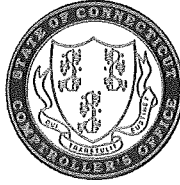


State of Connecticut

RICHARD BLUMENTHAL
ATTORNEY GENERAL



Hartford

November 10, 2010

Alan L. Cohen
Vice President and General Counsel
Council of Better Business Bureaus
4200 Wilson Blvd, Suite 800
Arlington, VA 22203-1838

Dear Attorney Cohen:

The Better Business Bureau has a long and laudable history of consumer advocacy, and has partnered with my office on many occasions to fight scams and bad business practices. Unfortunately, I am deeply concerned that certain BBB practices threaten its reputation and effectiveness as a reliable resource for consumers. In particular, the BBB's current rating system is based, in part, on the payment of inadequately disclosed accreditation fees. This financial influence is potentially harmful and misleading to consumers. I am also concerned that the BBB has granted good-business awards based on inadequate research and judging criteria. In one instance, the BBB awarded its Connecticut's BBB Torch Award to a company that soon after filed for bankruptcy and was criminally prosecuted.

I appreciate that you and your colleagues have met with my staff and engaged in serious discussions toward resolving my concerns, but much more needs to be done. I repeat my call for the BBB to de-couple enrollment fees from ratings. At a minimum, the BBB must disclose to consumers that its ratings system is influenced by fees.

My investigation of the BBB began in March 2009, after the 2008 BBB Torch Award Program (TAP) recipient, Custom Basements of Connecticut ("CBC"), defaulted on customer obligations and filed for bankruptcy. The investigation initially focused on the criteria and judging process for the TAP award. My investigation later expanded to the BBB's new letter grade, or "alpha," rating system that replaced its previous method of rating businesses "Satisfactory" or "Unsatisfactory" based on the number and resolution of consumer complaints.

I am concerned that the new alpha rating system skews ratings results in favor of BBB dues-paying businesses. The BBB allocates these businesses four extra rating points unavailable to non-members. In Connecticut, these dues apparently can range from almost four hundred dollars to five thousand dollars or more depending on the size of the business.

I find no reasonable basis for tying rating points to a membership fee -- in essence, creating what could be viewed as a "pay-to-play" system, rather than a transparent and equitable "rating" system. I understand that the BBB's position is that the additional four points are awarded to a business in recognizing that it contractually commits to follow the BBB's guidelines for resolving consumer complaints and adherence to the BBB's code of ethical standards.

The BBB could better accomplish its goals by de-coupling ratings from dues payments -- allowing businesses the option of committing to follow the BBB guidelines and ethical standards and awarding the four points irrespective of their dues-paying status. When businesses violate the guidelines or standards, the BBB could revoke the four points and alter other grading categories as appropriate.

The optimum solution is that the BBB de-couple its ratings entirely from the payment of dues. At a minimum, it should immediately and completely disclose the fee portion of its rating system to consumers who rely on the BBB's evaluation of businesses. In particular, the BBB should disclose in the main rating page the fact and amount of any accreditation fee, and that businesses are awarded four additional rating points for payment and accreditation. Furthermore, the BBB should state the most recent date when information and ratings about a business were reviewed and updated.

Separate and apart from these issues, I remain concerned that the term "rating" inaccurately describes the BBB grading system. There are clear, practical and logistical limits to the BBB's ability to accurately and fairly implement a full ratings system for businesses. Extensive resources are necessary to verify the self-reported information that the BBB receives from businesses. This information includes compliance with state and federal licensing and registration requirements, outstanding lawsuits, time in business and financial stability. My understanding is that the BBB does not have the resources to verify all self-reported business information. The BBB must disclose in a clear and prominent manner this and any other factual limitations on its rating system. Failure to do so may be misleading to consumers and adversely impact those good businesses who are not rated by the BBB -- a result that is bad for both consumers and businesses.

Furthermore, I understand that the BBB has established a separate rating system for charitable organizations. I am similarly concerned about this rating system and would appreciate any information you can provide my office concerning rating factors for non-profits and charities, fees charged to these charities and whether they also receive points for paying dues. My office has a significant statutory responsibility to protect the integrity of public charities.

I thank the Connecticut BBB for its efforts to address my concerns regarding the TAP. Specifically, my investigation questioned the reliability of the self-nominating process in which the TAP judges failed to keep minutes of their meetings, require information concerning financial stability, maintain memoranda or notes regarding verification of application information, and used only the documents and information provided by the nominees to make their decisions. Furthermore, the judges did not contact third parties, such as customers or other businesses or government agencies, to verify the accuracy of any of the information contained in the applications.

I am pleased to learn that the Connecticut BBB has altered the TAP, first by adding two new criteria requiring applicants to supply: (1) information demonstrating that the business is meeting its financial obligations, including but not limited to a current credit report, annual certified financial audit, and/or current Dun & Bradstreet report; and (2) three references that BBB will contact to discuss the business' reputation in the industry, community and with customers.

I understand that further changes to the TAP will include verification of applicant information through third-party sources, including court records and government agencies. Additionally, judges now conduct on-site visits for all finalists. If no applicant ultimately meets the TAP criteria for the award, no award will be given that year. While the changes made to the TAP so far are good first steps, all the promised changes should be implemented by next year's TAP.

The Council of Better Business Bureaus should promulgate a uniform, reliable set of standards governing business awards. My hope is that the Connecticut BBB -- after implementing my recommendations -- will serve as a model for BBB councils throughout the United States

My office has discussed these issues with you for more than a year. I have appreciated your cooperation and hope that it will continue, but the time has come for real and decisive action. I urge you to act now to address serious and significant continuing shortcomings in the alpha rating system and the torch and other awards.

I look forward to your response to this letter with a plan to address these concerns no later than 15 days from receipt. The plan should include effective steps to reform the alpha system including de-coupling pay from ratings and, at a minimum, full and fair disclosure to consumers.

Very truly yours,



RICHARD BLUMENTHAL

RB/pas

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