their final bill from the previous carrier to T-Mobile. They also must trade in their phone, and purchase a new device from T-Mobile. After completing these steps, T-Mobile begins processing the ETF or EIP reimbursement.<sup>27</sup> While T-Mobile’s fine print says that the processing takes up to eight weeks, customer complaints made to regulators, to the Better Business Bureau, and in online forums suggest that the waiting time for the rebate can be significantly longer. Customer complaints also suggest that T-Mobile may be denying requests improperly, even after a customer has submitted documentation in the form of a final bill.

Additionally, many consumers may not be eligible for the offer, a fact they might not discover until after they have traded in their phones, bought new phones, and switched to T-Mobile. Only in small print does the ETF and EIP buyout website ([ditchandswitch.com](https://ditchandswitch.com)) disclose that “qual’g credit, qual’g service” are required. Further digging on the website reveals that customers “must be switching from a postpaid plan on a contract with another carrier” and must “purchase a new device with T-Mobile on a qualifying postpaid Simple Choice plan.”<sup>28</sup> This requirement to purchase a phone likely increases the number of customers who sign up for a two-year EIP—thus tethering more customers to T-Mobile’s service.

## TAKEN BY SURPRISE BY T-MOBILE



*Nearly 9-in-10 customers with complaints related to billing or accounts cited an unexpected charge.*

Consumer complaints filed with regulators and the Better Business Bureau show that many consumers are left waiting longer than expected or never receive a reimbursement at all. The following complaint made to the Better Business Bureau on June 15, 2015 is typical:

“ I have submitted materials for the reimbursement for early termination fees and keep getting messages that my request is denied because the charges are not clear. I have sent perfectly legible copies (via certified mail, which was received) of my [previous carrier’s] wireless bill with the charges clearly visible. I am certainly not the only one who has switched from [previous carrier] and I’m sure T-Mobile is familiar with their paperwork. I have been given the run around to the extreme and I want my fees reimbursed NOW.

Given the dollar value of customer ETFs and EIPs – often over \$200 per line – the stakes are high for consumers.

The misrepresentations about ETF and EIP reimbursement payments fall hardest on low-income consumers, for whom the additional wait time, the non-cash-equivalence of the prepaid Visa card, and the possibility that they may not qualify for reimbursement after incurring large expenses create a major burden. For households living paycheck to paycheck, the misrepresentation about the timing, form of payment and qualification process cause serious financial hardship and harm credit standing. With this inadequate or misleading information, too many consumers may end up in scenarios like this one, reported to the FTC in 2014:

“ T-mobile did not provide [us] with accurate information regarding the timeline for the Early Termination Fee (8-10 weeks) and we have an \$804.00 bill due to [other carrier] . . . I feel this is false advertising and incompetent service as billing cycles are monthly and T-mobile should have a better practice (shorter wait period) in place to provide the Early termination fee. We now face the arduous task of being sent to a collections agency due to our \$804.00 [other carrier] bill due to the time period of T-Mobile. I spent over an hour on the phone with T-mobile speaking to 4 different representatives who all told me there was no way to expedite the Early Termination Reimbursement. We have done everything on our part to assist in this process and now we are facing multiple financial burdens as they did not clearly advertise the timeline for Early Termination Fee Reimbursement.

# PAST DUE

## UNFAIR DEBT COLLECTIONS PRACTICES

A key component of T-Mobile's marketing and brand identity is appealing to low-income, urban customers. The company has the highest number of prepaid customers of any carrier – 17.2 million, or 36.1 percent of its subscriber base—and nearly half of its customers have credit scores below prime ratings.<sup>29</sup>

By comparison, Verizon has 5.8 million prepaid subscribers and AT&T has 11 million, which represent 5.2 percent and 12.5 percent of their subscribers, respectively.<sup>30</sup> Prepaid customers generally have worse credit quality and lower incomes than postpaid subscribers. According to the FCC, more than a quarter of prepaid customers make less than \$25,000/year compared to only 10.6 percent of post-paid customers.<sup>31</sup>

