

**FOLLOWING THE MONEY:  
HOW HUMAN TRAFFICKERS  
EXPLOIT U.S. FINANCIAL MARKETS**

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**HEARING**  
BEFORE THE  
SUBCOMMITTEE ON OVERSIGHT  
AND INVESTIGATIONS  
OF THE  
COMMITTEE ON FINANCIAL SERVICES  
U.S. HOUSE OF REPRESENTATIVES  
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SECOND SESSION

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**FOLLOWING THE MONEY:  
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**Tuesday, January 30, 2018**

U.S. HOUSE OF REPRESENTATIVES,  
SUBCOMMITTEE ON OVERSIGHT  
AND INVESTIGATIONS,  
COMMITTEE ON FINANCIAL SERVICES,  
*Washington, D.C.*

The subcommittee met, pursuant to notice, at 2:04 p.m., in room 2128, Rayburn House Office Building, Hon. Ann Wagner [chairwoman of the subcommittee] presiding.

Present: Representatives Wagner, Tipton, Ross, Zeldin, Trott, Loudermilk, Kustoff, Tenney, Hensarling, Green, Cleaver, Beatty, Moore, and Gottheimer.

Also present: Representative Davidson.

Chairwoman WAGNER. The subcommittee on Oversight and Investigations will come to order. Today's hearing is entitled "Following the Money: How Human Traffickers Exploit U.S. Financial Markets." Without objection, the Chair is authorized to declare a recess of the subcommittee at any time and without objection, all members will have 5 legislative days within which to submit extraneous materials to the Chair for inclusion in the record.

Without objection, members of the full committee who are not members of the subcommittee may participate in today's hearing for the purpose of making an opening statement and questioning the witnesses. The Chair now recognizes herself for 5 minutes for an opening statement.

One the biggest problems confronting our Government today is combating the pure evil of human trafficking, particularly trafficking for sexual exploitation. To say that human trafficking is a massive problem is to engage in gross understatement.

According to a September 2017 report from the International Labor Organization, it is estimated that 40.3 million people were victims of human trafficking in 2016 alone. There is a reason for this explosive growth.

Human trafficking is an immensely profitable crime. Profits are estimated at \$150 billion a year including \$99 billion from the commercial sex exploitation. Moreover, compared to other popular crimes like drug trafficking, human trafficking requires very little investment, thus, making it a minimal risk and a high reward endeavor.

As with any large multinational criminal enterprise, the life blood of human trafficking is the ability to transfer money. If the traffickers are unable to move their ill-gotten proceeds or to purchase ads to traffic victims on sites such as Backpage or The Erotic Review, their schemes fail.

Today, Congress has not devoted sufficient attention to the vitally important question of how do we ensure that our financial markets are not being exploited by these traffickers. That changes with this hearing today, which is the opening step of the committee's bipartisan investigation into this important issue.

From the testimonies you will hear today, our witnesses will make it clear it is time for the U.S. Government and Congress to get serious about combating human traffickers' exploitation of our financial system. It is important to note what this hearing is not about.

This hearing is not about prescribing solutions. It is about gathering information to allow all the relevant stakeholders to work together to ensure that this country has a comprehensive plan in place to prevent the exploitation of our financial systems. I am particularly excited to hear the testimony of our distinguished panel of witnesses as they touch on new financial products that may be outside the reach of regulations or even regulators' traditional surveillance tools.

For example, we will hear that while money has historically been transmitted using remittance services and funnel accounts, the use of prepaid cards and cryptocurrencies creates an unforeseen challenge for financial regulators. It is not just Congress who needs to learn more about these issues. While law enforcement agencies are on the frontlines doing excellent work in this area, it is a massive undertaking. In enforcement, in briefings with committee staff, law enforcement has candidly admitted that they need to gather more information about these new trends, and in some cases have indicated they may lack existing authority to do so.

It is vital that we learn more about these areas to craft solutions to address human trafficking exploitation of our financial systems that are not only effective but are also appropriately tailored.

On a personal note, many of my colleagues here know that I have worked tirelessly to put an end to online sex trafficking. My bill, the Allow States and Victims to Fight Online Sex Trafficking Act, would clarify that websites like Backpage that advertise sex trafficking can be held accountable under Federal and State law. Although Backpage gets the majority of the headlines, you will hear today about many, many other sites that appear to follow the same business model.

I look forward to hearing all of your testimony this afternoon, and I also look forward to working with my friends on the other side of the aisle to thoroughly investigate this bipartisan issue. With that, I yield back the balance of my time. I would now like to recognize the gentleman from Texas, Mr. Green, the Ranking Member, for 5 minutes.

Mr. GREEN. Thank you, Madam Chair. I thank the witnesses for appearing and I am grateful to this effort that we are endeavoring to take up. It is bipartisan and it is an opportunity for us to demonstrate that, when it comes to the sins associated with sex traf-

ficking, there is very little daylight in between us, that we plan to work together for the betterment of people who are victims.

I would like to indicate that sex trafficking is a very polite term. It is a term that does not embrace all of what happens. It is a term that is used in polite society, but what it really means is kidnapping. The literal taking of children from their parents. Taking them across State lines, across international boundaries.

It is a term that would in some circles be called sexual assault, rape, and that can too often lead to the taking of life. Many victims of sex trafficking end up with their lives being lost. This hearing is absolutely timely in the sense that Dr. King reminds us that the time is always ripe, R-I-P-E, to do that which is right.

We are doing that which is right today. In so doing, I think that we should let the persons who are victims know that they are not alone, that we have not only the Congress of the United States very much interested in what is going on, but also I would like to just mention that in my city, the city of Houston, the mayor has a letter that I will ask we receive into the record by unanimous consent.

Our mayor is focusing on raising awareness, focusing on coordinating services to engage in direct outreach, focusing on becoming a national model. Also, we have PG, Project Girls. This is an institution, an organization, if you will, that is made up of survivors who are actually helping others to survive. Another letter for the record.

Another letter would include the Children at Risk. This is a program that started in 2014 and they have the effort on to combat sex trafficking by focusing on the demand for commercial sex. Finally, I would mention The Landing, another entity that will focus on not only eliminating but preventing sex trafficking.

Chairwoman WAGNER. Without objection.

Mr. GREEN. Thank you, Madam Chair. This sex trafficking is metamorphosing in the sense that the means, the methodology by which compensation is being received is changing. It is changing from what we might consider a traditional means of making payment, credit cards or cash.

Credit cards in the sense that you can buy the prepaid cards more appropriately stated. It is moving from these means that we have some degree of knowledge as to how we can manage and trace to the cyber area into what we—one company is known to have the label bitcoin.

We are looking at the cryptocurrency, and this is much harder to trace, much harder to understand how the movements are taking place. People have the ability in cryptocurrency of transferring money from one to the next without the trail that we are customarily looking for. We have to change our strategy. We have to metamorphose along with those who are performing these dastardly deeds.

It is important for us as we do this to make sure that we include those persons who have been made victims. It is important to hear from people who can give us firsthand information and a firsthand understanding of how all of this transpires. I appreciate all of the professionals who are here and I look forward to hearing from all

of you, especially one person today who is going to be able to share information based upon experience.

Not an experience that is pleasant, not an experience that we celebrate, but an experience that can be beneficial to those of us who desire to legislate in an effective way so as to not only reduce sex trafficking, but to eliminate it. It ought to be wiped off the face of the earth. I pledge to work with the Chairwoman and all others of goodwill to see that it is done. I yield back.

Chairwoman WAGNER. Gentleman yields back. I thank the Ranking Member for his opening statement. I would now like to recognize the gentlelady from New York, Ms. Tenney, for 1 minute for an opening statement.

Ms. TENNEY. Thank you, Chairwoman Wagner. Human trafficking is a modern day form of slavery that affects millions of people around the world each year. The victims of human trafficking are forced to engage in commercial sex or labor by traffickers who hold them often through threats of violence and other hostile means.

According to UNICEF, there are nearly 21 million human trafficking victims worldwide, 55 percent of whom are women and girls. It is tragic to know that this atrocious crime against humanity is actually happening here in the U.S.

As a multibillion dollar industry, traffickers will employ extreme measures to exploit the most vulnerable in our societies for profit. It is important that we study the new trends and the methodologies used by human traffickers in the financial systems so that we can develop effective methods to combat this terrible scourge on humanity.

As a member of the New York State Assembly, I championed a number of issues to provide protections for victims of human trafficking. I was an original co-sponsor of the Trafficking Victims Protection and Justice Act, a bipartisan measure that was put in place while I was a member of the State Assembly.

I am also glad to sponsor and I am proud to sponsor a number of other human trafficking initiatives that are currently introduced or will be introduced in the House. I just want to thank the Chairwoman for having this very important hearing on something that many Americans don't realize is happening right here.

I want to thank the panel for being here today for this very important hearing on a really important topic. I just want to say thanks for your expertise and for enlightening us on this issue, this very important issue that many Americans don't realize is happening right here. Thanks so much and I yield back.

Chairwoman WAGNER. Gentlelady yields back. Indeed, modern-day sex slavery is hiding in plain sight. I now am also pleased to recognize the gentlelady from New York once again, Ms. Tenney, to introduce today's first witness.

Ms. TENNEY. Thank you, Chairman Wagner. It is my honor today to introduce New York District Attorney, the Honorable Cyrus Vance, Jr. Though District Attorney Vance has many, I would like to highlight many, many achievements, especially I would like to highlight today that he has recovered nearly \$12 billion in the course of settlements with nine banks that violated U.S. sanctions

and expanding the human trafficking program into the human trafficking response unit.

As an attorney and a fellow New Yorker, I appreciate the time that you have put into your job to fulfill your duties and to serve the great State of New York. We are honored and looking forward to your testimony. Thank you so much for being here with us today.

Chairwoman WAGNER. I thank Ms. Tenney for her introduction of our first witness, who I have had the great pleasure of interacting with at the Manhattan District Attorney's Office with his fantastic staff that has been instrumental in helping us as we move forward in some of the legislation that we are pursuing in this committee and beyond.

I would now like to introduce our next witness, Dr. Louise Shelley. Dr. Louise Shelley is the Founder and Director of the Terrorism Transnational Crime and Corruption Center at George Mason University. Dr. Shelley is a leading expert on the relationship among terrorism, organized crime and corruption, as well as human trafficking.

She received her undergraduate degree from Cornell University and Masters in Criminology from the University of Pennsylvania. The Chair now recognizes the gentleman from Texas, the Ranking Member, Mr. Green, to introduce our next witness.

Mr. GREEN. Thank you, Madam Chair. Madam Chair, I have the honor of introducing Ms. Tina Frundt. She is a leading figure in the crusade to help children sexually exploited for commercial purposes. Ms. Frundt is a survivor of domestic trafficking and dedicates her life to helping women and children heal from domestic sex trafficking and commercial sex exploitation.

She also trains law enforcement and other nonprofit groups to help and provide resources to victims. She is a member of the Washington, D.C. Anti-Trafficking Taskforce and the Prince George's County Human Trafficking Taskforce.

In 2010, she was awarded the Frederick Douglas Award. The award is given to an individual who has survived slavery and is using their life and freedom to help others. In December 2015, Tina was named to the United States Advisory Council on Human Trafficking by President Barack Obama.

Chairwoman WAGNER. I thank the Ranking Member. It is now my pleasure to introduce our final witness, Mr. Bassem Banafa. Mr. Bassem Banafa is a forensic accountant who provides consulting services and expert witness testimony on civil and criminal matters nationwide.

Of note, Mr. Banafa has assisted attorneys and investigators in complex cases involving human trafficking, drug trafficking, money laundering, cyber crime, large-scale fraud, and organized crime. Mr. Banafa received his BSC in Accounting from Santa Clara University.

Without objection, the witnesses' written statements, will be made part of the record and recorded after and following their remarks. I welcome all of you. Once the witnesses have finished presenting their testimony, each member of the subcommittee will have 5 minutes within which to ask questions.

On your table, there are 3 lights. Green means go, yellow means you have 1 minute left, and red means your time is up. With that, again, welcome to all of you and I would like to ask District Attorney Vance to be recognized for 5 minutes.

**STATEMENT OF HON. CYRUS VANCE, JR.**

Mr. VANCE. Thank you and good afternoon, Representative Wagner and Ranking Member Green. I am very honored to be asked to speak before the committee. Thank you, Representative Tenney, for your kind introduction and for the service that you provided as a State legislator and now at the Federal level. I am joined today by my colleague and friend, Carolina Holderness, who runs our sex trafficking unit at the Manhattan DA's Office.

My written testimony details steps that our office is taking to address the increasingly complex world of human trafficking as well as the roadblocks that we face in our investigations. Some of the key challenges we face are those that have already been mentioned in the opening statements. They relate to obtaining financial data in an increasingly intricate global economy. Now, we are working closely with banks and financial institutions and money service providers to identify trafficking victims and activity and these partnerships have had tremendous impact on our work.

For example, we have seen traffickers use social media to recruit young teenagers from rural areas all over the country. To bring these children to Manhattan, the traffickers wire money to purchase bus tickets. Money remittance services such as Western Union have worked with us to place alerts on sex traffickers so that we can trace where the money is being sent and intercept it before a child is victimized. Companies like Western Union, PayPal, and Venmo have been hugely helpful to our investigative efforts.

However, traffickers are now turning to alternative methods of payment that were alluded to earlier, that allow them to remain anonymous, such as prepaid gift cards and cryptocurrencies. Individuals are using these prepaid gift cards to register trafficking websites, obtain cryptocurrency, and purchase sex. In one case from my office, someone used a Visa Vanilla Gift Card to anonymously register an escort website on GoDaddy. We are also seeing cryptocurrencies being used by traffickers to purchase advertisements and by sex buyers to purchase premium memberships on review board websites.

This trend is driven by the fact that mainstream credit card companies are refusing to do business with sites such as Backpage. Before the rise of cryptocurrencies, many of these sites had been relegated to using other money processors that charge steep fees. Now, some members of the cryptocurrency community are specifically catering to traffickers who post advertisements on Backpage and other sites. Paxful, which is a peer-to-peer marketplace where users can exchange gift cards for bitcoin, explicitly publishes YouTube videos laying out step-by-step instructions for turning these cards into cryptocurrencies to pay for Backpage ads.

I understand that the recent explosion in the use of cryptocurrencies is a complicated issue. I really understand that and it is a complicated problem that you are going to sort through.

But I hope that your efforts will continue to be forceful, and we look forward as law enforcement to collaborating with you in your examination of potential legislative and regulatory solutions.

Obtaining financial data on financial transactions can be challenging also because of our country's lax incorporation laws, which make it easy for traffickers and other criminals to hide behind anonymous shell companies. In many of our investigations, we find evidence of illicit activity but we don't know who is behind the activity because the criminal is using layers of shell companies to hide his or her identity.

There is a bill currently pending in Congress that addresses this issue, the Corporate Transparency Act, which would require companies to disclose their true beneficial owners so that individuals running human trafficking rings cannot hide behind shell companies. On behalf of the Manhattan DA's Office and I believe speaking for law enforcement generally, we urge the Congress to pass this act.

Finally, I would like to acknowledge one of the other challenges that we have faced in our investigations and that is the rise of the use of encryption, particularly on smartphone devices. I know this is a politically charged issue, but I really want to tell you that since 2014 when Apple and Google moved to what is called default device encryption to the extent that, for example, Apple can no longer open its devices in order to comply with search warrants, this has confronted law enforcement with a real challenge. Everyone in this room probably uses their cell phone for every purpose in their life now. The same goes for criminals. They have moved off paper and they are conducting their businesses on the Internet online and using their mobile devices.

