

Affinity Fraud address

Mike Otterson - Wednesday, February 15, 2012

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Good morning.

Thank you for the invitation to participate in a discussion of the pernicious and destructive criminal activity known as affinity fraud.

Most of those in this audience are very familiar with this malicious practice and its devastating consequences for individuals, families and communities. On behalf of The Church of Jesus Christ, I congratulate the organizers and supporters of this event for embarking on the twin tasks of exposing those who prey on the weak and unsuspecting, while also warning and educating potential victims. Any crime by which one person takes from another this world's goods is worthy of condemnation. But crimes that by their very nature target those who are trusting, elderly and defenseless are reprehensible.

Just a little less than two thousand years ago, the apostle Paul met with a group of elders in the ancient city of Ephesus. He warned them to "take heed" of the flock of which they were overseers, because after Paul's departure "grievous wolves" would enter among them, "not sparing the flock." He said that these people would speak "perverse things" and "draw away disciples after them."

Now, Paul, of course, wasn't speaking of affinity fraud, but of those who would attempt to distort the teachings and practices of the early church. Nevertheless, as I read this recently I was struck

by the aptness of the language to today's problem. "Wolves in sheep's clothing" is an appropriate way to describe perpetrators of affinity fraud.

Just this week I was speaking to a work colleague who is a bishop in an inner city Latter-day Saint ward. He told me of two cases of affinity fraud in his own community. One of those involved an unmarried lady in her eighties. She is far from wealthy. Through her life she has lived frugally and responsibly, toiling away in regular jobs that were good, but not particularly high paying. Now, in her twilight years and alone, she no longer works, but relies on the means that she carefully set aside for the days of her rest and retirement. A few years ago she invested some of those means with someone she thought she could trust. But her money ended up in a Ponzi scheme that bilked investors of tens of millions of dollars. Her loss was a minute piece of that sum, but it was almost everything she had saved.

This woman tries to stay cheerful, but now she can barely afford to keep the lights on. She is too self-reliant to ask for help, and so she struggles to get by on what she has. She diligently clips coupons, and every time she goes to the grocery store, she carefully counts out her money to make sure she can pay for her food, and cover the tax. She has no opportunity for improving her financial situation, and so she will certainly struggle financially for the rest of her life. The impoverishment and the desperation of this worthy woman's life highlights the real cost of affinity fraud. It targets the vulnerable. It takes the widow's mite.

We should note that this widow was not greedy. She was not looking for unrealistic returns on her savings, or get-rich-quick schemes. She simply wanted a secure and wise place to protect

her life savings, with a reasonable return on investment. I know there are members of our various communities who do speculate unwisely. That is another side of the same coin, although I have somewhat less sympathy for those who ought to know better and are greedy than for those who are vulnerable because of age or widowhood or who are naively trusting.

Sadly, this is not a new problem, and leaders of our various churches and other public figures have warned their communities for years to be wary of those who would entice them to part with their savings without great care and careful assessments.

This is especially challenging because perpetrators of affinity fraud, like child molesters, are predators who exploit one of the things we value most: the trust that makes our communities what they are. We enjoy living in a community where we don't have to suspect the motives of those who we consider neighbors, or perhaps even friends.

An important sociological study of religion in a book called *American Grace* that was released not long ago gives some clues about why scammers find religious communities so appealing. The study noted, first of all, that by and large religious people tend to be more neighborly and better citizens than those who are not religious. Religious citizens are, the study said, more likely to donate to charity, to volunteer for charitable causes, and to help people in need.

But according to the study, religious Americans are also more likely to do something else: to trust. They are far more willing than nonreligious people to have confidence, the study says, "in just about everybody." The researchers say that that includes "shop clerks, neighbors, co-workers, people of their own ethnicity,

people of other ethnicities, and even strangers.” Scholars can’t say exactly *why* this is the case, but they speculate that it may be because religious people “spend time with trustworthy people, or perhaps because their faith encourages them to look on the brighter side of things” (460-461).

Consequently, fraudsters who promote affinity scams frequently are — or pretend to be — members of the group. They often enlist respected community or religious leaders from within the group to spread the word about the scheme by convincing those people that a fraudulent investment is legitimate and worthwhile. Many times, those leaders thereby become unwitting victims of the fraudster's ruse.

Criminals like Bernie Madoff, now serving 150 years in jail — the maximum sentence allowed — in one way serve to remind us of how enormous this crime is. In that case, billions of dollars were extracted from investors over decades. But as we read of such cases we can also fall into the trap of thinking that affinity fraud happens to others, somewhere else.

Such thinking makes us part of the problem rather than part of the solution. We do not need to become paranoid or sacrifice what is best in our communities in order to address this problem. We do need to educate each other to exercise a fair dose of common sense, and especially we should look out for the vulnerable among us and watch their backs. As I have looked at the repeated messages my own church leaders have given on this topic over many years, several elements stand out:

In February of 2008 the First Presidency of The Church of Jesus Christ of Latter-day Saints issued a letter to be read in all wards in the United States and Canada. In warning of “those who use relationships of trust to promote risky or even fraudulent

investment and business schemes,” the First Presidency suggested some sound and simple principles:

“First, avoid unnecessary debt, especially consumer debt; second, before investing, seek advice from a qualified and licensed financial advisor; and third, be wise.” They then encouraged our own church congregational leaders to regularly teach and reemphasize these principles.”

