

Frauds and Scams



Frauds and Scams

Protect Yourself and Your Money

Everyone is subject to fraudulent schemes and con games. Older people in particular seem to be frequently targeted, perhaps because as a group they tend to be more trusting of others and assume the same sincerity in return.

This pamphlet will describe some typical financial frauds and scams and suggest how to protect yourself and your money. They are grouped into three categories:

- **Fraud on the Phone**
- **Fraud at the Door**
- **Fraud through the Mailbox**

Fraud on the Phone

Although the phone is the instrument of choice for many swindlers, much phone solicitation is legitimate. There are many worthy businesses and charities that have nothing to hide and will answer your questions freely.

Fraudulent Telemarketers

Watch out for fraudulent telemarketers! They may start with a postcard promising cash and prizes if you call an “800” or “900” number. If you do it, a friendly voice will ask for your credit card number to “verify” your identity, then come the high-pressure tactics to get you to buy merchandise with your credit card. Later, you may be billed several times, or you may never receive the merchandise at all.

If you do receive the merchandise, it may not be what you expected or you may feel that the price you paid was highly inflated. By that time, it is often difficult and time consuming to return the item and receive credit.

To protect yourself, ask for written information on products or services offered before you order them.

Fake Orders for Magazine Subscriptions

People selling magazine subscriptions may “offer” an extremely low price which is only available if you pay with a credit card. Repeatedly, terms like “verification,” “identification,” or “process” will be used to try to get you to reveal your credit card number. Once you give it, the con artist will use the number to place fake orders.

Never give anyone your credit card number on the phone unless you made the call to place an order or to make a donation. Do not make a donation to an unknown charity. Check with the Better Business Bureau to see if the organization complies with their standards.

Investment Frauds

In areas with a high concentration of senior citizens, investment frauds are usually carried out on a hit-and-run basis. These scams may involve the selling of coins, oil and gas leases, precious metals, and gemstones. The caller will flatter you as a “smart investor” who can recognize a good deal, then confide that if you sign up quickly you can get in on a great “opportunity.” Remember these salespersons are professionals and gifted at getting people to believe them.

Also, consider that there are fees in most legitimate investment markets for every transaction—when you buy and when you sell. These fees can add up, especially if you have given your permission to automatically negotiate if the market seems to be changing. When someone calls with an investment opportunity, get the name, address, and phone number of the company. Request references and written materials. Always read carefully any forms before signing. Check with the Better Business Bureau, the Bureau of Consumer Protection, or perhaps the securities dealer at your bank or investment firm.

Pseudo Bank Examiner Fraud

This type of fraud begins when someone calls your home, identifies himself as a bank examiner, and says he needs your help to apprehend an employee, usually a teller, suspected of theft. You are asked to withdraw a specified amount of cash from your account. The caller says that a representative will come to your home, pick up the money, and redeposit it in your account to test the employee's honesty. He explains that the deposit must be in cash so that serial numbers on the bills can be checked. But once you give your money over to the "examiner," you never see it again.

Never turn large sums of cash over to anyone, especially a stranger. If you are approached by a so-called bank examiner or bank representative, always call your bank immediately to verify and alert them.

Travel Scams

Travel scams often combine phone and mail fraud. A phone call from a travel club announces that you are the grand prize winner of a contest. Chances are you never entered any such contest, but naturally you would be happy to win a prize. Then, you are told that this prize only can be obtained if you pay a membership fee to their travel club, as small as \$10 or as much as \$300 or more. And again, you must pay using your credit card. Once the callers have your card number, they can use it to fake orders.

The best way to defend yourself against questionable calls, other than to hang up, is to ask the caller to send you information in writing. Again, ask about the caller and the company. Remember, the use of excessive high pressure sales tactics is often a sign of a con artist at work.

Fraud at the Door

This can be the most frightening form of fraud, because the con artist is face-to-face with you, and self-protection is not as easy as hanging up the phone or throwing away a letter. Here are a few frauds to watch for:

The Pigeon Drop

This form of fraud is an old but still successful fraud that involves the supposed "finding of money," usually a wallet. The victim is approached by a stranger who, in conversation, mentions having just found a large sum of money. The catch is that to share in the find you must put up "good faith" money that will be held by a friend or employer of the con artist until it is certain that the money will not be claimed. You are asked to withdraw money from the bank, and hand it over for safekeeping. You can guess what happens when you try to pick up your share of the find and recover your "good faith" money. Nobody – and no money – is to be found.

Never get involved in a deal where you are asked to turn money over to a stranger. Call the police instead.

Funeral Chasers

In this situation, funeral chasers visit the family of a recently deceased person, claiming that the decedent made a down payment on merchandise which is scheduled for delivery the next day, but there's a balance due. They mention facts about the decedent designed to assure the family that the collector is legitimate. However, such facts are easily found in obituary columns and elsewhere. At times like these, family members may be easy to convince, and the so-called balance due often is paid.

