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NEWS RELEASE

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Financial Literacy Tip of the Week

Affinity Fraud: How Blind Trust Can Break the Bank

Boise, Idaho... 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. “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” said **Patricia Perkins**, Director of the Idaho Department of Finance.

What is Affinity Fraud?

Affinity fraud is a fraudulent financial scheme that involves a scammer who builds trust within a particular group, and exploits that trust to push fraudulent, non-existent, and too-good-to-be-true investments on other members of the group. Immigrant and ethnic communities with language barriers are frequent targets. By the time group members recognize the scammer for what 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 Does Affinity Fraud Work?

A person committing an affinity fraud either is or becomes a part of a group of like-minded people. Once trust is gained, the scammer strikes. The scammer gathers money from investors in the group, and often pays returns using new investor money.

Investors 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.

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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 time frame, 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. Please contact the Department or visit our website at www.finance.idaho.gov to check on the investment and the person salesperson. 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

It's up to you to be proactive and safeguard your investments from unscrupulous financial professionals. That begins with educating yourself concerning investments and checking out your broker before you invest. Please contact us or visit our website at www.finance.idaho.gov for more information!

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*Department of Finance Press Releases and a list of **free** financial literacy events can be found on the Internet at www.finance.idaho.gov and may be obtained by contacting the Department at (208) 332-8000 or Idaho toll-free at 1-888-346-3378.*