

2. Financial & Investment Scams

Common Investment Scams

Here is a list of popular investment scams:

1. “Free lunch” seminars. Often the people getting rich are those running the seminar, making money from the high commission products they sell to attendees. These seminars are marketed through newspaper, radio and TV ads, mass-mailed invitations, and mass e-mails. There’s a certain consistency to the invitations for these events: a free gourmet meal, tips on how to earn excellent returns on your investments, eliminate market risks, grow your retirement funds, and spouses are encouraged to attend.

The bait for many of these seminars is that “income” will be “guaranteed” and substantially higher than the returns someone on a fixed income can expect to get from certificates of deposit, money market investments, or other traditional financial products. Often the speakers at these events use impressive-sounding but sometimes highly misleading titles and professional designations. Many of these designations imply that whoever bears the title has a special expertise in addressing the financial needs of seniors. Often promoters push unsuitable products based on high commissions they receive from selling these products. For example, variable and equity indexed annuities are often unsuitable for senior citizens because those products are generally long-term investments that limit access to invested funds. But sales agents stand to earn high commissions on these investment products so they don’t always adhere to the suitability standards – with dire consequences for seniors. Remember: Make sure your investments match up with your age, your need for access to money, and your risk tolerance.

2. Unlicensed individuals, such as life insurance agents, selling securities. To verify that a person is licensed or registered to sell securities, call the Office of Financial and Insurance Regulation at 1-877-999-6442. If the person is not registered, don’t invest.

3. Affinity group fraud. Many scammers use their victim’s religious or ethnic identity to gain their trust – knowing that it’s human nature to trust people who are like you – and then steal their life savings. Be wary – no community seems to be without con artists who seek to exploit others for financial gain.

4. Ponzi/pyramid schemes. Always in style, these swindlers promise high returns to investors, but the only people who consistently make money are the promoters who set them in motion, using money from new investors to pay previous investors. Inevitably, the schemes collapse. They’re called pyramid schemes because the people on top need to recruit an impossible number of people on the bottom to continually generate profits for everyone. Thus, only the top people profit, while the remaining pyramid population lose money. Ponzi

schemes are the legacy of Italian immigrant Charles Ponzi. In the early 1900s, he took investors for \$10 million by promising 40 percent returns from arbitrage profits on International Postal Reply Coupons. Remember that all investments come with some risk. No legitimate investment can guarantee an outrageously large return in a short amount of time. The old adage rings true with respect to Ponzi schemes – if it sounds too good to be true, especially in this economy, it probably is.

5. Cash gifting schemes. Cash gifting schemes are the quintessential example of a pyramid scheme, described above. Generally, these gifting "circles," "clubs," or "groups" encourage participants to pay a substantial entry fee (which can range anywhere from \$500 to \$5,000 or more). This entry fee will guarantee the participants a place on a chart of members. The participants will move on the chart every time they recruit more people into the "circle" or "club." And once the participant moves enough on the chart, they are "guaranteed" a large payout. Gifting schemes operate under a variety of names, as con artists that start these schemes are endlessly creative in their quest to con a lot of people out of a lot of money. Con artists also promise that payouts from these schemes are non-taxable "gifts." The IRS disagrees – any payout received from a cash gifting scheme is taxable income. In addition, participation in a cash gifting or other pyramid scheme is illegal in the State of Michigan. If you are approached to participate in a cash gifting scheme, notify your local police department or county sheriff's office.

6. Promissory notes are short-term debt instruments issued by little-known or sometimes non-existent companies that promise high returns - upwards of 15 percent monthly - with little or no risk. These notes are often sold to investors by independent life insurance agents.

7. Internet fraud. Scammers use the wide reach and supposed anonymity of the Internet to sell thinly traded stocks, bogus offshore "prime bank" investments, and pyramid schemes. Investors should ignore anonymous financial advice on the Internet and in chat rooms.

