



Jesse White

SECRETARY OF STATE

NEWS

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- CONTACT: Dave Druker
or
- CONTACT: Randy Nehrt

White Announces Crackdown on Promissory Note Fraud

CHICAGO — Secretary of State Jesse White today joined other state and federal securities regulators in announcing a major crackdown on sellers of fraudulent promissory note schemes. The notes, often sold by insurance agents, are very risky and many people have been defrauded of their life savings by these scams.

"The promissory notes are attractive to people because they promise higher rates of return," said White. "But investors must never forget the first rule of finance -- the higher the reward, the higher the risk. In today's market there's no such thing as a 'guaranteed' 10 or 15 percent return. "

Securities regulators in 28 states have taken action against hundreds of individuals and companies. More than 3,000 investors lost money in these schemes. The U.S. Securities and Exchange Commission has filed charges against 38 individuals and 22 entities involved in these fraudulent sales.

State securities regulators, including White's Securities Department, formed a task force headed by the North American Securities Administrators Association (NASAA) in May 1999 to concentrate on the problem.

In many of the promissory note scams, a supposedly "well-established" company claims it needs capital to expand its business. Instead of borrowing money from a traditional lender, it offers investors an opportunity to purchase "promissory notes," typically with a maturity of nine months and an annual interest rate of 12 percent and higher.

In a number of states, investors lost their entire life savings to promissory note fraud. Illinois has entered administrative orders against several promissory note promoters; however, it has not seen the hundreds of cases that states such as California and Florida have encountered.

"Illinois residents should remain cautious and investigate before investing," says White. "Many con-artists move from state to state and they are bound to target Illinois investors."

Here are some tips to protect yourself and your money:

- Before investing in any promissory note, always check with state securities regulators to confirm that the notes are properly registered or legally exempt from registration. If you can't verify that the notes are registered or exempt from registration -- hold on to your money. Do research to ascertain the legitimacy of the company whose notes are being offered.
- Agents selling these "notes" usually are required to be licensed by both the state and the National Association of Securities Dealers. To find out if the agents are registered or have a disciplinary history, contact your state securities regulator or call the NASD Public Disclosure Hotline at 800-289-9999.
- Be suspicious if the notes have an above-market interest rate with a maturity of less than a year. With a one-year FDIC-insured bank certificate of deposit yielding a little more than 6 percent, you should be very skeptical when someone offers you a nine-month "note" from an obscure firm promising 12 percent.

Additional information can be obtained from NASAA's web site at www.nasaa.org and by calling Secretary of State Jesse White's office at (800) 628-7937.