

WATCH OUT FOR THESE SCAMS!

Affinity Marketing and Affinity Fraud

Affinity Marketing uses trust and friendship among people who share similar religious beliefs, ethnic background, military service, or other characteristics. For example, veterans are sometimes hired as salespeople specifically to gain the trust of servicemembers.

Don't trust a salesperson just because he/she has a military background or advertises in military newspapers or magazines. Also, don't trust a company just because it uses patriotic symbols or has a military-sounding name.

Affinity Fraud occurs when unethical people take advantage of trust among peer group members. Once one member of a group is persuaded to invest in a service or product, other members of the group become more easily convinced. As word spreads, an "insider" sense of urgency and momentum develops. Other group members may more easily believe that the product or investment is legitimate and worthwhile, making the entire group vulnerable to the same scam. Be cautious—the products and services offered may be unsuitable, or worse, fraudulent.

Bait and Switch Schemes

Verify that paperwork matches promises. Unethical salespeople may try to switch interest rates, terms and conditions, or change other important financial details. They may also try to persuade you to buy financial products or investments that you cannot afford, are not in your best interest, or that are entirely different from the ones you thought you were purchasing. And **never** sign a blank form!

Charity Scams

Verify that a charity is legitimate and that your donations support real programs and services. Also, be aware that con artists may pose as representatives of charities—and collect money only to help themselves. Before you make a donation, utilize the nationally recognized website "**Charity Navigator**" www.charitynavigator.org for valuable help to evaluate charitable organizations.

If you want to verify that a charity is properly registered as an "exempt" organization, contact the **U.S. Internal Revenue Service (IRS)** (see page 14) and/or the **CA Department of Justice** (see page 13).

Introductory Seminars and "Free" Meals or Services

Servicemembers and their families are often invited to introductory seminars or "free" meals in exchange for listening to sales pitches. Servicemembers may also be offered "free" services such as tax preparation. To gain your trust, companies may even hire veterans as salespeople or use patriotic-sounding company names. Common topics include investments, financial planning, insurance, real estate, taxes, vacation homes, and wills and living trusts.

Be cautious—these may be ploys to gain access to your personal or financial information, making you vulnerable to identity theft. Or, you may be unknowingly authorizing payments for products you don't want (see the article "Before You Make Any Financial Decision" on page 7).

Ask the presenter to complete the **“Check Before You Invest”** form (see page 15) and then call the appropriate agency to verify both the presenter and his/her company are licensed and authorized to sell/offer the specific types of products. If a presenter refuses, DO NOT conduct business with that person.

Be Wary of “Immediate” Action Required

If a financial opportunity sounds too good to be true, it most likely is. Don’t believe promises of quick profits, insider information, or tactics like “you must act now.” It is better to miss a so-called “opportunity” than to make an uninformed decision and lose your money. If a salesperson won’t allow you time to compare prices and features, or explore other options—be cautious! These are warning signs of fraud.

Investment Schemes Ponzi and Pyramid Schemes

Be wary of promises of quick profits and low risks, official-sounding but vaguely described businesses, “gift clubs,” or other “unique” investments. Promoters might claim they have made profits for **all** of their investors. However, these investments are very risky, and some are illegal.

Ponzi or Pyramid Schemes make promises of high returns to entice new investors, but use the new money to pay previous investors, giving the appearance of success. These schemes always eventually collapse—leaving the newer investors with a financial loss.

Multi-Level Marketing (MLM) are often Ponzi schemes in disguise. In legitimate MLM, profits come from repeated sales of goods or services to willing consumers, and not by recruiting new salespeople. Research the company before you jump in. **Be suspicious** if:

- 1) Participants make money on each new recruit;
- 2) Each new recruit must make an up-front investment or purchase a starter kit to join;
- 3) New recruits are required to purchase more products than they can reasonably sell;
- 4) There is no customer refund policy.

Work-at-Home Schemes, such as online businesses, envelope stuffing, or claims processing, may seem to offer quick, easy income. These schemes usually require the up-front purchase of expensive manuals, products or contact lists that turn out to be phony. The promised profits never appear.

Life Insurance Products and Annuities

Some life insurance products, while legitimate, may be unsuitable for servicemembers and their families. Servicemembers already receive low-cost, government-sponsored life insurance as a service benefit.

Unfortunately, agents (sometimes veterans themselves) may steer servicemembers into higher-cost policies that may provide fewer benefits than those included in government policies.

These higher-cost policies frequently benefit the agents, because they receive “front-loaded” commissions (their full commissions are paid from your first year’s premiums). Also, some investments or savings products are actually insurance products in disguise.

In order to maintain an insurance policy, scheduled payments must be made over many years (usually 20) to achieve cost-effective results. Unfortunately, servicemembers often let these policies lapse, because they move frequently and may miss important payment notices, leave the armed services, or fail to maintain scheduled payments. These factors make such products inappropriate for most servicemembers.

Ask agents to complete the **“Check Before You Invest”** form (see page 15). Then contact the **California Department of Insurance** (see page 13) to verify the status of California agents and the companies they represent.

