



**STATE OF NEW YORK
INSURANCE DEPARTMENT**

AGENCY BUILDING ONE
EMPIRE STATE PLAZA
ALBANY, NY 12257

**Circular Letter No. 17 (2000)
May 22, 2000**

TO: ALL LICENSED INSURANCE AGENTS, INSURANCE BROKERS AND INSURANCE PRODUCER ORGANIZATIONS

RE: PROMISSORY NOTE FRAUD ALERT

The Department has been notified by the North American Securities Administrators Association ("NASAA") of serious concerns relating to the nationwide sale of fraudulent promissory notes.

These promissory notes are often sold by licensed insurance agents, who may know nothing about the promoters of the investment or the fraudulent nature of the promissory notes. The agents also may not realize that promissory notes are securities, and that they must be licensed as securities brokers with their state securities regulators in order to sell them.

Insurance agents may be approached by promoters who provide glossy brochures and other material to sell investments in businesses seeking to raise capital. The investment opportunities are touted as "risk free" promissory note investments, with no stock market risk, no fees, no loads and a guaranteed rate of return. These promissory notes are purportedly guaranteed with various offshore insurance companies, some of which are non-existent. Further, the promoters usually claim that the offerings are exempt from securities regulations.

Insurance agents are targeted to sell these notes because the agents know the financial capacities of their clients and generally have a long term relationship with them based upon trust. The lure for agents to sell these promissory notes is a commission that can be as much as 7% on the first sale, with a new commission earned on each subsequent renewal.

All licensees should disclose in writing that these products are not being sold in conjunction with or under the auspices of any license issued by the Insurance Department prior to selling any promissory note.

Agents are also advised, before selling any promissory note, to check with the New York State Attorney General's Office, Investor Protection and Securities Bureau (Telephone: (212) 416-8995), or contact [NASAA \(www.nasaa.org\)](http://www.nasaa.org) (Telephone: (813) 272-2565) to confirm that the note is properly registered or legally exempt from registration. In addition, agents should find out if they must be registered as a securities broker in order to market and sell the product. A licensee's involvement with a fraudulent investment scheme may reflect negatively on the competence and trustworthiness of such licensee and may result in disciplinary action including possible revocation of any and all licenses held with the Insurance Department.

Salvatore Castiglione, Chief
Consumer Services Bureau