The inability, on behalf of law enforcement, to access the content of those machines is affecting our ability to bring cases in sex trafficking and a whole range of other crimes. I know as you look forward to your task, we look forward and stand ready to help in any way we can, Chairwoman.

[The prepared statement of Mr. Vance can be found on page 46 of the appendix.]

Chairwoman WAGNER. I thank the District Attorney Cy Vance for your testimony and we have had lengthy conversations here about encryption and it is something that we certainly will be looking into in the future. I thank you for your testimony. I would now like to ask Dr. Shelley to please be recognized for 5 minutes to give her testimony. Dr. Shelley.

#### **STATEMENT OF LOUISE SHELLEY**

Dr. SHELLEY. Thank you, Madam Chair, Ranking Member Green, and members of the subcommittee for this opportunity to testify.

It is a great honor, I think you have taken on an absolutely core means to address human trafficking, because human trafficking leaves important financial traces that we are not using well enough in our pursuit of this egregious crime.

Like the other speakers, I have identified the movement of human trafficking online into less visible locales, but I think it is also important to note that human trafficking is increasingly converging with the opioid epidemic. Victims are being trapped by

opioids and people who are using opioids are becoming victims of human trafficking.

Therefore, as we develop measures to help locate human trafficking, we may also be making an enormous impact on the opioid epidemic. One of the things that I have found in my research that follows what was going on several years ago is that we are not doing enough of what I would call creative data mining of the financial records of banking institutions.

I was very fortunate to speak to some bankers who are at the absolute forefront of this, who are what I would call alumni of JP Morgan's initial program that very cleverly found human trafficking in a way that does not harm the victims and is not as sensitive to some of the problems that Mr. Vance just identified.

What this requires is a proactive way of mining the financial data of banking institutions. That is, combining investigative techniques, patterns of human trafficking that are constantly changing but can be learned from law enforcement and translating them into algorithms that can be then used to mine data.

When this is best done, one can be changing your success in finding human trafficking from a 15 percent rate if you are just reporting suspicious financial transactions through SARs (suspicious activity reports) to as high as an 85 percent rate if you are using and combining the best data analytics and the patterns gained from social science.

Key to this is public-private partnerships which are already existing and they need expansion just as was laid out by the first witness, who explained the absolute need for this. But at the moment, we have too much pressure being placed on the banking community to do reactive ways of finding human trafficking through traces of what might be a suspicious transaction, as opposed to the more creative methods of going through huge bodies of data and actually finding the needle in the haystack.

This is being done now by some of the most creative bankers during the Super Bowl and I can't say too much publicly but it is very, very promising in looking for these traces when the ads for human trafficking increase, as I put in my testimony, 4 to 5 times at the time that you have a Super Bowl.

Nowhere in the banking community did I find the use of text-based analysis, which is a very, very profitable tool to analyze large amounts of data. If this were combined with the type of numerical data analysis that is now being used by some of the most proactive banks, we could be making much more headway in this area.

We need to be as flexible and innovative in using new techniques of data analysis to address this issue as the human traffickers are using in going online. Therefore, I think that we need to be focusing on this as legislation 2219 talks about, identifying the best practices in the field. This includes data analysis, beneficial ownership, related to real estate as I talk about in a prominent case from North Carolina, from Congressman Pittenger's district, and also ways of implementing and encouraging exchanges of best practices.

There is much that can be done and there are many sophisticated people with technological expertise that can help us. Therefore, I think we need to be restructuring how we praise and reward the banking community for being innovative and not tying them

down to measures that are not the most effective in addressing the problem. Thank you.

[The prepared statement of Ms. Shelley can be found on page 39 of the appendix.]

Chairwoman WAGNER. Thank you, Dr. Shelley, for your testimony. It is now my pleasure to recognize Ms. Frundt, who is here on behalf of our victim's community and is the founder of Courtney's House. It has been wonderful to collaborate with you over time. You are recognized, Ms. Frundt, for 5 minutes for your opening statement.

#### STATEMENT OF TINA FRUNDT

Ms. FRUNDT. Thank you. Madam Chair, Ranking Member Green, thank you so much for that wonderful introduction, and members of the subcommittee, thank you for the opportunity to testify before the Subcommittee on Oversight and Investigations.

My name is Tina Frundt and I am Executive Director and Founder of Courtney's House. Courtney's House is based in Washington, D.C. and provides direct services to both males and females of sex trafficking between the ages of 11 and 21. Our current caseload is more like 13 to 19 years old.

I currently sit on the White House Advisory Council on Human Trafficking and serve as Co-chair of the Rule of Law Committee, which is responsible for developing a uniform set of investigative protocols for all Federal law enforcement agencies. I have extensive experience providing expert witness testimony in Federal and local trials on human trafficking. Since Courtney's House's inception, we have helped over a thousand survivors exit their trafficking situation. I have previously spoken at many hearings in respect to sex trafficking. I am also a survivor of child sex trafficking, so my perspective today is going to be a lot different.

Sex trafficking is something that I not only experienced firsthand for over 20 years but also in my daily work as a service provider for sex trafficked youth. The population I serve can speak directly about what goes on today on the financial side of sex trafficking along effects of not just emotional and physical trauma but along financial insecurity.

I really want to focus on that I have a very young population, and I say that because of having a very young population, trafficking trends change all the time. You have to be updated on the changes all the time on the ground. My testimony will not only touch on what happened to me but the importance of increasing the effectiveness of the financial industry.

Passage of H.R. 2219 to increase the role of the financial industry in combating human trafficking will provide an important step in the right direction, but we have to make sure that we cover everything.

When I was 13-1/2 I met a man that was 15 years older than me. During my trafficking situation, I survived manipulation, torture, and mental abuse, but due to time, I will focus my remarks today on the longstanding financial insecurity and financial abuse I experienced firsthand of my trafficking experience.

Most of my population once again is under the age of 19 and were sold on Instagram, Facebook, Snapchat, and Tagged, especially our boys who are sold on Tagged.

There are a few ways survivors are recruited on social media; through Facebook Live and Instagram Live, where they are actually sold and auctioned on Live. Facebook and Instagram Live now are used heavily to sell survivors because you can screen, you can allow for your friend and private groups, and then you can use some of these methods to boost your population and pay to boost it throughout Facebook.

Additionally pimps and traffickers use this boost to feature and promote private groups of pimps and traffickers to recruit young girls and to sell them on Live. Survivors who are referred to Courtney's House who are minors are sold on social media. Traffickers are moving away from backpage and recruiting children and youth on social media.

Since January 2017, 100 percent of all of our survivors were sold on the following mechanisms I said which was Facebook, Instagram, Tagged. This is very important and I keep saying how old they were. It is important that they were 14 to 15 because they can't own things in their names yet unless someone steals all their information to do so.

Street, online, hotel, and motels, it is a popular misconception that trafficking does not occur on the street. If this were true traffickers would miss a population of buyers who still prefer to buy sex on the street. I don't think we actually think of traffickers as business people because that is not even a good business model. You will sell your product everywhere because you would maneuver that everywhere to hide your money.

I think that it is hard for people to see and understand street-based sex trafficking. Most traffickers do not have one person they sell. Like any good business person, pimps, and traffickers focus on many avenues to increase their weekly profits; children and youth are placed on the street but they are also placed at the same time in hotels, motels, strip clubs, online, and private homes. Children and youth are forced on the street throughout the time.

Survivors who are 13 and 15 are advertised online. Now you may ask me how they are advertised in these open markets. When you are a trafficker and you are a U.S. citizen you do hand over all of your bank information. Yes, children who may get a monthly income every month and it is put on a bank card. When you are with a trafficker, you actually have to hand over your own banking information as well, your Social Security Card, your SSI, your Government benefits, your food stamps, all gets handed over to them.

That brings this back to me, and why this is an important issue to survivors. When I was 14, I had property in my name. I had cars in my name. Of course I didn't find this out until my late 20's when I was homeless and trying to apply for programs and transitional housing programs and rental assistance programs, which I was not able to get because my credit was bad, so I got approved but I can't get assistance because the realtors and the renters won't accept me because my credit was bad and stolen.

There were no laws for protecting victims' credit, there still really isn't. It took me many years to prove my identity, many years

to ask about laws that weren't even on the book yet to clear anything. It took me 5 to 8 years to clear up anything. You had to prove the trafficking situation. I had to help write policy to change their perspective.

I have actually never spoken out about my financial issues before today due to my sex trafficking situation. Working through your trauma is one thing, but repairing your credit fraud and your financial footprint will take a lifetime. It follows you throughout your time. It stops you and prevents you from moving on.

Thank you all so much for your time. I would be ready and willing to answer any questions.

[The prepared statement of Ms. Frundt can be found on page 36 of the appendix.]

Chairwoman WAGNER. Thank you, Ms. Frundt, very much for your testimony.

We have looked at Vacator legislation and laws but I guess I have never really taken into account the difficulties with credit scores and such too. I appreciate your testimony very, very much.

Mr. Banafa, you are now recognized for 5 minutes.

#### **STATEMENT OF BASSEM BANAFI**

Mr. BANAFI. Madam Chair, Ranking Member Green, and members of this subcommittee thank you for the opportunity to testify before the Subcommittee on Oversight and Investigations today.

My name is Bassem Banafa. I am a Financial Forensics consultant at my own firm Bassem Banafa, LLC and for PlainSite, an organization that works on legal transparency.

I was previously a forensic accountant with the Contra Costa County District Attorney's Office in California where I personally reviewed and analyzed tens of millions of dollars in transactions conducted by human trafficking organizations. I also worked at Wells Fargo in the Financial Institution Investigations Group, which was tasked with investigating other financial institutions that may have been compromised by criminal organizations that were processing transactions through Wells Fargo.

Prior to that I worked at TM Financial Forensics, LLC, another consulting firm where I worked on disputes that involved tens of billions of dollars in losses between financial institutions that had processed transactions for each other and failed to conduct sufficient due diligence to prevent those same losses.

I was asked to provide the Committee with an assessment as to how financial institutions monitor, review, and verify depository relationships with payment processors. There are five ways that a financial institution can engage a payment processor. One, engaging a third party to process automated clearing house transactions which are bank to bank transactions, and bank account to bank account transactions. Two, engaging a third party to process payment card transactions such as Visa and Mastercard. Three, engaging a money services business to process transactions that we are all familiar with: Wire transfers or credit card transfers. Four, engaging a money services business to process alternative payment methods such as cryptocurrency or gift card transactions. Five, engaging another financial institution that may itself process those transactions for payment processors.

To support my analysis of financial institutions overseeing these payment processors, I looked at four websites and their payment methods. These four websites are associated with the commercial sex trade and these are the payment methods currently available to users wishing to engage with those websites.

One in particular that I will go over is the Erotic Review, which allows users to provide extensive, detailed reviews of their participation in commercial sex. This includes measurements of the victim that they purchased, the ambiance of the situation where they engaged in the act, and a detailed description of the acts that were purchased.

This site allows users to purchase access to these reviews through U.S. financial institutions. The cryptocurrency transactions it accepts are processed through a U.S.-based cryptocurrency payment processor. The credit card transactions that it accepts are processed through U.S.-based credit card processing companies. The beneficial owners of this website are largely located in the United States. The customers of this website are located in the United States. How is this company able—the Erotic Review able to accept transactions this way with the current backlash against human trafficking?

In my written testimony I went over the various methods that a financial institution may use to review the activity at a payment processor and why this may not have succeeded in preventing the Erotic Review from accessing U.S. financial markets. In particular there is a problem with the way that we engage financial institutions and ask them to prevent money laundering.

The Erotic Review uses a Cyprus-based shell company to accept these transactions. Because this company is based in Cyprus, through a chain of shell companies that are also based in Cyprus, that are in Anguilla, that are in Amsterdam, the Erotic Review is able to evade many anti-money laundering structures. Because there are limited incentives for financial institutions to invest more in detecting this type of evasion, the Erotic Review is able to accept these payments.

I concluded my written testimony by asking members of the subcommittee to consider that law enforcement needs to be able to pursue these transactions wherever they occur, in the United States or abroad. The way to do it is to understand how these financial institutions work. As they have grown to accept cryptocurrency and other payments their internal structures have become increasingly complex and it has become difficult to identify what it is that a law enforcement officer needs to subpoena or get a search warrant for. That is where I believe we need to enhance our knowledge and ability, when pursuing that information within financial institutions.

Thank you.

[The prepared statement of Mr. Banafa can be found on page 28 of the appendix.]

Chairwoman WAGNER. Thank you, Mr. Banafa, very much for your testimony.

I will inform members of the committee that votes have been called. I am going to attempt to get through my questions here first. We will absolutely convene again, if they have called them

early, I thought they were going to be closer to 3:15 to 3:30, but I am going to try to get through my questions and we will come back immediately following votes and resume the hearing.

With that, District Attorney Vance, I am going to start with you. In your testimony you noted that more and more banks and credit card companies refuse to do business with those who facilitate sex trafficking and as a result have turned to prepaid gift cards.

Can you go into greater detail on how the shift from more, what I call, traditional methods such as wire transfers or credit cards has changed the playing field for your office and how difficult is it to find out where the money is coming from and how difficult does it make it to prosecute?

Mr. VANCE. Madam Chair, we had the opportunity to talk briefly before the hearing today and I described to you the difference between anonymity or my sense of the difference between anonymity and privacy.

All of us obviously have a constitutional right to privacy. I think we are all jealously guarding that. I am not sure the Constitution has given us the right to be anonymous in defense of investigations by law enforcement. To answer your question, gift cards that can be purchased with cash and that have no way to identify who is the purchaser are then being accepted by sites such as Backpage in order to advertise prostitution and sex trafficking. I think that is a typical example of how the use of technology and anonymity provided by cards makes it very difficult for anyone to be able to identify who is actually the person who purchased the site, the advertisement on the site.

Chairwoman WAGNER. Thank you, Mr. Banafa.

I appreciated your testimony about Erotic Review. It's abhorrent, absolutely abhorrent. I had the displeasure of viewing it for the first time in the Manhattan DA's office and some of their reviews. It is the first time I had been exposed to this review site.

But following up on the question to the District Attorney we know that major credit card companies won't process payments on sites like Backpage, but they will accept these cryptocurrencies. In fact they often promote this by moving to cryptocurrencies, credit card companies are now just one step removed.

Since I can still use my credit card to purchase a currency like bitcoin for instance, how can major payment processors like Visa, American Express, and others monitor transactions and help ensure their services aren't being used to facilitate trafficking?

Mr. BANAFI. Thank you for the question, Madam Chair.

This issue, a similar issue, came up several years ago with payment processing for adult websites in general. Visa and Mastercard responded to this issue by requiring direct registration of every merchant regardless of the payment processor that was being used. I would imagine that requiring registration for bitcoin processors and enforcing registration at the merchant level for merchants that accept bitcoin through processors that are one, two, three levels removed would provide the information necessary to ensure that this doesn't occur.

Chairwoman WAGNER. Thank you.

Ms. Frundt, first, it is an honor to have you here today. You are a tremendous spokeswoman for victims of trafficking, and I am so grateful for our partnership.

I know you touched on this in your testimony, but can you elaborate here briefly on the importance of having financial institutions work with victims of trafficking to, as you called it, “fill in the gaps”?

Ms. FRUNDT. Yes, one of the things that I think that is a gap is not having survivors at the table with financial institutions. It changes so rapidly that you need to know on the ground what is also happening, but also importantly is, when I was trying to clear my credit for years, 5 to 8 years, there was nothing on the bank websites to tell me anything on how to file this, because it doesn’t trickle down to training.

