

## INTELLIGENCE REPORT

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**Beware of Reverse Mortgages**

Increasingly, strapped U.S. homeowners are opting to take out a “reverse mortgage,” a loan against a house’s value that is repaid when the borrower dies or sells the property. The number of federally insured reverse mortgages issued to senior citizens in the past three years alone—nearly 335,000—is more than the total from 1990 through 2006. Consumer advocates have long cautioned that reverse mortgages should be used as a last resort because of their high fees. Now, those warnings are growing louder due to a spate of fraud.

The National Consumer Law Center says seniors are facing the same kind of aggressive tactics that were common during the subprime lending boom. And according to a recent report from the FBI and the U.S. Department of Housing and Urban Development (HUD), a host of “unscrupulous loan officers, mortgage companies, and loan counselors” are defrauding desperate Americans. In one scheme, people facing foreclosure are told that a reverse mortgage can save their homes, then “rejected” for the mortgage and steered into a deal that transfers title of their property to “investors.” The end result: They lose their homes anyway.

Other scam artists sell loans that appear to be HUD-insured reverse mortgages but are not, according to the AARP, the nonprofit advocacy group for Americans 50 and over. Still others, billing themselves as “investment advisers,” persuade consumers to invest the proceeds of reverse mortgages in other financial products that come saddled with extra costs. And in some cases, the FBI report says, the proceeds of investment schemes are not invested—they’re simply stolen.

Homeowners should turn down any pitch that uses reverse-mortgage funds to purchase financial products. In fact, they should think twice before signing up for this type of loan at all. Other options—like taking a home-equity line of credit or even moving to a smaller place—may be able to meet your needs at a lower cost, according to the AARP.

— Gary Weiss