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In faith communities, fraudsters prey on trust

By Devon Merling , Deseret News
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In 2010, the FBI ranked Salt Lake City in the top five "hot spots" for Ponzi scheme-related fraud. (Shutterstock)

When Ephren Taylor stepped in front of the pulpit at more than 50 churches across the country from 2008 to 2010 to convince parishioners to invest with him, he promised opportunities beyond earthly profits.

"We're gonna show you how to get wealth and use it for the building of his kingdom," Taylor declared to a rapt congregation at New Birth Baptist Church in Atlanta.

Kauisha Smith heard a similar pitch from Taylor in November 2008 when

she saw him speak at famous pastor Joel Osteen's Lakewood Church in Houston. "He emphasized God and being a Christian and not being broke," she recalled. Smith, a 28-year-old tax auditor at the time, invested the entire \$40,000 she had in retirement savings with Taylor. Now, more than three years later, Smith has yet to see a penny of that money returned. "I pray I get something back," she said. It turns out Smith was not alone. Last year, Taylor was charged by the SEC with defrauding investors, mostly African-American Christians, of more than \$11 million in a Ponzi scheme. And to date, hundreds of people have come forward claiming to be victims of Taylor, some who trusted him with up to \$1.3 million dollars of their money.

Like Taylor, many perpetrators of investment fraud take advantage of the bonds of trust and obligation among religious and ethnic communities to grow their pool of victims. These schemes are called "affinity fraud" by experts, and they make up a substantial portion of investment fraud cases being perpetrated around the country.

However, avoiding a fraudulent investment scheme is relatively easy if an investor keeps her eyes open and does some basic research. Experts say there are some common red flags that alert investors to a fraud as well as some simple ways to verify if an investment being offered is a legitimate opportunity.

An affinity for fraud

When Bernie Madoff scammed more than \$50 billion from investors, he primarily targeted those who shared his Jewish faith and heritage, as well as Jewish charities. **This kind of affinity fraud activity is not slowing down in the post-Madoff era, according to Kathy Bazoian Phelps, an attorney and co-author of "The Ponzi Book: A Legal Resource for Unraveling Ponzi Schemes."**

A 2010 report on fraud cases conducted by Marquet International found that in a quarter of the cases it studied, an affinity group was targeted for victims. Among the cases of affinity fraud, 34 percent were targeted at the elderly and retired, people who generally have substantial assets to invest. Additionally, an alarming 30 percent of cases were targeted at religious groups. As Brent Baker, an attorney at Clyde Snow & Sessions in Salt Lake City who specializes in fraud and securities law, put it: "Religion is the biggest trust-based group that gets fleeced by their own flock."

While investment fraud is occurring in communities across the country, Utah has a reputation for being home to a high concentration of these schemes. According to a 2010 report by the FBI, the state had lost more than \$1.4 billion to investment fraud, and that number is likely more than \$2 billion today. The same year, the FBI ranked Salt Lake City in the top five "hot spots" for Ponzi scheme-related fraud. The FBI emphasized the prevalence of affinity fraud among Utah's communities, noting that some con artists have been known to take advantage of members of the Church of Jesus Christ of Latter-day Saints.

But the pain extends beyond the victims of the fraud schemes and their faith communities. Baker said that fraud hurts legitimate small businesses' ability to raise capital. Utah has a high number of entrepreneurs and start-ups, which fuel the state's economic growth. However, the prevalence of fraudulent investment schemes is diverting money away from these entrepreneurs and small businesses, which not only hurts individuals who get conned, but the state's entire economy.

The ways they prey

At the time Ephren Taylor was promoting his investment opportunities, he appeared to be a wildly successful businessman. "He was a rockstar," said Cathy Lerman, the attorney representing plaintiffs in the class action suit against Taylor. "He was on Montel Williams and 20/20. He spoke at the Democratic National Convention. Everybody wanted to get next to him."

Perpetrators of fraud schemes are usually clever, according to Phelps. They know how to exploit whichever community they target and are usually charismatic and exceedingly nice. Often they live lavish lifestyles, giving the impression that they are successful members of the community. They also know how to manipulate the particular belief systems of a faith group.