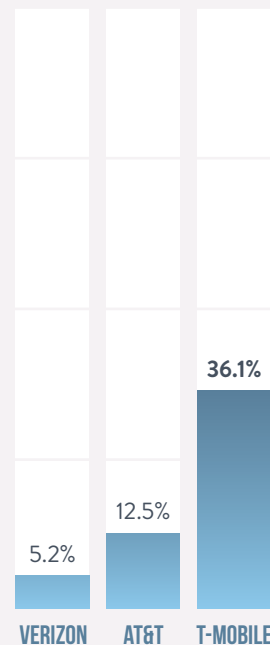
One way the company has attracted consumers with poor credit is by marketing itself as a low cost alternative that offers a lower credit barrier. Many of the company's advertisements assert that T-Mobile offers plans with no credit checks and no annual contracts, appealing to the financial instability of low-income customers.<sup>32</sup>

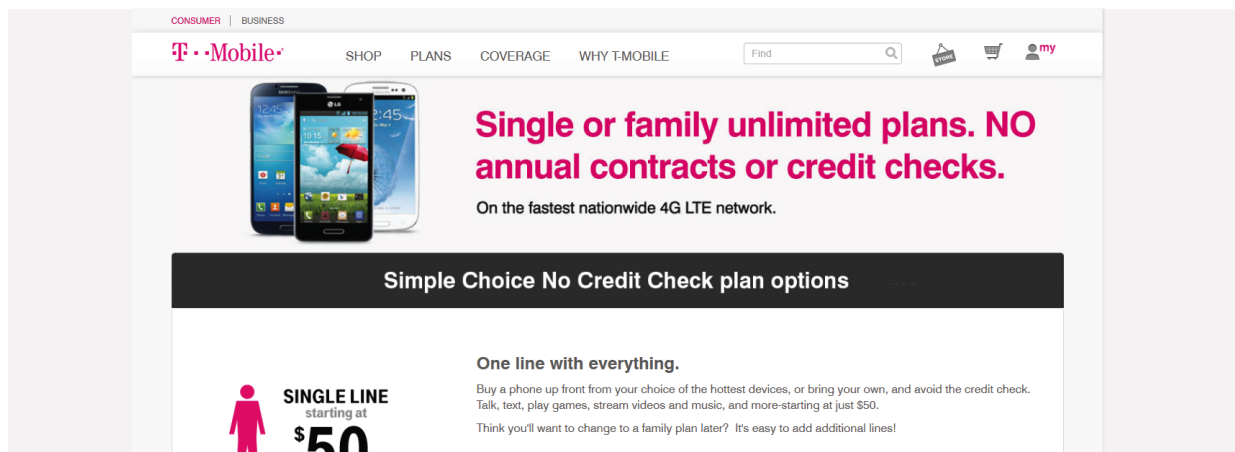
The company has recently rolled out other programs that are attractive to low-income consumers. In January 2014, T-Mobile launched its "Mobile Money" service, billed as a "smart checking alternative."<sup>33</sup> This service allows consumers to load money on a Visa check card, and was viewed by industry analysts as a way to attract and retain low income consumers and those with bad credit.<sup>34</sup> And in January 2015, T-Mobile rolled out its "Smartphone Equality" program that enables customers with bad credit to upgrade to a smartphone for no money down.<sup>35</sup>

For more information about deceptive practices at T-Mobile, visit our website: [CallingOutTMobile.org](http://CallingOutTMobile.org)

