

WARNING: BEWARE of Affinity Fraud

What Is Affinity Fraud?

Affinity fraud is practiced by con artists who share a common membership with their victims in an ethnic, religious, career, or community-based group. The con artist 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.

Example of Affinity Fraud

A common scam is to get members of a group to trust the con artist by first selling to a few prominent members.

Once those initial members receive the promised high return, the scam is then pitched to other members using the previous buyers as references. Early investors may be wildly enthusiastic about a scheme that can collapse entirely after more investors are taken in.

Once victims realize that they've been scammed, they're often reluctant to tell others or notify authorities. Victims may try to resolve the problem within the group. Con artists count on this loyalty, knowing resolution is rarely attained, and the con artist gets away with the money.

Protect Yourself from Affinity Fraud

Know that it's common. Affinity fraud happens every day, all over the United States. Investors should be cautious. Just because someone belongs to your church, club or business association, or is of the same cultural or ethnic background, doesn't mean you should trust someone without verifying what they're "selling" you.

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. Never take someone's word as a recommendation for an investment. Always ask questions and verify answers – particularly about a person's license to sell an investment product.

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 – and when - you can get your money back.

All investments have risk. There is no such thing as a risk-free investment. Anyone who promises an investment is risk-free is lying. Investors should always ask about the risks of the investment, and understand issues such as liquidity (your ability to sell it), investment time frame, rate of return (how much profit you will make and in what time frame), 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 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 verify licenses of investment professionals before investing any money. You can contact the Washington Department of Financial Institutions (DFI) to learn more about the background of the salesperson and the status of the investment.

Contact the Washington State Department of Financial Institutions by calling 1.877.RING DFI (746-4334) or by visiting <https://dfi.wa.gov/consumers/verify-license>.