The First Presidency’s message was not new. As I looked back over the years I found numerous addresses by members of the First Presidency or Quorum of Twelve Apostles saying essentially the same thing, sometimes in great detail.

Last August, Elder L. Tom Perry, a senior apostle, warned in an article published in the *Ensign*, an official publication of the LDS Church:

“Many people like to play to activities that produce quick windfalls and often take advantage of others who try to play according to the rules established by good practices. This fast-moving world has heightened the temptation for people to play the game with their own set of rules.”

(L. Tom Perry, “The Tradition of a Balanced, Righteous Life,” *Ensign*, Aug. 2011)

Some of the apostles have been addressing this topic for 25 years or more. Elder M. Russell Ballard said this in 1987:

“There are no shortcuts to financial security. Do not trust your money to others without a thorough evaluation of any proposed investment. Our people have lost far too much money by trusting their assets to others. In my judgment, we will never have balance in our lives unless our finances are securely under control.” (M. Russell Ballard, “Keeping Life’s Demands in Balance,” *Ensign*, May 1987, 13).

A year earlier, Elder Dallin H. Oaks, who is not only an apostle but also a former Utah Supreme Court justice, said: “Scheming promoters with glib tongues and ingratiating manners deceive their neighbors into investments the promoters know to be more speculative than they dare reveal. Difficulties of proof make fraud a hard crime to enforce. But the inadequacies of the laws of man provide no license for transgression under the laws of God. Though their method of thievery may be immune from correction in this life, sophisticated thieves in white shirts and ties will ultimately be seen and punished for what they are.”
(Dallin H. Oaks, “Brother’s Keeper,” *Ensign*, Nov. 1986, 20).

The late apostle Marvin J. Ashton spoke on this theme several times. He included this apt advice: “Avoid those who want immediate decisions or cash right now. All worthwhile investment opportunities can bear deliberation and scrutiny. We must get all the available facts and consider them well, and then make decisions that are in the best interest of all.” (Marvin J. Ashton, “This Is No Harm,” *Ensign*, May 1982, 9)

Similar messages have been delivered many times by apostles of the Church in the years before and since.

Those who practice affinity fraud mask their avarice with feigned affection and their greed with shows of generosity and concern. Where financial predators strike, they leave behind broken people, deep scars, fractured communities, fear and distrust. Fraud may not be a violent crime, but it does great violence to the victim’s life, happiness and sense of self-worth.

As these tragedies accumulate, some are raising important questions: Why, despite all the warnings, does this seem to occur so frequently?

An article ran in the *Economist* a few weeks ago under the headline “Fleeing the flock: The big business of swindling people who trust you.” The gist of the article was to highlight what seems like a trend among fraudsters over the last decade to target and exploit religious communities. It explains how this problem plagues many religious groups across America, “stretch[ing] across all types of belief.” It highlights the trouble among Baptists in the South, and rehearses the gigantic fallout of the Bernie Madoff scheme, which originated in Jewish communities and ultimately cost an estimated \$20 billion. It also mentions Utah, and points out that affinity fraud related to religion is also a problem here.

The Church of Jesus Christ of Latter-day Saints recognizes the significance of this problem and is deeply concerned about the harm it can cause. As the threat of affinity and other fraud has surfaced in recent years, the Church has increased its efforts to teach its members and to encourage them to live by sound financial principles, as well as to avoid the dangers of financial predators.

General leaders of the Church have three primary ways of communicating with Church members: through General Conference addresses, through letters to Church congregations, and through counseling and training of bishops, who are our local congregational leaders. In addition, Church leaders sometimes use the popular press to reach a broader public audience. In the past few years the Church has sought to put this message of warning across to its members through each of these channels.

Church members should not let their natural trust blind them to the dangers of those who would exploit it.

Members would do well to heed the warning of the First Presidency and to “be wise” in all of their financial dealings. They should cultivate a healthy skepticism of all investment opportunities and consult with those qualified to fully understand the risks involved. To Latter-day Saints I would say this: Should someone—inside or outside of the Church—come to you with a financial proposition, ensure that you practice financial discretion and consult qualified, professional advisors with well-established public reputations. There is a difference between trust and naiveté, and Church members must be informed and cautious.

The Church offers these warnings in the hope that financial scams among its members can be prevented from happening in the first place. To those who have been victimized, the Church provides its support. It cooperates fully with investigations of fraud, and perpetrators are subject to Church discipline as well as criminal penalty. Church policy is to return the donations of members traceable to ill-gotten gains, as determined by the civil courts.

The existence of affinity and other fraud need not dim our religious faith or even our faith in mankind. It also should not overshadow our commitments to our religious communities, which are a source of unspeakable strength to many people, including Latter-day Saints. We can in fact maintain the strength and the unity of all of our communities while developing extra sensitivity and caution. Our trust in each other should be earned and verified, and in matters of finance, we should exercise special care. This kind of vigilance leaves religion able to bring all of its good fruits to our society, and protects us from those who would abuse our virtues for their gain.

To those of you who have dedicated your private time to the cause of educating the public about this insidious crime, we offer our commendations and wish you every success.

15 minutes