The person on the 1-800 number answering, you have to go through a lot and I stopped for a year because I was frustrated. It needs to be accessible to survivors. Even in an investigation process, when your case is being investigated, ask us more financial issues, like we will give you this, we will tell you how it happened but people aren’t asking the right questions to get the right answers, that is at the 10th step instead of at the very beginning.

Chairwoman WAGNER. Thank you very much.

Dr. Shelley, the same question for you, what does your research say about the importance of working with victims to stay ahead of the criminal enterprises that are always changing their behaviors as we are hearing on adapting, what best practices have you identified, ma’am?

Dr. SHELLEY. I think that it is important not only to have the victims but unfortunately within trafficking organizations their bookkeepers and financial participants and they also need to be interviewed, because they can help you find the traces and the patterns that you are looking for.

For example, 8 years ago one of the key ways of finding human trafficking was charging to nail salons. That is not a key element of how you find human trafficking today. There are many more elements that are being used in terms of payment systems that trafficking victims use for their transport, to be not too specific.

But by sitting down with people who are constantly in the process of running a business or being exploited, they know how these patterns work. That is what you need because all these patterns leave traces of financial data, and they can help construct the algorithms that then find the human trafficking organizations without putting the victims in jeopardy.

Chairwoman WAGNER. Thank you, Dr. Shelley.

Sadly, we are going to have to hang on here, and I ask your indulgence while we run to vote. We have two votes, folks. We will reconvene right afterwards.

The Subcommittee on Oversight and Investigations now stands in recess.

[Recess.]

Chairwoman WAGNER. The Subcommittee on Oversight and Investigations will come to order.

The Chair now recognizes the gentlelady from Wisconsin, Ms. Gwen Moore for 5 minutes.

Ms. MOORE. Thank you, Madam Chair. Let me thank the witnesses for coming. I especially want to thank Ms. Frundt for coming. I have had an opportunity to hear about her wonderful program and the numbers of survivors that she has supported, and do appreciate the work.

I guess I want to start with the financial expert—my bifocals don't work as well, so excuse me if I mess your name up, Mr. Banafa. I guess I am concerned or I have a question about how discerning or discovering these financial crimes is being implemented through the President's council and engagement with the financial services community and with victims and survivors. Can you give us a little bit of the elements and the methodology that you guys are using to coordinate all those things?

An earlier example, and I don't want to consume all my time, was where you said, nail salons. People weren't getting manicures at 2 o'clock in the morning. You were able to figure that out. How with the President setting up this technology agency, how are you better able to find these algorithms, and a little bit more explicit?

Mr. BANAFI. Thank you very much for the question. Many of these financial institutions are coming together with social service organizations to identify red flags. Although, as Ms. Frundt has explained, these are changing constantly; my hope is that the result of those collaborations is that we will be able to keep up with those changes.

Some examples of the red flags that we have identified include the identification of types of shell companies, such as those in high-risk jurisdictions including Cyprus, that many of these websites are using. I think three of the four websites I identified in my written testimony were using shell companies in Cyprus. Credit card companies in the United States are allowing the use of Cypriot shell companies to accept these transactions.

Ms. MOORE. Ms. Frundt, I guess I would—you have day-to-day contact with these young people and thank you again for this work. I am so happy that you are on the frontlines of identifying this as a human crisis issue rather than just a law enforcement issue. How do you develop the trust and so forth to get victims to break through the brainwash that they have experienced? What do you do? What protocols do you do to try to reach out to these folks?

Ms. FRUNDT. Thank you very much for that question. I am going to walk you through a day-to-day to get a better understanding of Courtney's House.

I did something that was very difficult in the very beginning. I grew up in Chicago, Illinois and I grew up in foster care, and I grew up in an environment where I didn't trust police at all. Actually almost didn't take a job at the very beginning with the Polaris Project, because they asked me to help start a human trafficking task force. I am saying that because I only saw a negative way.

One of the things I realized in time is that I had to partner with the police, U.S. attorneys, and also have them come to our fun events, have them be able to come to our drop-in center and be a part of it, have them dress down, they love that. I promise you.

We serve food every day. We come and they are not allowed to ask them questions, and they can ask them questions. That is when they get ready. First we were just a very honest organization

where they see us and we know what is happening on the ground. It is not like I am just a little old lady because I am sometimes. It is not like that, it is actually where kids are—and these are kids. These are 13- or 14-year-olds.

I think that people don't understand that if you work serving youth, you need to be a youth-led organization, meaning that we are on social media for our kids. We have Snapchat. We actually face-time our drop-in center and have other survivors tell them about the program who are their age. That is really important because that is how we do it. Then we have them come in.

Although I work with the missing and absconders unit inside of foster care, our kids help find other missing kids, and when the police come and we have friends, they are friends with them, they actually get to tell them, can I tell them, can you call detective so and so and ask them to come, like that never happens.

Ms. MOORE. Right, right.

Ms. FRUNDT. We are creating a community and that is why they open up because we are creating a positive community.

Ms. MOORE. Thank you so much.

Thank you, Madam Chair, for your indulgence.

Chairwoman WAGNER. My pleasure. The gentlelady yields back.

The Chair now recognizes the gentleman from Colorado, the Vice Chair of the Oversight Investigation Committee my friend, Mr. Tipton, for 5 minutes.

Mr. TIPTON. Thank you, Chairwoman. I appreciate you holding this very important hearing.

Something impacting every State and my home State of Colorado, 2016 more than a thousand cases of human trafficking were reported with our two major interstates that are running through our State and the cartel activity unfortunately that we are starting to see as well. We are seeing this impact a lot of our communities and obviously devastating an awful lot of lives.

We do have in my home area, the West Slope of Colorado, have a group called the West Slope Against Trafficking. It is an anti-trafficking organization trying to be able to create awareness in Mesa County. The head of that organization recently said, one of the most important resources that we should develop is a community awareness on what it looks like, what to do when you encounter it, and the knowledge of the crime is the best defense against it.

Dr. Shelley, expanding that sentiment onto the financial services industry, is it difficult for financial institutions to use analytical tools to be able to spot the patterns and data that may indicate suspicious or illegal behaviors with regards to trafficking?

Dr. SHELLEY. I don't think it is difficult if you have the right skill set on board. I think too many banks have just former criminal investigators and you need people with data analytics skills. You need people with social science skills, people who can help write algorithms. But fortunately today, there are many people who would be happy to work with the banking community and the bankers, some of them who are proactive, are seeking help outside, not only with the law enforcement community, but with anybody that can help them.

That is not the problem. The problem is having enough allocated resources within a bank. A bank that needs to deal with its SARs is just drowning. The SARs do not allow them enough time, with 10 or 20 people, to do the proactive and creative thinking that this data mining requires. That is the major challenge.

Mr. TIPTON. Expanding on that, it caught my attention in your testimony, you brought up the opioid crisis. We just had two roundtables in my district this last week, the impact, the expansion of that. Are those some of the tells that we might be looking for to start to be able to be more proactive?

Dr. SHELLEY. Absolutely. In fact, while you were on recess, I was doing some wonderful networking here with people who are looking at just this issue with the intersection of opioids and human trafficking and there are cases that are being developed. There is evidence the two overlap and yet we tend to stovepipe and look at opioids or we look at human trafficking.

But often, the human traffickers are less careful than the drug traffickers and it can help give us an enormous window into the way the opioids traffickers are operating.

Mr. TIPTON. I appreciate that and I think that you speak to something very important as has Ms. Frundt in terms of trying to be able to be proactive as opposed to being reactive.

Unfortunately, Ms. Frundt, you had to live this.

Ms. FRUNDT. Yes.

Mr. TIPTON. Are there some areas that you could maybe point to that when we are looking at—it all revolves ultimately around finances as you had indicated. Where are some of the areas where you see us in the financial service sector to be able to be more proactive as opposed to just being reactive?

Ms. FRUNDT. Once again with the training to financial institutions, having survivors on the board and helping them with the training. But there is a gap, I think, that we are missing that we see a lot that is not online and one of them is popup shops. We love that concept of popup shops.

But what we are seeing online is that these tattoo shops and barber shops are doing popup shops with stripping and young girls there and selling them online on Instagram or Facebook. There is a whole development where other business owners are actually cutting through that where I am saying, “I am coming to you” and I am saying, “Here, if you pay me \$500, I get a cut of \$3,000 off of that, I will let you rent my space off of a building that I own.”

We really have to reach to financial institutions on community levels, so they can be aware of this and what is happening and they are advertising this online of where the locations are throughout the different cities. That connecting is important.

Mr. TIPTON. Good. I am about out of time, but I would like to ask the District Attorney. Is that something that you are looking at in terms of prosecution as well?

Mr. VANCE. Yes, sir. We actually—I think public-private collaboration in this area is particularly important and we work with the Thomson Reuters Foundation which itself brought a group of large banks together in a working group so that we could provide to them the typologies of crimes that we are seeing so that the banks

would understand what records they might have that might be relevant to building and proving cases.

We know here how the crime is being committed. Once the banks understand what records are involved and what to look for, they have the data. I think because of the work of committees like this, and it is so important, when people understand the scope of the problem and actually understand it is out there because we don't have a huge awareness of this issue in the United States. Once businesses understand the scope of the problem, they want to jump on. They are good corporate citizens and they think this is—among the worst things that could be happening in America is to tolerate sex trafficking or human trafficking.

Mr. TIPTON. Thanks, sir.

I apologize for asking a question with 8 seconds to go, Chairwoman. Thanks for your indulgence.

Chairwoman WAGNER. No. No. No. It is quite all right. We want to make sure everybody can be heard.

The gentleman's time has expired. The Chair now recognizes the gentlelady from Ohio, my good friend and a true leader and champion in the area of human trafficking and specifically partnering with me on online sex trafficking issues, the gentlelady from Ohio, Mrs. Joyce Beatty, for 5 minutes.

Mrs. BEATTY. Thank you to Madam Chairwoman and also to our Ranking Member.

First, let me say to the panel, thank you. You have been more than our traditional panel because you have lived the issue. You are in the field of investment, knowledge, and research in it. I want to applaud you for being here and being so personal and detailed.

Certainly, to our Chair and my good friend and colleague, thank you for your leadership.

So often, you as panelists or as guests or America, you do not hear us talking about positive relationships and what we do together on both sides of the aisle. I can tell you, when it comes to whether it is online human trafficking, whether it is educating our court system, educating our police department, telling people if you see something, say something, I can tell you Congresswoman Ann Wagner is at the top of the list of being the biggest advocate and she chose not to do it alone. She reached over as a Republican and with me being a Democrat, we have been in this fight and we will continue to be in that fight together.

I wanted to take that moment of personal privilege to say that.

Chairwoman WAGNER. Thank you.

Mrs. BEATTY. But, I have a whole series of questions like my colleagues, but I am going to be a little spontaneous here because of the dialog. We are hearing a lot about cryptocurrency. We are hearing a lot about how it affects our credit. If you have been trafficked and oftentimes they are using your Social Security number, your name, your life, and you get no value out of it other than bad credit when you become of age or when you are no longer in that situation.

Most of you have mentioned that in your testimony, but I think what struck me, Tina—I am sorry to call you Tina, but that is how I know you. Let me just interject how much I love following you. I was with you 2 years ago when you came with Congresswoman

Wagner and Ted Poe and Caroline and spoke and it was so powerful. I followed you around the country.

But, I am going to take my time to ask all of you to respond to something that she said. What we are doing here is great. We find out about something and we try to write legislation to curb it or to discontinue it. That cryptocurrency is the new way, but you say we should be more proactive than reactive. What is it each of you would say to us because we write the laws and we know it. We have heard you testify on it. We know it is a problem.

We know what is happening. We know that there are places like FinCEN that is working on trying to stop this. Tell me what we could do to be more proactive, because I think that is the answer. It is too late when it is over or you are harmed. What should we do?

Ms. Frundt, do you want to start first?

Ms. FRUNDT. There are a few things on fixing the gaps to me. I am going to keep saying it. There is a huge gap with financial institutions and knowing what is happening on the ground. Once again, putting survivors in part of that training in connecting will really help, because it changes so much and you have to be on the changes that happen continuously, too.

The other piece to me that is really important is to how financial institutions notify. When I was going through this issue of—and cleaning my credit, no one answered that number. Remember that back of your card number, that 1-800 number that you have to call?

Mrs. BEATTY. Yes.

Ms. FRUNDT. They do not know anything about trafficking and they have no idea and they send you around with all this information that you have to prove. There is nothing on anyone's website that I could look up that anyone knew anything about. It was so frustrating that I did stop.

You get so mad. You stop for a couple of years. It is hard when you talk to lawyers and things weren't introduced yet. It makes this so frustrating. These things are not accessible to survivors. It is not even explaining anything. That is an easy fix to me, of making something accessible and saying that you do something.

Also, if police would tell people more about that, you will get way more information, why do kids tell us things and adults tell us stuff because I tell them, "This is to help you clean because you cannot get your own apartment. You are not going to be able to get anything. What if victim assistance gave you money, your landlord will not rent to you." You phrase it in ways on how it will affect them.

We will give you all the information in the world. We will give it. Just phrase it and start asking us more questions about it. And then, also, explain cash apps, Google Wallet, like Google needs to be trained, right? These cash apps that we use, Square reader. All of these people need to be trained and understand, because those are the mechanisms that they are using.

Mrs. BEATTY. OK. Thank you.

Chairwoman WAGNER. I am going to allow a little indulgence here. Would anybody else like to respond?

Mrs. BEATTY. Thank you.

Chairwoman WAGNER. Dr. Shelley?

Dr. SHELLEY. I think the question that you are asking about what to do with cryptocurrency is very much related to the bill that you referred to that you have been teaming up with Representative Wagner, which is the idea that we need to be regulating our new innovations in the technological space much more, where they have had a free pass while we are regulating utilities. We are regulating banks, but in the online space, these groups are going—like bitcoin, like other cryptocurrencies—without regulation.

Unfortunately, as we have been discussing over and over again, the criminals who are committing all these exploitative acts are extremely innovative and adaptive. Without any measures to try and control these new payment systems, they are at the forefront of its use, and therefore I think you need to think about cryptocurrencies the way you are thinking about your other piece of legislation on how we deal with online marketplaces.

Mrs. BEATTY. Thank you.

Chairwoman WAGNER. District Attorney Vance, do you have anything to add?

Mr. VANCE. I couldn't agree more with what the doctor said. I support her suggestions. Britain now has a Cabinet-level position to deal with human slavery and that says something about the commitment of that government and country to the issue. With that kind of leadership, it provides the opportunity for the country to be inspired, to heed the call for both good corporate citizenship and personal involvement.

Now, I am not saying that we should have a cabinet member on that, but what I am saying is that given the scope of the problem as the Chairwoman has indicated in the international scope of it, I think America should be viewed as stepping up to take a leadership role in the international fight and that could take many forms, but we should be at the front of the line on this, as this committee has been, and that will have impact.

Mrs. BEATTY. Thank you.

Mr. BANAFI.

Mr. BANAFI. Yes. I think that is an excellent question and I think it is important to understand that cryptocurrency is worthless without actual currency. The relationships between these cryptocurrency processors and financial institutions is an area that we need more understanding of and if necessary, regulation.

BitPay, one of the largest cryptocurrency processors in the United States, had said publicly that they have relationships with multiple financial institutions, including institutions in the U.S., but that those institutions did not wish to be disclosed publicly. I think that is very telling regarding the role of cryptocurrency and their financial institutions in the United States.

Chairwoman WAGNER. Thank you.

