Section 1  Laying the Foundation
How to Use This Guide


Those new to financial fraud will want to start at the beginning. The guide’s *Laying the Foundation* section offers an introduction to financial fraud: the types of crimes being committed and profiles of who commit these crimes and their likely victims.

Once a financial fraud is suspected or verified, the next step is to assist in the recovery process. *The Advocate’s Role* and *Action Steps by Fraud Type* provide victim advocates with clear steps to share with victims to assist in their recovery. These chapters assist advocates in walking victims through how to report financial exploitation crimes, ways to take control of their assets and strengthen their chances of recovery, and how to avoid being a victim again in the future.

Finally, the *Resources* section lists all resources contained in the guide and provides a place to record local resources that are helpful to the advocate.

**Talking Points for Advocates**

Throughout this guide there is model language for communicating important themes to victims. The statements are not intended to be repeated verbatim but instead are reminders to the victim advocate to normalize the victim’s experience to facilitate his or her recovery.

**Please Note**

Due to the dynamic nature of websites, users of this guide should be aware that resources described may change or move locations at any time. Advocates are encouraged to archive any resources they find particularly useful.
Financial Fraud: Explained

All fraud uses deception to enrich the fraudsters. In the case of financial fraud, deception and misrepresentation are used in conjunction with financial products, investments, or personal assets such as a house. While financial fraud encompasses a wide range of illegal behavior, our focus is on frauds that primarily target individuals: Ponzi schemes, mortgage fraud, investment fraud, and credit card theft are all-too-common examples.

While the actual fraud varies, a similar set of tactics is used to separate victims from their money, including:

- gaining victims’ trust and confidence;
- using false information to induce victims to invest in or purchase products that don’t exist; or
- stealing identifying information.

A Big Problem

Recent studies estimate that between 12.5 and 15 percent of the population are self-reported victims of financial fraud. In 2011, the Financial Fraud Research Center—a joint project of the Stanford Center on Longevity and the FINRA Investor Education Foundation—published a review of consumer fraud research titled *Scams, Schemes and Swindles*. The report, coupled with additional data from the Center, offers the following insights into the scope of the problem:

- A 2005 Federal Trade Commission survey found that nearly 30 million consumers are victims of financial fraud each year.
- According to the Federal Bureau of Investigation’s (FBI) Financial Crimes Report (FY2010-2011), investigations of securities and commodities fraud—also known as investment fraud—have increased by 52 percent since 2008.

These numbers are likely the tip of the iceberg. Experts in the field are well aware that financial fraud goes largely underreported. Reporting one’s victimization is complicated by feelings of shame and guilt, as well as other complex factors, such as:

- not knowing where to turn;
- feeling that reporting wouldn’t make a difference;
• fear that reporting will lead to a loss of legal or financial control;
• threats and intimidation from the perpetrators;
• loss of esteem or prestige in a victim’s social group;
• concern that reporting may culminate in a family member or friend being arrested or sent to prison, which is particularly concerning if the individual is dependent on the exploiter; and
• lack of confidence in the ability of authorities to respond and assist.

One valuable contribution victim advocates can make to the cause of fighting financial fraud is to encourage victims to report the crime. Advocates can help victims overcome the stigma of being “taken” by a fraudster. They can sympathize with what has happened but also emphasize the value of taking action—including reporting the crime to the proper authorities.

How Fraud Happens

We’ve all heard the timeless admonition: “If it sounds too good to be true, it probably is.” But fraudsters make their living by making sure the deals they tout appear both good and true. The trick is figuring out when “good” becomes “too good.” The common thread that binds different types of fraud is the psychology behind the pitch. Many successful cons artists are clever, disciplined, and highly skilled at what they do. Whether they make their pitch over the Internet, by telephone, through the mail, or in person, these criminals tend to use the same tactics time after time.

