

NAME: \_\_\_\_\_ CLASS PERIOD: \_\_\_\_\_

## Scams and Schemes

Millions of credit transactions are completed each day. In the vast majority of cases, both parties to these transactions 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, while completely legal, can put people who are already in financial trouble into positions from which they will find it even more difficult 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 any sales pitch 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 also may call your credit card issuer and, pretending to be you, change the mailing address on your credit card account. Then they will 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 might open cellular phone service in your name. They might open a checking account in your name and write bad checks. Identity theft is illegal.

How do these thieves get your information? They might steal your wallet or mail or even your trash! If you have thrown out (and not torn up) credit card offers, bills, bank statements, and receipts, thieves may recover what you have dumped and use the information from your trash to open new accounts. **Skimming** occurs when your debit or credit card numbers are stolen while you are using your card. **Phishing** is the scam whereby thieves pretending to represent banks or other companies send you printed materials or pop-up messages that ask you for account information. **Pretexting** occurs when thieves request your information from financial institutions, phone companies or other sources, under false pretenses. Hackers set up free WI-FI sites in public places so that they can gain access to your computer while you are on unsecured connections.

How do you find out that you are a victim of identity theft? Often it is after some damage has already occurred. You may receive bills for accounts you never opened. You may apply for a loan and be denied. When you view your credit report, you may see overdue debts that aren't yours.

How can you repair the damage done by ID theft? Four steps must be taken after your identity is stolen.

- Review your credit reports and place a fraud alert on your credit report so that you will be contacted before any new accounts are opened in your name. Any of the credit-reporting agencies can help place the fraud account with all three agencies.
- Close the accounts that have been altered or opened fraudulently.
- File a complaint with the Federal Trade Commission. They will work with other agencies and law enforcement officers to try to find the thieves.
- File a report with your local police or the community where the theft took place. You may need a copy of this report to help you dispute things like fraudulent charges to your old accounts or new accounts opened with your information.

For more information on identity theft, go to the Federal Trade Commission's website, [www.ftc.gov](http://www.ftc.gov).

## 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 consumers to call. When you call, the company representative asks only for minimal information about the loan you want and about your financial history. He or she explains that you will be called back to indicate whether or not the loan has been approved. As part of the scam, all the loans 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 needed to find you 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 you get in return if you pay the fee? Probably some scholarship information that is available from public sources 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 college financial-aid scam is illegal.

### 5. What Is a Pyramid Scheme?

A pyramid scheme comes disguised as a system for selling goods. Participants are recruited by advertisements offering big profits to people who pay a fee for agency rights—that is, rights to sell goods as representatives of the pyramid company. Each recruited agent then recruits others to join, with each new participant also paying a fee. The key to the scheme is that early participants receive commissions on any sales they make, plus payment for recruiting additional members. The problem is that there will not be enough new members to keep the pyramids growing steadily for even a few months. When the flow of new members dries up, the pyramid collapses. Pyramid schemes 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 for use until his or her next 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 numbers, and checking account numbers to the lender. Upon receiving the loan, the applicant also writes a postdated check and gives it to the lender. This check is written for more money than the amount of the loan. It is postdated so that it can be cashed later—generally two weeks after the loan is made. The lender cashes the check after the date on the check. In this way, the lender is repaid for the loan issued, with interest. Typically, the interest rate (APR) is quite high. The APR may be 300 percent or higher. Why would anybody borrow money at an interest rate of 300 percent? Probably because the borrower in question has an urgent need for money. Also, the borrower probably believes that the high interest rate won't matter much because the loan will be paid off quickly. But it is easy for people in financial trouble to fall behind in paying off a payday loan. They sometimes wind up taking out another payday loan, and then another. Soon the finance and interest payments add up to more than the amount of money they borrowed. Payday establishments are found across the country. They are legal.

### 7. What Is a Rent-to-Own Company?

Rent-to-own companies rent and sell appliances, furniture, and electronic products to consumers. 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), she or he will become the owner of the product—either automatically or by making an additional payment. Rent-to-own is a legal business. It affords consumers some advantages, such as returning an appliance or furniture item after a short period of time. How might this business practice become a scheme? Purchasing merchandise from a rent-to-own company usually costs two to five times as much as purchasing the same 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 would commonly be over 100 percent.

**Match the Scam/Scheme**

**Directions:** Match the name of the scam/scheme in the column on the left to one of the definitions below.

Scam or Scheme	Definition
Rent-to-own	
Credit-repair scheme	
College financial-aid scam	
Pyramid scheme	
Payday loan	
Identify theft	
Loan scam	

- A. A fraudulent company offers to erase a consumer's bad credit history or remove bankruptcy information from the consumer's credit records. It collects an up-front fee, and it can in fact do nothing to "repair" a consumer's poor credit record.
- B. A fraudulent company offers to find a student a scholarship. It collects an up-front fee and fails to provide the scholarship.
- 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.
- D. A fraudulent company offers a personal debt consolidation loan, collects an up-front fee, and never provides the 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.
- F. A fraudulent company in which the first participants receive payment for recruiting additional members.
- G. A legal scheme offered by some businesses whereby the consumer pays a very high price for appliances, furniture, and electronics products because the consumer first rents an item and then buys it.

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## Name That Scam

**Directions:** Read each scam or scheme described in Column A and match it to one of the names of the scams listed below. Place the letter of the correct answer in Column B.

- |                               |                     |
|-------------------------------|---------------------|
| A. Identity theft             | E. Pyramid scheme   |
| B. Loan scam                  | F. Payday loan      |
| C. Credit-repair scheme       | G. Rent-to-own plan |
| D. College financial-aid scam |                     |

Column A	Column B
1. Make big money on your home computer. Join our eel burger distribution network. Cash in on this new health food craze. E-mail your friends. They can be distributors 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 MP3 player with lousy speakers? Want to step up to a new system but are short of cash? We can make it happen today!	
4. Here is the deal of a lifetime guaranteed to make you and your friends rich in weeks. Pay \$100 to play Jack Pot. In weeks you will make hundreds more. Don't miss out. This is your chance!	
5. You receive an outrageous telephone call from the collection agency saying you have failed to pay a bill for nearly \$20,000. You explain that the correct name was used but the billing address for the account was wrong. Soon you hear from a bank in another state that you are overdrawn by \$5,000 in a checking account you didn't know you had.	
6. Credit problems? You need not suffer forever! Let us help. We can remove bankruptcies, liens, and bad loans from your credit file forever! Join our hundreds of satisfied customers.	
7. Over your head in debt? Bill collectors harassing you? Can't sleep? We can help. We can find credit for you. It's guaranteed! Call 1-800-123-4567.	
8. Every year, thousands of college scholarships go unclaimed. Are you skimping along simply because you don't have "connections"? We can help. We guarantee you that we will find you a \$1,000, \$2,000, or even a \$5,000 scholarship. All your money is returned if you are not satisfied!	