

Scams and Schemes

Millions of credit transactions are completed each day. In the vast majority of cases, both sides benefit. But the world is not a perfect place. The credit industry, like any other industry, has a few people who operate on the edge. Some of these people are flat-out thieves. Others operate businesses that are completely legal but can place people who are already in financial trouble into a position from which it will be hard to recover.

Not all financial scams and schemes involve credit. Some deal with investments. They appeal to your desire to make a bundle of cash overnight. But, if it sounds too good to be true, it probably is. Here are some of the more common scams and schemes.



1. What Is Identity Theft?

Can you be electronically kidnapped? Yes. Scam artists get your name, Social Security number, credit card number, or some other piece of personal information. They use this information to open a new credit card account, using your name, date of birth, and Social Security number. When they use the credit card and don't pay the bills, the failure to pay is reported on your credit report. The scammers may call your credit card issuer and, pretending to be you, change the mailing address on your credit card account. Then they make charges on your account. Because your bills are being sent to a new address, you may not realize there's a problem. Scam artists can do all sorts of other damage. They may open cellular phone service in your name. They might open a checking account in your name and write bad checks. Identity theft is illegal.

2. What Is A Loan Scam?

An advertiser runs an ad offering a personal debt consolidation loan, taking all your credit payments and rolling them into one. Rarely is a company name or street address given. Instead, the "lender" has an 800 or 900 telephone number for you to call. When a consumer calls, the company representative asks only minimal information about the loan you want and about your financial history. He or she explains that the customer will be called back to indicate whether or not the loan was approved. All the loans, of course, are approved. The consumer is then instructed to send in a fee in return for the promised loan. The loan, of course, never arrives. A loan scam is illegal.

3. What Is A Credit Repair Scheme?

A company advertises that it can erase your bad credit history or remove bankruptcy from your credit records. The company requests that a fee be paid up-front for which the company promises to "repair" the consumer's credit report. However, there is little, if anything, such a business can do to "repair" a customer's poor credit record. There are no quick or easy ways to repair a poor credit history. A credit repair scheme is illegal.

4. What Is A College Financial Aid Scam?

A company advertises that millions of dollars in scholarships go unclaimed every year. The company promises that it will do the research to find a scholarship. The company requests that a fee be paid up-front, usually \$200-\$400. The company promises that if it can't find a \$2,000 scholarship, it will return the fee. What will a college student get in return? Probably some scholarship information that is available at no cost to anyone who wishes to look. Guidance counselors and college financial aid officers are good sources of reliable scholarship information available at no charge to you. The scam is illegal.

5. What Is A Pyramid Scam?

The key to a pyramid scam is that first participants receive payment for recruiting additional members. The problem with pyramid scams is that there are not enough potential members to keep pyramids growing steadily for even a few months. These plans often promise that if you sign up as a distributor of, say, telephone calling cards, you will receive commissions – not only on your sales but also on the sales of the people you recruit as distributors. Pyramid scams, however, can take several forms. They can be disguised as games, buying clubs, chain letters, mail order operations, or multi-level business opportunities. A pyramid scheme is illegal.

6. What Is A Payday Loan?

A payday loan allows a person to get cash until payday with no credit background check. It is a legal loan and it can help some people in an emergency. An applicant for a payday loan typically provides paycheck stubs, savings account, and checking account numbers to the lender. The person receiving the loan writes a postdated check that is given to the lender. It is written for more money than the amount of the loan. The check is postdated so that it can be cashed later—generally two weeks after the loan was made. The check is then cashed by the lender after the date on the check. Typically, the interest rate (APR) is quite high. The APR may be 500 percent or higher. It is easy for people in financial trouble to fall behind in paying off a payday loan. They wind up taking out another loan and then another. Soon the finance and interest payments are more than the amount they borrowed.

7. What Is Rent-To-Own?

Rent-to-own companies rent and sell appliances, furniture, and electronic products to consumers. Rent-to-own is a legal business. It allows consumers some advantages, such as returning an appliance or furniture after a short period of time. Typically, a consumer agrees to rent something for a short period – one week or a month. If the consumer rents the product for a specified period of time (often 18 months), the consumer will become the owner of the product either automatically or by making an additional payment. How might this business practice become a scheme? Purchasing merchandise from a rent-to-own company usually costs 2 to 5 times as much as purchasing the goods from a department store or appliance store. If the difference in the total payments and a fair price for the product were expressed as an interest rate, the rate could commonly be over 100%.

Match the Scam/Scheme to Its Definition

Match the name of the scam/scheme in the column on the left to its definitions.

Scam or Scheme	Definition
_____ Rent-To-Own	A. A fraudulent company offers to erase a bad credit history or remove bankruptcy information from credit records. It collects an up-front fee and can do nothing to "repair" a customer's poor credit record.
_____ Credit Repair Scheme	B. A fraudulent company offers to find a student a scholarship. It collects an up-front fee and fails to provide the scholarship.
_____ College Financial Aid Scam	C. Scam artists get your name, Social Security number, credit card number, or some other piece of your personal information and use this information to open a new credit card account, cellular phone account, or checking account.
_____ Pyramid Schemes	D. A fraudulent company offers a personal debt consolidation loan, collects an up-front fee, and never provides the loan.
_____ Payday Loan	E. A legal loan that allows a person to get cash until payday with no credit background check. Typically, the interest rate (APR) is quite high.
_____ Identity Theft	F. A fraudulent company in which the first participants receive payment for recruiting additional members.
_____ Loan Scam	G. A legal scheme offered by some businesses where the consumer pays a lot more money for appliances, furniture, and electronic products because of first renting the item and then buying it.

Name that Scam

Read each of the 13 situations below, EXPLAIN what the scam is. Use the list of scams on the previous page.

1. Make big money on your home computer! Join our eel burger distribution network. Cash in on this new health food craze. Email your friends. They can distribute too.
2. Need cash today? Can't wait until you get paid? You can get \$50 to \$500 in 15 minutes. No credit checks!
3. Tired of the broken-down stereo with lousy speakers? Want to step up to a new system but are short of cash? We can make it happen today!
4. Be part of one of America's Fastest Growing Industries. Be the Boss! Earn thousands of dollars a month from home!
5. Here is the deal of a lifetime guaranteed to make you and your friends rich in weeks. Pay \$100 to play Jackpot. In weeks, you will make hundreds more. Don't miss out. This is your chance!
6. You receive an outrageous call from the collection agency saying you have failed to pay a bill for nearly \$20,000. You explain there must be a mistake – that this is not your account.
7. Credit problems? You need not suffer forever! Let us help. We can remove bankruptcies, liens, and bad loans from your credit files forever! Join our hundreds of satisfied customers.
8. Credit problems? You need not suffer forever! Let us help. We can remove bankruptcies, liens, and bad loans from your credit files forever! Join our hundreds of satisfied customers.
9. Looking for a loan or credit card but don't think you'll qualify? Turned down by a bank because of your poor credit history? For a small up-front fee, we can help!
10. Every year, thousands of college scholarships go unclaimed. Are you skimping along simply because you don't have "connections"? We can help! We guarantee that we will find you a \$1000 scholarship. Satisfaction guaranteed!
11. You get a letter in the mail from a bank in another state saying that you have overdrawn your checking account by \$5,000! You didn't even know you had this account.
12. You see an ad on TV: "Anyone can qualify for a major credit card! Separated? Divorced? Bankrupt? Widowed? Bad credit? No credit? No problem! Call 900-555-1111 NOW!!!"
13. Create a new credit identity — legally. We can erase your bad credit — 100% guaranteed.