

Don't Be Robbed By Fraud

Cooperative Extension Service
College of Agriculture and
Home Economics



Guide G-205

Constance Kratzer,
Family Resource Management Specialist

This publication is scheduled to be updated and reissued 11/07.

Fraudulent and deceptive schemes come in many forms. Some are subtle and difficult for the consumer to detect. In less than six months, the New Mexico Attorney General's office helped to resolve over 300 consumer complaints about fraud regarding auto purchases and repairs, home repairs, catalog and tele-marketing mail orders, retail sales, false advertisements, billing for goods and services, and credit card use.

Being an alert consumer is the first step in self-defense. Many problems can be avoided by recognizing fraudulent schemes and the tactics that are used to cheat consumers out of their money.

VACATION SCHEMES

Variations of vacation schemes are common. Vacation certificates of \$69.50 to \$99.50 for various resort areas can be used to receive discounts of up to 50% at hotels such as Marriott, Sheraton, and Hilton. Seven nights in a luxury hotel in Acapulco can cost only \$229. Travel club memberships for \$200 buy a bargain Hawaii trip.

The two main types of travel fraud are vacation certificates and "two for ones." Certificates offer big discounts on hotels and plane fares. The certificates require a partial fee up front, and the purchaser promises to pay the balance 44 to 60 days before departure. Postponement of the trip usually follows, with excuses such as the hotel is booked when you want to travel or plane reservations are unavailable on the date requested. By the time the buyer complains to authorities, the company has disappeared.

The "two for ones" also offer unbelievably low prices. To qualify, the buyer must have a second person along who will pay "full fare." Sellers require a \$200 to \$300 prepayment. Then the buyer discovers that the "full fare" price is two to three times more than normal.

When the promoters will not make a refund, contact your credit card company if you used your credit card. They will usually make refunds for travel that

was paid for, but not delivered—even if you have already paid the bill.

TELEPHONE INVESTMENTS

In recent years the Federal Trade Commission has brought suit against numerous telephone investment companies and recovered millions of dollars for consumers. Even so, the FTC estimates Americans lose nearly \$1 billion every year from fraudulent investments. When you have invested by phone, chances of getting your money back are slim. Even in cases where authorities do recover money, consumers usually get back less than 10 cents on the dollar.

The telephone is the major method of fraudulent investment sales. Boiler-rooms with high-pressure salespeople make hundreds of calls a day. The con-artists sell gold and other metals, coins, assorted securities, oil and gas leases, and cellular telephone licenses.

These operators are hard to prosecute. They move their systems from location to location, change their name, and sell a new product. Don't risk your hard-earned money in investments sold by strangers over the telephone.

If you need to make a complaint, the following agencies handle various investment frauds: the Federal Trade Commission, the Chief U.S. Postal Inspector, the Commodities Futures Trading Commission, the Securities and Exchange Commission, the State Attorney General's Office, and the State Securities Commission.

CREDIT REPAIR FIRMS

Some firms promise through newspapers, radio, TV, and direct mail to help people with bad credit records to get credit cards and improve their credit ratings. These firms make claims such as "We can get you a Visa or MasterCard regardless of your credit history" or "If you have a bad credit rating, we will

help clean it up.” Fees for these services may range from \$100 to \$700. One of the largest “credit repair” companies in the country had 29 clinic franchises in 13 states and Washington, DC. The Federal Trade Commission filed complaints for false claims against the company and it is now closed.

OVERSEAS JOB PLACEMENT

Some overseas job placement firms provide a legitimate service. Others are a rip-off. For example, the Federal Trade Commission has charged one firm with using a fraudulent telemarketing scheme that offered to place customers in overseas jobs. The firm claimed to match applicants to jobs using a computerized database of openings for fees of \$395 to \$550. The company advertised in national magazines and newspapers, and used local media, direct mail, and telephone promotions. Approximately 70,000 customers were bilked out of \$25 million.

CHAIN REFERRAL SALES

This scheme promises that you can buy an item for little or nothing. All you have to do is give names of others who will buy and you will receive a commission for each person who purchases the item. This is illegal in New Mexico. Report anyone who tries to sell to you in this manner to the Attorney General’s Office.

MULTILEVEL OR PYRAMID SALES COMPANIES

Over \$400 million have been taken from the American public by fraudulent multi-level or pyramid companies, the Federal Securities Exchange Commission estimates. The scheme is a selling plan in which a person is sold a distributorship to sell a product. The big profits are supposed to come from commissions for recruiting others to be agents or dealers. The recruiter also receives a percentage of their sales. The cost of buying the distributorship and the products may amount to several thousand dollars. Endless recruiting of more and more people to serve as distributors eventually leads to an oversupply of sellers. The investors may then be left with a garage full of products and loss of their investment.

New Mexico has a law that requires all sales companies to file with the Attorney General so that fraudulent companies can be identified. Before invest-

ing your money in any selling plan, check with the Attorney General’s Office.

VENDING

A Texas firm selling franchises for hot beverage dispensing machines used deceptive methods to recruit franchisers and distributors. Claims that one could earn up to \$25,000 to \$45,000 a year were false, according to the FTC. Exclusive distributorship and continuing assistance from the firm were not provided by the firm as claimed. Profitable routes were not established as stated. Claims that the machines were well constructed and durable were misleading. Be cautious and do extensive investigation before investing in a vending operation.

