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Nebraska securities regulators crack down on promissory note fraud

LINCOLN – Nebraska securities regulators have joined federal regulators, 36 other state regulatory agencies and the District of Columbia to crackdown on sellers of illegal promissory notes, which promise investors high returns and low risk.

Recent statistics in 24 states report actions against 136 individuals and entities regarding these illegal promissory notes. The cases, all brought in recent weeks and months, highlight a serious and growing problem. In May 1999, 37 states and the District of Columbia formed a task force to address the growing number of complaints concerning promissory notes. The task force is coordinated by the North American Securities Administrators Association (NASAA).

The promissory note scams often involve a supposedly "well-established" company looking to expand its business and needing capital. Instead of borrowing money from a traditional lender the company offers investors an opportunity to purchase "promissory notes," typically with a maturity of nine months and an annual interest rate between 12 percent and 18 percent, far more than an investor could get elsewhere. The notes are often purportedly bonded or guaranteed by non-licensed insurance companies located offshore.

Some of the investments, regulators warn, are obligations of companies that either abscond with the clients' money when the notes mature or use a "Ponzi" scheme to pay existing investors with money from new investors. Some notes are issued on behalf of companies that don't even exist.

The notes are often sold by independent life insurance agents—lured by high commissions. The agents may not realize that they must be licensed as securities brokers with state securities regulators. Here are some tips to protect yourself and your money:

- Before investing in any promissory note, investors should always check with the Nebraska Department of Banking and Finance, Bureau of Securities at 1-877-471-3445 to confirm that the notes are properly registered. Do research to ascertain the legitimacy of the company whose notes are being offered.
- Agents selling these "notes" are usually required to be licensed by both the state and the National Association of Securities Dealers (NASD). To find out if the agents are registered or have a disciplinary history, contact the Nebraska Bureau of Securities at 1-877-471-3445 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.

Additional information can be obtained from NASAA's web site at www.nasaa.org.

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