The gentlelady's time is expired and I appreciate the committee's indulgence in letting the witnesses expound on a very important question.

It is now my pleasure for the Chair to recognize the gentleman from Georgia, Mr. Loudermilk, for 5 minutes.

Mr. LOUDERMILK. Thank you, Madam Chair, and I really appreciate the hearing here and all of our witnesses. A very difficult sub-

ject from not only the emotional aspect and the stories we hear, but the heavy lift that we have to do to deal with this horrendous crime.

Dr. Shelley, we are currently updating the Bank Security Act and we have had several hearings in some other subcommittees and full committees on this, the updates, which it needs to be updated to actually incorporate new technologies and the new financial systems that we deal with today. But it is interesting in one of the hearings recently, many of the bankers, they came in and testified, it was that they understand the importance of the SARs that they fill out, the Suspicious Activity Reports.

But, some of the criticism is there is often suspicious activity that does not just fit right within the scope of the law that they would want to be able to report, and the other part which I found intriguing was quite often, they never get feedback from law enforcement on the reports that they submit that would help them to actually identify more trends of what are the activities that are being done for nefarious causes versus like when I had a business, every month, because I had a payroll processor, I transferred \$10,000, \$20,000 a couple of times a month, wired it out. Of course, that would generate a SAR, but that was nothing suspicious. Do you have any thoughts on that as we look at updating the BSA?

Dr. SHELLEY. Absolutely. You are getting to the heart of the problem, is that from a banking point of view there is rarely that one piece of information that you report in the SARs that reveals human trafficking. Just as in the report that I did for the World Economic Forum which summarized the data mining that J.P. Morgan was successfully doing and finding cases, there were about eight elements that were needed to locate a human trafficking or a suspected human trafficking organization.

There may not be so many elements now, but it is not one or two things. Therefore the way the SARs is designed doesn't get at the problem and Government regulators are drowning in SARs.

Mr. LOUDERMILK. Right.

Dr. SHELLEY. We need to use the greatest advances that we are having now in looking at the enormous data that we are collecting. We need social science. We need victims. We need people who have insights into how trafficking operates and then transfer this into data analytics. It is not something that bankers can do themselves, and that is the wonderful thing of the shared wisdom on this panel. This diversity is really going to help you get to this, the complexity and the diverse elements you need to move into a new way of thinking about analyzing and finding risks in banking.

Mr. LOUDERMILK. Thank you. Another issue that we have discussed now in two Financial Services Subcommittee hearings today, we are going to be discussing more often is this aspect of cryptocurrency. Now, with the strength of the cryptocurrency becomes the weakness for us for things like this, and it is the anonymity of it which actually makes it a prime solution for cyber security risk that we have. Many businesses are looking at this block chain technology because it is superior in decentralizing, but it does create a problem in the law enforcement realm.

I think I am going to see more use of prepaid credit cards, the more that we have cyber breaches, Government is probably the big-

gest culprit of cyber breaches after today, I personally know more and more people, when they get a paycheck, they buy prepaid credit cards to do all their transactions with. They are not doing anything illegal and nefarious, but because the fear of their money being at risk through cyber crime.

I think that it is not the cryptocurrency itself, it is the block chain technology that I think is going to be a reality we have to deal with. I think we are going to have to not try to regulate it through legacy standards, but come up with new regulations.

Mr. Vance, with this, what are the tools that law enforcement is using now specifically with cryptocurrency? I know we were able to take down Silk Road. I do not know if we actually were able to get the perpetrators, but we were able to take the site down with Silk Road. What are the tools that we can use today going after the cryptocurrency users?

Mr. VANCE. I think first and foremost is to find a human to be able to explain what is happening, that is old fashioned inside witness who may be seeking leniency. Some of our old techniques are just as important as they always were in terms of understanding how money is moving and then how we can interrupt that.

But clearly, generally speaking, Representative, we have become much more sophisticated in our ability to use technology to identify, to start to paint the picture just by dots filling in. I think our technology is much stronger in terms of identifying where the issues are and what investigative leads we could follow. But at the end of the day, separating intel from prosecution, I do think cases are going to be made where people are going to actually have to get up there and testify and that is going to still be the most important evidence we have, I believe.

Mr. LOUDERMILK. Thank you.

Chairwoman WAGNER. The gentleman's time is expired.

The Chair now recognizes our Ranking Member, Mr. Al Green, for 5 minutes.

Mr. GREEN. Thank you, Madam Chair.

Again, I thank the witnesses for appearing. I would like to deal with something that may appear to be a bit mundane, but I think is absolutely necessary to confront. It is indicated in the intelligence that has been reported to me that in 2014, the Urban Institute estimated that the underground sex economy ranged from \$39.9 million in one American city, we need not name the city, to \$290 million in another American city.

This is a lot of money. We also know that this is a cash-intensive business which means that there are some persons masquerading with a facade of legitimacy that are walking into banks, leaving cash-intensive businesses and they are making deposits. We know that laundromats are cash-intensive. We know that night clubs, businesses where you bring cash at the door and you don't get a receipt. We understand that restaurants, car washes, cash-intensive businesses.

I do not know if there is a profile on the typical perpetrator, but we have to at some point expose the fact that a lot of people who are masquerading as legitimate business people are fronts for the bagging of the money and placing it into commerce. We have to go after them, but we have to expose them and the world needs to

know who they are, because if we don't, in a sense, we are allowing them to continue to have this veneer of legitimacy.

Mr. District Attorney, to what extent have you been able to infiltrate these professionals in some circumstances who are masquerading as legitimate business people?

Mr. VANCE. We opened up our Human Trafficking Response Unit in 2012. We have had dozens of indictments and obviously investigations, scores of investigations. Congressman, I am not aware of us having found a business such as you described and identifying that as the source for money laundering of a human trafficking operation.

But what we do see and the way we approach these investigations now are not as sex crimes investigations but business crimes investigations, because this is a business. What has changed from I think our prosecutor's perspective is we are using all the traditional investigative techniques that go along with business investigations: Search warrants, subpoenas, identifying assets, seizing assets, this is how we get at the traffickers.

Mr. GREEN. May I just intercede and suggest this, what about—you talked about human capital in terms of ascertaining your intelligence, acquiring your empirical evidence. What about surveillance? In my city, there is a business that never has cars at that location, but we know that it stays in business. It deals in the purveying of paraphernalia for sex. Never any cars there, but they stay in business. Wouldn't that kind of surveillance at least give some indication that there may be something untoward occurring there?

Mr. VANCE. Absolutely. The investigations begin on tips and observations and then, as you well know, they then require manpower to staff those investigations and stay the course.

You are right, absolutely, and I am sure the law enforcement and I am sure that our office from time-to-time just misses the thing that is right in front of our eyes because we are not paying close enough attention. It happens. But I think our goal is obviously, with experience and with help from a variety of experts, to really try to minimize those misses to the smallest degree we can.

Mr. GREEN. I assume that all of the persons associated with banking, the persons associated with the various departments of the constabulary, all of them are honorable people and that they all mean well, but I do believe as has been indicated, that the people who are engaged with the people who purvey, they have something to share with us that may be a bit more nuanced and mundane but that can make a difference. I do appreciate what you said.

Now, I have gone 12 seconds over. I am going to ask for unanimous consent to have one more minute, Madam Chair.

Chairwoman WAGNER. Without objection.

Mr. GREEN. Thank you.

I want to now go back to the person who has had an experience that I don't celebrate in any way, but I am appreciative that you are amenable to sharing your thoughts with us. I am just curious. As it relates to you, what was it that gave you the courage to step away? You mentioned a little bit earlier and I do not mean to give you so little time, but I am interested in knowing what broke the bond?

Ms. FRUNDT. Thank you for asking me that question. I need people to understand that you get tired of being sick and tired and that really means that, I didn't have services or anything like that. You get tired of repeating your same mistakes over and over and over and over and there is no outcome. It is a scary thing to go out on your own to do something different every day that you didn't do different before to get a different outcome.

For me, I got tired of being sick and tired. Thankfully, drugs has never been my issue because I am sure if I was addicted or did any drugs in life, that would have been an issue for me. The issue for me was convincing myself I was smart, convincing myself that I can pull my negative into positive and see in the world that everybody else thinks like this is the world, me, this is a new world for me. I hadn't lived in a world where people did not do criminal activity. Like, I did not know how to survive in this world.

To be honest with you, it is more of that, of getting sick and tired and not knowing how to fix things and trying your best to get a different outcome than what you had before.

Mr. GREEN. Thank you.

Madam Chair, I ask unanimous consent that you would be allowed to consume as much time as you may for questioning.

Chairwoman WAGNER. Thank you. Hearing no objection, I have one other area and I thank the Ranking Member for his support and for his indulgence here.

One thing that we have not explored too much, I want to get a little bit of your background and information on is dealing with these gift cards. We hear a lot about how money is loaded on to these gift cards and they are used for payments for services on websites, review sites, whatever it may be. Ms. Frundt talked about even Facebook and Snapchat, and Instagram, and other avenues.

Mr. Banafa, I understand that there are now websites that cater to people interested in trading or even selling gift cards for cash. How do these websites ensure that payments for these gift cards are not facilitating child sex trafficking?

Mr. BANAFI. Thank you very much for that question, Madam Chair. To clarify, and I didn't go into this in my written testimony, there are two types of gift cards that we have discussed today, open loop gift cards and closed loop gift cards. Open loop gift cards include prepaid Visa and Mastercard cards. Those are cards that allow you to reload with cash and are not limited to a single merchant.

There are also gift cards that are limited to a single store, such as Starbucks gift cards. Those cards are now being used on websites to purchase access to The Erotic Review, and purchase access to other merchants that wish for their customers to remain anonymous.

Chairwoman WAGNER. City Guide, Eros, any of these websites out there, correct?

Mr. BANAFI. Yes.

Chairwoman WAGNER. Alright.

District Attorney Vance, any thoughts regarding the gift cards and how they are really facilitating child sex trafficking, also know-

ing that they are so easily transportable and that there are few ways that law enforcement can perhaps track their movement?

Mr. VANCE. Madam Chair, I do not have anything smarter to say than the last witness. This is where we are. We want anonymity. Now, we have it, but there is a cost. Ultimately, it then comes back to you, the legislators, to figure out where do you draw the bounds. It is just like encryption.

We have ceded in the Internet world authority to the players of the world without regulating it, and we are now coming to a time in our culture where we will see the consequences of that total unregulation is behavior that is occurring right in front of us that we know is awful, but we don't yet know or have the willingness to step in and say, "We are going to impose some laws here."

At the end of the day, I think that is what we are going to have to do if you want to actually take on the kinds of funding questions that you are exploring, and a lot of folks won't be happy if you do that. But a lot of us will say, "This is—we need to strike a balance not to have an all or nothing approach to these issues."

Chairwoman WAGNER. As I think you so well stated at the beginning of your testimony, certainly, we are all entitled to privacy, but not necessarily anonymity, especially as it pertains to criminal activity, especially when it pertains to the exploitation and victimization and rape of tens of thousands of women and children and young men and boys not just across our country, but globally. It is absolutely abhorrent and it is something that when I served as a United States Ambassador in Western Europe, I was introduced to this horrific crime coming frankly from Eastern Europe.

Never did I realize until I returned home and began to delve in, that again it was happening right here in the United States of America. It is incumbent upon the Congresswomen Moore and Beatty and certainly our Ranking Member here, Congressman Green, and myself and others to stand up for those who have no voice, to give you the tools and the resources so that you can put these criminals behind bars. We have no business in the United States of America to turn a blind eye to modern-day sex slavery which is exactly what this is.

It is our duty to protect our victims and give them the support and the resources and the tools to rehabilitate their lives. I appreciate all of your testimony. I appreciate some of the new areas that now we are going to delve into here, especially as it comes to some of the online social media sites that, we talked about the websites, but we haven't necessarily gone into all the Facebook, and the Instagram, the Snapchat and things of this nature, it is an evolving and fast moving technological world that we are in.

Mr. Banafa, what you had to say about Cyprus and some of the domestic platforms, financial systems that are really enabling the money to be had, popup shops, the credit score issues. I look at vacator laws that we fight for to allow a judge to be able to say, "If you were accused of a crime, by virtue of the fact that you were a human trafficking victim, perhaps that crime should have the opportunity to be vacated so that you can get an apartment, find a job, go back to schools." But the credit score issue is something that I do not think we have looked at either.

I want to thank you all. I know that the Ranking Member has something he would like to add to the record.

Mr. GREEN. Yes. Thank you, Madam Chair.

I have a letter from Ms. Christina Bain. Ms. Bain is an expert on human trafficking and has focused on addressing the role of business and entrepreneurship in the fight against such trafficking. With unanimous consent, I would be pleased to place this in the record.

Chairwoman WAGNER. Without objection.

I would like to thank our witnesses again for their testimony today, but more importantly for being on the front lines. We look forward to working with you as this committee and this Congress delves into these issues that are cutting-edge, things that are evolving quickly. We want to call upon your expertise, your advice, and your support and thank you for the work that you are doing to fight this horrific crime.

Without objection, all members will have 5 legislative days within which to submit additional written questions to the Chair which will be forwarded to the witnesses. I ask our witnesses to please respond as promptly as they are able.

I thank you again for your testimony here today, and most of all for what you are doing to fight the scourge of human trafficking here in the United States and frankly across the world.

This hearing is now adjourned.

[Whereupon, at 4:07 p.m., the subcommittee was adjourned.]

# **A P P E N D I X**

January 30, 2018

## WRITTEN STATEMENT OF

BASSEM BANAFI  
CPA, CFE, ABV, CGMA, CAMS, CFCS, CFF, EnCE  
FINANCIAL FORENSICS CONSULTANT

BEFORE THE

U.S. HOUSE OF REPRESENTATIVES COMMITTEE ON FINANCIAL SERVICES  
SUBCOMMITTEE ON OVERSIGHT AND INVESTIGATIONS

JANUARY 30, 2018

Madam Chairman, Ranking Member Green, and Members of the Subcommittee, thank you for the opportunity to testify before the Subcommittee on Oversight and Investigations.

My name is Bassem Banafi. I am a Financial Forensics Consultant and Expert Witness at my firm, Bassem Banafi, LLC, and for PlainSite, an organization that works on legal transparency, among other issues.

I previously served as a Forensic Accountant with the Special Operations Division of the Contra Costa County District Attorney's Office in Martinez, California. I assisted investigators and prosecutors with complex cases involving large-scale fraud, human trafficking, drug trafficking, money laundering, and other criminal activities. In those investigations, I personally reviewed tens of millions of dollars in transactions conducted by human trafficking organizations.

Prior to my time at Contra Costa, I served as a Financial Crimes Consultant with Wells Fargo's Financial Institution Investigations Group ("FIIG"). Wells Fargo created FIIG in response to the findings of a 22-month long investigation by the Drug Enforcement Administration, the Internal Revenue Service and other agencies regarding Wachovia's<sup>1</sup> handling of \$373 billion in wire transfers, \$47 billion in remote deposits<sup>2</sup>, and nearly \$5 billion in bulk cash deposits processed on behalf of "Casas de Cambio," high-risk currency exchange businesses operating in Mexico. The investigation concluded that these transactions were conducted with limited or no anti-money laundering oversight by Wachovia and at least \$110 million of the funds processed were directly related to criminal drug trafficking activity.<sup>3</sup> FIIG was tasked with investigating

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<sup>1</sup> In 2008, Wells Fargo acquired Wachovia, knowing that the bank was being investigated for failures in its money laundering oversight. I understand that Wells Fargo cooperated with authorities throughout the investigation of Wachovia.

