

“PRIME BANK” SCAMS

Low Interest Rates, Distrust of Government, and Internet Fuel Losses

With low interest rates and volatile equity markets causing Americans to rethink their investment strategies, the Attorney General’s Office warns investors to be wary of “prime bank” scams.

Investing through the supposedly secretive portfolios of “prime banks” can be appealing to investors. Promoters claim that prime bank trading programs can yield huge returns with no risk. In reality neither prime banks nor the instruments they claim to trade exist.

In a typical pitch, increasingly made over the Internet, investors are promised access to secret, high-yield investments made through trades among the world’s top banks. Promoters falsely claim their investments are guaranteed or secured by some sort of collateral or insurance.

Many victims of these scams fail to report their losses because they don’t want to appear foolish. Others simply can’t believe close friends, trusted business associates, or people they met at church defrauded them. People want to believe there are secret ways to make fabulous amounts of money but there simply are just no shortcuts in investing.

Prime bank scams appeal to conspiracy buffs and those who distrust government or want to avoid paying taxes through offshore accounts. One reason prime bank scam artists are able to mislead people is because the instruments they claim to be using – standby letters of credit, bank debentures and bank-secured trading programs, to name a few – mimic legitimate financial instruments closely enough to deceive people outside the specialized world of international banking.

The Securities and Exchange Commission has shut down more than three dozen prime bank scams, with losses totaling hundreds of millions of dollars. In these cases, promoters often used investor funds to lead lavish lifestyles.

In prime bank schemes investors should ask themselves “Why me?”

If this scheme really works, why is some stranger in a hotel meeting room or on the telephone or the Internet offering to cut me in on it?

Remember, if it sounds too good to be true then it probably is too good to be true.

Before making any investment, the Attorney General’s Office urges investors to ask the following questions:

- Is the salesperson registered to sell securities in New York and is the investment product properly registered? To check, call the Investor Protection Bureau at 212 416 8222.
- *Has the seller given you written information that fully explains the investment?* Make sure you get proper written information, such as a prospectus or offering circular, before you buy. The documentation should contain enough clear and accurate information to allow you or your financial adviser to evaluate and verify the particulars of the investment. Watch for jargon that sounds sophisticated, but doesn't make sense.
- *Are claims realistic?* Get a professional, third-party opinion when presented with investment opportunities that seem to offer unusually high returns in comparison to other investment options. Pie-in-the-sky promises often signal investment fraud.