

Investor Bulletin: Affinity Fraud

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The SEC's Office of Investor Education and Advocacy is issuing this Investor Alert to help educate investors about affinity fraud, a type of investment scam that preys upon members of identifiable groups, such as religious or ethnic communities or the elderly.

What is Affinity Fraud?

Affinity fraud almost always involves either a fake investment or an investment where the fraudster lies about important details (such as the risk of loss, the track record of the investment, or the background of the promoter of the scheme). Many affinity frauds are **Ponzi** or **pyramid** schemes, where money given to the promoter by new investors is paid to earlier investors to create the illusion that the so-called investment is successful. This tricks new investors into investing in the scheme, and lulls existing investors into believing their investments are safe. In reality, even if there really is an actual investment, the investment typically makes little or no profit. The fraudster simply takes new investors' money for the fraudster's own personal use, often using some of it to pay off existing investors who may be growing suspicious. Eventually, when the supply of investor money dries up and current investors demand to be paid, the scheme collapses and investors discover that most or all of their money is gone.

How Does Affinity Fraud Work?

Fraudsters who carry out affinity scams frequently are (or pretend to be) members of the group they are trying to defraud. The group could be a religious group, such as a particular denomination or church. It could be an ethnic group or an immigrant community. It could be a racial minority. It could be members of a particular workforce – even members of the military have been targets of these frauds. Fraudsters target any group they think they can convince to trust them with the group members' hard-earned savings.

At its core, affinity fraud exploits the trust and friendship that exist in groups of people who have something in common. Fraudsters use a number of methods to get access to the group. A common way is by enlisting respected leaders from within the group to spread the word about the scheme. Those leaders may not realize the "investment" is actually a scam, and they may become unwitting victims of the fraud themselves.

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 legal remedies. Instead, they 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.

How to Avoid Affinity Fraud

Here are a few tips to help you avoid affinity fraud.

- Even if you know the person making the investment offer, be sure to research the person's background, as well as the investment itself – no matter how trustworthy the person who brings the investment opportunity to your attention seems to be. 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.
- Never make an investment based solely on the recommendation of a member of an organization or group to which you belong. This is especially true if the recommendation is made online. An investment pitch made through an online group of which you are a member, or on a chat room or bulletin board catered to an interest you have, may be a fraud.
- Do not fall for investments that promise spectacular profits or “guaranteed” returns. Similarly, be extremely leery of any investment that is said to have no risks. Very few investments are risk-free. Promises of quick and high profits, with little or no risk, are classic warning signs of fraud.
- Be skeptical of any investment opportunity that you can't get put in writing. Fraudsters often avoid putting things in writing. Avoid an investment if you are told they do “not have the time to put in writing” the particulars about the investment. You should also be suspicious if you are told to keep the investment opportunity confidential or a secret.
- Don't be pressured or rushed into buying an investment before you have a chance to research 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 salesperson bases the recommendation on “inside” or confidential information.

Recent Affinity Fraud Schemes

The SEC's Division of Enforcement regularly investigates and prosecutes affinity frauds targeting a wide spectrum of groups. Here are examples of some recent cases.

SEC Charges Ponzi Scheme Promoter Targeting Primarily African-American Churchgoers

Ponzi scheme promoter sold promissory notes bearing purported annual interest rates of 12% to 20%, telling primarily African-American investors that the funds would be used to purchase and support small businesses such as a laundry, juice bar, or gas station. Promoter also sold “sweepstakes machines” that he claimed would generate investor returns of as much as 300% or more in the first year.

SEC Charges Company and its Owners with Conducting an Offering Fraud Targeting Christian Investors

Ponzi scheme promoters raised almost \$6 million from nearly 80 evangelical Christian investors through fraudulent, unregistered offerings of stock and short-term, high-yield promissory notes issued by their company, which was marketed as a voice-over-internet-protocol video services provider around the world.

SEC Shuts Down Ponzi Scheme Targeting Persian-Jewish Community in Los Angeles

SEC obtained an emergency court order to halt an ongoing \$7.5 million Ponzi scheme that targeted members of the Persian-Jewish community in Los Angeles. The SEC's complaint alleged that the promoter, himself a member of the Persian-Jewish Los Angeles community, raised funds from 11 investors and used nearly \$1.6 million investor funds to buy jewelry, high-end cars, and VIP tickets to sporting events. He lured investors with promises of exorbitant returns in purported pre-IPO shares of well-known companies.

SEC Charges South Florida Man in Investment Fraud Scheme

Fraudster raised nearly \$11 million claiming returns as high as 26%. He typically met and pitched prospective investors over meals at expensive restaurants in and around Fort Lauderdale. His clients typically came to him through word-of-mouth referrals among friends and relatives. A significant number of the victims of his scheme were members of the gay community in Wilton Manors, Florida.

SEC Halts Affinity Fraud Aimed at the Hispanic community

Defendants raised \$817,500 from investors representing to them that their funds would be used to develop a financial services firm serving the Hispanic community. The promoter used a large part of the investors' money to engage unsuccessfully in high risk "day-trading" of stocks, pay personal living, travel and entertainment expenses or make other, unexplained expenditures with no connection to the purported start-up business activities.

SEC Charges Real Estate Developer in Miami Affinity Fraud

Miami-based developer conducted an affinity fraud and ponzi scheme involving real estate investments that raised \$135 million from more than 400 investors, primarily from the South Florida Cuban exile community. Among other things, the developer paid existing investors with new investors' funds and assigned the same real estate collateral to multiple investors.

SEC Halts Online Affinity Fraud

Fraudster raised at least \$2.4 million from at least five individuals in 2008 and 2009. He offered and sold promissory notes and convinced investors to grant him trading authority over money contained in online brokerage accounts. While doing so, he misrepresented his intended use of the money, the risks of his trading, the source of the money used to pay the guaranteed fixed returns, and falsely guaranteed repayment of investors' principal.

What Should You Do If You Suspect Affinity Fraud?

If you think you may be aware of a possible affinity fraud – or may have lost money in an affinity fraud – please contact the SEC through the [SEC Complaint Center](http://www.sec.gov/complaint/select.shtml), <http://www.sec.gov/complaint/select.shtml>. You can also contact your state's securities administrator. You can find links and addresses for your state regulator by visiting the [North American Securities Administrators Association's website](#).

Additional Information

For additional educational information about affinity fraud, see our publication “[Stopping Affinity Fraud in Your Community](#)” available here on Investor.gov, the SEC's website for retail investors. For information on investing generally, including how to help avoid fraud, visit Investor.gov or the [Office of Investor Education and Advocacy's homepage](#) on SEC.gov. You can also follow us on Twitter at [@SEC_Investor_Ed](#). Finally, if you would like to speak directly with one of our staff about this or other investing issues, please contact us toll-free at (800) 732-0330.

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