They’re masters of persuasion, tailoring their pitches to match the psychological profiles of their targets. They start by asking seemingly benign questions—about their target’s health, family, political views, hobbies, or prior employers. Once they know which buttons to push, they’ll bombard their targets with a flurry of influence tactics, which can leave even the savviest person in a haze. These methods are used to commit fraud by both strangers as well as family members or other loved ones.

Ultimately, fraudsters ensnare their victims into making an emotional, not rational, decision. To learn more about the psychology of a scam, visit www.SaveAndInvest.org/FraudCenter.

It is impossible to compile a list of all of the schemes used by perpetrators because the fraudsters—who spend their “careers” developing schemes to defraud victims—are continually creating new, inventive scams. Knowing the exact scam is not as important as understanding that fraudsters rely on persuasion tactics designed to take assets from victims. The FBI and the Better Business Bureau (BBB),

**Financial Fraud Statistics**

The Financial Fraud Research Center consolidates the latest research and news across a range of disciplines (from psychology to criminology to marketing and more). For more statistics and research briefs, visit [www.fraudresearchcenter.org](http://www.fraudresearchcenter.org).
Major Categories of Financial Fraud

Although there are countless instances of financial fraud, the vast majority fall into four major categories. A brief description of each category is provided below, followed by some of the most common schemes employed by fraudsters in each major area. A list of key resources, most of them on the web, accompanies each fraud category, along with a brief explanation of what those resources offer. Additional information about financial fraud is available in the Resources section at the end of this guide. Specific information about reporting and recovery for each category is provided in Section 3 of this guide, Action Steps by Fraud Type.

1. Identity Theft

Identity theft is a crime that involves the illegal access and use of an individual’s personal and/or financial information. Identity theft can result in financial loss and seriously damage a victim’s credit history, requiring substantial effort to repair. Identity theft often sets in motion, or makes a victim more vulnerable, to other types of financial fraud.

Identity theft may be committed against anyone whose personally identifiable information (name, Social Security number, credit card number, date of birth, etc.) is exposed. In an increasingly electronic world, we are all at risk.

Common Schemes

- **Credit card skimming**: stealing a victim’s credit card information during a legitimate transaction.
- **Dumpster diving**: searching through trash to find personal information to steal.
- **Hacking**: electronically breaking into personal computers, databases at financial institutions, and online retailers to steal personal information.
- **Stealing a wallet or purse**: using someone’s driver’s license, personal checks, or credit or debit cards directly.
- **Phishing**: using spam email or the phone to pose as a legitimate organization to lure victims into revealing bank or brokerage account information, passwords or PINs, Social Security numbers, or other types of confidential information.
2. Investment Fraud

Investment fraud generally refers to a wide range of deceptive practices that scammers use to induce investors to make investing decisions. These practices can include untrue or misleading information or fictitious opportunities. Investment fraud may involve stocks, bonds, notes, commodities, currency, or even real estate, and the scams can take many forms. Fraudsters can turn on a dime when it comes to developing new pitches or come-ons.

Research funded by the FINRA Investor Education Foundation shattered the stereotypes of investment fraud victims. Initial and follow-up research found typical victims to be:

- predominantly male;
- financially knowledgeable (victims scored higher on financial literacy tests than non-victims);
- college educated; and
- self-reliant when it comes to making decisions.

In addition, victims tended to have above-average income, and many older investors (ages 55 to 65) showed a willingness to engage in financially risky behaviors. These behaviors included not checking the registration status of investment professionals or products, being open to new investment information and attending free meal investment seminars, and relying on investment tips from people they know.

Common Schemes

- **Advance-fee scheme**: the fraudster offers to pay an enticingly high price for worthless stock in the investor's portfolio. However, the investor must remit a “processing fee” in advance to pay for the service. The fraudster receives the payment from the investor but never purchases the stock, as intended. Advance-fee schemes often apply to many other common financial frauds, including beneficiary and lottery scams and the oft-mentioned “Nigerian 419” scam. Regardless of the hook, the format is the same—the consumer is tricked into handing over his or her own funds with the expectation of something of greater value, which never materializes.