Online Purchases and Online Escrow Fraud

Be cautious—there are many ways for scamsters to take your money, including rigged auctions, phony online escrow companies, or phantom merchandise. For expensive purchases (such as a car), only deal with salespeople and merchandise you can see in person—an inability or refusal to meet face-to-face *before* completing a financial transaction is a serious red flag.

Don't give personal or financial information over the web or telephone, unless it's via a secure website and **you** initiated the contact.

Also, use a **credit card** to make online purchases, since credit card purchases are covered by federal consumer protection laws. Additionally, use a "secondary" credit card (most credit card companies and financial institutions offer them for free), so that your primary account is not at risk. Debit cards, personal checks, cashier's checks, Money Grams, and money orders all take cash directly from you, and *do not provide* the same level of consumer protection.

Predatory Lending, and Mortgage and Foreclosure Fraud

Predatory Lending and Mortgage Fraud involves a wide array of abusive practices and usually impacts borrowers with weak or blemished credit records. Abuse includes pressuring consumers into signing loans they cannot afford, convincing consumers to sign loan agreements without reading them, undisclosed or excessive interest, hidden fees, prepayment penalties, balloon payments, repetitive offers to refinance, and other inappropriate practices.

Foreclosure Fraud: Rising foreclosure rates are leading to increased foreclosure "rescue" scams and other related schemes. Be cautious, and don't sign your property away!

- Some homeowners are tricked into believing they can save their home by transferring the deed to a third party, who promises to pay the up-front costs and sell the house back to the original owners when they can afford it. The third party re-mortgages the property, and often

then allows the property to default a second time. The original owners lose everything.

- Some homeowners are persuaded to surrender their home and rent it back from the buyer, with the promise to sell the house back to the original homeowners later. Unfortunately, the homeowners discover that rental fees and/or the new purchase price are over-inflated and not affordable. The "rescuer" then sells the house, and keeps the profits.
- Sometimes scamsters masquerade as homeowners and try to rent someone else's foreclosed house to unsuspecting potential tenants—who turn out to lose their deposit and not have a place to live.

If you are having financial difficulties with a mortgage, need to renegotiate a loan, or are facing foreclosure, immediately contact base financial counselors or legal services. Be sure to ask whether the **Servicemembers Civil Relief Act (SCRA)** would apply to your specific circumstances. To locate legal help, go to <http://legalassistance.law.af.mil/content/locator.php>

"Phishing" and "Vishing"

Scamsters commonly create authentic-looking but phony e-mail, text messages, log-in pages (such as e-mail or bank accounts), printed letters, etc. Or, you might receive voicemail messages that sound exactly like a legitimate call. Beware—these tactics try to entice you to disclose personal or financial information such as your account numbers, passwords, or PIN numbers.

If **you** did not initiate the contact, DO NOT provide any personal information via e-mail, "snail" mail, or by telephone! If you believe the contact might be legitimate, verify the company's customer service telephone number by looking on your most recent billing statement, and then call to confirm. **Do not** respond directly to the e-mail or use the phone number listed in the e-mail or voicemail, as it may be bogus.

Precious Metals, Foreign Currency, Oil & Gas, and other Commodities

Proceed with caution if you are considering investing in commodities such as gold, foreign currency, oil and gas or other energy resources, agricultural products such as soybeans, and other similar commodities. Volatile commodities markets are **very** risky and even experienced investors can lose **all** of their money very quickly.

Many of these opportunities guarantee low-risk and high profits, promise that you will “strike it rich,” or save on your taxes. However, many are investment schemes (see article on page 3). Once investors realize they have been swindled, the fraudulent promoter is long gone.

Even if the investment opportunity is legitimate, “profits” are frequently lost to high sales commissions paid to the promoter and questionable “management expenses” skimmed off the top. As a result, commodities are especially inappropriate for smaller investors.

Sweepstakes or Lottery Winners and Foreign Letter Fraud

Don't respond to calls, e-mail, or letters proclaiming that you just won a sweepstakes or lottery, even though you never bought a ticket! Scamsters frequently request that you transfer funds, send a cashier's check to pay taxes or legal fees, or submit bank information before winnings can be paid. NOTE: It is ILLEGAL for legitimate sweepstakes or lotteries to require funds (other than the initial ticket purchase) before paying winnings.

Other common ploys involve appeal letters or e-mail from strangers pretending to be a deployed servicemember, foreign government “official,” or a widow asking for your immediate help to move money “out of the country.” Watch out! These are scams designed to take your cash or gain access to your personal account information.

Telephone Scams

Scammers frequently use telephones to swindle unsuspecting people out of their money. Be careful when responding “yes” to an automated telephone system that prompts you to answer questions—you could be agreeing to services you didn't ask for. Also, carefully review your phone bills for accuracy, as you may be paying for a product or service you didn't order.

Be suspicious of any offers to “get rich quick” or that require “immediate action...”

If a financial opportunity sounds too good to be true, it probably is!