

5 Reverse Mortgage Scams

By Michele Lerner | January 21, 2011



Staying vigilant against computer scams and other fraud has become a natural part of life for many consumers, yet scams are successfully perpetrated every day. One reason: Individuals who intend to commit fraud have become more creative than ever, and they choose their targets with care. One group of people that scammers like to target is the elderly, believing that older people are less quick to catch on to a potentially harmful scheme than younger people may be. In recent years, as the number of senior homeowners who opt for a reverse mortgage has risen and so has the prevalence of reverse mortgage scams. (For related reading, also take a look at *The Reverse Mortgage: A Retirement Tool*.)

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The Home Equity Conversion Mortgage (HECM) is the FHA's reverse mortgage program, which is available to homeowners age 62 and older and can be a valuable financial tool for tapping into home equity and providing income for retirees. Homeowners working with a legitimate reverse mortgage lender will be required to participate in financial counseling to ensure that they understand the loan and how it works.

If you are considering a reverse mortgage, watch out for these potential scams:

Foreclosure Scams

In this scam, the perpetrators go after seniors who are in danger of losing their home to foreclosure. They artificially inflate the value of the home with the help of a dishonest appraiser, and then obtain a reverse mortgage on the property. After the mortgage approval, the scammers have the seniors transfer the title to them and the seniors are left without a home and without the funds from the reverse mortgage. Another way of defrauding the senior homeowners is to work with a fake financial institution that will inform the owners that they cannot qualify for a reverse mortgage but that they can have a different type of loan. During the closing, the title to the property will be transferred away from the homeowners.

Equity Theft Scams

These complicated schemes often involve several individuals who work together to buy a distressed property or a foreclosure, then obtain an inflated appraisal and then recruit a senior to repurchase the property and take out a reverse mortgage on the property. Usually the settlement attorney for the reverse mortgage is also in on the scam, so all of these individuals abscond with funds from the reverse mortgage at settlement, leaving the seniors with little or no equity and no cash.

Free Homes

Scammers and con-artists use advertising to recruit seniors to live in a home so that a reverse mortgage can be obtained on the property. The scammers keep the reverse mortgage proceeds and the seniors pay the property taxes and insurance on the home. Generally, the reverse mortgage is obtained on a false, inflated appraised value. Once the seniors pass away or move, the reverse mortgage lender is stuck with a loss due to the lack of true value in the home.

Document Fraud

Some con artists simply send letters to seniors about their loan documents, such as a "Reconveyance Deed", requesting money in order to provide them with copies of the deed, a document that should be on file with the lender. Other scam artists charge money

to seniors, sometimes thousands of dollars, for information about a reverse mortgage that is available free from the Department of Housing and Urban Development (HUD).

Investment Scams

While there are hundreds, perhaps thousands, of investment-scams run on individuals all the time, some are specifically geared to getting the target to "invest" in an annuity or real estate fund affiliated with reverse mortgages. The victims will lose the money they invested when the con-artist, usually someone associated with a fraudulent reverse mortgage lender, will walk away with the funds.

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FBI Tips for Avoiding Reverse Mortgage Scams

- Do not respond to unsolicited advertisements.
- Be suspicious of anyone claiming that you can own a home with no down payment.
- Do not sign anything that you do not fully understand.
- Seek out your own reverse mortgage counselor.

Reverse Mortgage Tips

Seniors interested in learning more about their options for a reverse mortgage should start by going to the HUD website that explains the basics of these loans and has a link for finding a HUD-approved HECM counselor. Another option to try is the National Council on the Aging website. Homeowners can call 800/510-0301 for a free booklet from the National Council on the Aging about reverse mortgages.

Reverse mortgage proceeds can be received as a lump sum, in monthly payments or as a line of credit. The amount to be borrowed depends on the age of the homeowners, the value of the home and how much equity is available. The loan will be repaid when the home is sold or the homeowners passes away. If any equity remains in the home after the loan is repaid, the funds go to the homeowners or their heirs. Homeowners cannot be forced out of their home because of a reverse mortgage, however, they are obligated to keep the property maintained, pay their property taxes and pay for homeowners insurance.

The Bottom Line

Avoiding scams and obtaining legitimate information on a reverse mortgage can make this loan product a valuable financial tool for seniors and their families. Like any mortgage, before you sign the dotted line, you need to consult the appropriate professionals and do your own homework or you risk being taken advantage of by financial predators. (For additional reading, see *6 Tips For Protecting Your Home's Value*.)

For the latest financial news, check out *Water Cooler Finance: You're Never Too Old To Work*.

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