### PREPAID AS % OF SUBSCRIBERS

Prepaid subscribers have lower incomes than postpaid subscribers





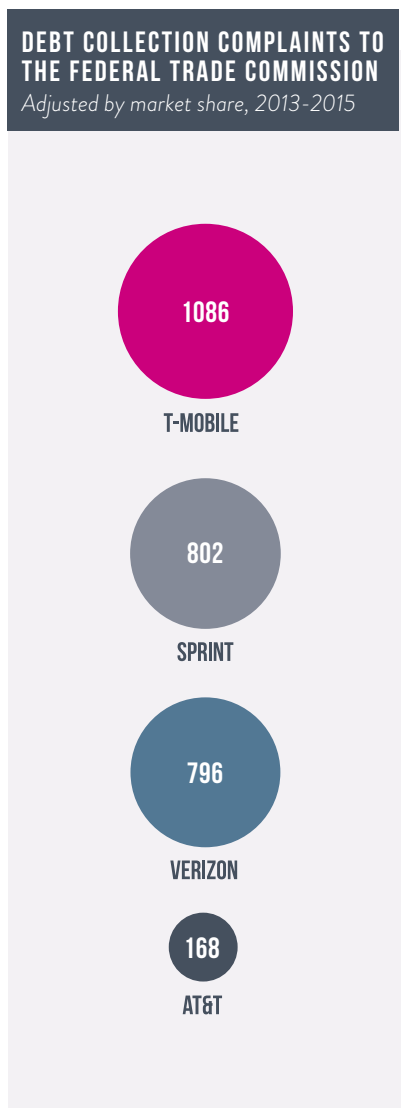
Example of T-Mobile's marketing touting no credit check.

The company has also targeted Latino consumers in its advertising and store location strategy.<sup>36</sup> The median income of Hispanic households in 2014 was 20 percent lower than the median for all households in the United States, according to the Census Bureau, and the poverty rate for people who identified as Hispanic was 24 percent compared to a national rate of about 15 percent.<sup>37</sup> T-Mobile partnered with Spanish language television network Univision in 2014 to launch Univision Mobile, a “pioneering wireless service created specifically for Hispanic Americans.”<sup>38</sup> Historically, T-Mobile has had a higher percentage of Hispanic subscribers than its competitors. Even before the launch of Un-Carrier, roughly 25 percent of the company's subscriber base was Hispanic, compared to 5-to-10 percent for AT&T and Verizon.<sup>39</sup>

Providing access to mobile phones for consumers who might not otherwise qualify is commendable, but it is also big business. T-Mobile has tethered its growth strategy to its large market share among marginalized consumers, yet its poor handling of disputed charges and debt collection makes clear that this company is not the consumer advocate it claims to be.

### *Predatory debt collection practices compound deceptions*

T-Mobile's deceptive marketing practices can leave subscribers with hundreds—even thousands—of dollars of unexpected and potentially illegitimate debt. Twenty percent of the 5,500 complaints analyzed by Change to Win were related to billing or accounts issues, and most of these (87 percent) cited an unexpected charge. These surprise fees can have a devastating financial impact on many of the company's consumers given that nearly half of its subscribers have subprime credit and are likely to have a limited financial safety net.





“ 71 percent of customers with delinquent accounts say that T-Mobile gave debt collections agencies incorrect information about their account.

T-Mobile stands out compared to its largest competitors in the area of debt collections. In the sample of complaints from the FTC, it was possible to compare the rate of complaints by carrier in specific categories, and in the debt collections category T-Mobile had seven times as many complaints as AT&T and about six percent more complaints than Verizon, when adjusted for market share.

In the debt collections complaints against T-Mobile analyzed by Change to Win, a large majority of consumers report that T-Mobile did not give accurate information to the debt collection agencies it uses. And nearly half (49 percent) reported that T-Mobile did not provide them with adequate notice to contest the debt before it went into collections. A substantial number also claimed that the company either blocked access or provided no easy method for accessing information needed to dispute the charge. The complaints paint a picture of a company without a consistent, clear or fair process to dispute billing issues and collections notices.

### *Collection abuses pose problems for the industry—but especially for T-Mobile*

The lack of adequate regulation in the debt collection industry causes significant harm to many American consumers.<sup>40</sup> Debt collection abuses are a growing problem in the telecommunications sector, with telecom companies second only to medical providers in number of collections notices on consumer credit reports.<sup>41</sup> T-Mobile works with a number of third-party debt collection agencies to collect on delinquent accounts.

