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Credit Crunch Fuels Rise in 'Advance Fee' Schemes

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Federal and state authorities say the nation's housing slump and credit squeeze are resulting in a spike in reports of companies preying on frustrated borrowers who are having difficulty securing commercial loans through conventional sources.

The Federal Bureau of Investigation, the Federal Deposit Insurance Corp. and state regulators across the country say they have seen an increase in "advance fee" loan schemes in which companies charge would-be borrowers upfront fees but never seriously try to find financing for their projects.


The FBI says it recently received "several hundred" complaints about advance-fee loan schemes. "We saw some in 2007, but not nearly to the level we're seeing this year," says Cathy Milhoan, an FBI spokeswoman in Washington. On its Web site, the agency includes "advance fee scheme" in a warning to the public about "common fraud schemes."

"Clever con artists will offer to find financing arrangements for their clients who pay a 'finder's fee' in advance," the Web site states. "Victims often learn that they are ineligible for financing only after they have paid the 'finder.'"

The FDIC says consumers should be wary of companies that request fees via a wire system, and of upfront fees, saying that "loan fees are normally paid to a business after the loan has been approved."

In Alabama, the number of people awaiting trial for alleged advance-fee schemes has jumped from two to 10 since last year, according to Joseph Borg, the state's top securities regulator.

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Loan Scam

Government agencies are warning consumers to beware of advance-fee loan scams. How the fraudulent offers work:

- Potential borrower is contacted, generally by email, by a scam artist promising to arrange a loan regardless of credit
- Before the loan can be approved, borrower is asked to pay a fee, for loan insurance or processing costs
- Once the fee is received, the borrower is sometimes falsely directed to a legitimate lender with no knowledge of the promised transaction. In other cases, the borrower is told that the loan request was denied
- In either scenario, scam artist takes the upfront fee but does not deliver the loan

Source: FDIC

"With the banks being tighter, this has become a nice little niche" for companies trying to take advantage of borrowers, says Mr. Borg, a past president of the North American Securities Administrators Association. He says some companies are targeting "upper-middle-class folks" and small businesses "who just couldn't quite get" funding from conventional banks but who do have some cash.

The Better Business Bureaus serving Nebraska, South Dakota, southwest Iowa and Maryland say they recently shut down three "advance fee loan scam" Web sites that required consumers to wire fees to Canada before being eligible to receive loans. In August, Connecticut's Department of Banking says it shut down the Web sites of four companies offering advance-fee loans and claiming to be operating in Connecticut.

Jill Beyer, a day-care operator and single mother in Waterford, Mich., says she lost \$2,000 in January after paying a company called City Lending Group an advance fee to loan her \$20,000. Despite sending her a "loan agreement" and telling her she was approved, the company failed to provide any money, she says.

The company subsequently shut down its Web site and disconnected its phone lines. Connecticut Attorney General Richard Blumenthal has warned his state's residents about the firm.

In April, a Bloomfield Hills, Mich., man was sentenced to 54 months in prison after pleading guilty to charges related to tax evasion and advance-fee schemes on "nonexistent high-dollar loans" for business projects, according to the FBI's Detroit branch. Samuel Abraham received at least \$14.3 million through "advance fee and investment schemes," the FBI said.

Jack Dixon, a broker with Elite Mortgage Co. in Parker, Colo., says three of his clients recently were "taken in by advance-fee loan scams." He says the companies often obtain customers from referrals from brokers unable to find funding for their clients.

Last week, The Wall Street Journal reported that two Philadelphia firms -- Remington Financial Group Inc. and a related firm, BlueStone Real Estate Capital -- are under investigation by regulators in California and Pennsylvania over allegations that more than 100 prospective borrowers lost millions of dollars after the firms collected upfront fees for real-estate development but didn't find any funding. The FBI says it is looking into the allegations. Executives at Remington and BlueStone deny any wrongdoing.

Jeremy Davey says he has conducted several dozen site inspections since last year as an independent contractor for Remington. He says he recommended around 20 projects for funding, but isn't aware of any that received it.

"I believe certain people at Remington preyed upon unsuspecting individuals or companies who were desperate for funding," he says.

Mark Haltzman, an attorney for Remington and BlueStone, says just because Mr. Davey may have recommended funding doesn't mean employees at Remington didn't try to obtain it.

In New Jersey, Kennedy Funding, which calls itself "America's leading hard money lender," is

named as a defendant in nine civil lawsuits filed in U.S. District Court in Newark. The lawsuits allege the company engaged in an "advance fee" scheme by charging clients upfront "commitment" fees of as much as 3% of the loan amount, but then did not deliver commercial real-estate funding.

The plaintiffs' attorney, Gregg Trautmann, says his clients paid a total of \$3.6 million in fees without receiving loans. A spokesman for Kennedy Funding says the company denies any wrongdoing, but declined to discuss any specific cases.

In December, Kennedy was ordered by a federal-court judge in New Jersey in a separate case to return fees of \$260,000 to Omni Credit Alliance Inc., an Atlanta lender that said it applied to Kennedy for \$25 million in funding for a boxing tournament but never received the loan. In his opinion, Judge Peter Sheridan wrote that Kennedy "did not take any reasonable steps to close the loan." Kennedy is appealing the Omni decision.

On its Web site, Kennedy says that it is "able to make multimillion dollar loans in a matter of days." Matt Cole, a senior vice president at Kennedy, says the firm has been in business for 20 years and has completed many loans. He said business is up lately "due to the lack of liquidity in the credit markets."

He said he didn't know how many of its clients who pay advance fees receive loans, but said, "We try to close every loan."

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