



SEC

OFFICE of INVESTOR  
EDUCATION and ADVOCACY

# AFFINITY FRAUD

*How To Avoid  
Investment Scams  
That Target Groups*

PREPARED BY THE OFFICE OF INVESTOR EDUCATION AND ADVOCACY



# **AFFINITY FRAUD**

## ***How To Avoid Investment Scams That Target Groups***

### **What is an Affinity Fraud?**

Affinity fraud refers to investment scams that prey upon members of identifiable groups, such as religious or ethnic communities, the elderly, or professional groups. The fraudsters who promote affinity scams frequently are - or pretend to be - members of the group. They often enlist respected community or religious leaders from within the group to spread the word about the scheme, by convincing those people that a fraudulent investment is legitimate and worthwhile. Many times, those leaders become unwitting victims of the fraudster's ruse.

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. This is particularly true where the fraudsters have used respected community or religious leaders to convince others to join the investment.

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. Both types of schemes depend on an unending supply of new investors - when the inevitable occurs, and the supply of investors dries up, the whole scheme collapses and investors discover that most or all of their money is gone.

## How To Avoid Affinity Fraud

Investing always involves some degree of risk. You can minimize your risk of investing unwisely by asking questions and getting the facts about any investment before you buy. To avoid affinity fraud and other investment scams, you should:

### **Do your homework.**

Check out everything - no matter how trustworthy the person seems who brings the investment opportunity to your attention. Never make an investment based solely on the recommendation of a member of an organization or religious or ethnic group to which you belong. Investigate the investment thoroughly and check the truth of every statement you are told about the investment. Be aware that the person telling you about the investment may have been fooled into believing that the investment is legitimate when it is not.

### **Avoid high-return "risk free" investments.**

If an investment seems too good to be true, then it probably is. Be extremely leery of any investment that is said to have no risks; very few investments are risk-free. The greater the potential return from an investment, the greater your risk of losing money. Promises of fast and high profits, with little or no risk, are classic warning signs of fraud.

### **Get it in writing.**

Be skeptical of any investment opportunity that is not in writing. Fraudsters often avoid putting things in writing, but legitimate investments are usually in writing. Avoid an investment if you are told they do "not have the time to reduce to writing" the particulars about the investment. You should also be suspicious if you are told to keep the investment opportunity confidential.

### **Take your time.**

Don't be pressured or rushed into buying an investment before you have a chance to think about - or investigate - the "opportunity." Just because someone you know made money, or claims to have made money, doesn't mean you will too. Be especially skeptical of investments that are pitched as "once-in-a-lifetime" opportunities, particularly when the promoter bases the recommendation on "inside" or confidential information.

### **Be careful online.**

Fraudsters are increasingly using the Internet to target particular groups through e-mail spams. If you receive an unsolicited e-mail from someone you don't know, containing a "can't miss" investment, your best move is to pass up the "opportunity" and forward the spam to us at [enforcement@sec.gov](mailto:enforcement@sec.gov).

## **Examples of Affinity Fraud Schemes**

Affinity frauds can target any group of people who take pride in their shared characteristics, whether they are religious, ethnic, or professional. Senior citizens also are not immune from such schemes. The SEC has investigated and taken quick action against affinity frauds targeting a wide spectrum of groups. Some of our cases include the following:

### ***Ponzi scheme targeted African-Americans and Christians***

Defendants perpetrated an affinity fraud, raising at least \$16.5 million from mostly African-Americans and Christians by falsely representing they would receive returns through investments in, among other things, real estate, small businesses, and "markets of the world."

### ***California Investment Adviser bilked Korean Investors***

Investment adviser raised more than \$36 million by inducing members of the Korean-American community to invest funds with promises of large returns. Investors funds were not invested in accounts of a New York brokerage firm as represented; rather defendants put funds in bank accounts and fabricated monthly account statements. The adviser has pleaded guilty to related criminal charges.

### ***Armenian-American community loses more than \$19 Million***

This affinity fraud targeted Armenian-Americans with little investment experience, for some of whom English was a second language. The architect of this fraud was later indicted.

### ***Fraudulent real estate investment scheme directed at retirees***

SEC charged various real estate investment companies and their principals with defrauding senior citizens and retirees out of \$15 million by conducting transactions in which they issued promissory notes in real estate investments they owned and operated. To make the sales, the defendants made gross misrepresentations about the financial conditions of their investment companies.

### ***Ponzi scheme solicited elderly members of Jehovah's Witnesses congregations***

The SEC complaint alleges that the defendants operated a Ponzi scheme and used investor funds to pay lavish personal expenses. The defendants raised over \$16 million from more than 190 investors nationwide. Many of the victims were elderly members of Jehovah's Witnesses congregations and were promised returns of up to 75 percent.

## ***Criminal charges against South Florida man for \$51.9 million fraud***

African-American victims of this investment scheme were guaranteed that their investments would generate a 30% risk-free and tax-free annual return.

## ***"Church Funding Project" costs faithful investors over \$3 Million***

This nationwide scheme primarily targeted African-American churches and raised at least \$3 million from over 1000 investing churches located throughout the United States. Believing they would receive large sums of money from the investments, many of the church victims committed to building projects, acquired new debt, spent building funds, and contracted with builders.

