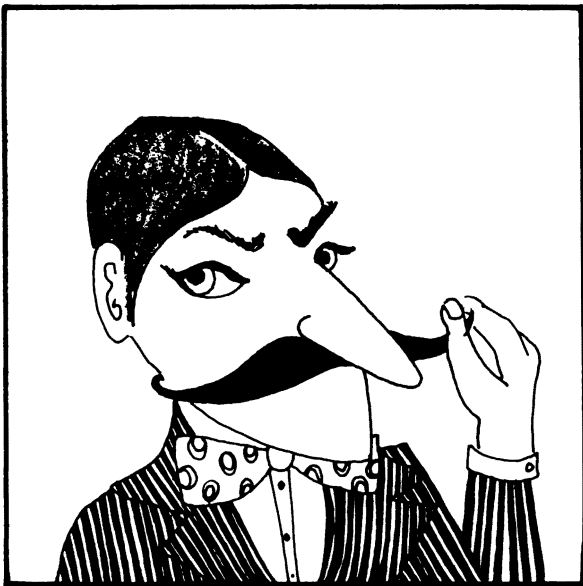


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BLACKSBURG, VIRGINIA

FRAUD and the CONSUMER



MW 19

January 1977

Extension Division

Virginia Polytechnic Institute and State University

WHAT IS FRAUD?

Fraud is an illegal act involving deception and misrepresentation. The object of fraud is to unlawfully gain money or some type of advantage over a person or organization without using physical force.

CONSUMER RESPONSIBILITY

It is the responsibility of each consumer to be educated about his rights, and it is the responsibility of each consumer to consider fraud an unacceptable practice. If each individual does not return defective merchandise and object to low-quality services, the fraudulent practices continue and the entire community bears the cost through inconvenience and higher prices for goods and services.

Over \$40 billion is lost each year through fraudulent schemes, which averages out to about \$639 per family. The following are examples of fraud that can affect consumers. If we become more proficient as consumers, we have less chance of becoming victims of these fraudulent practices.

WHAT ARE SOME OF THE MOST FREQUENT TYPES OF FRAUD?

Bait & Switch — In this scheme, a product is advertised at an exceptionally low price to *bait* you into a store. Once there, you are told that the product has “just sold out” or that the item you want is “unsatisfactory and not really a bargain.” The salesperson then attempts to *switch* you to a more expensive item. TIP: When a salesperson tries to persuade you to buy a higher-priced product by degrading the less expensive one, beware! They may be trying to deceive you with a bait and switch scheme. If the item is sold out, keep in mind that this may be another form of this scheme.

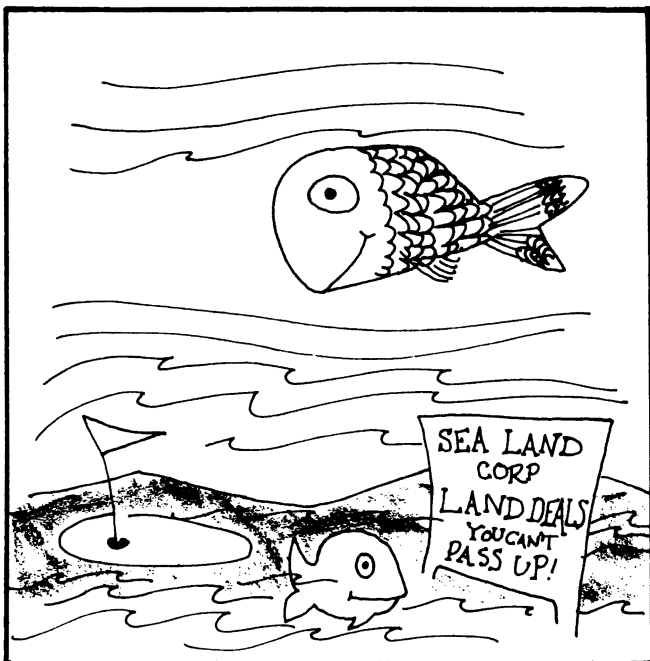
Service & Repair Frauds — This fraud is commonly known as “lowball grift” by the people that practice it. They advertise incredibly low prices for repair work with the intention of jacking the price up once they start work. For example, suppose your dishwasher stops working. You remember the advertisement and call their serviceman, who then comes to inspect the washer. He estimates the cost of repair to be \$20, so you tell him to fix it. After dismantling it, he finds that some obscure piece of the mechanism is also not functioning properly and that the repair job will

now cost \$90. You know it's a case of fraud but what can you do? You'll either have to pay the \$90; pay to have it put back together but not fixed; or tell the serviceman to leave without paying for it to be fixed or reassembled. TIP: To avoid this situation, insist on a written estimate signed by you before any work is started and deal only with businesses you trust.

Home Solicitation — Consumers have the right to cancel door-to-door sales contracts until midnight of the third business day after the date of the agreement. To be applicable, the contract must have been signed in any residence other than that of the seller's business and it must involve \$25 or more if it is a cash sale. All credit sales are covered by the law. To cancel such a contract, mail or hand deliver a signed, dated letter of cancellation to the seller. TIP: Be sure to keep a copy of the letter, and send the original by certified mail so receipt can be verified. In addition, there are some exceptions to the 3-day limit, so check with a consumer affairs office to see if the limit might be extended in your case.