- **Market manipulation or “pump and dump” scam**: a fraudster deliberately buys shares of a very low-priced stock of a small, infrequently traded company and then spreads positive, usually false, information to build (or “pump”) interest in the stock. Believing they're getting in early on a promising investment, unknowing investors create buying demand, resulting in a rapidly increasing stock price. The fraudster then sells (or “dumps”) his or her shares at the higher price and vanishes, leaving many people caught with worthless shares of stock when it becomes apparent there was no basis for the positive outlook for the promoted company.

- **Ponzi scheme**: a person known as a “hub” attracts money from new investors and uses it to pay so-called “returns” to earlier-stage investors, rather than investing or managing
the money as promised. Like pyramid schemes, Ponzi schemes require a steady stream of incoming cash to stay afloat. But unlike pyramid schemes, investors in a Ponzi scheme typically do not have to recruit new investors to earn a share of the “profits.” Ponzi schemes tend to collapse when the fraudster at the hub can no longer attract new investors or when too many investors attempt to get their money out—for example, during turbulent economic times.

3. Mortgage and Lending Fraud

Traditional mortgage fraud includes situations in which homebuyers and/or lenders falsify information to obtain a home loan. False information can include overvalued appraisals, guarantees of low interest rates, inflated income, and the fraudulent use of someone’s name without the knowledge of that individual. This fraudulent activity can also include loan modification, foreclosure prevention, and other lending fraud, for example, in which a consumer is promised a service related to a mortgage (whether new or refinanced) in exchange for an up-front fee. Unfortunately, many of these loan modification and foreclosure prevention fraudsters take the pre-paid money and disappear before providing any services to the victim.

These scams use a variety of simple tactics to identify their financially distressed victims. Some scammers locate distressed borrowers from published foreclosure notices or other publicly-available sources. Others rely on mass-marketing techniques such as flyers, radio, television and Internet advertising to lure in distressed borrowers. Still others deceptively suggest an affiliation with a government agency to quickly earn the trust of unwitting victims.

Common Schemes

- **Appraisal fraud**: loan officer fraudulently overvalues an appraisal to make a sale.
- **Mortgage rescue and loan modification scam**: an advance-fee scam where homeowners are lured with promises to save them from foreclosure or lower their mortgage payments—in exchange for an advance or monthly fee. Sadly, many of these homeowners never get the relief they have been promised.
- **Reverse mortgage scam**: while they can be useful products, reverse mortgages have been associated with high fees and aggressive marketing as an easy way for retirees to finance lifestyles—or to pay for risky investments—that can jeopardize their financial futures. In some cases, a victim pays an advance fee to obtain a reverse mortgage that is never provided.
- **Loan origination scheme**: perpetrator originates a loan using false information (e.g., misrepresenting the buyer’s income or employment).
4. Mass Marketing and Other Fraud

Mass marketing fraud is the use of false promises of cash prizes, services, goods, or good works in exchange for fees, donations, or purchases. This crime may be committed through the mail, telephone, email, television ads or infomercials, or any other form of mass or individual communication.

This fraud is often defined by the form of communication used to conduct it. Mail and wire fraud occur when U.S. mail or a wiring service, respectively, are used to further a fraud scheme—whether it originated in person, through the mail, by telephone, or over the Internet. In many cases, these violations are associated with other areas of fraud. For instance, a Ponzi scheme investment opportunity may be marketed through U.S. mail with “investment” payments made through a wire service.

Most of the schemes described below are perpetrated through an advance-fee scenario; the targeted consumer is enticed to send money first in anticipation of a much greater reward, opportunity, or return that is never realized. Additionally, there are many other types of fraud that defy categorization, but often involve communication over the Internet.

