



Standard 9: The student will identify and explain consumer fraud and identity theft.

Beware! Consumer Fraud

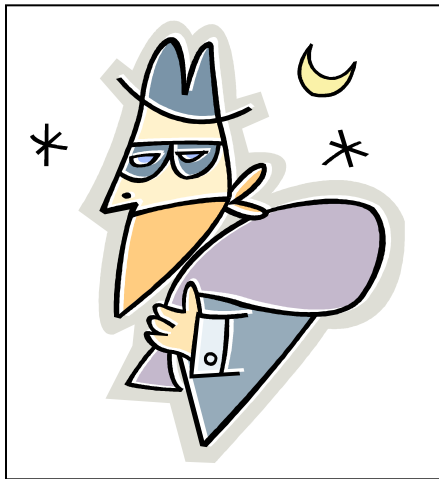
Priority Academic Student Skills

Personal Financial Literacy

Objective 9.1: Describe unfair, deceptive, or fraudulent business practices (e.g., pyramid schemes, bait and switch, and phishing). 

Objective 9.2: Describe ways to recognize and avoid identity theft (e.g., review monthly financial statements and annual credit reports; and protect personal information and online passwords). 

Objective 9.3: Describe methods to correct problems arising from identity theft and fraudulent business practices (e.g., contact national credit bureaus and local/state law enforcement agencies).



Lesson Objectives

- ⇒ Identify different kinds of consumer fraud.
- ⇒ Recognize how to prevent being victimized by consumer fraud.
- ⇒ Determine what steps to take if victimized by consumer fraud.

Alfredo's mom is at the door to meet him when he comes from school. His credit card bill came in today's mail, and Mom is furious.

When she opened the bill, she found charges for magazines on Alfredo's credit card. She cannot understand why he would order magazines on that card when he promised to use it only for gasoline for his car and school-related expenses.

What should Mom do about these magazine charges? Should she take away his credit card because he broke his promise? Should she make him pay for those magazines? Should she cancel this credit card because it seems obvious that Alfredo is not trustworthy?

Personal Financial Literacy Vocabulary

Federal Trade Commission: A federal agency that enforces consumer protection.

Fraud: Someone who knowingly deceives you for their own personal gain.

Identity theft: Using a person's name or personal information without the person's permission to steal money or get other benefit.

Introduction



Consumers receive offers almost every day that sound too good to be true. Most of those offers used to come through the mail or by telephone; but today, they also come through email and the Internet. Scam artists have no national boundaries and may, in fact, be located in other countries but “doing business” in the United States.

Regardless of where they are or how they contact us, they have one goal in mind: to get our money! No matter how hard we work for our money, there is always someone willing to take it away from us without giving anything in return.

Lesson

The Federal Trade Commission recently conducted a study about consumer fraud in the United States. The results of their study list the following schemes as the “Top Ten” fraudulent activities reported by consumers. These include:

- Advance-fee loan scams;
- Buyers clubs;
- Credit card insurance;
- Credit repair;
- Prize promotions;
- Internet services;
- Pyramid schemes;
- Information services;
- Government job offers; and
- Business opportunities.

TIPS TO AVOID BEING A VICTIM OF FRAUD

- The greater the potential return, the greater the risk.
- Investments seldom exist without some risk involved.
- Always get all of the information in writing before you give away any money.
- Never let emotions interfere with your business affairs.
- Never invest what you cannot afford to lose.
- Legitimate offers will always be there tomorrow.
- Take time to do careful research.
- If an offer sounds too good to be true, it probably is.
- Do not send cash by mail, bank transfer, or messenger.

The study also showed that about ten percent of the adult population in our country are victims of fraud each year. Certain racial and ethnic minorities are more likely to be victims of fraud than non-Hispanic whites. Interestingly, American Indians and Alaska Natives were the ethnic group most likely to be victims – nearly 34 percent had experienced one or more frauds in the preceding year. Seventeen percent of African Americans were victims; over 14 percent of Hispanics were victims; and over 6 percent of Non-Hispanic whites were victims.

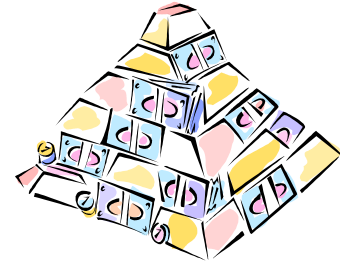
Fraud is when someone knowingly deceives you for their own personal gain. In other words, they convince you that something is true when it really is not. Or, they make promises they have no intention of keeping. There are numerous kinds of fraud, scams and schemes, including mail fraud, phone fraud, and Internet fraud.

Whether you are rich or poor, young or old, or male or female, you can become a victim of fraud. Con artists are very convincing and very persuasive, bombarding you with all kinds of excuses, explanations, and promises that seem to zap your reasoning abilities. If you find yourself in this situation, the best thing to do is walk away, hang up, or not respond.

Remember, just because someone asks you for information does not mean you have to give it to them. And, just because they ask you to do something, does not mean you have to act. You always have the right to say “NO” and the right to keep all personal information to yourself. Without your assistance and your cooperation, they will have little success in making you a victim.

