



Republic of Namibia  

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Financial Intelligence Centre

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**FINANCIAL INTELLIGENCE CENTRE (FIC)**  
**REPUBLIC OF NAMIBIA**  
**P.O.BOX 2882, Windhoek**  
**Tel: + 264 61 2835100, Fax +264 61 2835259**

**Web address: [www.fic.na](http://www.fic.na)**  
**E-mail address: [helpdesk@fic.na](mailto:helpdesk@fic.na)**

**PERSONAL LOAN SCAMS**

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## 1. Background:

The Financial Intelligence Centre (FIC) has noted with great concern increasing incidents of members of the public becoming targets of scams associated with Personal Loans.

Generally, a loan occurs when someone (borrower) is availed funds by a lender which he/she as the borrower would need to repay or refund, usually with interest at a specified time. Lenders usually are regulated financial service providers or regulated short and long term lending institutions.

In a lending/borrowing transaction, the amount owed is called the principal capital amount whilst the price of borrowing money is called interest. The interest is usually accumulated as a percentage of the borrowed amount, and may not exceed the borrowed amount in terms of the *in-duplum*<sup>1</sup> rule operative in Namibia. When making early payments or additional payments on a loan account, such payments can reduce the principal loan amount and consequently reduce the interest charged on such loan amount.

Personal loan scams or fraud simply refers to any type of crime or misrepresentation that involves personal lending between a borrower and a lender. Potential borrowers with bad/negative credit scores are particularly vulnerable and exposed to personal lending scams. Lenders involved in personal loan scams may try to manipulate the desperation of such type of borrower to have access to a loan, and such type of borrower having no or limited options to access available loans.

Scammers often promise unsecured loans to members of the public who:

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<sup>1</sup> The *in duplum* rule has been part of Namibian and South African law for more than 100 years, and have been applied as part of case law from as early as 1830. Literally translated, *in duplum* means 'double the amount'. This common law rule provides that interest on a debt will cease to run where the total amount of arrear interest has accrued to an amount equal to the outstanding principal debt. It was developed in response to considerations of public interest, and seeks to protect borrowers from exploitation by lenders who permit interest to accumulate unchecked. It also has the effect of encouraging lenders to exercise their rights to be repaid, promptly and without delay.

- are unable to have their loan applications approved through regulated financial or lending institutions; or
- have little financial experience.

When loan scams occur, the proceeds from such fraudulent activity can be laundered through the financial system. This presents a risk to the integrity of the financial system.

The FIC, against above background, presents this communication to:

- enhance awareness of such scams;
- help protect members of the public and the integrity of the financial system; and
- minimize the occurrence of these scams, which in turn reduces the chances of laundering proceeds from such activities through the financial system.

## 2. How do Loan Scams operate?

The perpetrators use various ways to orchestrate the loan scam. Below are some of the red flags that prospective borrowers or members of the public should keep an eye on:

- ❖ **Personal loan scams happen when a victim is asked to pay an upfront fee for a loan** – the scammers may use various advertisement platforms such as Facebook, Twitter, Instagram, Newspapers, Radio and other online networks to attract members of the public. When unsuspecting members of the public engage the scam Lender for loans, the scammers respond instantly to such loan requests and have the customer’s application approved regardless of their credit history. However, before the funds are availed to the borrower as a loan, the borrower could be required to immediately pay an upfront fee to cover insurance or some other related cost. As soon as this fee is paid, the victim does not hear from the scammer again and the loan is never received;
- ❖ **“Negative credit history, no credit, no problem”** - a scam Lender would claim not to consider a loan applicant’s negative credit record, nor care about the such

applicant's credit history. Equally, the scam Lender would in-advance promise or guarantee an applicant that such loan application will be approved, before any due diligence has been conducted. Legitimate Lenders do not guarantee loan approval until they have assessed the customer's or borrower's credit history and satisfied themselves that the information obtained per the loan application is accurate, reliable, relevant and can be used to manage the loan recovery process;

- ❖ **Pressure to act immediately** – Loan scammers will often try to convince prospective borrowers or loan applicants to provide personal information such as employer's address, identity documents, bank account information, credit card number, social security number and other significant information immediately and usually before the relevant loan application paperwork is done. In most cases may sound desperate or appear to apply pressure tactics for the receipt of such information. This normally presents an opportunity for identity theft;
- ❖ **Lenders refusing to provide address information** - In some cases scammers hesitate or refuse to provide their physical address or information about their location. Borrowers should be aware that this is a common trend among scammers as scammers attempt to cover their tracks and evade law enforcement detection;
- ❖ **Lender forged information** - Scammers often provide their company name that sounds like a well-established and credible institution. They would create websites that look professional. Some scam artists produce forged paperwork or may connive with others who will pretend to be their legitimate references;
- ❖ **Lender/loan companies not registered as a financial service provider** - In Namibia, Lenders who are not banks are required to register with and be licensed by the Namibia Financial Institutions Supervisory Authority (NAMFISA) before they commence business. If the Lender is a commercial bank, the Lender is required to register with and be licensed by the Bank of Namibia. Therefore, before embarking on a loan application, borrowers need to research and find as much information as possible on potential lenders. A good starting point is to establish if the lender is

registered with and licensed by NAMFISA or the Bank of Namibia. This can easily be done by contacting NAMFISA or the Bank of Namibia. Note that some lenders may have been de-registered but still present their initial licensing documents to convince unsuspecting borrowers that they are still a registered entity. As such, a first point of call for any borrower is to make contact with NAMFISA or the Bank of Namibia and confirm that the Lender is still registered with said institutions;

- ❖ **Approval of a higher loan amount at lower interest rates** – The scammers may inform the borrower via telephone or email that their application has been approved for a higher loan amount, more than what the applicant has applied for but at a very low interest rate;
- ❖ **Lenders appear too eager** – The scammer would at some point seem impatient, too eager and/or excited. These type of scammers may contact the potential borrowers frequently or try to rush them into making ~~into~~ decisions too quickly. They may offer free gifts or exert pressure through tactics like “last chance” or “limited time to apply”.

### **3. How do I protect myself from these Scams?**

- ❖ When applying to borrow money, be mindful of scammers who are offering illegitimate loans. The public should be suspicious whenever they are asked to make upfront payments during the loan application process, usually before funds are given to the borrower. Legitimate lenders do not ask for any upfront payments;
- ❖ Members of the public are cautioned to be very cautious of suspicious and unsolicited telephone calls, emails, social media adverts and other means of communication offering personal loans. Scammers are skilled at convincing people that the loan offered is legitimate. Be suspicious of lenders who offer easy methods to securing money or loans;

- ❖ Avoid doing business with lenders until you have their physical address or location in order to be able to do more research. Additionally, find out if they are legitimate and if they are registered and licensed by NAMFISA or the Bank of Namibia;
- ❖ Avoid sharing your personal details including copies of identification documentation (ID), passport, driver's licence, or bank account details if you are not familiar with the lender and do not know why the information is being requested. Scammers may use this information to steal from you (identity theft); and
- ❖ If you become a victim of personal loan scams, file a report to NAMFISA, the Bank of Namibia, the FIC or contact the nearest police station.

### **REMEMBER**

All legal financial service providers are registered and licensed by NAMFISA or the Bank of Namibia. Scammers generate funds by applying pressure tactics that forces unsuspecting persons into making hasty decisions influenced by great promises. Therefore, exercise extreme caution and verify the legality and status of the involved lenders before engaging them. Always contact NAMFISA or the Bank of Namibia if in doubt about the service, legitimacy or licensing/registration of a lending institution.