Common Schemes

- **Fake check scams:** a cashier’s check is sent by mail along with a letter that claims the consumer has won a lottery or is otherwise owed money (perhaps is the beneficiary of an estate of a relative they’ve never met). The consumer is asked to pay a “processing fee” or “taxes” on their windfall before the funds can be released to them. The cashier’s check is provided purportedly as an advance to help them pay the fee or taxes. The scammer instructs the victim to deposit the check into a bank account, extract all or a portion of the proceeds in cash from the bank account, and then send a payment via a wire transfer to cover the fee or taxes. By the time the victim and the bank discover the cashier’s check is counterfeit, the wire transfer has been claimed by the fraudster, robbing the victim of the amount of the transfer.

- **Foreign lottery schemes:** promises of winnings from a fraudulent foreign lottery with the requirement that the “winner” pay an advance fee to cover taxes, before the winnings can be released.

- **Mystery shopper scams:** “hiring” a victim to serve as a mystery shopper to evaluate stores or restaurants; victim is conned into paying an advance fee to apply and then receives no compensation.

- **“Nigerian” email or telephone schemes:** an offer received by mail, telephone, or email for the “opportunity” to share a percentage of millions of dollars that the scammer purports to be transferring out of Nigeria or other countries; victim is scammed out of an advance payment that was required before receiving his or her “share.”
• **Sweepstakes schemes**: offerings that inform consumers they have “won” a sweepstakes (that they have, in most cases, never entered); victim is conned into paying taxes or service fees but ultimately receives no prizes or benefits.

• **Work-from-home and business opportunity scams**: for a “small fee,” the ad says, individuals can learn how to earn money working from home or buying into a franchise business opportunity. But once they pay the fee, they find out the promoter never had any work or business opportunity to offer. Many times, after the victims send in money, they receive a letter instructing them to convince other people to buy into the same “opportunity” or some other product. The only way to earn any money is if others pay in.
Victims and Perpetrators of Financial Fraud

Who Are Victims?

Anyone can be a victim of financial fraud. Research consistently shows that victims come from all education levels and socio-economic backgrounds. There is no single profile of a victim of financial fraud, and there is no level of intelligence that can prevent a person from being victimized. Everyone is at risk.

Even though anyone can be a victim, some types of financial fraud are more prevalent among particular groups of people. For instance, victims of investment fraud are most often male, financially literate, college educated, and approaching or in retirement. Lottery fraud victims are more typically single, older consumers and those who have lower levels of education and income.

It is important for victim advocates to understand that victims of financial fraud have not only been financially devastated but also emotionally deceived. They often feel isolated and blame themselves and their intellectual capacity for the fraud. Financial predators are skilled operators of scams. They possess a shrewd understanding of human behavior and how to manipulate people. In some cases, perpetrators of financial fraud may also be family members of victims, which can increase victims’ emotional turmoil. Recognizing that everyone is vulnerable to fraud, and making this clear to the victim, helps remove the embarrassment that can be so devastating.

High-Target Populations

Some populations are more frequent targets of fraudsters because of their age, health, or life situation. Among those targeted are:

- senior adults, especially those who depend on family and friends for their care or those who have physical or mental impairments;
- individuals who are physically impaired;
• individuals who have cognitive issues or age-related mental incapacity (e.g., dementia, including Alzheimer’s Disease);
• those who are grieving the loss of a loved one;
• victims of domestic violence;
• near-retirees; and
• previous victims of financial fraud.

Fraudsters target such populations for a variety of reasons. They may think these groups will more easily hand over control of their finances due to cognitive disability, emotional fragility, or simply a desperate need for a quick financial fix. They may also target them for one simple reason: they have money. This is the case with new and near-retirees who may be likely to have access to retirement savings or pensions, and may be open to suggestions for how to handle these funds. It is also the case for those who have recently come into a financial settlement or monetary windfall—such as an inheritance, lottery winning, or professional athletics contract.

