

Blind Faith, Empty Pockets

Avoiding the dangers of affinity fraud

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IF SOMETHING SOUNDS TOO GOOD TO BE TRUE, IT PROBABLY IS—EVEN IN CHURCH.

A Covenanter from the Midwest found that out several years ago, when a member of his church approached him with an investment opportunity.

“Had someone outside the church approached me with this deal I would not have done it, but I trusted him because he was a member of my church,” said the man, who asked not to be identified. “My guard was down. I should have asked more questions and talked to others in the church who had dealt with this person. The paperwork was very

informal, and the terms were too good to be true.”

Because of that trust, this Covenanter invested more than \$10,000. The investment opportunity turned out to be a scam. Most of his investment was lost.

Faith and trust are important tenants of our Christian community. Con artists can play off that faith and trust to take advantage of people. The North American Securities Administrators Association (NASAA) has issued a warning on their website about “affinity fraud,” which occurs when an individual uses their connection with a group to swindle fellow members. The NASAA investor alert points out that

in an increasingly complex world, we often look for a shorthand way to determine whom we can trust. If a person is a part of our group, we feel we can trust them and, like our victim above, we let down our guard.

According to the NASAA, “these scams exploit the trust and friendship that exist in groups of people who have something in common. Because of the tight-knit structure of many groups, it can be difficult for regulators or law enforcement officials to detect an affinity scam. Victims often fail to notify authorities or pursue their legal remedies, and instead try to work things out within the group.”

The Securities and Exchange Commission (SEC) has issued a number of reports in recent years on affinity scams (www.sec.gov/investor/pubs/affinity.htm). Among them were a group of 190 Jehovah’s Witnesses who lost \$19 million; senior citizens in Florida who lost \$11 million; a scam aimed at African American Christians that took in \$16.5 million; a group of Korean Americans who lost \$36 million; a scheme run by a South Florida man that took in \$51.9 million; and a scheme that stole more than \$200 million from more than 1,000 Latin American immigrants.

According to the SEC, “many affinity scams involve ‘Ponzi’ or pyramid schemes, where new investor money is used to make payments to earlier investors to give the false illusion that the investment is successful. This ploy is used to trick new investors to invest in the scheme and to lull existing investors into believing their investments are safe and secure. In reality, the fraudster almost always steals investor money for personal use.”

Affinity fraud can also come from someone who is outside the group but who is able to speak the “language” of the group. The most common of these is a variation of the Nigerian 419 scam (named after the Nigerian legal code for fraud). Americans lost \$198.4 million in 2006 to Internet fraud schemes last year—most from a Nigerian 419 scam.

In the 419 scam, church leaders or members will receive an email from overseas saying that the sender’s deceased spouse wanted their estate to go to a good cause, and the sender has picked this particular church, ministry, or individual after praying to God.

With warm hearts I offer my friendship, and my greetings, and I hope this letter meets you in good time. It will be surprising to you to receive this proposal from me since you do not know me personally. However, I am sincerely seeking your confidence in this transaction, which I propose with my free mind and as a person of integrity from God. My name is Mrs. Roseline Gupta from Malaysia. I am married to Dr. James Gupta who worked with the Malaysia embassy in South Africa for nine years, before he died in 2002.

We were married for eleven years without a child. He died after a brief illness that lasted for four days. Before his death we were both born again Christians. Since his death I decided not to remarry or get a child outside my matrimonial home which the Bible spoke against. When my husband was alive he deposited the sum of \$22 million US dollars with a finance company in Europe. Presently, this money is still with the a security company in Europe. Recently my doctor told me that it will take the grace of God for me to live one year more due to cancer problems.

Though what disturbs me mostly is my stroke. Having known my condition I decided to donate this fund to church or still a Christian individual that will use this to fund churches, orphanages and widows and also propagating the word of God and to ensure that the house of God is maintained.

To take advantage of this windfall donation, the minister or church leader is asked to send money to cover wire transfer costs, along with bank account information, an address, and social security numbers. Once the scammers have this information, they are able to open credit-card accounts in the victim’s name and access the victim’s bank records. In some cases victims

have traveled to the foreign country and, once there, have been kidnapped and held for ransom or even killed.