<sup>2</sup> Typically, a set of check images collected off-site and transmitted to the financial institution for processing. These types of transactions were used to disguise the parties to a transaction by presenting images, which require manual processing for anti-money laundering analysis, rather than transaction data, and by combining multiple checks to perform a single transaction that would list the originating financial institution as the payor.

<sup>3</sup> The Mexican finance ministry, Secretaría de Hacienda y Crédito Público de México, responded with extreme restrictions on the amount of U.S. Dollars that Mexican financial institutions can process for their customers. For many individual Mexican customers, Mexican financial institutions could no longer accept more than \$4,000 in U.S. Dollars in a given month.

Wachovia and Wells Fargo's relationships with other financial institutions to the extent that Wells Fargo was processing transactions on their behalf.

I also spent several years as a Litigation Consultant with TM Financial Forensics, a consulting firm in San Francisco, where I assisted in consulting engagements on disputes stemming from processing, agency, custodial and other relationships between major financial institutions. Specific failures by those institutions related to oversight and verification of their relationships with other institutions have resulted in ongoing losses in excess of \$10 billion.

I have presented on the topics of financial and computer forensics, human trafficking, and organized crime for the Association of Certified Anti-Money Laundering Specialists, the California Narcotic Officers' Association, and the Southwest Border Anti-Money Laundering Alliance.

I was asked to provide the committee with an assessment as to how financial institutions monitor, review and verify depository relations with payment processors. I would like to begin by identifying the scope of these relationships.

Financial institutions may directly facilitate outside payment processing through several channels, including:

- Engaging a third party to process payment card transactions.
- Engaging a third party to process Automated Clearing House ("ACH") transactions.
- Maintaining accounts for money service businesses that facilitate payment card transactions, ACH transactions, wire transfers, e-checks, or remote deposits.
- Maintaining accounts for money service businesses that facilitate alternative payments, such as gift card redemptions or cryptocurrency.

Financial institutions may indirectly facilitate outside payment processing by associating with other financial institutions that are engaged in these activities.

## Evaluation Types

Evaluation of payment processor activity by financial institutions is usually siloed by group depending on the purpose of the evaluation. The silo also informs the standard the financial institution uses to evaluate the payment processor.

- **Underwriting/Risk Assessment**
  - The standard for this type of evaluation is "a credible challenge." Underwriting/risk assessment teams prepare an evaluation that is sufficient to respond to a credible challenge of a payment processor's suitability for the financial institution.
  - This type of evaluation is performed as part of the ordinary management of the relationship between a financial institution and a payment processor. Members of a financial institution's business development team will assist the underwriting/risk management team in obtaining information about a payment processor's background, principals, creditworthiness, customer base, and expected transaction volumes.

- In some cases, such as with payment processors operating in high-risk jurisdictions or that maintain a high-risk customer base, additional scrutiny is applied to the potential relationship in a process referred to as Enhanced Due Diligence (“EDD”).
- EDD may include in-person interviews, on-site audits, extensive historical transaction data reviews, deep investigation of principal backgrounds, or other procedures that may not have been applied during the standard underwriting process.
- These evaluations are reviewed periodically and updated with new information based on actual transaction activity and updates provided by payment processors.
- **Fraud Investigation**
  - The standard for this type of evaluation is “potential loss.” Fraud investigation teams evaluate a payment processor relationship and determine whether the relationship will result in a potential loss to the financial institution.
  - Initial investigations are focused on transaction participants rather than their payment processors.
  - After a financial institution determines that a payment processor has been identified with significant losses to the financial institution, an investigation may be opened on the processor itself. This kind of escalation is exceedingly rare, in large part due to the work of the underwriting/risk management investigators. Losses would need to rapidly increase in a short period of time to route the evaluation of a payment processor to a fraud investigation team rather than the risk management team.
- **Financial Crime**
  - The standard for beginning this kind of investigation is identification of “unusual activity.” The standard for making a negative finding is identification of sufficient “suspicious activity.” Financial crime investigation teams evaluate payment processor relationships and determine whether the relationship has been compromised by money laundering or terrorist financing activity.
  - Much like fraud investigations, initial financial crime investigations are focused on transaction participants.
  - After a financial institution determines that a payment processing relationship has deteriorated such that a payment processor’s assertions regarding transactions are no longer reliable, an investigation may be opened on the payment processor itself. This kind of escalation is also exceedingly rare. However, unlike fraud investigations, these escalations are rare because money laundering does not typically result in a loss to the financial institution, even after payment of sanctions, fines, or penalties.
  - Jerry Robinette, a former Homeland Security Investigations Agent and bank compliance officer put it best, *“Until you start sending people to jail, the pockets are there to satisfy penalties...”*

### Payments to Websites Facilitating Commercial Sex

To support an assessment of financial institution relationships with payment processors, I reviewed currently available payment options on four websites associated with the commercial sex trade: Humaniplex, The Erotic Review, Nightshift, and Rubmaps.

- Humaniplex is a classifieds site that allows users to purchase “FXPoints” to access most of the website’s features. Although there are ad sections related to employment, goods, housing, and personals, substantially all of the advertisements listed are in the escorting sub-section.
- The Erotic Review provides a platform for users of commercial sex to describe their experiences in great detail, including measurements, specific acts, and ambience. Access to detailed descriptions of sex acts is limited to paid users.
- Rubmaps<sup>4</sup> is a review platform specializing in “erotic massage parlors.” Access to most descriptions on Rubmaps is limited to paid users.
- Nightshift is a combined classifieds and review platform. Unlike Rubmaps and The Erotic Review, advertisers contribute much of the information related to the individuals being advertised. Early access to reviews, enhanced classifieds, and other benefits are limited to paid users.

Nightshift, Humaniplex, and The Erotic Review<sup>5</sup> accept payments through CCBill, LLC<sup>6</sup>, a payment processor based in Tempe, Arizona. CCBill has had a payment processing relationship with Merrick Bank, based in South Jordan, Utah, for over a decade.

The Erotic Review offers a second credit card payment option through Rocketpay, a service provided by Rocketgate PR, LLC,<sup>7</sup> a payment processor<sup>8</sup> based in Puerto Rico.

Nightshift and The Erotic Review also accept cryptocurrency. Nightshift accepts multiple cryptocurrencies through Coinpayment, a cryptocurrency processor based in Vancouver, Canada.<sup>9</sup> The Erotic Review limits cryptocurrency payments to Bitcoin and accepts payments through Bitpay, a cryptocurrency processor based in Atlanta, Georgia.

<sup>4</sup> Rubmaps is also associated with Aaampmaps, an “Asian erotic massage” review site, Rubads, an escort classifieds site, and Eroticmonkey, an escort review site. Rubmaps appears to be the only site that currently accepts payments.

<sup>5</sup> Nightshift and Humaniplex only accept payment cards. The Erotic Review accepts payment cards and ACH-based transactions.

<sup>6</sup> CCBill was founded by Ira Ron Cadwell, a chiropractor, and currently processes over a billion dollars in online transactions per year. CCBill is widely used in the adult online entertainment industry and was described by The Independent as “the PayPal of porn and go-to online billing company for porn sites.”

<sup>7</sup> Rocketgate PR, LLC is the successor to Rocketgate, LLC, originally formed in Las Vegas, Nevada by Jason A. Burns, a software engineer, and D’arcy Tyrell, a former NASA engineer.

<sup>8</sup> Here, I refer to payment processors generically. Rocketgate provides payment gateway services, which process payments for one or more merchant accounts opened through a financial institution or their sales agents.

<sup>9</sup> Coinpayment was founded in Atlanta, Georgia by Pawel Chrostowski and others. After FinCEN identified them as a money service business, the company was moved to Canada through a series of over the counter stock transactions.

Both Coinpayment and Bitpay offer their merchants the option of converting customer cryptocurrency payments to fiat currency. Bitpay settles U.S. Dollar transactions through ACH transfers sponsored by at least one U.S. financial institution, although Bitpay's CTO has publicly stated that those financial institutions requested that they not be named publicly.<sup>10</sup>

Coinpayment settles U.S. Dollar transactions through Coinbase, a cryptocurrency processor located in San Francisco, California. Coinbase facilitates these conversions using ACH transfers sponsored by Silicon Valley Bank in Santa Clara, California.

The Erotic Review also accepts payments through store-branded gift cards intended to be used at a single merchant through Paygarden, a gift card processor based in San Francisco, California. Paygarden publicly states that they are "integrated with USA gift card networks" and that they use those networks to "do real-time balance lookups and to reclaim the value on popular gift cards."

In other words, just as Safeway is able to load value onto a Starbucks gift card by virtue of its access to these gift card networks, Paygarden is able to extract value from those same Starbucks gift cards using its own access. Cashstar, currently owned by Blackhawk Networks, appears to be one of the networks being used by Paygarden. Cashstar's terms of service state the following,

*"Gift Cards cannot be reloaded, resold, or transferred for value. Void if reloaded, resold, or transferred for value. Unused Gift Cards may not be transferred... Gift Card is not redeemable for cash"*

Paygarden's terms of service appear to conflict with Cashstar's terms,

*"Redeeming Gift Cards...Once you confirm a sale of a Gift Card to PayGarden, you agree to transfer ownership of the Gift Card and any interest therein to PayGarden"*

Blackhawk Networks, Cashstar's parent company, has relationships with multiple financial institutions that are ultimately responsible for these transactions.

Rubmaps accepts credit card payments through Euro Payment Group GMBH nka EPG Financial Limited, a German payment processor. The transaction appears to take place entirely outside of the United States.

### Money Laundering Red Flags

- Nightshift appears to be using a Cypriot shell company to accept credit cards through CCBill.
  - Nightshift's billing page states that "CCBill LLC is a designated payment processor for Himoto Limited."
  - Himoto Limited was formed in Cyprus and lists its sole shareholder as Altus Services Limited.
  - Altus Service Limited is owned by the Cypriot law firm, Chr. P. Mitsides & CO LLC. This law firm does not appear to be the ultimate beneficial owner of Nightshift.

<sup>10</sup> Newsmax Finance, December 6, 2013, "Bankers Balking at Bitcoin in US as Real-World Obstacles Mount". "[Stephen Pair, co-founder and chief technical officer of BitPay Inc.] said BitPay has relationships with banks in the U.S., Canada and Europe; he declined to name them at the banks' request."

- The Erotic Review appears to be using a Cypriot shell company to accept credit cards through CCBill and Rocketgate.
  - The Erotic Review's Terms of Service state that,
 

“Subscriptions to TER will be processed by THP Internet Resources or by such Third Party credit card processors (Such as CCBill or SegPay) with which THP Internet Resources may contract.”
  - THP Internet Resources Ltd.'s latest annual report indicates that Treehouse Park, S.A.<sup>11</sup>, based in Anguilla, is a related party, and that THP Internet Resources Ltd. owed several hundred thousand euros to Treehouse Park, S.A. Substantially all funds received by T.H.P Internet Resources Ltd. are passed through to Treehouse Park, S.A.
  - The CCBill payment page states that CCBill is the payment processor for Treehouse Park, B.V., the Dutch subsidiary of Treehouse Park, S.A.
  - The Rocketgate payment page states that Rocketpay is the payment processor for T.H.P Internet Resources Ltd.
  - T.H.P Internet Resources Ltd. was formed in Cyprus and lists its sole shareholder as Richard Reideman, a Dutch national residing in Cyprus.
  - Treehouse Park, S.A. is wholly owned by another Anguilla entity, The Sycamore Trust, which is controlled by individuals other than Richard Reideman.
  - Reideman does not appear to be the ultimate beneficial owner of T.H.P Internet Resources Ltd.
- Rubmaps appears to be using a Cypriot shell company to accept credit cards through a foreign payment processor.
  - The Rubmaps logo on the billing page is a map of the United States with a white hand over it and the slogan “Find Your Happy Ending!”
  - Rubmaps' billing page states that transactions will appear as “Miracomm R-Maps +18882246844.” “888” numbers are only toll-free in North America.
  - Miracomm is identified in Rubmaps' terms of service as Miracomm Holdings Ltd in Cyprus. Miracomm Holdings Ltd currently lists Georgios Veniaminidis, a 74-year old resident of Cyprus, as its sole shareholder.
  - Miracomm Holdings Ltd was formed by CDP Media AG, a Swiss entity controlled by individuals other than Veniaminidis.
  - Veniaminidis does not appear to be the ultimate beneficial owner of Miracomm Holdings Ltd.
- Humaniplex allows users to transfer “FXPoints” to other users, effectively creating its own internal currency that is being used to pay advertisers for access to individuals being advertised on the site.

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<sup>11</sup> Treehouse Park is a reference to an upscale part of Amsterdam in the Netherlands and the former location of The Erotic Review's physical operations.

- One user stated bluntly, "...anyone sending me a [private message] from here are on must transfer me 40 fx points before I will ever respond to you"
- A photo-sharing "club" on the site has several requirements for admission, including a "One time fee of 580 FX points transferred to [the club owner] for use as prizes to the ladies that post."
- Coinpayment moved its operations to Canada and publicly stated that this was done in order to evade FinCEN money service business requirements.
  - Coinbase and Silicon Valley Bank appear to be allowing Coinpayment to settle U.S. Dollar transactions.
- Paygarden's business model does not appear to be consistent with the expectations of financial institutions participating in Blackhawk Networks' gift card network. Paygarden specifically identifies Target and Bestbuy as sources of gift cards to facilitate anonymous payments. Target's gift card purchasing site indicates that use of these gift cards to anonymously purchase subscriptions to The Erotic Review is inconsistent with Target's expectations,

*"Target GiftCards are solely for use at Target stores and on Target.com. If someone claims that you should pay them in Target GiftCards, please report it at [ficcomplaintassistant.gov](mailto:ficcomplaintassistant.gov)."*

### **Financial Institutions Cannot Replace Law Enforcement**

Financial institutions have an excellent grasp on fraud prevention, detection, and mitigation. The threat of a potential loss justifies the resources required to address fraud effectively. The threat also creates a clear performance indicator – higher losses are bad, lower losses are good.

This is not the case with money laundering, and consequently not the case with payments processed for human trafficking rings and other criminal organizations. There is no clear benefit to the institution other than the vague idea that they've avoided reputational risk and trivial sanctions and penalties.

As we saw earlier, an examination of just four websites reveals that payment processors are extremely vulnerable to money laundering risks, and that those risks are not readily apparent to their sponsoring financial institutions. Those same financial institutions have limited incentives to invest in additional anti-money laundering infrastructure. I often hear the complaint from these institutions that they do not wish to take the place of law enforcement and that they feel regulators are increasingly requiring financial institutions to fill that role.

I do not dispute the need for someone to fill that role, but I believe that should be law enforcement rather than bank investigators. At some point, we have to realize that, years after the Bank Secrecy Act was implemented, we are still discovering billions of dollars being laundered through U.S. financial institutions.

A colleague of mine coined the term "subpoena surface area," referring to all the potential exposure that a particular suspect or organization has to third party data collection. An effective understanding of an individual's or an organization's subpoena surface area can mean the difference between dropping a case and being able to advance a case by identifying, obtaining,

and analyzing data from any of hundreds of server farms, transaction processing systems, marketing databases, security systems, third-party software and service providers, intermediaries involved in creating or maintaining any of these, and other sources that remain untouched, even by intelligence agencies.