## ***Baptist investors lose over \$3.5 Million***

The victims of this fraud were mainly African-American Baptists, many of whom were elderly and disabled, as well as a number of Baptist churches and religious organizations located in a number of states. The promoter (Randolph, who was a minister himself and who is currently in jail) promised returns ranging between 7 and 30%, but in reality was operating a Ponzi scheme. In addition to a jail sentence, Randolph was ordered to pay \$1 million in the SEC's civil action.

## ***More than 1,000 Latin-American investors lose over \$400 Million***

The victims sought low risk investments. Instead, the two promoters (who received prison terms of seven and 12 years respectively) misappropriated their funds and lied about how much money was in their accounts.

*125 members of various Christian churches  
lose \$7.4 million*

The fraudsters allegedly sold members non-existent "prime bank" trading programs by using a sales pitch heavily laden with Biblical references and by enlisting members of the church communities to unwittingly spread the word about the bogus investment.

*\$2.5 million stolen from 100 Texas senior citizens*

The fraudsters obtained information about the assets and financial condition of the elderly victims who were encouraged to liquidate their safe retirement savings and to invest in securities with higher returns. In reality, the fraudsters never invested the money and stole the funds.

## **Where to Go for Help**

### **SEC Investor Advocacy**

If you encounter a problem with an investment or have a question, you can contact the SEC's Office of Investor Education and Advocacy at:

Securities and Exchange Commission  
Office of Investor Education and Advocacy  
100 F Street, N.E.  
Washington, D.C. 20549-0213  
Telephone: (202) 551-6551 or (800) 732-0330  
Fax: (202) 772-9295  
Website: [www.investor.gov](http://www.investor.gov)

You also can send us an online complaint form at [www.sec.gov/complaint.shtml](http://www.sec.gov/complaint.shtml) or email us at [help@sec.gov](mailto:help@sec.gov).

### **Additional SEC Resources**

In addition to investor education materials, the SEC website includes databases that allow you to begin your investigations about potential investments.

You can check our EDGAR database for filings filed by registered securities issuers and mutual fund companies at [www.sec.gov/edgar/searchedgar/webusers.htm](http://www.sec.gov/edgar/searchedgar/webusers.htm).

Available filings include registration statements, proxy materials, and periodic reports. If a company is exempt from the SEC's registration requirements, EDGAR often references the Form D (notice of exemption) provided by the issuer. You can obtain a Form D by calling (202) 551-8090.

Our online brochure *Protect Your Money: Check Out Brokers and Investment Advisers*, [www.sec.gov/investor/brokers.htm](http://www.sec.gov/investor/brokers.htm), links to the Investment Adviser Public Disclosure website (IAPD). This database includes the registration statements filed by investment advisers registered with the SEC and in certain states.

If you have been a victim of a scam, you can check the litigation section of the SEC's website, [www.sec.gov/litigation.shtml](http://www.sec.gov/litigation.shtml), for information about any SEC actions or any investors claims funds.

## **State Regulators**

While the SEC regulates and enforces the federal securities laws, each state has its own securities regulator who enforces what are known as "blue sky laws." These laws cover many of the same activities the SEC regulates, such as the sale of securities and those who sell them, but are confined to securities sold or persons who sell them within each state.

In addition, your state securities regulator can tell you whether the investment is registered and if the broker and the broker's firm are licensed to do business in your state. Your state regulator also can check the disciplinary history of a broker or brokerage firm. Similarly, your state regulators can tell you whether an investment adviser is registered with them.

You can find out who your state securities regulator is by visiting the website of the North American Securities Administrators Association, Inc. (NASAA) at [www.nasaa.org](http://www.nasaa.org) or by calling (202) 737-0900. In addition, NASAA's website includes investor information devoted to affinity fraud. You also can call NASAA at (888) 846-2722 to obtain hard copies of their investor education materials.

### **Financial Industry Regulatory Authority (FINRA)**

FINRA, a self-regulatory organization, also regulates the brokerage industry. If you have a complaint against a FINRA member firm or one of its employees, you can file a complaint at:

FINRA Investor Complaint Center  
1735 K Street NW  
Washington, DC 20006  
Fax: (866) 397-3290

You also can file an online complaint by going to [www.finra.org](http://www.finra.org).

You can verify registration and disciplinary information about an individual broker or brokerage firm by using FINRA BrokerCheck, [www.finrabrokercheck.org](http://www.finrabrokercheck.org). You also can call them toll-free at (800) 289-9999.

FINRA's website includes investor resources as well as an investors' claims fund page.

# Keep in Touch With Us

We hope that you've found this brochure helpful. Please let us know how it can be improved.



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Securities and Exchange Commission  
Office of Investor Education and Advocacy  
100 F Street, N.E.  
Washington, D.C. 20549-0213  
Telephone: (202) 551-6551 or (800) 732-0330  
Fax: (202) 772-9295  
Website: [www.investor.gov](http://www.investor.gov)



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