The amount of Internet fraud reported in the U.S. has nearly tripled in the last two years, from \$68 million in 2004 to just under \$200 million in 2006. Law enforcement officials believe that actual losses are higher—many victims don’t report the crimes because they are embarrassed or afraid to do so. According to federal statistics, victims of the 419-type scams had an average loss of \$5,100 last year, an increase of \$100 per incident compared with 2005 levels, and an increase of \$2,100 per incident compared with 2004.

Audri Landford, co-director of Scambusters.org, which fights Internet fraud, says there are three types of people who fall for the Nigerian fraud.

“These scams exploit the trust and friendship that exist in groups of people who have something in common.”

“Many who fall for it are typically under extreme financial difficulties,” Landford says. “They’re at the end of their rope. They look at this as a potential saving thing for them. The next group of victims typically expects something for nothing. They haven’t heard of it before, which at this point is surprising, and they’re excited that they can get this money for nothing—and they don’t wonder why someone’s going to give them millions of dollars.” said Landford.

Lastly, says Landford, “people affiliated with religious groups tend to fall victim to the scam. Frauds often target ministries because [the victims] are hoping to give large amounts of money to charity. It isn’t for personal gain.”

Experts also urge people to be cautious when an investment appeals to your faith. “I’ve been a securities regulator for twenty years, and I’ve seen more money stolen in the name of God than in any other way,” Deborah R. Bortner, president of NASAA, told

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the *Washington Post*.

“When you invest you shouldn’t let your guard down merely because someone is appealing to your religion or your faith. Always do your homework. Be as skeptical and careful when you invest with someone who shares your faith as you would with anyone else.”

Statistics compiled by the NASAA and the Better Business Bureau (BBB) support Bortner’s claim. A 1989 study showed that 13,000 investors had lost \$450 million in religion-based fraud during the previous five years. In the last three years NASAA estimates that 90,000 people have lost \$1.8 billion to frauds perpetrated in the name of God.

The BBB encourages investors to exercise the same caution and skepticism when approached by a member of their church as they would be when considering any other investment. Among recent religious-based fraud was a Ponzi scheme that promises to use investment money to rebuild communities in war-torn African nations, while at the same time returning 96 to 120 percent annually. In Indiana, three men stand accused of selling worthless promissory notes in companies they operated. The men often knelt and prayed with their victims, mostly elderly individuals, who invested more than \$1.4 million in the bogus investment scheme.

State securities regulators say that individuals who use religion to promote their scams often:

- predict imminent financial or social crisis;
- claim they will reinvest a portion of the profits in a worthy cause; and
- equate faith in their scam to religious faith.

The BBB, in conjunction with NASAA, has issued a warning to consumers that faith-based investment scams are on the rise. Before making any investment, consumers are urged to ask the following questions:

Are the seller and investment licensed and registered in your state?

How the Faithful Can Avoid Investment Scams



Church members can protect themselves from investment scams by taking some common-sense precautions:

- Be wary of investments that seem closely tied to a particular religious belief. It is extremely unlikely that a golden investment opportunity would be available only to members of a specific church.
- Be cautious if the promoter of an investment opportunity tries to capitalize on connections or a leadership position within a religious group.
- Be on your guard for a new member of your church who springs up out of nowhere with a surefire investment scheme.

—Exercise the same caution and skepticism when a fellow member of your church promotes an investment as you would when considering any other investment.

—Ignore claims that religious-based investments are unregulated. Virtually all investment opportunities, including church bonds, come under the scope of federal and state securities or commodities laws.

—Check out the promoter and the investment opportunity before money changes hands. Make sure the promoter and investment are properly registered in your state.

(Adapted from the Better Business Bureau, www.bbb.org) □

Call your state securities regulator to find out.

Has the seller provided written information that fully explains the investment? Make sure to get a prospectus or offering circular before you buy.

Are claims made for the investment realistic? If it seems too good to be true, it probably is.

The BBB also suggests that before you do business with a company, contact your local BBB (www.bbb.org) for a reliability report.

“Cloaking an investment with religion can give it a false aura of safety,” Brad Skolnik, Indiana securities commissioner stated in a NASAA press release. “It’s one thing to tithe or give an offering so that your money is used for

good works, it’s another thing if you’re led to believe you’ll get a monetary return. It’s when people are promised earthly returns that we see a lot of fraud.” □

For More Information

To check out whether an investment opportunity is too good to be true, try the following websites:

- www.truthorfiction.com
- www.snopes.com
- www.scambusters.org
- www.scamvictimsunited.com
- www.bbb.org
- www.consumer.gov/sentinel
- www.ftc.gov