About the time you think you have heard it all, con artists find another way to tempt or mislead you. Some of the more common kinds of fraud include:

- **Bait and switch.** Business advertises a product at a low price, but offers a more expensive product when you go to buy it. The lower priced item never existed; it was just used to “bait” you.
- **Bankruptcy fraud.** Making false claims when filing bankruptcy.
- **Confidence trick or confidence game.** Also known as a con, scam, swindle, grift, bunko, flim flam, or scheme. An attempt to swindle you by gaining your confidence. “Con artists” will try to appeal to your greed, your good nature, your generosity, or your willingness to take a risk.
- **Embezzlement.** Taking money that is not yours; may range from small amounts to large amounts taken from your employer.
- **False advertising.** Making false claims or statements in advertising to persuade you to buy a certain product.
- **False billing.** Requesting payment from someone for a product or services without fulfilling the deal; may include fake renewal notices or other seemingly legitimate services.
- **Forgery.** Creating fake documents and signatures.
- **Health fraud.** Selling products such as fake or “quack” medicines; making false promises about health-related products.
- **Identity theft.** Stealing money or getting other benefits by pretending to be someone else.
- **Insurance fraud or false insurance claims.** Fake insurance claims to get money from an insurance company that is not warranted.
- **Long firm.** Setting up a company for fraudulent purposes. It appears to be a legitimate business and takes money from investors or customers, but is actually just a scheme.
- **Marriage fraud.** Marrying someone for money so they can become a citizen of the U.S. In this case, you can spend time in prison for participating in the scheme, and the immigrant will be deported.



- **Ponzi scheme.** Promises investors abnormally high profits from the money they “invest” in the plan. The system is doomed to collapse because there are little or no underlying earnings from the money received by the promoter. Also known as a Pyramid scheme.
- **Security fraud.** Artificially inflating the price of a stock with false and misleading statements. The goal is to sell stock that has little value at a high price.

Is Fraud a Crime?

Yes! Any form of fraud is a criminal act, and anyone knowingly participating in it can be prosecuted. In addition, it is also a violation of civil law. A civil fraud generally means that someone intentionally set out to deceive another person and to gain from that deception. In the box below, discuss some ways that someone could get personal information about you without your permission.

- 1.
- 2.
- 3.

What did you learn from this exercise?

Protecting Yourself from Consumer Fraud

The best guard against consumer fraud is awareness. Taking a few minutes or hours to research the idea or ask more questions may save you a lot of money in the long-run. Sometimes you may hear things that make you feel uncomfortable or sound too good to be true. If something seems unusual, just walk away or hang up the phone. Only you can protect yourself from becoming a part of their scheme. If something seems too good to be true, it probably is!

Now that you are aware of the problem, what steps will you take to protect yourself from consumer fraud?

- 1.
- 2.
- 3.



COMPLETE: Consumer Fraud Word Scramble – Activity 9.1.1

Review student answers before continuing with this lesson.
Ask students what they learned from the activity.

Steps to Take if Victimized

If you become the victim of a fraud or even suspect you might be, let your parents know, and contact your local law enforcement officials immediately. Do not be ashamed or embarrassed because you are the victim of a crime. If anyone tries to make you feel silly or guilty, walk away. You need to find someone who will help you resolve the situation, not someone who wants to blame you. Everyone makes mistakes, so it is how you deal with the mistake that makes the difference.

Your complaint is an essential resource for local, state, and federal law enforcement officials. Law enforcers review consumer complaints to spot trends and build cases against computer hackers, identity thieves, and scam artists. Several different agencies are involved in assisting fraud victims. In Oklahoma, the best place to start is by calling the Office of the Attorney General and they can direct you to right place.

Conclusion

Consumer fraud has a major impact on consumers and on the overall economy of the United States. According the FTC survey on consumer fraud in 2004, people with moderate to low incomes and lower levels of education are more likely to be victims; however, anyone can become a victim. When it comes to your money and your personal information, trust only those people you know to be trustworthy. Asking questions is not a sign of being stupid; instead, it is a sign of being a good consumer. If you do become a victim, take immediate steps to contact law enforcement officials.

What about poor Alfredo? Do you think he might be a victim of consumer fraud?

The answer is yes. It appears that he is a victim of false billing fraud.

When he explained to his mom that he had never ordered those magazines, they read the back of the credit card billing statement to find out how to ask questions about suspicious charges on the card.

Alfredo's mother helped him call the credit card company to ask about those charges. The credit card company looked into the matter and found out that several people were being charged by a fake company. The charges were removed from his card.

Name: _____ Class Period: _____

Beware! Consumer Fraud

Review Lesson 9.1

Answer the following questions and give the completed lesson to your teacher to review.

1. Which one of the following is considered a consumer fraud scheme?
 - a. Bait and switch.
 - b. Bait and catch.
 - c. Advertising.
 - d. Spam e-mails.

2. There are several steps you can take to reduce the potential of being a victim of consumer fraud, including
 - a. taking the time to do careful research.
 - b. always sending money to get additional information.
 - c. signing whatever forms you are asked to sign, then taking them to an attorney for more information.
 - d. giving out your personal information, like Social Security Number and bank account number, so the person asking can check you out.

3. If you are the victim of fraud in Oklahoma, the best place to start is by
 - a. calling the Governor's office for help.
 - b. hiding what happened so no one will find out.
 - c. calling your friends to tell them what happened.
 - d. calling the State Attorney General's office for advice.

4. Which of the following statements is TRUE?
 - a. Only poor people are victims of fraud.
 - b. Only wealthy people are victims of fraud.
 - c. Anyone can become a victim of fraud.
 - d. Only stupid people are victims of fraud.

Name: _____ Class Period: _____

Consumer Fraud Word Scramble – Activity 9.1.1

Unscramble each of the clue words. Copy the letters in the numbered cells to other cells with the same number.

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