Not every person who encounters a fraudster becomes a victim of a financial fraud. The victim's response to the fraud appeal can affect the outcome. Researchers are particularly interested in identifying behaviors that differentiate victims from non-victims in similarly targeted populations. According to a 2011 AARP Foundation National Fraud Victim Study, other factors predisposing people to financial fraud (excluding identity theft) include:

• a high level of interest in persuasion statements that are commonly made by fraudsters and sales people; and
• increased exposure to sales situations, such as attending free-meal financial seminars and opening and reading all mail.

These considerations are important for advocates to recognize in individuals to help them prevent further victimization.

**Who Are Perpetrators?**

For victim advocates, understanding who may be a potential exploiter is every bit as important as knowing who may be commonly targeted. Depending on the type of crime, perpetrators may be perfect strangers whom victims have never met, or individuals whom the victims know and trust, such as relatives, caretakers, friends, or colleagues.

Fraudsters often target their victims through traditional offline social networks, such as community service groups, professional associations, or faith-based organizations. Scammers infiltrate groups of individuals connected through common interests, hobbies, lifestyles, professions, or faith to establish
strong bonds through face-to-face contact and sharing personal interests before launching their schemes.

Perpetrators may include:

- Family members, especially those caring for the victim or those in a position of control over the family member’s care.
- Members or leaders of a victim’s affinity groups, such as:
  - Religious bodies
  - Civic groups
  - Ethnic groups
  - Political parties
  - Book clubs
  - Community groups
  - Professional organizations
- Trusted advisers, such as:
  - Accountants
  - Attorneys
  - Investment professionals
  - Bankers
- Strangers

In general, most perpetrators of financial fraud (outside of identity theft) are individuals whom the victim trusts. That trust is the vehicle for financial fraud and often makes the fraud particularly devastating to the emotional stability and confidence of the victim.

“These perpetrators are manipulative and highly organized. They used tactics to gain your trust. But by working together – being proactive and organized – we can put a stop to their violations and help you recover.”
Costs of Financial Fraud

Emotional Costs

Financial fraud can exact a heavy emotional toll on its victims, whose reactions to being victimized may resemble those of other crime victims, including victims of violent crime. Understanding such reactions is key to aiding the emotional recovery of financial fraud victims.

Fraud victims often suffer from:

- denial;
- fear;
- guilt;
- shame;
- isolation;
- anger;
- loss of self-confidence;
- loss of trust in others; and
- depression.

Financial fraud victims often feel as though they should have known better or done more to prevent the fraud. It is important for advocates to stress that the blame for the crime belongs to the perpetrator, not the victim.

" Financial fraud is a crime of opportunity, much like burglary. You are not to blame for the fraud. No one deserves to be a victim of fraud, and you are certainly not at fault for this crime. The perpetrator is responsible."

Monetary Costs

Financial fraud amounts to billions of dollars lost annually. For individual victims, the cost can be devastating. In addition to losing significant sources of income and equity, victims often must spend months sorting through a confusing series of reporting requirements and dealing with financial institutions simply to stop the fraud from continuing to occur.

After all that, financial recovery may be limited or impossible. Advocates can help manage the expectations of the victim in relation to financial recovery. Victims need to understand that although recovery of lost assets may not be possible, they can take back control of their lives and financial futures, and put an end to the trauma and stress of being victimized.
Individual victim losses may include:

- time and money spent clearing up financial and credit records;
- lifetime or retirement savings, benefits, or personal property;
- home or home equity;
- retirement income;
- ability to live independently; and
- employment.

In short, the costs of financial fraud go well beyond the loss of money, and include emotional and mental health costs for victims. Advocates can help victims by supporting them emotionally, helping them understand that they are not to blame. If necessary, advocates should connect victims with mental health resources. Finally, advocates can give victims a process to follow to report the crime and, to the extent possible, recover losses.

“ You have been through an emotional and financial shock. Your money may or may not be recoverable. But we can work together to rebuild your life and help you move forward. ”