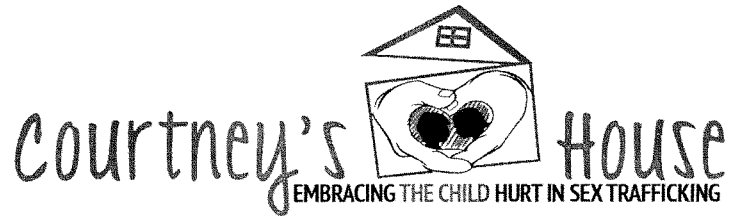
I would ask the committee to consider the following: the most consistent request for assistance that I have received from law enforcement at any level has been a request to identify what data is available at an institution and where it is available. The only reason I am able to provide that information is because I was previously a bank investigator.

Rather than ratchet up the pressure on financial institutions to capture more and more instances of money laundering or human trafficking, I would request that we take our next cue from a relatively recent California state law, SB 272.

This law requires local agencies to create catalogs of enterprise systems describing the data collected, application used to collect the data, the vendor, the system's purpose, the department responsible, and the frequency that the data is updated.

A database of catalogs describing these kinds of systems at financial institutions would provide the information on subpoena surface area necessary to conduct complex money laundering investigations, it would protect consumer privacy by allowing law enforcement to narrowly craft subpoenas and search warrants, and it would reduce inordinate pressure on financial institutions to police their own customers beyond what current law requires.

Thank you again for this opportunity. I would be happy to answer any questions.



Madam Chairman, Ranking Member Green, and Members of the Subcommittee, thank you for the opportunity to testify before the Subcommittee on Oversight and Investigations.

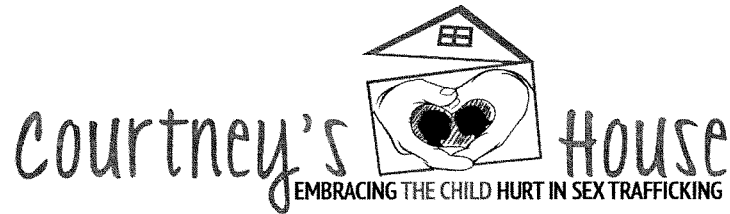
My name is Tina Frundt and I am Executive Director/Founder of Courtney's House. Courtney's House is based in Washington, DC and provides direct services to both male and females of sex trafficking between the ages of 11-21 and our current caseload is 13 to 19 years old. I currently sit on the White House Advisory Council on Human Trafficking and serve as co-chair of the Rule of law committee which is responsible for developing a uniform set of investigative protocols for all federal law enforcement agencies. I have extensive experience providing expert witness testimony in federal and local cases on Human trafficking and since Courtney's House inception, I have helped over 1000 survivors to get out of their trafficking situation.

I have previously spoken at many hearings in respect to sex trafficking. I am also a survivor of child sex trafficking so my prospective today will be very different. Sex trafficking is something that I not only experienced first hand for 20 years, but also in my daily work as a service provider for sex trafficked youth. The population I serve can speak directly about what goes on today on the financial side of sex trafficking and the long effects of not just emotional and physical trauma but long standing financial insecurity.

My testimony will not only touch on what happened to me but the importance of increasing the effectiveness of the financial industry as a tool to combating human trafficking. Passage of *H.R. 2219 to Increase the Role of the Financial Industry in Combating Human Trafficking* will provide an important step in the right direction if it is combined with efforts to focus on proactive rather than merely reactive measures. Survivors of sex trafficking should be apart of the training to financial institutions so that these institutions can strengthen their knowledge to get all of the traffickers and others involved in human trafficking.

When I was a 13 ½ I met a man that was 15 years older than me. During my trafficking situation, I survived manipulation, torture and mental abuse but due to time, I will focus my remarks today on the long standing financial insecurity and financial abuse I experienced first hand, because of my trafficking experience.

Most of my population is under the age of 19 years old, and are sold on Instagram, Facebook, Snapchat and Tagged (especially our boys)(facebook owns tagged). There are a few ways survivors are recruited on social media; through "Facebook Live" and "Instagram Live".



"Facebook/Instagram Live" is used heavily to sell survivors because you can screen who you allow to view your "Facebook/Instagram Live" and who has access to view an individual's full profile (you can make profiles private). Additionally, pimps and traffickers use Facebook's "boost" feature to promote private groups that pimps/traffickers use to recruit young girls/boys. (this means they pay a fee with a credit card to boost specific posts and private facebook groups). Survivors referred to Courtney's House, who are minors, were all sold on social media - traffickers are moving away from backpages and recruiting children and youth on social media, which is easily accessible. Since January of 2017, 100% of all of our survivors we're sold online on the sites I previously mentioned.

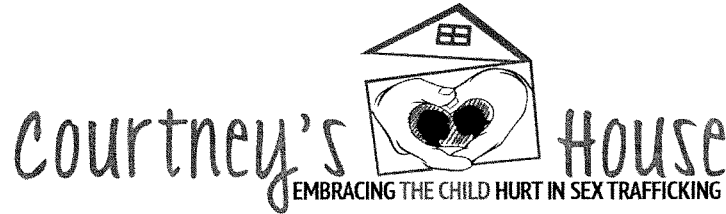
#### **Street, online and Hotels/Motels**

It's a popular misconception that trafficking does not occur on the street anymore, if that was true, traffickers would miss a population of buyers who still prefer to buy sex on the street. I think that it's hard for people to see and understand street based sex trafficking. Most traffickers do not have one person they sell. Like any good business person, pimps/traffickers focus on many avenues to increase their weekly profits, children and youth are placed on the street, in hotels/motels, stripclubs, online and private homes. Children and youth are forced on the street during specific hours of the day and night - only some locations are trafficking controlled.

Survivors who are 13 to 15 years old are advertised on Instagram and Facebook but also strip clubs, private barber shops and tattoo shops - this means traffickers are renting spaces in a building for "pop up shops" for one day and they rent out different locations all around cities and states. Hotels and motels are still being used, but did you know that traffickers get green dot visa cards for the survivors and have them put hotels in their name? This is intentional as pimps/traffickers know it is harder to prove and police will find difficulty in pulling suspects financial information.

#### **What you need to know:**

When you are with a trafficker and are a U.S. Citizen, survivors must hand over their bank card, SSI check and other government assistance received. Most banking institutions don't know this and screening measures are not in place in low income areas to flag suspicious banking



activities. Pimps/traffickers take survivors social security cards and birth certificates as another form of control over their finances.

Well, that brings us back to me and why this is an important issue to survivors. When I was 14yrs old, I had property in my name, I had cars in my name. Of course I didn't find this out until I was in my 20's when I was homeless and applied for a transitional housing program. I was told that I could not be in this program due to my credit - although I was approved by the govt funding program to get rental assistance but I didn't qualify due to my credit. There were no laws for protecting victims credit(and still isn't). It took me many years to prove that my identity was stolen. I don't think people truly understand how not only are you tortured mentally and physically, but your credit history is a collateral consequence of being trafficked and creates barriers to regaining your independence.

Although this happen to me long ago this is still happening the same way today.

1. We need to fix the gaps - I'm going to jump out there and say - today may of been the first time hearing in depth about the various financial ways survivors are taken for granted - this is because more survivors need to train financial institutions so they get a better understanding how to stop this on the ground.
2. It was very hard for me to try to figure out how to contact financial institutions that said I owned these items that I didn't own - institutions should advertise better on their website about what to do if your information is stolen and give examples that say if you were sex trafficked and this happened who to contact.
3. Online institutions like paypal and google wallet,cash app all should have the same mandatory trainings on human trafficking as traditional financial institutions.

**Hearing entitled “Following the Money: How Human Traffickers Exploit U.S. Financial Markets”**

**Statement of Louise Shelley, Omer L. and Nancy Hirst Endowed Chair**  
 Founder and Director, Terrorism, Transnational Crime and Corruption Center (TraCCC)  
 University Professor, Schar School of Policy and Government  
 George Mason University

This testimony will assert the importance of increasing the effectiveness of the financial industry as a tool to combating human trafficking. The analysis will focus on trends in human trafficking, measures the financial community can implement to improve the detection and prosecution of human trafficking, and how research and analysis can contribute to improved effectiveness. Passage of H. R. 2219 to Increase the Role of the Financial Industry in Combating Human Trafficking will provide an important step in the right direction if it is combined with efforts to focus **on proactive rather than merely reactive measures.**

**Recent trends in human trafficking are characterized by:**

**1) Increasing presence online and use of social media**

Human traffickers are increasingly operating online because criminals are rapid adapters of new technology. Between 2010 and 2015, the National Missing and Exploited Children Center reported an 846% rise in reports of suspected child sex trafficking—an increase found to be “directly correlated to the increased use of the Internet to sell children for sex.”<sup>1</sup> DARPA (Defense Advanced Research Projects Agency), that developed the Internet, analyzed the temporary sexual advertisements and peer-to-peer connections within the Deep Web. The research showed that “Over a two-year time frame traffickers spent about \$250 million to post more than 60 million advertisements.” This extensive advertising budget is justified by the large numbers of victims and the high profits made.<sup>2</sup>

<sup>1</sup> United States Senate, Permanent Subcommittee on Investigations, Backpage.Com’s Knowing Facilitation of Online Sex Trafficking, 7.  
<https://www.mccaskill.senate.gov/imo/media/doc/2017.01.10%20Backpage%20Report.pdf>.

<sup>2</sup> Larry Greenmeier, “Human Traffickers Caught on Hidden Internet,” February 8, 2015, <https://www.scientificamerican.com/article/human-traffickers-caught-on-hidden-internet/> and also the accompanying visualization that reveals the international links, Scientific American Exclusive: DARPA Memex Data Map. <https://www.scientificamerican.com/slideshow/scientific-american-exclusive-darpa-memex-data-maps/> (especially map 4).

2) **Movement of human trafficking away from the streets to locales where it is less visible**

Social media and the Internet have made it possible for sellers and buyers to connect without personal contact. The investigations behind Backpage have revealed the company's centrality to human trafficking. Therefore, there are many fewer women and girls who solicit customers on the street; rather, their customers arrange meetings in hotels and homes. Therefore, human trafficking leaves its footprint in cyberspace, and often in financial systems. Low-level hotels are hubs for the sale of drugs and people, knowing the **beneficial owners** of these establishments is key to combating human trafficking.

3) **Increasing convergence of human trafficking with the current opioid epidemic**

The opioid epidemic increasingly converges with sex trafficking as pimps use opioids to entrap and maintain control over girls.<sup>3</sup> Individuals who have become addicted to opioids often need money for future purchases of drugs and become trafficked after entering into sex markets. Therefore, implementation of best practices as the proposed legislation H.R. 2219 suggests, is key to stemming the growth of human trafficking, and might have a positive collateral impact on the opioid epidemic. The key is identifying best practices and establishing a regulatory system that allows bankers to be flexible and responsive to the ever-changing practices of the agile human traffickers.

4) **Payment in Cryptocurrencies**

There is an increasing problem of criminals employing cryptocurrencies<sup>4</sup> such as FBTC Exchange, WebMoney, Bitonic and xmlgold.eu. Some of these currencies intersect with traditional financial service providers, as the criminals convert their

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<sup>3</sup> A few recent cases of this are given as a representative sample: "Attorney General Schuette: Four Sentenced for Their Roles in Southeast Michigan Opioid and Human Trafficking Ring," State of Michigan. December 19, 2017. Accessed January 23, 2018. <http://www.michigan.gov/som/0,4669,7-192-47796-455935--,00.html>; "Major Gang Case Results in 37 Bloods Members Sentenced to Over 415 Years in Prison." U.S. Department of Justice, September 4, 2015. <https://www.justice.gov/usao-edva/pr/major-gang-case-results-37-bloods-members-sentenced-over-415-years-prison>; "Uncasville Man Sentenced to 8 Years in Prison for Child Sex Trafficking and Heroin Distribution Offenses." U.S. Department of Justice. December 12, 2017. Accessed January 23, 2018. <https://www.justice.gov/usao-ct/pr/uncasville-man-sentenced-8-years-prison-child-sex-trafficking-and-heroin-distribution>.

<sup>4</sup> Marc Goodman, *Future Crimes: Everything if Connected, Everyone is Vulnerable and What Can We Do About it?* (New York: Doubleday, 2015), 209-11; Anser, *Risks and Threats of Virtual Currencies*, 2014. Accessed July 14, 2017, [https://www.anser.org/docs/reports/RP14-01.03.03-02\\_Cryptocurrencies%20508\\_31Dec2014.pdf](https://www.anser.org/docs/reports/RP14-01.03.03-02_Cryptocurrencies%20508_31Dec2014.pdf).

cryptocurrencies into standard currencies. Therefore, it is important that the financial community stays vigilant about its intersection with the world of cryptocurrencies and develop algorithms and best practices to understand illicit activity in this arena, as some human traffickers are receiving payments through them.

These four trends of recent years all have important implications for the banking community because trafficking is even less visible, except in cyberspace and in the financial traces it leaves there. To combat human trafficking we need to be ever more reliant on the emerging capability of the banking community to analyze its data in a **proactive** way, to help locate cases of human trafficking. Following the money and the patterns of human trafficking in big data allows law enforcement to build effective cases without placing victims in jeopardy. This is cost effective, as banks are already allocating significant resources to countering money laundering. This new approach requires **public-private partnerships** of which we already have several excellent examples to build on.

Proactive data mining would have a very positive impact on the capacity of law enforcement to combat the problem. It would also have the additional benefit of helping to combat the opioid epidemic, with which sex trafficking is currently closely linked, according to preliminary analyses of financial data by a banker at a major Midwest institution interviewed for this testimony.

#### **The Financial Community and Mining of their Data**

In late 2014, in a report that I co-authored for the World Economic Forum entitled, “Hedging Risk by Combating Human Trafficking: Insights from the Private Sector,” we discussed the efforts of J.P. Morgan starting in 2010 to use typologies to mine their data for signs of human trafficking.

The team partnered with the Department of Homeland Security to create typologies that could identify financial transactions and certain account attributes that were worth investigating. Certain geographic locations and types of businesses – nail salons, non-unionized stores, restaurants – were viewed as a higher risk for trafficking activity based on publicly sourced information. Coupled with types of transactions – credit card charges at certain hours of the night, for example – JP Morgan’s Financial Intelligence Unit began to see distinct patterns emerging.

“For instance, we found \$100 manicures between 23.00 and 04.00 in Manhattan,” he says. “Nobody is getting a manicure that late, and whoever is getting a manicure is not paying that amount of money for it.” Viewed separately, none of the variables seemed remarkable. Yet viewed in aggregate, they created an anomaly or pattern worth

investigating.<sup>5</sup>

Unfortunately, the regulatory problems that followed J.P. Morgan's role in the housing crisis led to the departure of most of the innovative team that was behind this effort and the return to more reactive patterns, such as filing SARs, rather than creative new proactive forms of detection of human trafficking.

In my research and analysis for this testimony, I have learned that alumni of this innovative team are currently working at other banks on proactive data analysis to detect human trafficking at the Superbowl 2018 that will be held in Minneapolis, Minn. on Feb 8<sup>th</sup>. With several important banks participating, and based on the success of the algorithms constructed to mine data and past experience with monitoring human trafficking at Superbowls, it can be anticipated that many dozens of well-founded cases of human trafficking will be identified during this period. This is the kind of best practice that the proposed legislation should be referring to, and providing a regulatory framework to encourage.

For those who are not data specialists, let me expand a little more on the composition of the teams working to construct the algorithms, the underlying mathematical tools that will be used to mine the extensive financial data possessed by members of the financial community. In the best example I found of innovation in the banking sector, a major bank, used computational data analysts, social scientists, and law enforcement investigators to construct their algorithms. This was done after reviewing the most recent trends in human trafficking patterns. In contrast to many anti-money laundering units that rely only on personnel with investigative experience, the addition of personnel with social science skills that understand human behavior and data patterns was key in improving the success rate for detection. It was also critical to translating law enforcement practice and insights into the patterns that can be searched for in the data.

