



OIG Fraud Bulletin

November 30, 2022

Reverse Mortgage Fraud

Reverse mortgages are complex loans, making them the perfect breeding ground for a scam. A reverse mortgage enables homeowners, age 55 and older to borrow against the equity in their home. These loans provide additional financial support and typically do not require monthly mortgage payments. Unfortunately, scammers use this type of loan to take advantage of older Americans—stealing their hard-earned money and, in some cases, their homes.

Common Reverse Mortgage Scams

Foreclosure Scams

These scams target seniors who are at risk of losing their homes to foreclosure. Scammers promise foreclosure relief by obtaining a reverse mortgage. A reverse mortgage covers the payoff amount off an existing mortgage; however, it can also include high closing costs and other fees. In addition, homeowners are still responsible for property taxes, insurance, and home maintenance costs, which may present an added financial burden and could result in foreclosure of the new reverse mortgage.

Equity Theft Scams

Equity theft scams involve several different parties, including unscrupulous appraisers, attorneys, and loan officers, who work together to scam homeowners. These scammers inflate a home appraisal to deceive homeowners by making them believe they have more equity in their homes than they actually do. Scammers then convince the homeowner to get a reverse mortgage, taking the loan proceeds and leaving the homeowner with little to no equity or cash after closing costs and fees.

House Flipping Scams

This scheme happens when scammers convince homeowners, typically senior citizens, to get a reverse mortgage on their existing home. After obtaining the reverse mortgage, the scammer then suggests using the cash from the reverse mortgage to buy another property, fix it up, and resell it quickly for a profit. The scammer may “fix up” the property enough to give the impression of a good investment. Homeowners do not realize the house is in disrepair until the scammer has gotten away with the proceeds. In a different scenario, the scammer may guarantee that the property will appreciate; however, realtors and loan officers are conspiring to generate commission income for themselves from the purchase and resale of the property. The homeowner rarely makes any profit.

Fraud By Financial Planners or Loved Ones

This type of reverse mortgage scam involves a financial planner, relatives, friends, or a caregiver talking the homeowner into getting a reverse mortgage when they don't need one. In some cases, the

1 Federal Financial Institutions Examination Council https://www.ffiec.gov/exam/Mtg_Fraud_wp_Feb2010.pdf



scammers advise the homeowner to let them handle the proceeds and invest them on behalf of the homeowner, then use the money for their own financial gain.

Reverse Mortgage Refinancing

In this scam, a lender may attempt to convince a homeowner with an existing reverse mortgage to refinance into another reverse mortgage. At first glance, doing so might seem to make good financial sense; however, a reverse mortgage refinance often leaves the homeowner in a worse financial position, while the lender collects fees. Although a home equity conversion mortgage (HECM)-to-HECM refinance is a legitimate Federal Housing Administration (FHA) product, the costs and fees associated with a HECM-to-HECM refinance can be hefty, and the benefit the borrower receives may not always cover the cost of the refinance.

Fraud By Contractors

This type of reverse mortgage scam often involves a contractor approaching a homeowner, unsolicited, claiming they noticed something wrong with their home and talking them into getting repairs. These scammers are typically unlicensed and provide an inflated repair estimate to the homeowner. In this scam, the contractors tell homeowners the reverse mortgage is free money that can be used to pay for their home repair work. Remember, a reverse mortgage is not free money. These loans come with fees and closing costs. If it sounds too good to be true, it probably is!

How To Avoid Reverse Mortgage Scams

Knowing the common reverse mortgage scams and how to recognize them is a good way to protect yourself from scammers. Here are additional ways to play it safe:

- Talk to trusted experts, including your financial advisor and real estate attorney, before obtaining a reverse mortgage.
- Talk to trusted family members and ask for their help in learning more about reverse mortgages and the lender you're working with.
- Make sure you understand everything before signing loan documents. Ask questions and have a trusted loved one or attorney review the documents before you sign them.
- Research your reverse mortgage lender to make sure they're a reputable company. Visit your lender's website and social media pages, check their standing with the Better Business Bureau (BBB), and read reviews from past clients.
- Ignore unsolicited advertisements, phone calls, and emails.
- Sign up for reverse mortgage counseling, even if you are not required to take it.

HUD sponsors housing counseling agencies throughout the country who provide free or low-cost advice for buyers, renters, and distressed homeowners. A list of these agencies can be found at https://www.hud.gov/i_want_to/talk_to_a_housing_counselor or by calling (800) 569-4287.

Report fraud schemes involving public housing or other HUD-funded government programs or benefits, by contacting the HUD OIG Hotline at 1-800-347-3735 or visit, <https://www.hudoig.gov/hotline>.

