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INVESTMENT FRAUDS USING RELIGION ON THE RISE

Regulators say scams bigger, more sophisticated; Losses in three cases approach \$1.5 billion

PHOENIX – Investment frauds that take advantage of victims’ religious or spiritual beliefs are rising dramatically, state securities regulators warned Tuesday, with losses in three large cases – Greater Ministries International Church, the Baptist Foundation of Arizona and the IRM Corporation – approaching \$1.5 billion.

The warning about religious-based investment scams at a news conference at the National Press Club coincided with the expected sentencing of Greater Ministries International Church founder Gerald Payne in federal district court in Tampa, Florida on fraud and conspiracy charges.

Between 1993 and 1999, Greater Ministries took in nearly \$580 million, promising tens of thousands of investors that the church would double their money through divinely-inspired investments in the foreign currency market and gold, silver and diamond mines in Africa and the Caribbean.

State securities regulators say the Greater Ministries’ fraud illustrates how large, sophisticated and pervasive religious-based investment scams are becoming. Over the past three years, securities regulators in 26 states have taken actions against hundreds of companies and individuals that used religious or spiritual beliefs to gain the trust of investors – over 90,000 nationwide – before swindling many of them out of their life savings.

“When you invest you shouldn’t let your guard down merely because someone is appealing to your religion or your faith,” said Arizona Corporation Commission Chairman Bill Mundell. “Always do your

homework. Be as skeptical and careful when you invest with someone who shares your faith as you would with anyone else.”

In 1989, a joint survey by the North American Securities Administrators Association (NASAA) and the Council of Better Business Bureaus found that 15,000 investors nationwide had lost over \$450 million to religious-based scams in the previous five years. By comparison, the Baptist Foundation of Arizona, shut down by the Arizona Corporation Commission’s Securities Division in August 1999, used a maze of over 120 shell corporations to raise more than \$590 million from over 13,000 investors nationwide.

The Foundation began by managing church building funds and some retirement savings, investing much of the money in the Arizona real estate market. When property values fell sharply in the late 1980s, Foundation officials refused to admit the losses. Instead, regulators say, they set up a massive and complicated web of transactions and entities to obscure their losses. The Foundation also began aggressively soliciting additional investors, nationally and even internationally¹, using the new money to pay previous investors.

“That the Foundation’s senior management could extract a half-billion dollars from investors, knowing that what they were running was nothing but a huge Ponzi scheme, is unconscionable,” said Mark Sendrow, director of the Arizona Corporation Commission’s Securities Division.

In May of this year, three officials involved with the Foundation, including treasurer Donald Deardoff, pleaded guilty to defrauding investors. The three officials also agreed to cooperate in the ongoing investigation of five other Foundation officials who have been indicted on 32 counts each of theft, fraud and racketeering in Superior Court of Maricopa County, Arizona. A trial date for the five has not been set.

“Even though this was terribly devastating and tested my faith – I was in deep depression and praying a lot – it did not destroy my faith,” Forrest Bomar, an investor with the Foundation, told reporters at

¹ Foreign investors with Baptist Foundation of Arizona: Canada, 4; Hungary, 1; Mexico, 4; Singapore, 1; Taiwan, 3; Thailand, 1; Tunisia, 1; and United Kingdom, 1.

Tuesday's press conference. "I was reminded through prayer that I still had a lot to be thankful for – my wife, my family – even if we never recovered a penny of our investment."

Arthur Andersen LLP, the Foundation's auditor between 1984 and 1999, is also the target of a number of legal actions:

- A joint civil action by the Arizona Attorney General and the Arizona Corporation Commission alleges that big 5 accounting firm Arthur Andersen (now known simply as Andersen) ignored a series of red flags and tips from people close to the Foundation, making them complicit in the fraud. Arthur Andersen has denied the allegation, and no trial date has been set;
- The Arizona State Board of Accountancy has filed charges against Arthur Andersen and three members of the audit team. A hearing is scheduled for April 2002;
- The Foundation's trustee has brought an action against Arthur Andersen, alleging negligence in their audits. The trial is scheduled for spring 2002; and
- Two class action lawsuits have been brought on behalf of various investors against both the Foundation and Arthur Andersen. No trial date has been set.

The Tampa, Florida-based Greater Ministries International Church took in \$578 million before being shut down by securities regulators in Ohio and Alabama in August 1999. Nearly 28,000 investors nationwide and internationally², were persuaded by church leaders to mortgage their homes, run up large credit card debts or cash in retirement funds.

Investors were promised sky-high returns from foreign currency arbitrage, investments in cargo ships and gold, platinum, silver and diamond mines in the Caribbean and Liberia.

