

Scams Ripped From Today's Headlines

When markets and the economy go haywire, criminals cash in.

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From *Kiplinger's Personal Finance* magazine, January 2009

Think of a headline about the financial crisis, and criminals have found a way to exploit it. Bad credit? Bank problems? Home foreclosures? Each of these, and many more, comes with a matching scam, helping make today one of the most fertile periods ever for rip-offs. Pulling off a successful scam "is all about establishing credibility, and the news gives credibility to 'opportunities,'" says Pat Huddleston, a former Securities and Exchange Commission chief who now runs an investor-protection business.

Hard times breed both criminals and victims. People who are on the moral margin to begin with may turn to crime to make ends meet, says David Perry, of Trend Micro, an Internet-security firm. And people who wouldn't ordinarily fall for some outrageous swindle, he says, might take a chance in the hope of offsetting losses in their stock portfolios. Perry says that starting a year ago there was a "fantastic upturn" in financial scams. That's about when the slide into the bear market began.

What follows are descriptions of today's most prominent scams -- or at least those we know about. As Barry Lanier, chief of investigations for the Florida Department of Financial Services, notes: "There's a lag effect, so sometimes you don't discover rip-offs until after the fact."

Foreign currency. The dollar's volatility has led to a rash of currency con games. The hook is simple: A criminal promises high -- and often outlandish -- returns from foreign-currency trading. For example, in May 2008 the SEC charged Las Vegas-based Gold-Quest International with running a Ponzi scheme that raised more than \$27 million from 2,100 investors by promising profits of 87.5% from trading foreign currency.

If you want to bet on a weaker dollar, consider a mutual fund such as **Merk Hard Currency** (symbol [MERKX](#)). It lost 11.6% in 2008 through November 7, but returned 5.1% annualized over the past three years. One sponsor of exchange-traded funds lets you bet either way: **PowerShares DB US Dollar Index Bearish** ([UDN](#)) prospers when the buck sinks, while **PowerShares DB US Dollar Index Bullish** ([UUP](#)) gains when the greenback gains. Just know that trading currencies is more like speculating than investing.

Energy. As energy prices soared for most of this decade, scams involving oil-and-gas deals made a big comeback, says the North American Securities Administrators Association. Cold callers pitched energy-related limited partnerships that were often conceived in one state, involved drilling in another, and were sold to investors in still other states. Such a setup makes it tough for investors to check out the proposal, and tough for law enforcement to identify and expose a fraud.

In one such case, the SEC recently charged Donald Allen of Colorado Springs and his two companies of defrauding investors by diverting for his personal use more than \$2.3 million raised in a series of oil-and-gas deals.

If you're tempted by such a pitch, NASAA suggests you start by checking the registration of the deal. Ask in which state the offering is registered, then contact that state's securities agency to confirm that a security is really being offered and whether it can be sold in your state.

Energy partnerships are risky -- and high-priced -- investments even when they are legitimate. If you want an investment that simply tracks the price of oil, consider **United States Oil Fund (USO)**, an exchange-traded fund that tracks the price of West Texas Intermediate light, sweet crude.

Debt negotiation. With average household debt at record highs and personal bankruptcy rates rising, it's no wonder more people are reaching out for help with their debts. It's tempting to pay someone who promises to make creditors go away. But some debt-negotiation companies counsel their clients to ruin.

For example, the Federal Trade Commission last fall censured four companies that falsely claimed they could reduce clients' debts by up to 60%. The companies had also advised clients to stop paying their bills without telling them they could be sued by creditors. And the four falsely told clients they could help repair credit reports.

Credit counseling can help, but there are no miracle cures. A good agency can negotiate with lenders to eliminate late fees and lower interest rates for a reasonable amount -- the average program costs \$24 a month. You can find a legitimate credit-counseling agency at www.nfcc.org or www.aiccca.org.

Mortgage-foreclosure rescue. More than half of homeowners who are late on their mortgage payments aren't aware that lenders have programs to help avoid foreclosure, according to a survey by Freddie Mac and marketing-research firm Roper Public Affairs & Media. People who don't know their options can fall prey to crooks who charge \$1,000 or more for fraudulent foreclosure-avoidance services.

Federal regulators have shut down operations that they say not only failed to forestall foreclosures but also virtually guaranteed they'd happen -- by promising that action would be taken but not following through. The culprits, regulators say, also persuaded homeowners to wait for weeks instead of contacting lenders.

If you have mortgage problems and your lender can't help, you have alternatives. Find a housing-counseling agency approved by the U.S. Department of Housing and Urban Development (links are listed at www.hud.gov). If you're worried about foreclosure, contact the Hope Now Alliance (www.hopenow.com or 888-995-4673).

Bank phishing. Now that Uncle Sam is insuring deposits up to \$250,000 (up from \$100,000), you should feel better about handing over cash to your bank. But given all the headlines about bank mergers and the growing number of banks and thrifts on the Federal Deposit Insurance Corp.'s "watch list" of troubled institutions, it's not surprising that many depositors are still leery.

Popular phishing schemes -- e-mails designed to get you to relinquish private security information, including your Social Security number -- falsely tell you your bank has been acquired. The FTC gives this example: "We recently purchased ABC Bank. Due to concerns for the safety and integrity of our new online-banking customers, we have issued this warning message ... Please follow the link below to renew your account information."

Phishers also target mortgage accounts using similar pitches: "We recently acquired the mortgage on your home and are in the process of validating account information. Please click here to update and verify your information."

Reverse mortgages. Their stock portfolios eviscerated, retirees may be tempted to tap their home equity for cash through a reverse mortgage. It can be a good move, but regulators warn of several pitfalls. Outright fraud is rare, although it does occur; one adviser pocketed \$42,000 from a reverse-mortgage payout without his client knowing.

A more common problem: obliging reverse-mortgage applicants to buy additional products or services as part of the loan agreement. Lanier, the Florida official, says some reverse-mortgage providers push clients to buy deferred annuities. These insurance products can come with high fees and tie up cash that the borrower may need immediately. New rules from HUD prohibit lenders from linking reverse mortgages with other products. Another sleazy move is when advisers charge for providing information on reverse mortgages or for referring a client to a lender. HUD provides mortgage information for free and can hook you up with counseling agencies that can provide advice and a list of HUD-approved lenders. Call 800-569-4287 for the name and location of a HUD-approved counseling agency near you.

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