Sophisticated perpetrators will frequently use a theological basis to attempt to persuade religious believers to invest with them. **Phelps said that people are more likely to turn over money "if they believe the investment program is coming from higher authority."** Baker said that oftentimes, fraudsters base their schemes in a Judeo-Christian belief system that "if you are righteous, you will be rewarded."

According to Lerman, Taylor's pitch involved an appeal to the "prosperity" ministry that is preached at some Christian churches across the country. One of the central ideas is that, as Lerman describes it, "God wants you to prosper and be wealthy." Taylor promised that once someone accumulated

riches through his investments, that person would be able to return more to the Church in tithing monies, thus promoting the glory of God through one's newly earned wealth.

Similarly, Gerald Payne, who ran Greater Ministries International, a Ponzi scheme that extracted nearly half a billion dollars from its victims in the 1990s, often quoted to congregations of Christian believers Luke 6:38, "Give, and it shall be given unto you." According to the Southern Poverty Law Center, a nonprofit civil rights organization, Patrick Henry Talbert, one of the perpetrators of the Greater Ministries scheme, promised the congregation at the Indianapolis Baptist Temple, "You give a gift, we basically take it offshore — and we've been doing this for nine years, nobody's ever lost a dime — and we multiply it back through the body of Christ."

Perpetrators have also started looking for ways to take advantage of young people struggling to find jobs in the lagging economy. Baker said that schemers have been targeting young Latter-day Saints recently returned from their missions. "What missionaries should be told when they get back is that hucksters are going to try to exploit you," he warned. "It will happen."

How to avoid being snared

When Kauisha Smith invested with Ephren Taylor, she did some research, and his pitch sounded realistic. "It sounded more like it was really an investment," she said. "He seemed like he was really focused on getting clients, getting paid and getting his investors paid."

Experts consistently point to the old maxim, "If it sounds too good to be true, it probably is," as the number one piece of advice to avoid getting taken by a fraudster. **But perpetrators are getting more clever, according to Phelps. "More frequently they are now offering favorable enough returns to lure you in, but not so outlandish to seem unreasonable," she said.** It is important for investors to be wary even of those promising returns only one to two points above the market rate of return. If the return is any higher than the market will bear, it is probably not a legitimate investment.

Perpetrators will also follow the news closely and base their "opportunities" on topics that are hot in the media. Baker said that currently, "green" technology and energy are popular among perpetrators. **Phelps also said that "foreign exchange" schemes are common because people tend to assume that foreign investments may offer greater returns than the domestic market.** Baker said perpetrators will also take advantage of any recent natural disaster or tragedy to scam trusting people out of their money.

One major red flag that an investment is fraudulent is a guaranteed return, according to Phelps. "Nothing is guaranteed," she said, adding that no legitimate offer will guarantee a specific rate of return, as all investments come with risks. And a particularly high rate of return is an obvious warning sign. "If they are promising astronomical rates of return, there will be unquestionably astronomical risks," said Baker.

Investors should also do a gut-check and be skeptical of any fishy behavior on the part of the person offering the investment. **Phelps said that common giveaways are demanding that the money is needed urgently, requiring the investor to keep the investment secret and offering delays or excuses about why documentation is not available.** Lerman noted that schemers often will convince people to move their retirement money to a self-directed IRA. She says the self-directed IRA world "has become the wild wild west, and it is full of thieves."

Before making any investment, people can and should investigate any opportunity thoroughly and do their due diligence. Baker pointed to three resources for people to go to when they are approached about an investment. First and most importantly for Utahns is the Utah Division of Securities. The division's website, <http://www.securities.utah.gov>, has numerous resources to scope out an investment, including cross-checking multiple databases to see if the person offering the investment has been in trouble before, a common occurrence according to Baker. Investors can also call the division at (801) 530-6600. At the federal level, the SEC provides investment research resources at investor.gov, and FINRA has useful tools at saveandinvest.org.

Parents should also be actively involved in informing their children about responsible investment. Making sure young people are informed will be essential to the decline of investment fraud in Utah and across the country. Utah high schools provide programs to teach youths about financial literacy, including the warning signs of fraud.

In the battle against affinity fraud, one simple and easy rule to follow is not to trust someone simply because of a shared religious community. No legitimate business person is going to attempt to sell you an investment based on commonality of religious belief, said Baker. "Think before you invest," he advised. "I believe in absolute separation of religion and investment."

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