

FEDERAL RESERVE BANK OF SAN FRANCISCO  
101 MARKET STREET, SAN FRANCISCO, CALIFORNIA

February 9, 2004

**BANKING SUPERVISION AND REGULATION:  
DEBT ELIMINATION SCHEMES**

To State Member Banks, Bank  
Holding Companies, U.S. Branches  
and Agencies of Foreign Banks,  
and Others Concerned,  
in the Twelfth Federal Reserve District

**Debt Elimination Scams (SR 04-3)**

Board staff has become aware of various illegal schemes being offered to the public that purport to eliminate outstanding debt through the use of specially prepared documents. The organizers of these schemes concoct specious legal documents based on the borrower's debt, which are then presented to the borrower's bank, mortgage company, finance company, or other lending institution in an attempt to satisfy the debt.<sup>1</sup> The scams are reminiscent of the tax protesters' tax evasion schemes seen throughout the 1990s.

The purported legal documents used in the current scams include fake financial instruments that claim to eliminate the borrower's debt obligation.<sup>2</sup> The instruments usually question the authenticity of financial obligations, and often refer to a specific government agency, such as the Federal Reserve, in an attempt to support their claims. Some of the literature seen by Board staff questions the legitimacy of the Federal Reserve and the validity of United States currency. The literature may selectively cite from passages of government publications, statements by politicians, constitutional provisions, court decisions, various statutes, and private newsletters to support claims and to ultimately conclude that a specific government agency sanctions these debt elimination programs. For example, some of the documents specifically refer to the elimination of debt through the use of a "Federal Reserve-approved" procedure.

Debt elimination programs that claim Federal Reserve approval or acquiescence and the satisfaction of legitimate debts through the presentation of suspicious documents are completely bogus. *The Federal Reserve does not approve and is in no way involved in any program aimed at eliminating anyone's debt obligations.*

These schemes are proliferating on the Internet, and the organizers are charging borrowers substantial up-front fees and commissions based on the total amount of debt that can be forgiven.<sup>3</sup> Members of the public are being harmed as borrowers generally pay significant amounts of money without eliminating or reducing their overall debt obligations—which is not in fact possible through any of these programs. Also, the cessation of legitimate loan payments increases the risk of a foreclosure or other legal action being taken against the borrower, and in addition could negatively

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<sup>1</sup> Lending institutions and insurance companies offer various products or include various terms in loan documents that have the effect of paying off loans (or deferring loan payments for certain periods of time) in the event, for example, of a borrower's death, loss of employment, or other significant personal life changes. These are legitimate products and should not be confused with the false promises to eliminate a borrower's debt upon the presentation of fraudulent documents that are the subject of this alert.

<sup>2</sup> The documents have variously been titled: Declaration of Voidance, Bond for Discharge of Debt, and Redemption Certificate.

<sup>3</sup> Federal Reserve staff has seen advertised up-front fees as high as \$2500. Some programs also require the up-front payment of an amount equal to 15 percent of a borrower's total debt obligations.

affect a borrower's credit rating. Financial institutions may find that the use of the specious documents complicates the collection process, and may at least temporarily prevent any final action against the consumer.

Examiners and banking organizations should be cognizant of these scams, and the public should avoid becoming involved with them. Bank holding companies and state member banks should modify their policies and procedures as needed to ensure that staff involved in any way in a lending function is able to identify and respond appropriately to these current schemes. If an institution supervised by the Federal Reserve is presented with fraudulent documents as described in this SR letter, the institution is expected to file a Suspicious Activity Report (SAR) in accordance with the Board's suspicious activity reporting rules. The banking organization must also retain the written materials associated with the purported debt elimination scheme as supporting documentation to the SAR, as required by the Board's SAR rules.<sup>4</sup>

### **Additional Information**

All circulars and documents are available on the Internet through the Federal Reserve Bank of San Francisco's Internet site, at <http://www.frbsf.org/banking/letters>. Paper copies of the SR 04-3 are available from our Corporate Services Department. To request copies to be sent by mail, please call (415) 974-2060.

For additional information about debt elimination scams, please contact our Banking Supervision and Regulation Department at (213) 683-2513.

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<sup>4</sup> Refer to 12 CFR 208.62. The SAR rules can be found on the web at: [http://a257.g.akamaitech.net/7/257/2422/14mar20010800/edocket.access.gpo.gov/cfr\\_2003/pdf/12cfr208.62.pdf](http://a257.g.akamaitech.net/7/257/2422/14mar20010800/edocket.access.gpo.gov/cfr_2003/pdf/12cfr208.62.pdf).