



## Fleecing The Flock: Five Signs of Faith-Based Frauds

With economic downturns on every front there's a rise in one age-old industry: fraud. And for the faithful, that means that now, more than ever, we need to be "wise as serpents and harmless as doves." Unfortunately, most Christians have only half the proverb down; we are, for the most part, harmless as doves, so many believers in the past several years have fallen prey to the wolves among us. According to statistics compiled by the North American Securities Administrators Association, 75 religion-based scams have affected over 90,000 investors and taken in more than \$1.8 billion. Yes, that's "B" as in "billion." Like the saying goes, "A billion here, a billion there, next thing you know you're talking about a lot of money."

Many of these are "**Ponzi**" schemes, named for the infamous swindler of the early 1900's. Ponzi schemes work on a very simple premise: money from new investors is paid as "dividends" to old or original investors. It works until new monies are cut off, usually by the collapse of the company through government detection or mismanagement.

In a popular scam here in South Florida, **Financial Federated** was a company involved in the viatical insurance business. Viatical companies purchase life insurance policies from terminally ill people for 40-60% of the face value of the policy. Investors provided money to FinFed, who was then supposed to use the money to purchase life insurance policies of people diagnosed with AIDS, who were in the advanced stages of the disease. In theory, the sick person would have access to funds he or she needed now, and investors would receive a portion of the benefits paid by the insurance company at the time of death.

But there were few policies purchased, not nearly enough to cover the \$130 million taken in by the company. At the trials of the principals of FinFed and several affiliated companies, the government was able to establish that investor monies were used to purchase luxury vehicles, homes in the Florida Keys and Stowe, Vermont, and to pay outrageous salaries to the company's key personnel. Some of the monies were returned to investors, and some were used to purchase policies, but the ratio was far too small to give the company even the appearance of legitimacy.

**Baptist Foundation of America (BFA)** of Phoenix, Arizona was founded as a legitimate company in the 1950's. It managed church building funds and retirement accounts and invested heavily in Arizona real estate. But when property values plunged in the 1980's, BFA fell on hard times. Rather than be truthful about its condition and advise investors of the circumstances, BFA initiated a massive campaign to line up new investors—and paid the initial investors “dividends” from the new monies. In 1999, the State of Arizona ordered BFA to stop selling investments—and new monies stopped coming in. When BFA declared bankruptcy, 13,000 investors lost over \$500 million.

What made BFA so long-lived was its “clean bill of health” from auditor **Arthur Andersen**. An outside accountant stated, “The reason this scheme didn't collapse was because of the blanket of snow Arthur Andersen was providing for them.” You may remember Arthur Andersen; they were the accounting firm for Enron, forced out of business by the government who couldn't spank them hard enough.

Here in Florida and the Southeast, we've had several schemes making the rounds. They all have key elements in common, which I'll share with you now.

1. ***Promises of high returns over a short period.*** Reverend Johnny William Cabe of Rock Hill, South Carolina ran an investment club called **HisWay International Ministries**. According to prosecutors, Cabe's “ministry” took in \$8.5 million from investors across the country by promising as much as a *500 percent return in 90 days*. Here's a tip: if you don't want to get ripped off, don't invest in anything promising a 500 percent return in 90 days! Are such returns possible? Of course. But are they the norm, or the exception? Trust me, people accumulate wealth over a period of years with much less spectacular returns. Nowhere more than in the investment arena does the adage apply, “If it sounds too good to be true, it probably is.”
2. ***Appeals made to scriptures.*** Many religious scams utilize scriptures taken out of context. **Greater Ministries International**, based in Tampa, and an offshoot, **Sovereign Ministries** in Orlando, provided brochures and handouts featuring references to Luke 6:38 and Malachi 3, among others. This is an appeal of trust, and tends to disarm many Christians who may be disillusioned with current tax laws or the state of the economy. I have materials from Sovereign Ministries given to me during a presentation by one of their “Ambassadors,” who opened our meeting with a very fervent and scriptural prayer. Within months, the principals of both “ministries” were indicted by the Federal government.

3. **Recruitment of fellow church members.** An internet company called **Families OnLine** offered an “affinity” marketing program to churches whose members became subscribers. FOL offered a \$5 per member monthly bonus to churches who signed up their congregations. It also recruited sales people from investors in the company, who later returned to church and family members and solicited investments from them. None of these sales people, of course, were licensed to market securities, which is what a share of stock is. And, of course, FOL was not licensed to sell securities. But it continued to take in new “investors” from referrals and sales made by a group of the original “stockholders.” “Dividends” were paid to the original group, not from corporate profits, but from monies taken in from new investors, which is the fundamental element of a Ponzi scheme.
  
4. **Complicated explanation of the investment.** Companies make money by selling products or services. This is a basic tenet of a capitalist economy. In order to share in the profits of a company, people invest in the company through shares of stock. The company takes this money and invests it in capital improvements, real estate, or materials used to make the product, which creates more sales, and therefore, more profits. Simple, right? According to the materials provided by **Sovereign Ministries**, the investor’s “gift” (not “investment”) was combined with other “gifts” to purchase *certificates of debt* backed by the International Monetary Fund and the World Bank. These certificates were allegedly monitored by the International Chamber of Commerce of Paris (not to be confused, the handout warns, with the traditional Chambers of Commerce in Hometown, USA). Raise your hand if you’ve heard of the International Monetary Fund. Now, raise it again if you have the slightest idea what that body actually does. And raise it again if you knew there even *was* such a thing as an “International Chamber of Commerce” in Paris, or anywhere else for that matter. Despite this murky and convoluted story, hundreds of people gave “gifts” to this “ministry” that paid for luxury cars, homes, and fancy vacations for the principals.
  
5. **Questionable phrases and suspect tax strategies.** Investments were called “gifts,” dividends were called “blessings,” and at maturity, the “blessings” were considered *tax-free* because of the ministry’s religious affiliation. None of it was true, of course, as “investors” found out when their tax returns were returned by the Internal Revenue Service. A recent scam involves so-called “**slavery reparations**” in which African-Americans are contacted by promoters who claim they can assist the taxpayer in receiving secret “credits” the IRS doesn’t advertise. For a fee or a percentage of the refund, these promoters will fill out a tax form claiming credits for “black investment taxes,” “reparations for African-Americans,” or similar phrases. The IRS is now working with community

leaders and African-American churches to spread the word about these illegal promotions.

These are just a few of the warning signs of a potential fraud. What makes them so attractive to Christians are the promises of high returns and “guarantees” of security, along with claims that the money will be used to further the work of the Kingdom of God. But investment decisions for Christians should be based on the same principles as for non-believers:

1. Are the seller and the investment licensed and registered in your state?
2. Has the seller given you written information that fully explains the investment?
3. Do you understand the business of the company you are investing in?
4. Does the rate of return sound reasonable, in light of your knowledge of the company and its management?
5. Does the investment fit in with your *personal* investment strategy?

Remember, any investment decision should be discussed with a licensed, knowledgeable, and trusted financial professional.

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