Many of these companies have poor track records, raising questions about T-Mobile's decision to work with them.<sup>42</sup> A recent breach of 15 million customers' credit information handled by Experian, the company T-Mobile uses to run credit checks, casts further doubt on the customer safeguards T-Mobile requires from its third party contractors.<sup>43</sup>

Some of T-Mobile's debt collection contractors have come under government scrutiny and faced private litigation for violations of the Fair Debt Collection Practices Act and the Telephone Consumer Protection Act. For example, T-Mobile contracted with Midlands Credit Management, a subsidiary of Encore Capital Group, which has faced thousands of lawsuits and several major regulatory actions, including a 2015 consent order with the Consumer Financial Protection Bureau. The order required the company to stop making false or unsubstantiated representations to consumers about debt they owed, making misrepresentations about time-barred debt, and harassing consumers with excessive phone calls.<sup>44</sup>

### *An alarming pattern of inaccurate information*

Complaints stemming from debt collection show an alarming pattern of misrepresentation. More than seven out of ten consumers (71 percent) faced with delinquent accounts at T-Mobile say that the company gave debt collection agencies incorrect information about their account. A subscriber's 2015 complaint exemplifies this problem. The company moved a disputed charge for two iPhones to collections even though the customer says he returned the phones and settled the account:

“ I informed T-Mobile that I wanted to resolve the issue and have my balanced cleared before anything went into collections. Little did I know I started getting calls from a collection agency in regards to tmobile. They told me that T-Mobile had transferred my account to the collection due to non payment. As stated before I paid the account in full and made sure I didn't owe them anything.

For comparison, the CFPB says that about 39 percent of the consumer complaints it receives about debt collection practices are about inaccurate information or inaccurate claims pertaining to the account.<sup>45</sup> The high rate of complaints from T-Mobile subscribers—more than 160 percent of the CFPB average—may indicate that T-Mobile is providing erroneous account data to collections agencies.

### *No notice or access to account information*

Nearly half (49 percent) of consumers with issues related to collections reported little-to-no notice of the debt before it was referred to an agency. Because of this lack of notice, consumers had no practical way to challenge T-Mobile's assessment of their debt before referral to a collections firm.

After being notified of a bill in collections, many T-Mobile consumers say that they were locked out of their account or otherwise were not given access to their records to dispute potentially wrongful charges. One-out-of-seven T-Mobile subscribers who had complaints about collections said that they were denied access to necessary information about the debt:

“ . . . [T-Mobile has] sent us to collections and have conveniently deleted/lost all the notes regarding my account. When I contacted the collection agency they say that T-MOBILE will not allow them to have a copy of the notes to my account and thus can't give them to me either.”

Even when consumers challenged a charge, more than 40 percent reported that T-Mobile still sent their accounts to collections. By contrast, credit card companies are required to refrain from sending accounts to collections if a bill is disputed.<sup>46</sup> In a federal lawsuit against Amsher Collections Services brought in 2014, for example, the plaintiff alleged that T-Mobile failed to cancel her account as requested and billed her for a month of service after her requested cancellation. The plaintiff further alleged that even though the bill was in dispute, Amsher attempted to collect on it and did not notify the credit reporting agencies that the amount was disputed.<sup>47</sup>

Some consumers say they have faced harassment from T-Mobile or its debt collectors over penalties for early terminations—even though they had believed they had no contract with the carrier. One customer’s ongoing lawsuit against T-Mobile offers an example of the pestering subscribers endure, alleging that the collections agent demanded “Where is our money?” and told him to “Man up and pay the bill.” The customer says he had already settled the balance on his account.<sup>48</sup>

When consumers try to resolve their debt, T-Mobile’s service practices can cause more obfuscation and confusion. Thirty-seven percent of customers with collections issues say that their inquiries to the company were met with conflicting information. Twenty-three percent of complainants whose accounts were sent to collections report that T-Mobile shifted the blame for the problem to the customer themselves or a third party such as the debt collector.

But the most commonly used tactic by T-Mobile is to simply reiterate that the full balance is due—this happened in half of the cases in our sample. Over half, 53 percent, of customers said that this was the company’s response even when the company misrepresented the debt or the subscriber had already paid the bill.

