

Affinity Fraud: Scams Targeting the Faithful

Affinity fraud is an investment scam that preys upon members of identifiable groups, which can include social, ethnic, religious, political or professional associations. The problem with affinity fraud is that people may let their guards down when offered an investment opportunity by a fellow member of a church or social club or someone they know. The D.C. Department of Insurance, Securities and Banking, known as DISB, warns consumers about affinity fraud and encourages you to properly research any investment opportunity.

How do they do it?

The perpetrators of affinity fraud commonly are—or pretend to be—members of the group they are trying to scam. They develop a sense of trust by being from the same community or sharing a common heritage. They overcome others' natural skepticism by preying on the belief that persons from the same affinity group can be trusted because they share the same background and interests. Affinity fraud exploits the faith, love, trust, and friendships that exist in groups of people who have something in common.

Affinity fraud is often associated with “Ponzi” or pyramid schemes. These schemes give a false illusion that the investment is successful by raising money from new investors to make payments to earlier investors. The con artists want you, the investor, to believe your investment is safe so you will reinvest or encourage others to invest.

Ways to avoid being a victim

- Beware of investment opportunities that promise great returns quickly.
- Beware of investment opportunities that are based on or challenge a person's faith or obligation to give because of religious beliefs, or interest in advancing your group.
- Beware of testimonials or endorsements from other group members. Scam artists frequently pay out high returns to early investors using money from later arrivals.
- Check out everything before you invest. Never make an investment decision that is based solely on the recommendation of a leader or member of an organization, or religious or ethnic group to which you belong. You should investigate offers thoroughly.

- Do not fall for investments that promise spectacular profits or “guaranteed” returns. If an investment seems too good to be true, then it probably is. Generally, the greater the potential return the investment offers, the greater the risk of losing money.
- Be skeptical of any investment that is not fully documented in writing. Avoid an investment if you are told there is insufficient time to reduce the details or terms to writing. Also, you should be suspicious if you are told to keep the investment opportunity to yourself.
- Don’t be pressured or rushed into an investment before you have a chance to think about it and investigate it. Watch out for investments that are pitched as “once-in-a-lifetime” opportunities, especially when the promoter bases the recommendation on “inside” or “confidential” information.
- Seek professional advice by asking a neutral outside expert not in your group—attorney, accountant, banker, stockbroker or financial planner—to evaluate the investment.

Questions to ask before investing

- Is the seller licensed? Is the investment registered in the District of Columbia? To find out, call DISB at 202-727-8000. Note: According to District of Columbia law, securities to raise funds for any nonprofit organization must be filed with DISB. This measure provides an opportunity for DISB to review offerings for appropriate disclosure.
- Has the seller given you written information that fully explains the investment? Make sure to have a prospectus or offering circular before you buy.
- Are claims made about the investment realistic?
- Does the investment meet your personal investment goals? Investments should match your own long- or short-term investment goals.

More information and how to file a complaint

DISB works to prevent fraudulent, deceptive and unfair business practices in the marketplace. Contact DISB if you have questions about the legitimacy of an investment opportunity or the person offering the investment. You can reach us at 202-727-8000 or visit disb.dc.gov.

The D.C. Department of Insurance, Securities and Banking, also known as DISB, has two missions: to fairly and efficiently regulate financial services in order to protect the people of the District of Columbia; and to attract and retain financial-services businesses to the District.

Visit us on the web at disb.dc.gov.

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