SCR-26 — Reverse Mortgage Equity Stripping & Senior Repair Scam Defense Guide

A Complete Handbook and Web Resource for Senior Homeowners, Adult Children, Caregivers, and Elder Law Advocates

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Elder Equity Defense: Halting Contractor Equity-Stripping, Defeating Phony Government Grant Pitches, and Protecting Senior Homes

Executive Summary: Preying on a Lifetime of Equity

For millions of American seniors, their single greatest financial asset is the equity built into their residential home over decades of mortgage payments. Unfortunately, this accumulated wealth makes elderly homeowners the prime target for predatory contractors, corrupt loan originators, and financial fraud rings specializing in **Reverse Mortgage Equity Stripping**.

A Home Equity Conversion Mortgage (HECM)—the federally insured reverse mortgage program administered by the Federal Housing Administration (FHA) and HUD—allows homeowners aged 62 and older to convert a portion of their home equity into tax-free cash without required monthly mortgage payments. When used properly as part of an independent financial plan, HECMs can provide financial stability.

However, predatory operators systematically weaponize reverse mortgages through deceptive schemes:

1. **The "Free Home Repair / Energy Grant" Scam:** Unlicensed home improvement contractors knock on the doors of seniors living in older homes, claiming the homeowner qualifies for a "special government program" offering free roofs, vinyl siding, solar panels, or handicap accessibility ramps. The senior signs paperwork believing they are enrolling in a grant; in reality, the contractor signs them up for an expensive reverse mortgage, drains the maximum lump-sum cash draw ($50,000 to $150,000+), performs substandard or completely unperformed work, and vanishes.

2. **The Default Foreclosure Tripwire:** Reverse mortgages eliminate monthly principal and interest payments, but **borrowers remain legally obligated to pay property taxes, hazard insurance premiums, and flood insurance**. Predators drain all equity upfront, leaving cash-poor seniors unable to pay annual property tax bills—triggering technical default and rapid foreclosure by loan servicers.
3. **The Non-Borrowing Spouse Trap:** Deceptive originators convince an older spouse to take out a reverse mortgage in their name alone, quietly removing a younger spouse from the deed to maximize the borrowing limit. When the borrowing spouse passes away, the surviving non-borrowing spouse faces immediate foreclosure and eviction.

In a landmark federal prosecution in Chicago, Mark Steven Diamond was sentenced to federal prison for orchestrating a $10 million reverse mortgage and contractor equity-stripping scheme that targeted over 120 elderly homeowners, draining their life savings and leaving their homes in structural disrepair.

This handbook details federal HECM safeguards, the red flags of contractor equity theft, and legal remedies under elder abuse statutes.

Section 1: Anatomy of a Senior Equity Stripping Scheme

How predatory contractors orchestrate reverse mortgage theft:

1. **Targeting Low-Income, High-Equity Neighborhoods:**
    - Predators scout neighborhoods with aging populations, deferred property maintenance, and high rates of homes owned free and clear.
2. **The "Free Government Subsidized Work" Pitch:**
    - The contractor approaches the senior: *"The city has an emergency grant program to fix roofs and replace windows for seniors at zero cost to you."*
3. **Collusive Mortgage Originator Collaboration:**
    - The contractor brings in a friendly, unvetted reverse mortgage broker who speeds through paperwork at the senior’s kitchen table.
    - The senior is told: *"Just sign here; the government pays for the work through an equity grant."*
4. **Circumventing Mandatory HUD Counseling:**
    - Federal law requires all HECM borrowers to receive independent counseling from a HUD-approved agency.
    - Corrupt originators bypass this rule by coaching the senior over the phone, steering them to complicit counselors, or having an accomplice impersonate the senior on the counseling call.
5. **The Equity Cash-Out & Contractor Disappearance:**
    - At closing, the mortgage company disburses a lump-sum payment of $75,000.
    - The contractor accompanies the senior to the bank or has the title company disburse funds directly to their corporate account.
    - The contractor drops off a few bundles of shingles, performs superficial demolition, and disappears.