### *The disparate impact on consumers*

The CFPB recently explained the negative impact of collections activity, reporting that nearly a third of Americans who have credit ratings have a collections item on their report, and that this information is “incorporated as a derogatory factor in most credit scoring models,” harming the ability of consumers to obtain loans and other forms of credit.<sup>49</sup>

The Federal Trade Commission declared in 2010 that “[t]he system for resolving disputes about consumer debt is broken.”<sup>50</sup> In a 2013 study, the same agency reported that it receives “more consumer complaints about debt collectors than about any other industry.” In particular, the FTC expressed concern that debt collectors “may have insufficient or inaccurate information when they collect on debts, which may result in collectors seeking to recover from the wrong consumer or recover the wrong amount.”<sup>51</sup>

There is significant evidence of racial disparity in how debt collection impacts consumers. Some studies have found that collections lawsuits more frequently end in default judgments, leading to wage garnishment or other penalties, when the consumers are from communities of color or low-and moderate-income communities.<sup>52</sup> A recent investigation by ProPublica further documents the disproportionate impact of debt collection lawsuits on black communities.<sup>53</sup>

While third party collectors are well known for abusive practices, the companies that send customers’ accounts to collections play a significant role in this broken system. It is up to companies like T-Mobile to ensure they are not complicit in illegal and unfair practices.

Change to Win’s analysis of customer complaints indicates that T-Mobile is not taking the steps needed to adequately protect consumers from unnecessary harassment from collections agencies and from undue harm to their credit scores and financial security.



## CUSTOMER SERVICE POLICIES EXACERBATE UN-CARRIER PROBLEMS

John Legere is fond of telling the media and his followers on Twitter that “the entire Un-carrier revolution began by listening to customers,” but the company’s internal customer service policies contradict Legere’s professed ethos.

CtW’s research indicates that the company’s misleading practices lead to consumer complaints and confusion, and that T-Mobile’s approach to customer service can result in a failure to satisfactorily resolve customer issues. An analysis of Better Business Bureau complaints from 2013 to 2015 reveals that T-Mobile has a rate of consumer grievances more than three times that of its larger rivals, Verizon and AT&T, on a relative basis.

From inside T-Mobile, customer service representatives say that company policies do not live up to Legere’s promise to listen to consumers, and instead compound the problem.

### *Customer service metrics may aggravate consumer pain points*

The problems of deceptive marketing are well known to T-Mobile customer service representatives: they receive the initial blowback from the customer. Current and former employees described to CtW researchers the challenges of dealing with customer confusion about EIPs and ETFs, along with broader challenges caused by corporate protocol.

These workers are under intense pressure to meet a strict set of metrics used to evaluate their performance. These metrics include benchmarks for the average duration of calls, the percentage of customer issues that are resolved with a single call and the sale of additional services.

Workers report that the company strives to keep calls under a certain number of seconds (210 in one department, or 3.5 minutes), and that employees are disciplined or lose bonuses if they do not meet this metric. The company frequently lowers the call duration targets, which can cause employees to transfer customers to other departments to avoid going over their target times. One call center worker told a Change to Win researcher that “a lot of people transfer like there’s no tomorrow,” causing frustration for consumers.



Service representatives say they do not have the time to process and resolve the customer's problem while staying under time. One T-Mobile subscriber posted the potential outcome from this practice on the company's Facebook wall in September 2015: "Called support about last night, talked to seven people but no one knew anything about it."

Keeping calls short means that representatives may not be able to fully resolve problems, and therefore cannot hit their goal for "In One Call Resolution"—measured by whether a consumer calls back with the same problem within 48 hours. "The inadequate call time is preventing us from resolving issues in one call," according to one call center worker.

Employees must be within a small margin of their target "one call" rates in order to avoid discipline, and they must beat their target rate in order to get a monthly bonus. One long-time call center worker said, "T-Mobile is the only place I have felt like a failure, the metrics are so unreachable. It is the only place where it feels like you have to bend the rules to make it." Given the company's deceitful marketing, pattern of broken promises and consistent misrepresentation of billing issues, it is no surprise that complaints cannot be resolved in a matter of mere minutes.

Moreover, even if customer service representatives were to be able spend the additional time to solve a customer problem, the company ties representatives' performance evaluations to a policy designed to impede customers from cancelling their T-Mobile service. In the retention department of T-Mobile – where the goal is stopping disgruntled customers from severing service—retention workers have a small pot of credits they can give customers over the course of a day to retain their loyalty (\$100 per day in June 2015). If employees in the retention department forgive charges and those charges exceed the pot, then workers take a hit to another performance metric. Instead of enabling the employees to problem-solve, the company regiments their time and can even penalize these workers for giving customers appropriate credits.