8. Payphone and ATM sales. Investors leased payphones for between \$5,000 and \$7,000 and were promised annual returns of up to 15 percent. The largest of these investments appeared to be nothing but Ponzi schemes.

9. "Callable" CDs. These higher-yielding certificates of deposit won't mature for 10 to 20 years, unless the bank, not the investor, "calls," or redeems, them. Redeeming the CD early may result in large losses – upward of 25 percent of the original investment. Regulators say sellers of callable CDs often don't adequately disclose the risks and restrictions.

10. Viatical settlements. Originated as a way to help the gravely ill pay their bills, these interests in the death benefits of terminally ill patients are always risky and sometimes fraudulent. In a legitimate investment, the insured is paid a percentage of the death benefit in cash in exchange for the investor getting a share of the death benefit when the insured dies. Because of uncertainties predicting when someone will die, these investments are extremely speculative. In a more recent twist, “senior settlements” – interests in the death benefits of healthy older people – are now being offered to investors.

11. Prime bank schemes. Scammers promise investors triple-digit returns through access to the investment portfolios of the world’s elite banks. Purveyors of these schemes often target conspiracy theorists, promising access to the “secret” investments used by the Rothschilds or Saudi royalty. The investment may sound good when they tell you it’s guaranteed to reap large financial rewards. However, be suspicious when the offer is said to be limited to only a few people and is only good for an immediate response.

Investment Fraud

Hassan's insurance agent told him about a unique investment opportunity – nine-month promissory notes that would yield an 18 percent annual rate of return. The notes were supposed to be secured by automobile titles. Hassan agreed to invest \$20,000. When it was time for the note to mature, Hassan found out that all the money was gone. The agent had used the money for his personal expenses and to pay back other investors. It turned out that the agent was not even registered to sell securities.

Seniors are the primary target of investment con artists. A fast-talking “financial advisor” can swindle an unsuspecting investor out of his or her life savings in a few minutes.

Beware of strangers touting strange deals. Trusting strangers is a mistake anyone can make when it comes to their personal finances. Almost anyone can sound nice or honest on the telephone. Say “no” to any investment professional who presses you to make an immediate decision, giving you no opportunity to check out the salesperson, or firm, and the investment opportunity itself. Beware of anyone who suggests investing your money into something you don’t understand or who urges that you leave everything in his or her hands.

Do not feel indebted to someone who gives you “unsolicited” financial advice. This person may be trying to gain your trust so he or she can earn fees and commissions by investing your money, sometimes in unsuitable investments. If an investment sounds “too good to be true,” it probably is. Some unscrupulous companies try to entice investors with promises of returns as high as 25%, 50%, or even 500%. Such claims are usually fraudulent. All investments involve risk. Con artists know that you worry about either outliving your savings or seeing all of your financial resources vanish overnight as the result of a catastrophic event, such as costly hospitalization.

Take your time - don’t be rushed into investment decisions. Salespersons who use high-pressure tactics to force an investor into an immediate decision are almost always pitching frauds. They don’t want you to think too carefully or find out too much because you may figure out that it’s a scam.

- Ask how, and by whom, the investment advisor is being paid in connection with the services or products being offered.
- Insist on receiving a prospectus or printed offering materials. **READ THEM.** Any investment worth making will still be available after you have had time to read about it.
- Don’t believe the age-old lie that you will lose money if you don’t get in right away. The truth about such claims almost always turns out to be that you will lose money if you do get in.

- If you have questions, ask your attorney, accountant, and financial adviser to explain the investment.
 - The death or hospitalization of a spouse has many sad consequences - financial fraud shouldn't be one of them. If you find yourself suddenly in charge of your own finances, get the facts before you make any decisions.

Don't throw good money after bad. Beware of “reload” scams. Con artists know the panic people feel after a sudden financial loss. They know that it's the best time to promise to recover the original funds in another “sure thing” scheme. Don't fall for the same (or a similar) scheme twice.