In the best existing practices I identified, I did not find the application of new online tools by the banking community that could be combined with existing algorithms. At Carnegie Mellon University, a leading and long-time researcher of human trafficking, is using text based computational learning tools to analyze the texts of hospital and police data to mine large amounts of data effectively. This new analytical technique should be combined with the numerical based analysis of the banking community, as the ability to use different types of data would increase the success in uncovering human trafficking networks, and to increase the information available to law enforcement to make their prosecutions.

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<sup>5</sup> Louise Shelley and Christina Bain, "Hedging Risk by Combating Human Trafficking: Insights from the Private Sector," December 2014, [http://www3.weforum.org/docs/WEF\\_Human\\_Trafficking\\_Report\\_2015.pdf](http://www3.weforum.org/docs/WEF_Human_Trafficking_Report_2015.pdf).

### **The Financial Community and Beneficial Ownership of Real Estate**

While attending a human trafficking conference in Congressman Pittenger's district in North Carolina, I learned of an innovative and important way to work with the banking community to address the facilitators of human trafficking. Unfortunately, according to the HSI investigator who spoke at the meeting, human traffickers operate along the I-95 corridor in North Carolina, and arranged for meetings of their trafficking victims with clients in low-level hotels in a North Carolina city that was also a locale of drug sales. The hotels were not complying with North Carolina regulations—they were not properly registering customers, learning their identities, and observing the codes of operation for the state. Law enforcement was not provided with an effective response from the owners of the hotels where the human trafficking was going on. Therefore, as innovative professionals they took another approach. The hotels where the trafficking was going on had mortgages from banks, and, therefore, it was possible to know **the identity of the owner because of the beneficial ownership**. As a result, law enforcement could explain to the banks that the hotels whose mortgages they held, might be closed for violation of state regulations. The banks, concerned that these mortgages might then go into default, pressured the hotel owners to change their modus operandi and require accurate hotel registries etc. There was a marked improvement both in the reduction of sex trafficking and drug sales after this pressure applied by the financial community. If the beneficial owners were not known, this best practice of law enforcement investigations would not be possible to implement on a larger scale.

### **Where are we now and where should we be going?**

At present, there is not enough being done in the financial community to detect human trafficking. There are many employees of banks willing and eager to fight human trafficking. But many banks have reputational concerns that prevent them from being more forthright or activist in pursuing the traces of human trafficking within their large financial data. Moreover, we have a system of financial reporting that is not conducive to maximizing the results obtainable from the financial community. Banks can be penalized for not completing a sufficient number of SARs on time, and are not rewarded for innovative practices that help law enforcement find and make human trafficking cases. Existing fine programs could be expanded, such as that which will be discussed by Cyrus Vance, but even more can be done to provide a proactive response to targeting human trafficking cases.

### **The good news is:**

- 1) Human trafficking still leaves a significant financial footprint that can be found with an in-depth understanding of how human trafficking operates and the development and use of effective data mining tools for large sets of financial data that the banking community possesses.
- 2) The availability of existing resources in banks, if used more effectively, would make it possible for human trafficking to no longer be a low-risk crime for traffickers.

- 3) Rather, existing tools, now available to bankers, can make the work of law enforcement easier, can help construct tighter cases, and can do this without compromising victims.
- 4) Modern social science methods, such as network analysis, data analytics, and text-based learning, are now available to improve the way that financial institutions operate.
- 5) Implementing these new measures can move reporting rates on human trafficking cases from a 15% success rate with standard SAR reporting to an 85% success rate in case detection, using existing personnel. Key to this is the proper mix of skill sets on an anti-money laundering team, and a response by the bankers to the ever-changing and flexible traffickers, who are always modifying their methods to reduce risk and evade detection. For this change in effectiveness to be achieved, banks need to adjust their mix of personnel, and regulators need to recognize other success measures than just the number of SARs filed.
- 6) Public-private partnerships exist between law enforcement and the banking community. They are working and need to be enhanced

#### **What are the problems?**

- 1) The regulation of the banking system favors reactive, rather than proactive responses, to the problem of money laundering. Therefore, many institutions play it safe. They follow the existing procedures for reporting suspicious transactions, they fail to innovate and identify the networks, the routes, and the victims of trafficking.
- 2) Existing systems of data mining of large financial data focus, far too often, only on the names of potential traffickers, rather than the broader range of information now available for analysis through the latest techniques in data analytics.
- 3) The existing system of filing only large numbers of SARs rather than engaging in innovative techniques is all too pervasive

#### **Where do we go from here?**

- 1) Passage of the H.R. 2219 is only the first step as there must be changes in regulatory practices and evaluations to allow the best practices to flourish.
- 2) In the period after the passage of the law, there must be a trial period in which there is regulatory relief from standard SARs filing for financial institutions with developed plans to engage in a proactive response to human trafficking.
- 3) There will be a need to expand public-private partnerships on the national level
- 4) There will be a need to incorporate text-based learning into the existing practices of data mining to help improve the data analytics.
- 5) There will also need to be mechanisms to encourage exchanges of best practices such as via workshops, conferences, and webinars, to communicate these best practices in secure ways.
- 6) There needs to be a way to ensure that best practices do not stay static as the criminals change their modes of behavior. Social scientists should play a larger

role in the future in helping the banking community understand the changes in behavior that will manifest themselves in new patterns in financial data.

- 7) Cryptocurrencies are being used to pay for human trafficking, and the banking community must develop techniques to detect these forms of payment for human trafficking. Analyses facilitating this are under development in top university computer science departments, and should be incorporated into banking practice.
- 8) As a member of the scientific committee of the Homeland Security Center of Excellence on Network Analysis (CINA) and someone leading its outreach function, I suggest that we can assume a larger role as a platform to communicate existing best practices, and to focus the tools we and those we work with are developing, to mine data. In this way, we can work with the banking community in fighting human trafficking more effectively.



Cyrus R. Vance, Jr.  
New York County District Attorney

January 30, 2018

Good afternoon, Representative Wagner and members of the House Financial Services Committee's Subcommittee on Oversight and Investigations. I am New York County District Attorney Cyrus R. Vance, Jr. Thank you for the opportunity today to discuss the shifting economic aspects and implications of human trafficking.

The nature of human trafficking in Manhattan, the United States, and around the globe has transformed dramatically in the 21<sup>st</sup> century. The illicit transactions that have historically comprised the backbone of this economy are no longer confined to street corners. Today, advances in technology and finance have pushed human trafficking online, hidden and protected by cryptocurrency, laundered money, foreign internet servers, and anonymous messaging applications.

As a result, those who investigate and prosecute these crimes have been forced to play catch-up with traffickers who are increasingly skilled and evasive. In 2014, my Office announced the creation of our Human Trafficking Response Unit. Tasked with tackling an incredibly complex issue, the Unit is housed within our Special Victims Bureau and has a dedicated social worker to address the needs of severely traumatized victims. However, in addition to addressing the violent nature of trafficking, the Unit also recognizes the necessity of focusing on the intricate financial and technological aspects of this crime. To this end, the

Unit employs a forensic accountant and a data engineer to develop new approaches to emerging issues, such as tracing money movement across industries and jurisdictions, identifying the online footprints of sex trafficking operations, and using innovative technologies to proactively screen cases and the online market for commercial sex for signs of human trafficking. We are also one of the first prosecutor's office in the country to use a ground-breaking search tool called Memex, a technology that extends beyond the reach of commercial search engines into the "dark" or "deep web." Created by the U.S. Department of Defense's Defense Advanced Research Projects Agency (DARPA), Memex's suite of tools quickly and thoroughly organizes intelligence from online prostitution advertisements to aid human trafficking investigations and prosecutions. Memex is now used in every human trafficking investigation and prosecution brought by my Office. Last year, we screened more than 6,000 arrests for signs of human trafficking using Memex tools. We also used Memex in 271 human trafficking investigations and in six new sex trafficking indictments that were brought in 2017.

Currently, a significant portion of the human trafficking economy exists online. In December 2017, more than 7,000 prostitution advertisements were posted on Backpage.com for Manhattan alone. Over the past decade, tens of thousands of clients have posted crass and detailed reviews of prostitution encounters on The Erotic Review. But trafficking's online presence extends far beyond just Backpage and The Erotic Review. On the supply side, the list includes Craigslist, Cityvibe, ECCIE Worldwide, and Escorts In College, in addition to smaller independent operations that conduct business on websites hosted by GoDaddy, Wix, and Squarespace. On the demand side, clients use websites like UtopiaGuide and Spa Hunters to identify and discuss services, even going so far as to leave reviews on sites like Yelp.

Financially, the human trafficking economy is just as expansive and intricate. Traffickers employ sophisticated techniques to move money rapidly and conceal it efficiently. Moving beyond traditional methods such as wire transfers, traffickers have turned to companies including money service providers to arrange transportation for their victims, pay members of their operations, and move their ill-gotten gains abroad to countries like Russia and China in the blink of an eye. Traffickers also commonly launder money by opening multiple business accounts at different banks, as well as transferring checks and cash between accounts to cover their tracks. In many cases, tens of thousands of dollars have already been moved before investigators even have a chance to review bank records.

But not all financial techniques are so extensive. As more and more banks and credit card companies refuse to do business with those who knowingly facilitate sex trafficking, criminals have turned to prepaid gift cards, which essentially function as credit cards while enabling the traffickers to maintain anonymity. These cards can be used to register websites, obtain cryptocurrency, and even purchase sex. In one Manhattan District Attorney's Office investigation, a Visa Vanilla card was used to register an escort website on GoDaddy, allowing the operator to remain nameless.

Another consequential shift we have witnessed in our investigations has been the rise of cryptocurrency. In most cases, we do not see traffickers accepting cryptocurrencies from buyers of sex. Instead, the most significant impact of these currencies in sex trafficking investigations has been their role in the online economy. They are used both by traffickers to purchase advertisements and by sex buyers to purchase premium memberships on review board websites. The volume of advertisements and memberships, alongside the drastic increase in the value of digital currencies such as Bitcoin, has caused the profits of those who operate websites that facilitate both the supply and demand side of the economy to

skyrocket. Over the last year, the increase in the value of Bitcoin has generated several million dollars in profit for one popular review site.

This trend is, of course, driven by the fact that mainstream credit card companies such as Visa and MasterCard have refused to do business with Backpage. Therefore, without cryptocurrencies, the site would be relegated to using unreliable processors as a last resort. These processors charge steep fees – sometimes 30 to 40 percent of the transaction amount – to process transactions, thereby decreasing the site's profits.

Also of note, some members of the cryptocurrency community appear to cater to traffickers who are trying to post advertisements on Backpage and other sites. Paxful, a peer-to-peer marketplace where users can exchange gift cards for Bitcoin, explicitly publishes YouTube videos laying out step-by-step instructions for turning these cards into cryptocurrencies to pay for Backpage ads. One such video can be found here:

<https://www.youtube.com/watch?v=5o2T4DF0iSA>.

There is no question that the technological and financial environment that I have described presents challenges for investigators and prosecutors. However, the Manhattan District Attorney's Office is taking several steps to address these critical issues. First, in 2013, we formed a working group with the Thomson Reuters Foundation, several banking institutions, and leading anti-trafficking NGOs aimed at helping the wider industry to identify and report irregularities in financial transactions that might be linked to human trafficking activity. We are a member of the North America Banks Alliance, a partnership between financial institutions, non-profit organizations, and law enforcement coordinated by the Thomson Reuters Foundation. This organization seeks to develop strategies and best practices around the economic aspects of human trafficking.

Second, we have developed relationships with banks like JP Morgan Chase and Bank of America, working with their compliance and internal investigation teams to proactively seek out trafficking indicators. Relationships with such institutions allow our analysts to quickly target and investigate potentially illicit financial activity. Lastly, we collaborate with money services providers to create preemptive alerts on target accounts and aliases so that our investigators can intercept and identify those individuals when they send or receive money.

Despite these positive developments, several roadblocks have the potential to impede human trafficking investigations. One of these roadblocks is the emergence of encrypted communications technologies, including WeChat, WhatsApp, and Viber. These applications allow users to communicate over the internet, as opposed to traditional telecommunications networks. On the ground, this means that traffickers can communicate in complete privacy. The companies themselves are also not required to maintain call records or text content. As a result, it is impossible to view or obtain these records without physically seizing the device. Further, a number of these companies are headquartered abroad, such as the Chinese company WeChat or the Canadian company TextNow, which prevents my Office from receiving vital support and cooperation from their compliance departments.

In addition to encrypted applications, a significant challenge we encounter is that the smartphones themselves are often encrypted. This is a topic that I have testified about several times before Congress because it has had an enormously negative impact on the ability of law enforcement to do our jobs. Since 2014, Apple and Google have engineered their mobile devices so that law enforcement cannot access critical evidence on those devices, even with a court order. Criminals – including human traffickers – know that smartphones now enable them to communicate with impunity about their crimes. In a real example from a case

involving Promoting Prostitution charges prosecuted by my Office, an incarcerated defendant tells his friend on a lawfully recorded landline phone from jail, “Apple and Google came out with these softwares [sic] that I can no longer be [un]encrypted by the police... [i]f our phone[s] are [running on iOS8 software, they can’t open my phone. This may be [a]nother gift from God.” That is not a gift from God, but an unintended gift from two of the largest technology companies in the world. In the investigation against this defendant, there was evidence that he engaged in force, fraud, and coercion during his operation, and a search warrant was issued authorizing a search of his device. He spoke repeatedly of how much evidence was on his phone, stating that the government was trying to get higher charges on him and there was evidence on the phone. However, without access to his encrypted phone, we could not bring sex trafficking charges. Instead, the top charge we were able to bring was a much less serious crime, Promoting Prostitution in the Third Degree, to which he pleaded guilty.

Our human trafficking investigations are also hindered by delayed search warrant and subpoena returns. As the trafficking economy shifts to an instantaneous online environment, it has become increasingly critical that prosecutors receive records in a timely manner to avoid falling behind in investigations. Although many companies, such as Verizon and AT&T, are quick to respond, there are many more that routinely fail to provide records within a reasonable timeframe. And while I certainly recognize the voluminous workload that these companies face, overly lengthy delays are simply unacceptable. For instance, some companies—including GoDaddy and T-Mobile—take as long as six months to provide records, while others—including Craigslist—take even longer. In cases of human trafficking, six months can feel like an eternity to victims of sexual violence and coercion. Further, certain companies like Airbnb will not comply with subpoenas that include legal

nondisclosure orders unless the length of nondisclosure is enumerated. In a recent case, Airbnb informed my Office that it would not comply with a subpoena unless that period of nondisclosure was 90 days or fewer. Some of the more complex human trafficking investigations can take much longer than that. Thus, disclosing the existence of subpoenas after 90 days threatens to compromise long-term investigations, thereby invalidating the hard work of our investigators, analysts, and prosecutors.

Another challenge we face in our human trafficking cases is obtaining data from outside the United States, particularly because many data servers that contain critical evidence of trafficking reside in other countries. Mutual legal assistance treaties (MLATs), which are agreements between countries that create obligations to assist one another with criminal investigations, have struggled to keep pace with the complexity of data transfers across foreign jurisdictions. The MLAT process is outdated and not compatible with the way financial transactions occur in the modern age. For example, while money can be moved through various countries at the speed of a computer, it takes us many months – if at all – to obtain documents regarding that money movement when we must go through the MLAT process. One of the problems is that MLATs require full administrative legal processes in each country involved, and even MLATs between countries with existing special relationships can be byzantine, dramatically slowing down the transfer of important information. Consequently, by the time we eventually get the evidence, a case may no longer be prosecutable, or the harm caused to victims is no longer reparable.