Section 2: The 5 Red Flags of Reverse Mortgage Abuse

Watch for these warning signs when an elderly relative or neighbor considers a reverse mortgage:

Red Flag	Exploitation Indicator	Legitimate HECM Transaction
1. Contractor-Initiated Loan	A home repair contractor or solar salesman suggests or arranges the reverse mortgage.	The homeowner independently initiates contact with a reputable FHA-approved lender.
2. "Free Grant" Claims	Promoters claim the reverse mortgage is a "government grant" that never has to be repaid.	Fully transparent loan disclosure showing compounding interest and equity depletion.
3. Coached HUD Counseling	The lender or contractor sits in the room during counseling or tells the senior what to say.	Confidential, independent one-on-one session between senior and certified HUD counselor.
4. Direct Payouts to Contractors	Closing instructions direct loan proceeds directly to an uninspected contractor or third party.	Loan proceeds disbursed strictly to the homeowner’s personal account or title escrow.
5. Removing Younger Spouse	Originator advises removing a spouse under 62 from the deed without full disclosure.	Clear explanation of FHA Non-Borrowing Spouse protections and deed survival rights.

Section 3: Essential Safeguards for Seniors and Caregivers

Protect your family's equity with these non-negotiable protocols:

1. Involve Independent Family Members or an Elder Law Attorney

- Never allow a senior to sign loan documents, deeds, or major contractor agreements alone at a kitchen table.
- Insist that an independent adult child, trusted financial advisor, or licensed elder law attorney attend all consultations.

2. Mandate In-Person, Independent HUD Counseling

- Verify that the counseling agency is an independent, non-profit organization chosen by YOU from the official HUD directory (**hud.gov/findacounselor** or 800-569-4287).
- Ensure the counselor explains the **Financial Assessment** requirements and how property taxes and insurance will be funded.

3. Establish a Life Expectancy Set-Aside (LESA) for Taxes and Insurance

- To prevent tax default foreclosures, opt for a **Life Expectancy Set-Aside (LESA)**.
- Under a LESA, a portion of the reverse mortgage loan proceeds is held in escrow and paid automatically by the mortgage servicer directly to the county treasurer and insurance company each year, ensuring the senior never defaults on property taxes.

4. Never Hand Loan Proceeds to Unvetted Contractors

- If using home equity for legitimate renovations, never disburse funds upfront.
- Use standard milestone-based contracts with building permits, municipal inspections, and formal contractor lien waivers before releasing payments.

Section 4: Emergency Response Protocol — If Exploitation Occurs

If you discover an elderly parent was defrauded into an unauthorized reverse mortgage or contractor scam:

1. **Exercise the Federal 3-Day Right of Rescission:**
    - Under the federal Truth in Lending Act (TILA), borrowers have a strict statutory **Right of Rescission** allowing them to cancel a reverse mortgage for any reason within **3 business days** of closing. Send written notice via certified mail immediately.
2. **Contact Adult Protective Services (APS):**
    - In Michigan, report financial exploitation to the **Michigan Department of Health and Human Services (MDHHS) Adult Protective Services Centralized Intake (855-444-3911)**. APS investigators coordinate with local law enforcement to freeze accounts and prosecute elder abuse.
3. **Notify the Mortgage Servicer and FHA/HUD:**
    - Contact the reverse mortgage loan servicer's fraud department and the **HUD Office of Inspector General (HUD-OIG)** hotline (hudoig.gov/hotline).
4. **File Consumer and Cybercrime Complaints:**
    - Consumer Financial Protection Bureau: **consumerfinance.gov/complaint**
    - Federal Trade Commission: **reportfraud.ftc.gov**
5. **Consult an Elder Law / Real Estate Litigation Attorney:**
    - File actions for fraud, breach of fiduciary duty, and rescission of unconscionable contracts under state Consumer Protection Acts.

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