PIGEON DROP

The pigeon drop con is a team effort. The con team establishes a sense of trust in the victim with one member striking up a conversation. The other con-artist interrupts their conversation asking whether money he has just “found” belongs to either of them. When both say “no” the victim and “friend” are asked to “share the money” but must put up an equal amount to insure that they can repay the money in case someone should claim it. After the victim gets her money, the con artists stage a switch of some sort and disappear with all the money.

An 84 year-old Albuquerque woman lost \$1600 in a variation of this scheme. Two female con artists convinced the woman they needed her as a witness to their discovery of a large sum of money found in a telephone booth. The woman was told she would have to put up \$1600, but would receive a reward of \$1000 for helping. The con artists disappeared with the money. The victims of this cruel crime are often elderly.

BANK EXAMINER

This scheme appeals to a victim’s concern about his bank’s security. The con artist claims to be a bank examiner who is checking to see if a bank employee is dishonest. The victim is asked to withdraw money from his account and to turn it over to the “examiner” as evidence for the investigations. The victim is usually given an official-looking receipt and promised that the money will be re-deposited in his account when the investigation is completed. The victim finds

out too late that the investigation and the “bank examiner” are a hoax.

HOME IMPROVEMENTS

A phoney repair person approaches a homeowner posing as a city official or saying he was referred by a neighbor. He calls attention to a “flaw” or problem in the house that must be repaired immediately. After being promised quick and efficient repair work at bargain prices, the homeowner is convinced to sign a contract and make a sizeable down payment to “pay for materials.” The repair person may disappear at that point or, shoddy repairs may be done and an exorbitant charge will result when “additional” repairs must be done. The signed contract may indicate that the house can be seized if payment is not forthcoming.

In other cases a firm may falsely tell victims that their homes have been selected as model homes and owners will receive a discount on the goods to be used. One siding firm misrepresented that its siding was unconditionally guaranteed for 25 years and would never need repair. They falsely claimed the purchaser would save 30% in heating or cooling bills. They also stated falsely that the siding was available at reduced prices for a limited time only.

Many versions of this scheme are around, including roof repairs, remodeling, topsoil and humus, and termite inspection. If you need home improvement of some type, check for legitimate contractors in your community. Many of the fraudulent operators are fly-by-night companies that travel through the country. If the job is not done properly, they will be long gone by the time you want to complain.

Get several price estimates. When you sign a contract you may obligate yourself to pay even if the job was not done properly. The contract may be a lien on your property, which means your property can be seized if payment isn’t received.

BUYING LAND

Land sale promotions have led many people to invest in undeveloped land that was falsely described as a “terrific investment,” “a promising retirement area,” or a “recreational development.” Cases show some people have bought lots in remote desert areas, in swamps, or on the side of a cliff. Sales promotions may include free dinners and trips to Las Vegas, free TVs, and other items.

Land investment can be expensive. Don’t buy without seeing the property. Determine if there is easy ac-

cess to the property and if water and utilities are, or will be, available at a reasonable cost.

Federal regulations require land companies selling lots to give the prospective buyer a financial status report and a property report. Always get these before buying. See an attorney before signing a contract so that clear title to the land can be checked.

HOW TO COMPLAIN ABOUT FRAUD

The best way to stop consumer fraud is to complain to the proper authorities. If you think you have been the victim of a fraudulent scheme and need to know the proper regulatory agency to contact, call 1-800-678-1508 or write:

The Consumer Protection Division
Attorney General’s Office
P.O. Drawer 1508
Santa Fe, NM 87504

If you have a complaint about a product you bought through the mail, write to the Consumer Protection Office, U.S. Postal Service, Washington, DC 20260.

AVOIDING FRAUD

There are numerous schemes that are used to separate people from their money. Under the Unfair Trade Practices Act, New Mexico prohibits most deceptive or dishonest business practices aimed at consumers. The law states “any false or misleading statement, oral or written, visual description or representation of any kind knowingly made in connection with a sale, lease, rental, or loan of goods or services in extension of credit or in collection of debts which deceive or mislead” will lead to prosecution. But, con artists still approach victims daily. To protect yourself from being conned, follow these cautions:

- 1) Before agreeing to any transaction, check with officials—the local police department, Attorney General, Better Business Bureau, or consumer protection offices.
- 2) Shop around for services or products and compare prices and quality.
- 3) Do not sign any contract without reading it carefully. If you have questions, consult your lawyer or someone you know and trust.

- 4) Never do business with someone who appears at your door uninvited.
- 5) Deal with local firms that are well established and that you can check among your friends and neighbors.
- 6) Never give your credit card or bank account numbers to anyone over the phone unless you initiate the call.
- 7) Do not pay for services before you receive and are satisfied with them.
- 8) Be wary of promises of goods or services at “special” prices, prizes that require a payment or service charge, or “free” offers.
- 9) Ask for credentials and references of anyone offering goods or services over the phone or door-to-door. Then, check them before doing any business.
- 10) Remember, when an offer sounds too good to be true, it usually is!

Original author Jackie Martin, former Extension family finance specialist.