Greater Ministries officials claimed their program was "anointed," and often cited Luke 6:38 – "Give, and it shall be given unto you; good measure, pressed down, and shaken together, and running over, shall men give into your bosom" – in their appeals. In reality, say securities regulators in Pennsylvania, who were

² Foreign investors in Greater Ministries International Church: Australia, 18; Bahamas, 78; Belize, 1; Bermuda, 5; Brazil, 1; Canada, 62; Cayman Islands, 3; Chile, 1; England, 12; Fiji, 2; France, 2; Guam, 1; Hong Kong, 1; Hungary, 2; India, 2; Israel, 2; Jamaica, 8; Japan, 1; Mexico, 3; New Zealand, 5; Norway, 1; Saudi Arabia, 1; Sierra Leone, 1; South Africa, 1; Virgin Islands, 1; and Zambia, 1.

among the first to investigate Greater Ministries, Payne was running a Ponzi scheme. As the scam began to unravel, Church Founder Payne resorted to anti-government rhetoric in his presentations and on the church website in an effort to discredit and demonize regulators.

“Gerald Payne and his associates made faith in God synonymous with faith in their investment program,” said Joseph Borg, director of Alabama’s Securities Commission and incoming NASAA president. “Sadly, while Payne was telling people to put every penny they could get their hands on – equity, assets and loans – into his scam, he also told them they lacked faith if they tried to get even the most basic information on their investment.”

The IRM Corporation raised approximately \$400 million from investors in at least five states through the sale of bogus promissory notes and limited partnerships supposedly tied to the California real estate market. Before being shut down by Michigan regulators in May 1999, over 2,400 victims in Michigan alone – recruited either in-person through church-based organizations or through religious television or radio programs such as the “Back to God Hour” – lost over \$80 million.

According to regulators, the IRM Corporation, which coordinated its activities through a labyrinth of over 120 affiliates, was a classic Ponzi scheme, continually soliciting new investors in order to make interest payments to previous investors.

In Tennessee, regulators shut down Capital Plus Worldwide Financial Services after more than 100 investors, most of them recruited from African American churches, sunk \$3.9 million into the scam. Investors were lured by promises that the money would be used to both rebuild war-torn African nations and return between 96 percent and 120 percent annually from joint venture partnerships and non-existent “bank debentures” issued by European banks.

According to Tennessee regulators, \$2.3 million of investor funds were used by company founder Ricardo Gant to take trips to casinos, go on vacations and buy antiques, expensive clothing, horses and horse racing facilities.

In Washington state, securities regulators shut down Island Mortgage Company/Northwestern Investment Company, which raised more than \$14 million by selling bogus promissory notes. Island also targeted

members of the Society of Friends (Quakers), collecting over \$26 million in “premiums” for non-existent health insurance.

Along with his son, company founder Philip Harmon led a lavish lifestyle that included waterfront homes, car collections and condos in Hawaii. Harmon was sentenced to eight years in prison and ordered to pay restitution of approximately \$14 million to investors; his son Steve was sentenced to 15 months for tax evasion.

In Indiana, three men stand accused of selling virtually worthless promissory notes in two companies they operated. Often kneeling to pray with their victims, the men bilked 19 elderly investors out of as much as \$1.4 million. Among the victims are a 57-year-old woman who invested all of her inheritance, a 92-year-old retired widow and a woman in her late 80s who invested her entire retirement savings of \$324,000.

“Cloaking an investment with religion can give it a false aura of safety,” said Brad Skolnik, Indiana securities commissioner. “It’s one thing to tithe or give an offering so that your money is used for good works, it’s another thing if you’re led to believe you’ll get a monetary return. It’s when people are promised earthly returns that we see a lot of fraud.”

Arizona Corporation Commission securities regulators say con artists who use religion to promote their scams often:

- Predict imminent financial or social crisis;
- Claim they will reinvest a portion of the profits in a worthy cause; and
- Equate faith in their scam to religious faith.

The scams regulators focused on did not include sale of church bonds. These bonds are regulated in most states and are subject to state and federal securities laws, including substantial disclosure of how the proceeds will be used.

Before making any investment, Mark Sendrow, director of the Arizona Corporation Commission’s Securities Division recommends investors consider the following questions:

- *Are the seller and investment licensed and registered in your state?* Call your state securities regulator to find out. If they are not, they may be operating illegally. The Arizona Corporation

Commission's Securities Division has a helpful website at www.ccsd.cc.state.az.us. You can call the division at 602-542-4242 from the Phoenix area or outside the Phoenix metro area, call the toll-free at 1-877-811-3878.

- *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.
- *Are claims made for the investment realistic?* Some things really are too good to be true. Use common sense and 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;
- *Does the investment meet your personal investment goals?* Whether you are investing for long-term growth, investment income or other reasons, an investment should match your own investment goals.

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