Check out your broker or adviser. Confirm that your broker and financial adviser is registered and in good standing. Contact the Office of Financial and Insurance Regulation, at 1-877-999-6442, to check out your broker or advisor.

Keep tabs on your investments.

- Be wary when a financial planner says “leave everything to me,” or “the plan is too complicated to tell you.” Everything should be clear and explainable to you.
- Monitor the activity on your account. Insist on receiving regular statements.
- Never be embarrassed or apologetic about asking questions for trading activity that looks excessive or unauthorized. It's your money, not your broker's.
- Keep all of your records relating to your investments, including notes of conversations you have with brokers, salespeople, financial advisers, and the like.
- Don't compound the mistake of trusting an unscrupulous investment professional by failing to keep an eye on the progress of your investment. Insist on regular written reports. Look for signs of excessive or unauthorized trading of your funds.

Don't be afraid to complain. If your broker or advisor stalls or hesitates when you want all or part of the principal of, or profits from, your investment, ask the reason for the holdup. You may have uncovered a questionable practice.

If you suspect that something is wrong and the explanations you receive are not satisfactory, call the Office of Financial and Insurance Regulation at 1-877-999-6442 and file a complaint. Don't let embarrassment or fear keep you from reporting investment fraud or abuse.

Don't agree to invest with someone just because you share the same religious, cultural or ethnic background. Unfortunately, con artists will use any means to gain a victim's trust. This includes exploiting a common background. Many investors think that because they met a potential advisor in a church or temple, or at a cultural organization, the advisor must be trustworthy and have their best interests in mind. Con artists then use this trust to steal their clients' money. Don't trust someone with your money just because you have a similar background. Ask the same questions and demand the same information that you would from any other advisor.

Financial Exploitation

Jasmine, who was becoming frail, allowed a woman to move into a room in her home in exchange for some help with light errands. Several months later, Jasmin's daughter discovered that the woman had stolen thousands of dollars from Jasmin's bank account using her ATM card. The woman had also had taken Jasmin to a lawyer and obtained "power of attorney" for herself.

Financial exploitation is the misuse of someone else's money, without their consent. Many people are swindled by people they know – caregivers, neighbors, even relatives.

Examples of financial exploitation include: threatening someone into giving away money; tricking a person with a memory problem into turning over money; forging signatures on checks or withdrawal slips; making unauthorized withdrawals from bank accounts; charging excessive fees for rent or caregiver services; and committing person-to-person, mail, or telephone fraud scams.

What you can do to protect your money:

- Put all financial instructions in writing. This protects you and reduces the likelihood of misunderstandings. Keep records of all transactions.
- Understand any lifelong care agreements you are entering into. Document the agreement and specify the compensation, if there is any, to be paid to the caregiver.
- Ask someone to review your financial agreements. Your attorney, accountant, or a bank employee can detect changes in your financial activity that may signal a problem. You can also ask a trusted friend or relative to review your monthly statements.
- Be cautious of joint accounts. Both parties are equal owners of the account and both have equal access to the money.
- Before you assign a power of attorney, be sure you understand the authority you are giving to your agent. Know the person to whom you are giving this authority. Write in the agreement whether the agent will be paid or not, and if so, how much.
- Ask a bank employee, a trusted family member, or a social worker or other professional for help when you are unsure about financial matters.
- Stay connected to your community. Social isolation increases your risk of becoming a victim of abuse. Find out about community programs or social activities in your neighborhood.

Other tips to help you protect your money:

- Use a direct deposit service for your checks.
- Don't sign blank checks allowing another person to fill in the amount.
- Don't leave money or valuables in plain view.
- Don't sign anything you don't understand.
- Cancel your ATM card if you don't use it.
- Don't give anyone your ATM PIN.
- Check your financial statements promptly and carefully for unauthorized withdrawals.
- Build good relationships with the professionals who handle your money.
- Don't give any account number to a stranger.