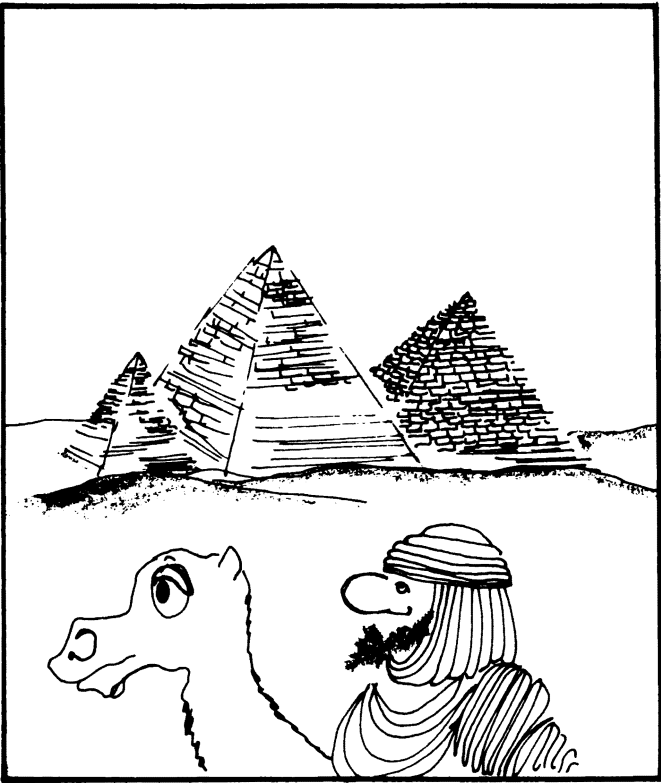


Land Sales – Many people are cheated out of their life savings by being sold land they have never seen. Often the deal sounds so inexpensive and luring that they are easily pressured into buying – sight unseen! Unfortunately, it is not mentioned that the land being considered is located miles off of any main roads, without utility connections, and under 10 feet of water. TIP: Land is usually very expensive so beware of land sales that sound “too good to be true.” *Never* buy land without inspecting it first. Check with local authorities.



Work-at-Home Schemes—This type of fraud usually starts with a matchbox advertisement urging you to earn big money in your spare time. For example, you are told that “all you have to do” is assemble a stereo. After paying for a kit, you are sent the stereo components. When you complete the work, the business will supposedly buy back the finished stereo and pay you a fantastic sum of money. TIP: There is usually a statement in the contract saying that your work must meet their standards. These standards are exceptionally high and almost impossible to meet. Look for this in any agreement before you sign.

Charities – Don’t let fake charities take advantage of you. To prevent this, ask all solicitors for proper identification. In addition, always pay by check and make it out to the charity – not to the solicitor. Check with your local Better Business Bureau about unknown charities.



Illegal Pyramid Promotional Schemes — These frauds have been lucrative businesses for their founders, but for most participants get-rich-quick schemes are expensive and have cost some people their lifetime savings. Although there are many varieties of pyramids, most follow the same basic pattern and only the early investors (those at the top of the pyramid) make money. For example, you are approached by a representative of a business who offers you a “fantastic opportunity” to make big money as a distributor for an investment of *only* \$1,500. You, in turn, are supplied with a small inventory of products for demonstration purposes but emphasis is placed on the recruitment of more participants not on the sale of products. You are promised \$500 for each additional person you bring into the scheme, plus \$100 for all participants brought in by your recruits who, in turn, may recruit other distributors, etc. Even though the scheme may sound good, not very many people have \$1,500 they are willing to invest without security, and your prospects (friends, relatives, business contacts) are soon drastically reduced. **TIP:** Before signing an agreement or parting with your money, have your lawyer review the contract terms and check with your local or state consumer affairs office for more information on illegal pyramids.

Medical Frauds — Many people who are afflicted with an incurable disease have been persuaded to spend thousands of dollars on quack cures. The salespeople peddling these cures claim that the government is trying to keep the cure a secret although it has been “proven” that it works. Don’t be fooled! If it really was a cure, it would not be sold to you by salesmen. It would be prescribed by your doctor. There are no known cures for some diseases and the wrong drugs could harm instead of help you. Beware of false medical claims that promise remedies for incurable diseases. Consult your doctor before using such a cure.

IF YOU HAVE IT,
WE CAN CURE IT !



HELPFUL TIPS

Before you sign a contract ask the salesman if the 3-day cooling-off period applies.

When dealing in matters that you don't understand (car repair, for example), take a friend along who does.

Get all the facts in writing: estimates, warranties, credit arrangements, etc.

Don't try to get something for nothing. You could lose a lot of money.

Check with your local consumer affairs office or a Better Business Bureau for more information.



For further information, contact your local Virginia Polytechnic Institute and State University Extension office or one of the following:

Virginia Office of Consumer Affairs

(804) 786-2042 or (800) 552-9963 (toll free)

Better Business Bureau

Chamber of Commerce

Federal Trade Commission

Appreciation is expressed to the State Agency Title I of Higher Education Act 1965, Project #76-013-011, for making possible printing of this publication, and the Virginia Office of Consumer Affairs for assistance in preparation of this publication.

Issued in furtherance of Cooperative Extension work, Acts of May 8 and June 30, 1914, in cooperation with the U.S. Department of Agriculture, W. E. Skelton, Dean, Extension Division, Cooperative Extension Service, Virginia Polytechnic Institute and State University, Blacksburg, Virginia 24061.

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