Try not to make quick decisions under emotional or stressful conditions. Take time to think. Ask to see a receipt or order signed by the deceased.

Home Repair

This con game is spreading rapidly and will continue to do so as dwellings and their owners both grow older.

Someone comes to the door and says there is a problem with your house – roofing, siding, electrical, driveway, whatever. They offer to fix the problem quickly at what seems like a reasonable cost. Once they have begun the work, however, major problems suddenly turn up that will cost more than the original estimate. Often the “experts” have created the damage themselves.

Before you let anyone work on your house, be sure to get several estimates for the repair. Ask for references.

When buying from door-to-door salespeople, you have certain protections under the Federal Trade Commission's “cooling off” rule. This rule gives you three business days to change your mind and to cancel any purchase of \$25 or more that you made from your home or anywhere other than the seller's normal place of business.

Fraud through the Mailbox

Stolen Checks

A major concern for the elderly is the theft of checks from mailboxes and mail slots. Since the mail carrier delivers social security checks on the same day of each month, these and other predictable, routine payments are easy prey for theft. Stolen checks are easily turned into cash by thieves who know where to go and what to do.

The Social Security Administration strongly encourages direct deposit of checks. Seventy-five percent of those receiving social security benefits use direct deposit.

If you have any regularly scheduled payments, you should seriously consider direct deposit. Federal Reserve Banks and financial institutions process direct deposit transactions electronically through a national automated system. Contact your financial institution about payments that are eligible.

Fake Contests

Fake contests are a prevalent form of mail fraud. You get a notice saying you have won a “free” trip, a TV, or even a car. To redeem your prize, you should send “X” number of dollars or bring the money to a certain place. In reality, prizes frequently do not exist, or if they do, only a very small number of them will be awarded.

Watch out for prizes that you have to pay for. Carefully examine any letters that look official or urgent.

Another Form of Scam . . .

Some recent scams have involved people's credit ratings. Here's how one might work. A so-called credit repair advisor removes information from a good credit record to repair a client's bad credit rating. In many cases, this is done when both parties have similar names. You may not know that you have been a victim of such a scam until you apply for a loan, employment, or insurance, and you are turned down on the basis of your credit report. If you are curious about what's listed, or if you suspect that incorrect information exists in your credit record, the Fair Credit Reporting Act gives individuals the right to know the contents of their files.

Contact your local credit bureau and for a small fee, you can obtain a copy of your report. If you have been turned down for credit recently, you can get a copy of your file at no charge if you contact the agency within 60 days of receiving the notice. Consumers are encouraged to review their credit reports periodically.

Credit bureaus now provide a copy of your credit report free of charge under other circumstances. You are entitled to one free report per year if you certify in writing that: (1) you are unemployed and plan to look for a job within 60 days, (2) you are on welfare, or (3) your report is inaccurate because of fraud.

- ▶ **The greater the potential return, the greater the risk.**
- ▶ **Investments seldom exist without some risk involved.**
- ▶ **Always get information in writing before you give away any money.**
- ▶ **Never let emotions interfere with your business affairs.**
- ▶ **Never invest what you cannot afford to lose.**
- ▶ **Legitimate offers will always be there tomorrow.**
- ▶ **Take time to do careful research.**
- ▶ **If an offer sounds too good to be true, it probably is.**
- ▶ **Do not send cash by messenger or overnight mail.**

What Is the Law?

The law makes it a federal crime to use any unauthorized card, plate, code, or account number to obtain money, goods, or services.

In the case of duplicate billing or incorrect charges on your credit card statement, the Fair Credit Billing Act, an addition to the Truth-In-Lending Law, requires prompt correction of billing mistakes. The Federal Reserve writes these consumer regulations and, along with other agencies, has the responsibility to enforce them.

For More Information

The Federal Reserve Bank of San Francisco has several other consumer brochures. These brochures are posted on our web site at: <http://www.frbsf.org>.

Learn about . . .

- **Bank Products**
- **Credit and Charge Cards**
- **How to Establish, Use, and Protect Your Credit**
- **Plastic Fraud**
- **Private Mortgage Insurance (PMI)**
- **Your Credit Report**
- **Your Credit Rights**

When investigating potential frauds, you should contact several of the following:

AARP (American Association
for Retired Persons)
1909 K Street, NW
Washington, D.C. 20049
<http://www.aarp.org>
(800) 424-3410

The Federal Trade Commission
Bureau of Consumer Protection
600 Pennsylvania Avenue, NW
Washington, D.C. 20580
<http://www.ftc.gov>
(877) FTC-HELP