

## **FCC grills Verizon on increased Early Termination Fees**

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The Federal Communications Commission (FCC) is [investigating](#) [1] why Verizon Wireless doubled their Early Termination Fees for “Advanced Devices.” The \$350 ETF for “Advanced Devices” went into effect 11/15, and applies to PDAs and Smartphones (such as RIM Blackberries). The probe will presumably lead to federal mandates regarding ETFs and other Wireless practices. This is intolerable. The federal government has no business interfering in the free markets.



### **ETF Change - Program Overview**

- **Overview**  
Beginning 11/15/09, customers purchasing an Advanced Device with a 1 or 2 year service agreement will be subject to an ETF of up to \$350 if they disconnect service prior to completing the minimum term. The \$350 ETF will decrease by \$10 for each month of service completed.
- **Impacted Customers**
  - Consumer & Business
  - B2B CLEU out of scope for 11/15
- **Channels**
  - Retail, Telesales, Indirect (including National Retailers), Direct Sales, Customer Service, Internet

Let's review the situation. Verizon has not changed the terms of existing customers' contracts, which would be illegal. They haven't forced customers to buy anything. What they've done is entirely legal and morally sound. If potential customers don't like the contractual terms, they're free to choose another carrier. So why is it the government's business?

I've had discussions with colleagues regarding the housing crisis, and where blame should rest. All arguments aside, I will concede that a mortgage is far more complicated than a cell phone contract. Before coming to ECN, I worked at AT&T (then Cingular) for about 2 years, so I have some expertise in this area. Before any contract was signed, we gave a detailed explanation of activation fees, early

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termination fees, and any relevant information (for example, activation could take up to 24 hours). Let me reiterate—the customer was informed of *all* fees and relevant info. If the customer was unhappy with said fees, they could cancel immediately. If they had buyer's remorse within 30 days, they could return their phone and cancel their service with no ETF (Verizon has a [similar policy](#) [2]). There was no trickery.



Back in 2008, the FCC held a [public hearing](#) [3] on ETFs, and Chairman Kevin J. Martin had this to say: “Too often consumers are surprised that the amount they owe on their first bill is not what they expected, only to then learn that their ‘trial’ period already ended and cancellation will result in paying the early termination fee.” If consumers are “surprised”, I submit that it is more often a case of “selective memory.” As mentioned, startup fees are not only part of the contract, but they’re intentionally highlighted by the salesman to avoid confusion.

Martin adds, “The hallmark of a free market is the ability of consumers to choose from a variety of services and service providers. I am concerned that early termination fees are being used not as a means of recovering legitimate costs but as a means of locking consumers into a service provider.” I think that Martin is confused. All the terms are laid out and explained *before* the customer signs a contract. No one is being hoodwinked. Customers are not “locked” into anything. They are merely obligated to fulfill the contractual terms that they agreed to.

Have you ever purchased a phone without a contract? You’ll [pay](#) [4] [well](#) [5] [over](#) [6] a hundred dollars, even for an antiquated “brick phone.” This is close to what the retailer pays. The massive loss incurred by selling the phone at a discounted rate (or free) is offset by the life of the contract. As salesmen, we earned our commission on the contract (and features like texting)—not on the phone. Customers seldom understood this. Most had no inkling of a phone’s true cost, and why we were able to discount them. Without ETFs, phones would cost a great deal more. Even the Chairman fails to grasp this concept. Says Martin, “When a

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consumer ends a contract with wireless carrier, he is typically charged a fee ranging from \$150 to \$225...that is a significant sum for a subscriber to pay who is dissatisfied with the quality of service.”

This is a matter of personal responsibility. Based on innumerable factors, including the contractual terms, customers are free to choose from among different wireless providers. No one coerces them to sign anything. 30 days is more than enough time to gauge a provider’s service. Instead of interfering, the FCC should let the free market resolve itself. Verizon’s new ETF fee will undoubtedly become a major talking point. I fully expect that forthcoming AT&T commercials will draw attention to Verizon’s new practice. Problem solved.

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