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## **NEWS RELEASE**

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### **Promises, Promises: Investors Warned About Risky, Fraudulent Promissory Notes**

Boise, Idaho . . . Gavin Gee, Director of the Idaho Department of Finance, is warning investors about the marketing of promissory notes that claim to "guarantee" high interest rates but are in fact very risky and often fraudulent.

Securities regulators in over 35 states have reported complaints or brought enforcement actions involving promissory notes. The North American Securities Administrators Association (NASAA), which represents state regulators, included promissory notes on a recent list of "Top Ten Investment Scams."

Promissory notes are often sold by unwitting insurance agents, financial planners and others--lured by high commissions--who may know nothing about the promoters of the investments beyond what they're provided in the promoter's marketing materials. The agents also may not realize that they must be licensed as securities brokers with state securities regulators to sell securities.

Regulators say a promissory note scam can work like this: An agent you know might call you with an intriguing investment opportunity. A "well-established" company is looking to expand its business and needs to raise capital. Instead of borrowing money from a traditional lender, such as a bank, it is offering investors an opportunity to purchase "promissory notes," typically with a maturity of nine months and an annual interest rate between 12% - 18%, far more than an investor could get elsewhere. Beyond investing new money, agents often recommend that investors "cash-in" other financial assets such as securities, annuities or life insurance policies and "roll" them into these notes. The agent's rationale is that the notes are very secure while offering interest rates that are extremely attractive, especially when compared to the rates of return on insurance and annuity products. Investors are often also encouraged to avoid stock market volatility by liquidating securities and placing them in these notes programs.

The investments, regulators warn, are likely to be either obligations of fraudulent or poorly capitalized institutions that abscond with the clients' money or simply a "Ponzi scheme" paying Peter with new money from Paul.

In Idaho, seven persons involved in a notes offering emanating from California have been sued by the State. In this case, the State has alleged that several Idaho insurance and securities salespersons were associated with the offer of notes that were purported to be collateralized by the life insurance policies of terminally ill persons. Criminal complaints and cases brought by other regulators in this matter alleged that no insurance policies existed and that the promoters were essentially paying themselves with investor monies.

What attracts investors to a promissory note scheme? According to Gee, the notes are often sold by unsuspecting agents that investors already trust, and the rates of return are very attractive. "The combination of trust, the illusion of safety and the short maturity of the note create a lethal combination that can be difficult to resist."

Here are some tips to protect yourself and your money:

- Before investing in any promissory note, investors should always check with their state securities regulator to confirm that the notes are properly registered or legally exempt from registration. If you can't verify that the notes are registered or exempt from registration, hold on to your money. Do research to ascertain the legitimacy of the company whose notes are being offered. Selling agents should thoroughly investigate any investment "guaranteed" by a bond from an offshore bonding company. The Idaho Department of Insurance can verify if the bonding company is registered to do business in the U.S.
- Agents selling these "notes" are usually required to be licensed by both the state and the National Association of Securities Dealers. To find out if the agents are registered or have a disciplinary history, contact the Idaho Department of Finance at (208) 332-8004 or call the NASD Public Disclosure Hotline at 800-289-9999.
- Be suspicious if the notes have an above-market rate with a maturity of less than a year. With 30-year Treasury bonds yielding around 6% and the national average for a one-year FDIC-insured bank certificate of deposit just below 5%, you should be very skeptical when someone offers you a nine-month "note" from an obscure firm promising 12%.



The Department urges any Idaho residents who have been approached to participate in these types of offerings to contact the Department at (208) 332-8004 or toll free within Idaho at 1-888-346-3378.