

## Advance-fee loan scams

Advance-fee loan sharks are preying on unwary consumers, taking their money for the promise of a loan or credit, and leaving them in hot water. The scam artists often impersonate legitimate lenders to entice consumers into falling for their bogus offer.

According to law enforcement agencies in the U.S. and Canada, ads and promotions for advance-fee loans suggest — or even “guarantee” — that there’s a high likelihood that a loan will be approved, regardless of the applicant’s credit history. But to take advantage of the offer, the consumer has to pay a fee. The catch? The scam artist takes off with your fee, and the loan never materializes.

### **How to recognize an “Advance-fee” loan scam**

Many advance-fee loans are promoted in the classified sections of daily and weekly newspapers and magazines. Often, the ads feature toll-free 800, 866, or 877 numbers, or area codes from Canada, such as 416, 647, 905, or 705. The loans also are promoted through direct mail, radio, and cable TV spots. The fact that an ad is in a legitimate media outlet — like the local newspaper or radio station —

doesn’t guarantee that the company placing it is trustworthy.

Legitimate offers of credit do not require an up-front payment. Although legitimate lenders may charge application, appraisal, or credit report fees, the fees generally are taken from the amount borrowed. And the fees usually are paid to the lender or broker after the loan is approved. Legitimate lenders may guarantee firm offers of credit to “credit-worthy” consumers, but first, they evaluate the consumer’s creditworthiness and confirm the information in the application. Canadian law enforcers caution that it is highly unlikely that legitimate Canadian lenders would take a risk on U.S. citizens whose credit problems preclude them from getting a loan in the U.S.

Often, advance-fee loan sharks claim that their fees will go to a third party for credit insurance or a related service. Sometimes, they even fax materials using stolen or forged logos and letterheads from legitimate companies. The materials are fakes, according to enforcement officials, and the contracts the scam artists ask consumers to sign are worthless. Adding insult to injury, some scammers have used the information they collect from consumers to commit identity theft.

Often, advance-fee loan scammers direct applicants to send the fees via Western Union money transfers payable to an individual, rather than a business. They ask applicants to use a “password code” with their Western Union payment, which allows the scammers to hide their identity.

### **How to protect yourself**

U.S. and Canadian law enforcers say consumers can avoid being taken by advance-fee loan sharks. Here’s how:

- Don’t pay for the promise of a loan. It’s illegal for companies doing business by phone in the U.S. to promise you a loan and ask you to pay for it before they deliver. Requiring advance fees for loans also is illegal in Canada.
- Ignore any ad — or hang up on any caller — that guarantees a loan in exchange for a fee in advance.
- Remember that legitimate lenders never guarantee or say that you will receive a loan before you apply, or before they have checked out your credit status or contacted your references, especially if you have bad credit or no credit record.
- Don’t give your credit card, bank account, or Social Security

number on the telephone, by fax, or via the Internet unless you are familiar with the company and know why the information is necessary.

- Don't make a payment to an individual for a loan; no legitimate lending organization would make such a request.
- Don't wire money or send money orders for a loan through Western Union or similar companies. You have little recourse if there's a problem with a wire transaction. Legitimate lenders don't pressure you to wire funds.
- If you are not absolutely sure who you are dealing with, get the company's number in the phone book or from directory assistance, and call it to make sure you're dealing with the company you think you are. Some scam artists have pretended to be the Better Business Bureau or another legitimate organization.
- Check out the company. Call the Bureau of Consumer Protection toll-free hotline, (800) 422-7128, to learn of any complaints about companies offering advance-fee loans. Keep in mind, however, that suspect companies often establish their operations in one state, advertise heavily for only a few months, collect their loan fees, only to close up shop and move on to another state before complaints are registered and local authorities have a chance to act. Therefore, just because a consumer protection agency has no complaints on file does not mean that an advance-fee loan business is legitimate.

- Check out questionable ads by calling Project Phonebusters in Canada toll-free at (888) 495-8501.

### **What to do if you are a victim**

If you believe you have been victimized by a fraudulent advance-fee loan operation, contact the Bureau of Consumer Protection to report the company.

### **Where to find low-cost help for credit problems**

First, try to solve your debt problems with your creditors as soon as you realize you will not be able to make your payments. If you cannot resolve your credit problems yourself or need additional assistance, you may want to contact Consumer Credit Counseling Service (CCCS) — a nonprofit organization with more than 700 offices located in 49 states that counsels indebted consumers. CCCS counselors will try to arrange a repayment plan that is acceptable to you and your creditors. They also will help you set up a realistic budget and plan for expenditures. These counseling offices, funded by contributions from credit-granting institutions, are offered at little or no cost to consumers. You can find the CCCS office nearest you by checking the White Pages of your telephone directory or by contacting or sending a self-addressed stamped envelope to:

National Foundation for  
Credit Counseling  
801 Roeder Road Suite 900  
Silver Spring, MD 20910  
(301) 589-5600  
(800) 388-2227  
[www.nfcc.org](http://www.nfcc.org)

In addition, non-profit counseling programs sometimes are operated by universities, military bases, credit unions, and housing authorities. They are likely to charge little or nothing for their assistance. Or, you can check with your local bank or consumer protection to see if it has a listing of reputable, low-cost financial counseling services near you.

### **Wisconsin law protects**

Wisconsin law regulates credit services organizations and prohibits them from making any untrue or misleading representations in the offer or sale of services. The law pertains to companies or individuals that claim they can improve your credit report, history or rating or can arrange for credit. It applies to both for-profit and not-for-profit organizations.

Under the law, credit service organizations must register with the Department of Financial Institutions and provide a \$25,000 bond or letter of credit in order to do business in Wisconsin.

Before a credit services organization can receive payment or complete a contract with you, they must provide a written statement that contains the following:

- A notice of your right to review any file maintained on you by a consumer reporting agency (credit bureau), as well as your right to obtain a copy of the file free of charge if you request a copy within 30 days after being denied credit.
- A notice of your right to dispute the completeness and accuracy of any item contained in a consumer reporting agency file.

- A description of the services to be performed by the credit services organization and the total amount you will be charged for the services.
- A notice of your right to proceed against the bond.

Carefully consider this information. Many consumers have paid credit services organizations hundreds of dollars for services which are available free-of-charge or involve rights that are guaranteed by the federal Fair Credit Reporting Act.

If you do decide to work with a credit service organization, state law now requires them to provide you with a written contract. The contract must include all of the following:

- The organization's name and address.
- A description of the services to be performed and an estimate of the length of time it will take to perform the services.
- All terms and conditions, including the total amount you will be charged for the services.
- A notice that you may cancel the contract, without any obligation or penalty, **within five days** after the date the contract is signed. A notice of cancellation form must be attached to the contract.
- A statement that the organization is registered with the Department of Financial Institutions.

### **Carefully review all contract information**

Check with the Department of Financial Institutions or the Bureau of Consumer Protection to find out about any complaints filed against certain companies or individuals. For more information or to file a complaint contact:

**Department of  
Financial Institutions at:  
(800) 452-3328**

**Bureau of Consumer Protection  
2811 Agriculture Drive  
PO Box 8911  
Madison WI 53708-8911**

**E-MAIL:  
DATCPHotline@Wisconsin.gov**

**WEBSITE:  
www.datcp.state.wi.us**

**Toll-free in WI: (800) 422-7128**

**(608) 224-4976**

**FAX: (608) 224-4939**

**TTY: (608) 224-5058**

(Excerpts from Federal Trade Commission fact sheet, "The Truth About Advance-Fee Loan Scams," 05/05)

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