# RED FLAGS AND FUNDING SCAMS TO AVOID

The warning signs of funding scams and predatory offers, and how to protect yourself and your business.

TYPE: GUIDE  REVIEWED: NOVEMBER 2026  TIME: 8 MINUTES  LEVEL: EVERYONE

AT A GLANCE

- First-time founders are frequent targets of **funding scams**: fake grants, fake investors, advance-fee loans and "guaranteed funding" offers.
- The biggest warning sign: **anyone asking you to pay upfront to receive money.**
- Also watch for **legal but predatory** offers with hidden costs. Read every term before you sign.

## Why it matters

Scams can cost you money you can't afford to lose, your identity, or your business. Predatory loans can trap a healthy business in payments it can't sustain. Knowing the signs protects you.

## Common scams

| Scam | How it works |
|---|---|
| Advance-fee loans | "You're approved!" but you must pay a fee, insurance or "first payment" before receiving the loan. The loan never comes. |
| Fake grants | You're told you "qualify" for a grant you didn't apply for, but must pay a processing fee or give bank details. |
| Fake investors | Someone posing as an investor or "fund" asks for due diligence fees, travel costs or legal fees before investing. |
| Pay-to-pitch traps | You're charged large fees to be "introduced" to investors, with nothing real behind it. |
| Business identity theft | Scammers use your business information to open credit or apply for loans. |
| Impersonation | Emails or calls pretending to be from a government agency, bank or Project Underdogs. |

## Warning signs

- You must **pay before you receive** money.
- **Guaranteed approval** regardless of credit or business history.
- **Pressure to act fast**: "Offer expires today."
- Requests for payment by **gift cards, wire transfer or cryptocurrency**.
- Requests for your **bank login, passwords or one-time codes**.
- **No physical address**, licensing information or verifiable track record.
- Communication only through **personal email or messaging apps**.
- **Terms that keep changing** or aren't in writing.

> KEY POINT
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> **Project Underdogs will never ask you to pay to apply, pay to receive our first check, or pay to be introduced to investors in our network.** If someone claiming to represent us asks for money, contact us directly through our official website.

## Predatory, but legal

Some offers are legal but very expensive or risky:

- **Merchant cash advances** with daily payments and high total costs. See **R-08 Revenue-Based Financing**.
- **Stacked loans**, taking several short-term advances at once.
- **Confessions of judgment**, letting a lender win a lawsuit against you without a hearing.
- **Unlimited personal guarantees** and blanket liens on everything you own.

## How to protect yourself

1. **Never pay upfront** to receive funding.
2. **Verify** the lender, investor or grant program independently. Look up licenses, registrations and real reviews.
3. **Get everything in writing**, and have a lawyer review large deals.
4. **Calculate the total cost** of any loan or advance.
5. **Protect your information**: never share passwords or one-time codes.
6. **Talk to someone you trust** before deciding.
7. **Report scams** to the authorities. In the US, the Federal Trade Commission (reportfraud.ftc.gov) and your state attorney general take reports.

> EXAMPLE
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> **Diego** got an email saying his company qualified for a $75,000 "federal startup grant." He just needed to pay a $495 processing fee. He searched the program name and found nothing official, called his local small business center, and confirmed it was a scam. He reported it and warned his founder group.

## Your checklist

- ☐ Never pay a fee to receive a loan, grant or investment
- ☐ Verify every funder independently
- ☐ Get all terms in writing
- ☐ Calculate the total cost of any financing
- ☐ Report scams you see

## Where to go next

- **R-01 The Money Map: Every Way to Fund a Business**
- **R-04 Grants and Pitch Competitions**
- **S-08 Finding Mentors and Building a Network From Zero**

IMPORTANT
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