Finally, obtaining data on financial transactions can be challenging because our country's lax incorporation laws make it easy for criminals to hide money behind anonymous shell companies and launder it through U. S. and foreign banks and their branches. It is almost a certainty that, at this very moment, a human trafficker, terrorist cell, drug cartel, or

corrupt government official is using an anonymous U.S. shell corporation to finance illicit activities. On a near-daily basis we encounter a company or network of companies involved in suspicious activity, but we are unable to glean who is actually controlling and benefiting from those entities, and from their illicit activity. In other words, we cannot identify the criminal because the criminal has used layers of shell companies to frustrate investigators and protect himself from prosecution.

It is clear that our laws must keep pace with these rapid changes in both finance and technology. To fail to do so would leave law enforcement trailing behind sophisticated criminals who seek to operate anonymously beyond the existing legal framework. But we must remember that, behind these walls of encryption, laundering, and anonymity, there exist trafficked victims living in fear of force, fraud, and coercion. Traffickers seek to exploit the vulnerable without consequence, and our laws must not facilitate their ability to do so.

Thank you. I am happy to take your questions.

**CHRISTINA BAIN**

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January 30, 2018

Committee on Financial Services  
United States House of Representatives  
Washington, DC 20515

Dear Members,

I am writing to you today as an expert on human trafficking to add further discussion points to your hearing, "Following the Money: How Human Traffickers Exploit U.S. Financial Markets." I want to commend the Committee for taking on this important issue.

The engagement of the private sector in the fight against human trafficking is critical. In order to address and effectively combat this egregious crime, it is necessary to include the business community as a key stakeholder. The financial industry specifically can play a crucial role.

Banking institutions and the broader financial community have the ability to detect human trafficking cases through data collection and analytics. Through successful and targeted monitoring, coupled with innovative public-private partnerships that will be discussed at the hearing today, the financial industry is poised to be at the forefront of this issue.

Partnerships and targeted coalitions in this effort are essential. Initiatives here in the United States like the U.S. Bankers Alliance Against Human Trafficking should be supported and replicated. International models like the European Bankers Alliance Against Human Trafficking and Canada's Protect Project, which includes representation from major Canadian financial institutions, the tech sector, law enforcement, regulatory bodies, policy makers, and NGOs, should also be looked to as examples of how partnerships can amplify awareness of human trafficking as well as increasing reporting of suspicious activity. Additionally, organizations like the Association of Certified Anti-Money Laundering Specialists (ACAMS), the largest international membership organization that provides resources, expertise, and convenings to its members around anti-money laundering and financial crime detection, continuing to highlight human trafficking as an important issue through programming have been immensely valuable in further mobilizing efforts and collaboration.

Thank you for your time and consideration of this statement. If you require further information that I could provide regarding promising practices and partnerships to combat human trafficking by the financial industry here in the United States and abroad, please do not hesitate to contact me at (978) 317-2088 or [christinaarcherbain@gmail.com](mailto:christinaarcherbain@gmail.com).

Sincerely,

**Christina Bain**  
Manchester, MA

# children at Risk

*Speaking Out + Driving Change for Children*  
January 26, 2018

U.S. Rep. Al Green  
2347 Rayburn HOB  
Washington, DC 20515

Dear Congressman Green,

Thank you for highlighting the problem of sex trafficking and the efforts that CHILDREN AT RISK has made over the years to combat this crime. In 2007, CHILDREN AT RISK created our Center to End the Trafficking and Exploitation of Children to strengthen laws and policies on human trafficking and improve the response to children who have been commercially sexually exploited. CHILDREN AT RISK has worked with the state legislature for the last ten years to help create some of the toughest anti-trafficking criminal laws in the nation, build robust civil penalties and remedies for victims, and provide training to key first responders and stakeholders.

After years of legislative advocacy, education, and awareness-raising, in 2014 CHILDREN AT RISK began working to combat sex trafficking by focusing on the demand for commercial sex, which drives the market for sex trafficking. With CHILDREN AT RISK leading the helm Houston became one of original 11 cities in Demand Abolition's CEASE Network. CEASE Houston works to reduce demand for commercial sex by studying the market and implementing innovative demand reduction tactics in close cooperation with local law enforcement, social service providers, and advocates. Through advocacy within our CEASE Network, the Harris County Sheriff's Office and Houston Police Department have dramatically increased the number of buyer arrests. HPD increased its buyer arrest from under 10% in 2014 to nearly 50% of arrest in 2017. With law enforcement setting the tone by holding buyers accountable, CEASE Houston deterred 500,000 sex buyers through text campaigns, cyber patrols, and targeted advertisements in 2017.

The illegal massage industry, which involves prostitution and sex trafficking along with a host of other criminal and civil violations, is rampant in Houston, Texas. There are an estimated 300 illegal massage establishments currently in Houston. To combat the illegal massage industry CHILDREN AT RISK created Project AWESOME (Attorney's Working to End Sexually Oriented Massage Establishments) in collaboration with the Harris County Attorney's Office and volunteer attorneys.

To help engage business in the fight against human trafficking CHILDREN AT RISK helped establish the Human Trafficking Prevention Business Partnership Program in the 84<sup>th</sup> legislature. The program which is administered by the Secretary of State of Texas certifies businesses that take a zero-tolerance policy towards human trafficking.

In the wake of Hurricane Harvey, working with the City of Houston, CHILDREN AT RISK convened anti-trafficking advocates, law enforcement and service providers to specifically address ways to help prevent

and combat increase in labor and sex trafficking associated with the disaster and is still working closely with Mayor's office to continue outreach to those impacted.

Despite all the hard work of CHILDREN AT RISK, the City of Houston, local law enforcement, service providers, and community advocates, human trafficking continues to persist within our city. Our focus moving forward is to increase demand reduction tactics, rid Houston of illegal massage establishments, increase human trafficking prevention trainings in schools and vulnerable communities, and improve the services available to those seeking to exit the commercial sex industry.

Thank you again for taking to time to focus on this important issue. If you have any questions or need any additional information, please don't hesitate to ask.

Sincerely,



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The Houston Mayor's Office, Mayor Sylvester Turner works to address human trafficking – both sex and labor - by advancing systems change and filling service gaps through its anti-trafficking strategic plan which has 5 objectives, 28 strategies and 91 tactics. The objectives and a few examples of those objectives follow:

**Objective 1: Institutionalize the City of Houston's Response and Implement Trainings at Scale**

- Trained all 1,200 Health Department (HHD) employees including HHD's food establishment inspectors to recognize and report trafficking in their day to day functions.
- A recent trafficking tip was reported to the national hotline involving food truck workers that appeared anxious and were guarded by a pit bull.
- Mayor Turner signed an Executive Order called "Zero Tolerance for Human Trafficking in the City Service Contracts and Purchasing".
- Covering this EO, Bloomberg Law published an article in its White-Collar Crime Report stating that the City of Houston was on the "compliance vanguard".
- It is the first EO of its kind by any major U.S City and international organizations and cities have taken notice.

**Objective 2: Raise Awareness**

- The Houston Mayor's Office ran a 6-month long media campaign on TV, radio, billboards, metro buses, taxis and printed thousands of indicator cards for the community.
- The campaign increased calls to the national trafficking tip hotline by 80% and increased cases confirmed by 61% during peak media saturation.
- The city received one report from a service provider stating that her client saw one of the ads and said to herself "that's me" and called the trafficking tip hotline to get help.
- Components of the media campaign were translated into Spanish, Mandarin, Vietnamese, Arabic and Urdu.

**Objective 3: Coordinate Services and Engage in Direct Outreach**

- After assessing for gaps and finding gaps in emergency shelter, psychological and medical services, the city negotiated a shelter system agreement with The Salvation Army on behalf of the service providers that conduct direct outreach and often encounter potential victims in crisis and in need of often scarce emergency shelter.

- Through this arrangement, the city pays the monthly bill and offers the outreach agencies the ability to place an unlimited number of people in the emergency shelters immediately, at no cost and with very little administrative burden to them.
- The Houston Mayor's office also placed a Human Trafficking Psychology Fellow, the first in the country, at the only 24-hour psychiatric hospital in the Houston area not only to screen patients for trafficking but to provide therapy for services in an outpatient setting.
- Regional and local law enforcement agencies distribute survivor informed cards during their investigations and inspections that are designed to prompt self-identification and are translated into multiple languages.

**Objective 4: Implement the joint initiatives of the Mayor's policy task force, HAC-HT**

- The Houston Mayor convened a policy task force to support phase 1 of the strategic plan.
- The plan is currently 89% complete and this task force has been temporarily disbanded as the Mayor's Office develops phase 2 of the strategic plan.
- Phase two will continue post-disaster trafficking prevention work and aim to engage more corporations to address trafficking in their supply chains.

**Objective 5: Become a national model**

- The city of Houston was the first to have a Mayor's Office position dedicated solely to combatting human trafficking.
- The Houston Mayor's Office takes an empowerment approach and makes the plan and all the materials we develop including the strategic plan available for download.
- To date the city of Houston plan has been downloaded 585 times in the US, Canada and Mexico and 4 other countries.
- The city recently learned that Humanity United and the Novo Foundation will announce 3 major U.S. cities that will support a human trafficking fellow.

# PG

Project Girls- Rescue and Advocacy      6910 Dillon St. Houston, Texas 77061      832.933.7419

Dear Congressman Al Green

30<sup>th</sup> January 2018

**OVERVIEW-** Project Girls is an all survivor ran program, located at 6910 Dillon St. Houston TX 77061, off Telephone Rd. in Southeast Houston. Telephone Rd. is 1 of the oldest hubs known ever, to prostitution. Founder & Executive Director, Tracy Dudley was a victim herself to a life of crime, drug addiction and prostitution on Telephone Rd. She exited the life in 2003 and developed Project Girls for the purpose of reaching women and girls who are involved in the same lifestyle. Project Girls offers crisis intervention directly on the streets and in hi-risk areas of Houston- mainly targeting Telephone Road. These interventions include providing basic necessities, direct access to care for those exiting the life, advocacy, case management and aftercare.

**ACCOMPLISHMENTS:** -Developed the 1<sup>st</sup> Survivor ran Crisis Intervention team in Southeast Houston. Project Girls is a victim service provider for the Houston Police Department and the Harris County Juvenile Probation Dept. ( CARE Court- serves only victims of trafficking) We have written a curriculum specific to the game called Disabling Dependency and working on our next curriculum.

**SIGNIFICANT FINDINGS :** Southeast Houston is primarily Caucasian drug addicted females who do not have a pimp. The community at large in Southeast Houston has accepted Telephone Rd. / Southeast Houston prostitution as the norm and somewhat accepted that the girls on the street are “just prostitutes”. Project Girls brings awareness to the community and solutions to the women/girls in the life.

**AREAS OF CONCERN :** Need more direct access to safe/care facilities. Need \$ funding to open a crisis center directly in hot spot areas of Houston that will serve as a bridge / safe place as services for those exiting the life can be coordinated. Respectfully

Tracy Dudley, Founder & Executive Director

# THE LANDING

January 29, 2018

Dear Congressman Green,

The Landing serves victims of human trafficking and those in the commercial sex industry through outreach, protection and collaboration. Services are mainly provided through a drop-in center approach. Houston is known as a hub for human trafficking, prostitution, and commercial sexual exploitation. However, one of the main barriers in serving victims of human trafficking is that victims are hidden and underserved. Additionally, not every victim we encounter is ready to leave his or her trafficker or is ready for long-term care or shelters. On top of this, when a trafficked victim is ready to seek help, many agencies require that a trafficked victim be identified upon intake before servicing them. However, most trafficking victims will not self-identify and many are manipulated by their traffickers to tell lies, which prevents them from receiving help.

Low identification rates and victims falling through the gaps are why drop-in centers are necessary: to provide a nonjudgmental, safe space where victims can access specialized, trauma-informed care while navigating their own victimization. That is why The Landing built the only drop-in center in Houston to serve this population, including services such as food, clothing, hygiene products, case management, licensed professional counseling, translation services, computer access, a resting room and additional programming. The Landing conducts street outreach at least four times per month, apartment outreach two times per month and municipal court outreach two times per month to let victims know about The Landing's drop-in center.

Some issues we have identified when creating a safe space include the following:

1. Trauma Informed Crisis Management - Managing trauma informed behavior is a challenge as we strive to create a safe, nonjudgmental space for *all* our clients. However, clients react to trauma in different ways, therefore there is not one clear solution in how to handle trauma-induced behaviors while we maintain a safe space.
2. High Costs of Security - We work with the Houston Police Department and a private security company called S.E.A.L. Security - both of whom have generously given of their time for our security. However, we do see higher costs of security as a challenge as we look to expand services in the future.

Serving this population does not come without its own set of unique challenges. The Landing's greatest obstacles include:

1. Enough Trained and Consistent Staff and Volunteers - In order to provide quality services that will build trust, victims need to meet with and build relationships with the same faces. In addition, these staff and volunteers need to be trained to know how to provide support without re-traumatizing victims. This field is emotionally and physically tiring and training takes time and is costly, which is why it is hard to have committed, trained volunteers. In addition, at the pace that The Landing has increased drop in visits and clients, we are in need of more staff to serve this population.

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## THE LANDING

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2. Little Recovery Capital – Victims of human trafficking are resilient, but often, the domestic victims we work with have little recovery capital. They have little support from family or friends for the changes they desire to make and they also face high barriers to accessing services in the community, especially because many service providers fail to see them as victims or know how to handle their trauma.
3. Sustainable Financial Support – Both #1 & #2 from above need sustainable financial support to keep services going. However, with the amount of nonprofits in Houston seeking funding, grants having great restrictions on what their funding can be used for without truly understanding the population's needs, and the rapid rate at which our clientele are increasing, it is hard to keep up with achieving the financial support we need.

The Landing opened its doors on January 11, 2016. We visited over 14 different drop-in centers around the country to learn from their models. Since opening, we have studied and learned from our clients while serving them. Our findings, which includes areas of concern:

1. High percentage of those in commercial sex industry have red flags of being trafficked – Out of the total 169 clients we have served in the past two years, 73% have been identified by our case managers as victims of trafficking. This is not to say that the other 27% were not victims, but just that the 73% had evidence of being trafficked. Now that they have reached adulthood and had fallen through the gaps as children, society has seen most of our clients as just prostitutes without realizing their history. They do not understand that since they were in the commercial sex industry as children, they were victims of human trafficking.
2. Word of mouth is the best marketing tool – 42% of our clients visit The Landing because another client introduced them to our services. 27% came through referrals; 15% through outreach; 8% through law enforcement operations.
3. While overall awareness of human trafficking has increased, best practices are still being researched and developed – The anti-trafficking field is still young and therefore best practices are still being researched. In addition, there is no one solution that works well with every victim of trafficking. This is why various models are important to implement.
4. Victims are scared to give information about their traffickers due to threats against them – Protection for victims is low, making it hard for them to testify against their traffickers. In addition, prosecution of traffickers is low, which does not instill confidence for victim service providers to have victims work closely with law enforcement. It is imperative that criminal justice system find other ways to gather evidence and prosecute traffickers rather than re-traumatizing and endangering victims.

Sincerely,



Natasha Paradeshi  
Executive Director & Co-founder  
The Landing

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