AFFINITY FRAUD:
How Blind Trust Can Break the Bank

Affinity fraud occurs every day at places of worship, in tight-knit ethnic or immigrant communities, at country clubs, in professional organizations, in online forums, and anywhere that people gather around a shared belief, interest, or goal.

That shared interest – the reason a group gathers in whatever form it does – creates camaraderie and trust among the members. Fraudsters join these groups and use the trust they build to convince members to invest in investment schemes or phony business projects to line their own pockets, leaving investors broke.

What is Affinity Fraud?

Affinity fraud is a fraudulent financial scheme that involves a scammer who is or appears to be part of a community or interest group. The scammer builds trust within the group, and exploits that trust to push fraudulent, non-existent, and too-good-to-be-true investments on other members of the group. The members of the group rely on their trust in the scammer when they invest and take the scammer at his or her word about the investment. By the time the members recognize the scammer for the fraud he or she is, their money is gone. Frequently, victims fail to report the fraud to avoid embarrassment or because they want to handle it within the group, allowing scammers to prolong their schemes.

How Affinity Fraud Works

A person committing an affinity fraud either is or becomes a part of a group of like-minded people. The scammer pretends to share the same traits or beliefs as the group membership and earns the trust of the group. Once trust is gained, the scammer strikes. The scammer gathers money from investors in the group, and often pays returns using new investor money. The scammer perpetuates this as long as he or she can.

Immigrant and ethnic communities with language barriers are also frequent targets. Newcomers to the country rely on their communities and trust that the established community members will look out for them. Often, by the time a victim realizes that the scammer has stolen their money, it is too late.

Affinity Fraud Example

Desiree has been attending the same church for many years. One day, the pastor introduces a new member of the congregation, Jim. Jim spends the next several months getting to know parishioners, and even reads scriptures and gives sermons for the pastor on occasion. Everyone loves Jim!

Jim gathers a group of parishioners one Sunday after service, including Desiree, and tells them about an exclusive investment opportunity that he has just for them. Jim's investment pays more than their savings accounts and has zero risk, but he needs a check or cash before he leaves church that day. Desiree knows Jim and trusts him, so she gives him a check for $2,000. Like clockwork, the interest checks come in and the statements Jim gives her show huge gains in her account! (over)

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Example Continued:

Desiree is so impressed that she gives Jim the rest of her savings and tells her sister Nicole, who also invests with Jim.

Two months later, Desiree stops getting the promised returns. Jim assures Desiree that everything is okay, it's just an issue with a supplier of the company that is funding the returns. Desiree believes him and agrees to wait it out. Jim stops coming to church, and stops responding to Desiree, Nicole, and the rest of the church members that invested with him. When they report the matter to their local securities regulator, they find out that Jim and the product were unregistered, and that their savings are likely gone forever.

Investor Beware

Know that it's common. Affinity fraud happens every day, all over the United States and Canada. Investors should be cautious if they are approached about an investment at church or in a community group.

Don't act on personal feelings. People who commit affinity frauds are usually very likable and seem trustworthy. Investors should never let their comfort with a person's character and status in the community replace adequate due diligence. Ask questions.

Don't act too quickly. If someone offers you a can't miss investment opportunity and puts you on the spot, don't be afraid to walk away. Never make an investment decision without understanding where your money is going, how it will be used, and how you can get it back.

Everything has risk. There is no such thing as a risk-free investment, and anyone who promises otherwise is lying. Investors should always ask about the risks of the investment, and understand issues such as liquidity, investment timeframe, rate of return, risk of loss, and how the proceeds of the investor's investment will be used to turn the promised profits.

Trust but verify. Affinity fraud frequently involves someone that the victim has known for many years. The simple fact that you've known a person for 20 years does not replace the need to ask questions about any investment opportunity, and to take pause if you don't understand it.

Always ask if the person *and* the security are registered.
Search on FINRA's BrokerCheck, or the Canadian Securities Administrators' National Registration Search databases to confirm if the salesperson is registered. Regardless of how long you have known a person or been conducting business with an individual, it's worthwhile to do a quick search in the database to confirm up-to-date licensing and compliance. If the person isn't registered, ask why, and carefully consider if the investment is worth the risk.

The Bottom Line

If you think you are a victim of affinity fraud, file a complaint at www.michigan.gov/miclear. Learn more about the red flags of fraud in this short video from the North American Securities Administrators Association (NASAA).

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