Financial Crimes Enforcement Network
A bureau of the U.S. Department of the Treasury

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April 27, 2010 703-905-3770

FinCEN Warns Lenders to Guard Against Home Equity Conversion Mortgage Fraud Schemes

New Guidance Assists Financial Institutions

VIENNA, Va. – The Financial Crimes Enforcement Network (FinCEN) today released new guidance, Advisory to Financial Institutions on **Filing Suspicious Activity Reports Regarding Home Equity Conversion Mortgage Fraud Schemes**, to assist financial institutions in guarding against fraud schemes perpetrated against senior citizens who use the Federal Housing Administration's (FHA's) Home Equity Conversion Mortgage (HECM) program, a form of reverse mortgage.

"The most troubling aspect of HECM fraud is that it takes advantage of senior citizens who have worked hard over their entire lives to own their homes," said FinCEN Director James H. Freis, Jr. "To combat these frauds head-on, FinCEN is working closely with HUD's Inspector General (U.S. Department of Housing and Urban Development's Office of Inspector General) and the Secret Service (Department of Homeland Security) to proactively identify hot-spots of suspected HECM and other mortgage fraud activity and directly provide to law enforcement a more defined battleground to direct their resources."

As the popularity of the HECM program has grown, now accounting for nearly 100 percent of the reverse mortgage market, public reports of financial crimes against seniors involving the FHA program have become more prevalent. In this advisory, FinCEN highlights the new trends and schemes that law enforcement and HUD officials have identified involving thefts from seniors by family members, loan officers, and others as well as the use of unsuspecting seniors in property flipping and other HECM-related fraud schemes, and requests that financial institutions use certain key words within the Suspicious Activity Report (SAR) narrative section to assist law enforcement in identifying and prosecuting these crimes.

Among the trends and schemes reported in the guidance:

- **Cross Selling**: involves the theft of a senior's HECM loan proceeds through cross selling of financial products in violation of HUD rules.

- **Cash-out Theft**: involves the theft of reverse mortgage proceeds by individuals who the senior trusts, including family members, care takers, and loan officers.

- **Property Flipping**: involves a straw buyer transferring ownership of a typically low-value or problem property to an unsuspecting senior without going through a mortgage sale. Fraudsters instruct the straw senior to complete paperwork for a HECM loan against the property, using an overstated appraisal, or assume the identity of the senior to do so themselves.

- **Fake Down Payments**: involves the HECM for Purchase program, which allows seniors to purchase homes using HECMs. Many HECM originators stopped accepting HECM applications from seniors who did not have a seasoned title as a result of the previously discussed property flipping scheme. To get around the new lender rules, fraudsters have started "selling" low-value properties to seniors. Using bogus gifts or fraudulent paperwork, fraudsters create the appearance of a large down payment by the senior to purchase the property. The senior is then instructed to take out a HECM loan on the existing home, based on an overstated appraisal, to complete the purchase of the low-value property.

- **Distressed Non-senior Mortgagors**: Distressed mortgagors under the age of 62 may ask senior parents, other family members, or friends to take a HECM loan for them. In some cases, distressed mortgagors will submit fraudulent paperwork to take out the loan and receive the HECM loan proceeds directly.

- **Power of Attorney:** involves a perpetrator who may use a power of attorney for the senior to apply for and close HECM loans without the full knowledge or participation of the victim.

This advisory supports the efforts of the Financial Fraud Enforcement Task Force (FFETF), the U.S. Department of the Treasury's broader initiatives to ensure that U.S. financial institutions are not used as conduits for illicit activity, including fraud against the elderly and the FHA, and a FinCEN and HUD OIG mortgage fraud initiative.

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