# WE WON'T STOP UN-CARRIER

## CONCLUSION: THE UN-CARRIER NEEDS REFORM

**T**-Mobile claims its “Un-Carrier revolution” is about removing pain points from the mobile industry. Unfortunately, T-Mobile’s deceptive practices have substantially undermined these lofty ambitions and left many consumers feeling more pain than ever. The company’s aggressive marketing misleads subscribers about the commitment they are making as well as the cost and ease of switching to the Un-Carrier.

While T-Mobile has invested billions in marketing itself as a pro-consumer company, it does not appear to have invested adequate resources to ensure robust consumer support or a fair debt collection process. Given T-Mobile’s disproportionately subprime subscriber base, unexpected charges and fine print fees often hit those who can least afford them.

T-Mobile should immediately initiate reforms, such as:

### *Abandon claims of “No Contract” and “No Commitment.”*

Because of the company’s misleading ads, T-Mobile consumers may mistakenly believe they can leave the company at any time with no financial consequences. More than 90 percent of T-Mobile’s subscribers are in an equipment installment plan that is contingent on continuing cellular service with the company. If customers end their service with the company, the remaining balance on their phones—which can cost over \$700—becomes immediately due. This creates a two-year agreement with T-Mobile, and the company should stop making claims to the contrary in its advertisements with phrases like “no contract” or “no annual service contract.”

### *Stop using misleading language in advertisements for reimbursement of consumers’ ETFs and EIPs.*

T-Mobile should remove from its advertisements phrases like “we pay your ETF” that imply T-Mobile will pay the customer’s former carrier directly.

### *Streamline process for ETF and EIP reimbursement.*

Many consumers claim that their reimbursements were not “without a hitch” as promised by the company. Customers say payments were delayed past the promised eight week reimbursement window or never came at all. T-Mobile should invest in upgrading customer service to quickly pay back the money it owes consumers.

### *Overhaul debt collection policies.*

T-Mobile should reevaluate its relationships with debt collection agencies that have histories of abusive practices and strengthen its review process for whether accounts enter collections. An alarming number of consumers had complaints about T-Mobile misrepresenting facts about their debt to the collection agency—including complaints that T-Mobile referred an account to collections when the customer had already paid the balance in full. The company should also give customers adequate notice of overdue payments before sending them to collections, and end its practice of sending accounts under dispute to collections. Since many former subscribers said that there was no clear or easy way to obtain information about the amount alleged to be due, T-Mobile should make sure that complete, itemized information is available to the consumer and the debt collection agency.

### *Align customer service performance metrics with the needs of customers.*

T-Mobile should alter the way it motivates the workforce that must troubleshoot problems with its Un-Carrier offerings. It should not penalize customer service representatives for spending extra time resolving EIP or ETF issues. Likewise, the company should encourage employees to address disputed charges on accounts.

Until T-Mobile makes these necessary reforms, consumers should remain vigilant by requesting paper copies of all contracts and reading the complete text of any agreement before signing. Subscribers should also document every interaction with customer service representatives by recording the date and time of each call as well as the service representative's name. It is important to keep records of any correspondence, including e-mails, Tweets, Facebook messages and notes from phone conversations. Also, customers cancelling their service should save a copy of their final T-Mobile bill in case access to billing records is denied.

Individual consumers cannot fully protect themselves against corporate policies of the magnitude present here, however, and therefore regulators should also scrutinize T-Mobile's marketing and billing practices. Several of T-Mobile's practices appear to violate federal and state consumer protections against deceptive advertising and debt collection abuses.

T-Mobile has transformed itself from a company struggling to maintain market share to the fastest growing mobile provider in the industry. The company has been a leader in shaking up how cell phone service is sold. However, the Un-Carrier revolution has harmed and deceived many of the customers it promised to help. For T-Mobile to fulfill its claim to be a consumer advocate, it must undergo another transformation and undo many of the practices of the Un-Carrier.

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