Home Equity Fraud

Aaliyah received a call from a lender who asked if she'd like to refinance her mortgage and get extra money to pay off debts, travel, or buy a new car. Aaliyah agreed. The lender called again a few months later and persuaded her to refinance again. This happened three times. Soon, almost all of Aaliyah's equity was gone, and she was having trouble keeping up with the monthly payments.

Seniors often have limited incomes but have built up substantial equity in their homes. That can make them a target of unscrupulous home equity lenders. Some of these lenders promise to refinance your mortgage or give you a home equity loan without disclosing hidden fees and terms. If you can't keep up with the payments, you could lose your home.

Some of the fraudulent lending practices to look out for are:

Repeated refinancing. A lender calls and says it's time your home equity started working for you. He says you can get extra money to pay off debts or take a vacation. You agree to refinance. Some months later, the lender calls again and offers you another refinancing deal. The lender charges you high points and fees each time you refinance. With each refinancing, you've increased your debt.

Hidden loan terms, such as a balloon payment. The new loan may require payments that only pay the interest each month. At the end of the loan term, the entire principal is due in one lump sum (a balloon payment). If you can't make that payment, you face foreclosure.

Credit insurance or other charges "packed" into the mortgage. At closing, the lender may try to include a charge for credit insurance or other "benefits" you did not ask for and don't need, and hope you won't notice when you sign the papers.

Signing over your deed. If you are having trouble paying your mortgage and the lender has threatened foreclosure, you may feel desperate. Another "lender" may contact you with an offer to help you find new financing. Before he can help you, he asks you to deed your property to him, claiming it's a temporary measure to prevent foreclosure. Once the lender has the deed to your property, he may borrow against it, sell it to someone else or evict you.

- Don't sign any document you haven't read or that has blank spaces to be filled in after you sign.
- Read over your documents carefully and look for any hidden charges, or charges that you know should not be included. If you see a charge for something you know should not be included, ask that it be removed. If the company refuses to remove the charge, don't sign the documents.

- Don't deed your property to anyone without first consulting an attorney, a knowledgeable family member, or someone else you trust.
- Always read contracts carefully. Talk them over with someone you trust, such as a knowledgeable family member or an attorney.

For more information about home equity loans and home equity fraud, see the American Association of Retired Person's website at www.aarp.org.

Remember: Make monthly mortgage payments only to your lender or servicer. No matter how good it sounds, don't let another person make mortgage payments for you.

Call the Office of Financial and Insurance Regulation at 1-877-999-6442 to check if a loan company is a licensed financial lender or if you think you are a victim of home equity fraud.

Predatory Lending

Predatory lenders look for people with financial problems who are looking to buy a home, refinance a mortgage, obtain a home equity loan, or save a home from being foreclosed. They blame their outrageous interest and fees on the consumer's shaky credit and take advantage of the consumer's lack of financial knowledge.

Some red flags to look out for:

- The lender tries to hide high closing costs and fees such as loan origination, underwriting fees, broker fees, and transaction/closing costs. The interest rate should not be well above the market average.
- Monthly payments are small, but a large sum is scheduled at the end. This is a common way for lenders to ensure the consumer will have to apply for another high interest loan.
- The lender pressures the consumer to take out a loan for more than the property value. This sort of loan puts both the consumer and his or her financial record at great risk.
- There is a large penalty for paying off loans early. This pre-payment penalty makes it difficult for the consumer to refinance to a lower and better interest rate.

Steps you can take to protect yourself:

- Review every document carefully. Do not feel shy to ask for documents in advance to ensure plenty of reading time. Never sign mortgage documents with blank spaces remaining. Most terms such as interest rate, choice of fixed or variable interest, loan length, and pre-payment penalties are negotiable.
- Shop around and compare loan offers. Remember, do not focus just on monthly payments but on all terms such as contract length and how much you're borrowing.

Remember: Call the Office of Financial and Insurance Regulation at 1-877-999-6442 to check if a loan company is a licensed financial lender or to complain about predatory lending.