



Scams that Target Homeowners

Reverse Mortgage Proceeds Fraud

Scenario

To pay for his recommended home improvements, a handyman convinces an older woman to appoint him as her agent under a power of attorney so he can help her get a reverse mortgage on the home she had purchased in the 1950s and owns outright. When the lender provided a lump-sum payout, she never saw any of the money because the handyman used it for drugs, among other things.

A reverse mortgage is a loan that allows homeowners age 62 and older to borrow against the equity in their homes.

What is a reverse mortgage?

Although reverse mortgages are legitimate products and are appropriate for some consumers, scammers also sell these products to the disadvantage of their victims.

A reverse mortgage is a special type of loan that allows homeowners age 62 and older to borrow against the equity in their homes. It is called a “reverse” mortgage because you receive money from the lender, instead of making payments as you would with a traditional mortgage. The money you receive, and the interest charged on the loan, increases the balance of your loan

each month. Over time, the equity you have in your home decreases as the amount you owe increases.

When you take out a reverse mortgage loan, you can receive your money as a line of credit available when you need it, in regular monthly installments, or up-front as a lump sum. You do not have to pay back the loan as long as you continue to live in the home, maintain your home, stay current on expenses such as homeowner’s insurance and property taxes. If you move out or die, or fall behind on property taxes or homeowner’s insurance, the loan becomes due and must be paid off.

For more information go to **ASK CFPB consumerfinance.gov/askcfpb/reversemortgage** and consult the CFPB consumer guide *Considering a Reverse Mortgage* **consumerfinance.gov/f/201206_cfpb_Reverse_Mortgage_Guidance.pdf** to help you ask the right questions before applying for a reverse mortgage.

How Borrowers Get Scammed

Scammers can take advantage of the fact that borrowers can receive the loan in the form of a lump sum payout. The reverse mortgage proceeds scam may include one or several of the following elements:

- Family members or others who pressure the older adult to get a reverse mortgage and then “borrow” the money or scam the elder out of the proceeds.
- Scammers who “require” an older borrower to sign a power of attorney or to sign proceeds over to a “loan officer or other agent” for future “disbursals.” The scammers then embezzle a portion or all of the funds.
- Brokers who pressure or fraudulently require the borrower to purchase annuities, long-term care insurance, high risk investments or other financial products with the proceeds from the reverse mortgage in order to generate additional commissions.

Mortgage Assistance Rescue Scam

Beware of anyone who promises you can stay in your home or who asks for a lot of money to help you. Scammers might promise guaranteed or immediate relief from foreclosure, and they might charge you very high fees for little or no services.

Foreclosure prevention counseling is available free of charge through HUD's Housing Counseling Program.

Mortgage relief companies may not collect any fees until they have provided you with a written offer from a lender or servicer that you decide is acceptable and a written document from the lender or servicer describing the key changes to the mortgage that would result if you accept the offer. The companies also must remind you of your right to reject the offer without any charge.

Don't get scammed. There is help available at little or no cost to you. Foreclosure prevention counseling is available free of charge through HUD's Housing Counseling Program. Visit HUD's website (go.usa.gov/v2H) or call 1-800-569-4287) to find a qualified reverse mortgage counselor near you.

Contractor Fraud and Home Improvement Scams

Sooner or later every home needs repairs or improvements. Although some home improvement companies do good work, some may not provide the level of service you expect. Many homeowners are targeted by scam artists who use high pressure tactics to sell unneeded and overpriced contracts for “home improvements.” Often these scam artists charge more than their quoted prices or their work does not live up to their promises. When the homeowner refuses to pay for shoddy or incomplete work, the contractor or an affiliated lender threatens foreclosure on the home. Con artists may pose as building inspectors and order immediate repairs which they can do on the side. They may also pose as government officials and demand a fee for processing emergency loan documents.

Home Improvement Scam Scenario

Monica is 76 years old and lives alone in her home. One morning she is outside watering her garden when a truck pulls up and a man approaches her. He tells her that he is a building contractor and that he can see that she has a problem with her roof. He points to a spot near the chimney and tells her he can fix the problem now with the materials he has left over from a job he just finished nearby. He says he'll give her a big discount if she'll pay him today in cash. After going up on the roof and tearing off some roof tiles, he tells her that the problem is worse than he thought, but he can do it for \$2,800. When Monica says she doesn't have \$2,800 in cash, the contractor becomes angry and threatening. He says if Monica doesn't have the money she will have to take out a loan to pay him.



Tips for Avoiding Contractor Fraud

Here are some common sense tips to protect yourself from contractor fraud.

- Ask to see identification for anyone representing him or herself as a government official.
- Call the government agency to verify the identity if there is any payment of money involved.
- Get bids from several local, established contractors. Obtain at least three legible bids in writing. Don't sign anything before carefully reading it. Do not do business with anyone who approaches you door-to-door or on the phone. Note that many states and local jurisdictions have laws regulating door-to-door sales.
- Avoid contractors who
 - Are working door-to-door
 - Come from out of state
 - Don't provide an address and telephone number, or refuse to show identification

Don't pay in advance.

- Before beginning any home repair project, ask if the contractor has the required licenses (note license numbers) and is bonded. Seek out references from neighbors or members of your affinity groups (e.g., place of worship).
- Check with your state licensing agency's website or hotline to make sure the licenses are valid. Ask the licensing agencies if the contractor has a history of complaints.
- Get several references from previous customers. If possible, visit them to see the work done.
- Require the contractor you choose to provide you with a contract that contains clearly written payment terms.

- Don't pay in advance.
- Never pay with cash.
- Don't provide personal financial information, such as your checking account, credit card or debit card numbers.
- If you need to borrow money to pay for repairs, don't let the contractor steer you toward a particular lender.
- Do not make a final payment until you are satisfied with the job, all debris is removed from your property, and any necessary building inspections have been completed.
- If a contractor shows up at your door and pressures you to go to the bank with him to get cash to pay for a job you do not want done, ask to speak with the branch manager. The manager can call the police for you, who can show up at the branch. Being in a public place with video cameras and witnesses should reduce your risk.

To get more information on home improvement, including how to hire contractors, how to understand your payment options, and how to protect against home improvement scams, read the FTC brochure titled Hiring a Contractor. The brochure is available at consumer.ftc.gov/articles/how-avoid-home-improvement-scam. You can also call the FTC to request the brochure at 1-877-FTC-HELP (382-4357).