



Promissory Notes May Not Be Real Promises



If you are considering the purchase of a promissory note, be aware of warning signs that may signal a scam

In the news a few months ago, there was a story about wealthy NBA and NFL athletes being defrauded by more than 19 million dollars. They had purchased high interest promissory notes through their financial planner and as it turned out, the promise backing up those notes was worthless.

Scams involving promissory notes often appear when people, who are searching for a higher interest rate, buy what seems too good to be true: high interest promissory notes. The promise of high guaranteed rates of interest make these very tempting in today's low-interest rate environment.

Anyone considering investing in promissory notes needs to check them out thoroughly. Promissory notes sound simple and safe, and appear to be an attractive alternative to stocks and bonds. While they can be legitimate investments, some promissory notes sold to individual investors can be fraudulent.

According to FINRA (www.finra.org) recent fraudulent schemes include promissory notes purported to be secured by investments in real estate, US Treasuries, brokerage firms and a variety of businesses. Investors need to understand the investment they are considering, and be aware of warning signs that may signal a scam.

A promissory note is a form of debt that companies can use, like loans or private issue bonds, to raise money. The company, through the notes, promises to return the buyer's funds (principal), and to make fixed interest payments to the buyer in exchange for borrowing the money. Promissory notes have set terms or repayment periods ranging from a few months to several years.

Problems with promissory notes fall into three main categories: fraud, unregistered securities and unregistered sellers.

Fraudulent promissory note programs are often characterized by deceptive statements such as: 1) investors will receive very high, double-digit returns, 2) returns are guaranteed, and 3) the notes are backed by collateral to guarantee them. Often, promissory note schemes target the elderly and their retirement savings.

Promissory notes are usually classified as securities and must be registered with the SEC or the state in which they are sold.

Non registration of the promissory note seller, can also be a violation. Depending on the number of notes and the state of residence, registering with the state or the SEC could be a requirement.

If you are considering purchasing a promissory note, you need to protect yourself with information. Be aware of unusual or pushy sales practices and ask the seller why you should be considered a qualified buyer. Is the promissory note bonafide? Who is issuing the note and who is guaranteeing the note? Does the note carry any personal guarantees from the issuer? If the note is offering higher than market returns, ask why. What are the funds being used for?

If you are considering investing in promissory notes make sure you conduct a thorough and complete investigation before committing to purchase. Many good sources are available to make sure the operation is legitimate.

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