



February 8, 2010

MADIGAN SUES TWO REVERSE MORTGAGE BROKERS FOR USING DECEPTIVE MARKETING TO TARGET SENIORS

Chicago — Attorney General Lisa Madigan today filed lawsuits against two mortgage brokers for using unfair and deceptive marketing practices to solicit seniors for reverse mortgages.

“These companies used extremely misleading language in their advertising, sometimes even disguising their loans as government benefits that borrowers don’t have to repay,” Madigan said. “Many consumers have reported that they didn’t even know these offers were for reverse mortgages or a loan of any kind. That is unacceptable. Reverse mortgages are complex loans that should be taken out only after a consumer has had an opportunity to carefully consider his or her financial future and consult with a qualified housing counselor.”

Madigan today filed a lawsuit in the Circuit Court of Cook County against Woodridge, Ill.-based Hartland Mortgage Centers, Inc. She also filed a suit in the Circuit Court of Sangamon County against Irvine, Calif.-based American Advisors Group, Inc., and its company president, Reza Jahangiri.

In each of the lawsuits filed today, Madigan alleges that the defendants targeted seniors to take out Home Equity Conversion Mortgages (HECMs). These loans are commonly known as reverse mortgages because they allow homeowners who are 62 and older to borrow money against the equity in their homes.

In certain circumstances, a reverse mortgage can help an older homeowner continue to live in his or her home. But reverse mortgages are not a good fit for all homeowners. Unlike a traditional mortgage, a borrower in a reverse mortgage receives money based on the value of the home, the amount of equity in the home and the borrower’s age. The proceeds from a reverse mortgage can be paid out in a lump sum, in monthly installments or as a line of credit that the older homeowner can draw on.

Reverse mortgages include strict terms and conditions that require the borrower to repay the loan when any one of the following conditions is met:

- the last surviving borrower dies, sells or moves out of their home;
- the owner allows the property to deteriorate and fails to repair the property;
- the last surviving borrower fails to live in the home as his or her primary residence for 12 consecutive months; or
- the borrower fails to pay property taxes, hazard insurance or violates any other terms of the loan.

In both lawsuits, Madigan alleges that the defendants employ a wide range of deceptive marketing tactics to attract senior borrowers. For example, in direct-mail solicitations, the defendants make a series of claims that falsely imply that seniors could be eligible for lifetime monthly income or lump-sum payments that are part of government benefit programs offered to all seniors. In fact, however, the defendants are offering loans that must eventually be repaid.

Madigan alleges that the defendants’ solicitations include false claims such as: “President Obama’s Economic Stimulus Plan Helps Seniors. If you are 62 years of age or older, you may be eligible to take advantage of an important U.S. Government Insured Program” and “The United States Congress has authorized a Reverse Lending program you do NOT have to pay back as long as you live in your home!”

In addition to those deceptive claims, the defendants allegedly misled consumers into believing that the reverse mortgages would only be offered for a short time, with many of the defendants’ mailers including “expiration dates.” The complaint against Hartland Mortgage Centers, Inc., also alleges that the defendant unfairly implied that borrowers who opted for to receive their payments as

lump sums would earn considerably more. In fact, lenders actually collect more money in interest from borrowers who have a larger upfront loan balance.

Further, Madigan's suits also claim that the defendants' deceptive marketing gave consumers the false impression that they would maintain ownership of their property. In reality, consumers who take out reverse mortgages can lose their property to foreclosure if they fail to meet the conditions and terms of the loan, including paying property taxes and properly maintaining the home.

In each suit, the Attorney General is asking the court to enter a permanent injunction banning the defendants from engaging in deceptive advertising and marketing in violation of Illinois law. Madigan is also asking the courts to award restitution to consumers and to order each defendant to pay a civil penalty of \$50,000, additional penalties of \$50,000 for each act committed with intent to defraud, an additional \$10,000 penalty for each act committed against a person 65 years or older, and the costs of the investigation and prosecution of the cases.

Assistant Attorneys General Monica Grubbs and Rebecca Pruitt are handling these cases for Attorney General Madigan's Consumer Fraud Bureau.

Before entering into a reverse mortgage, Attorney General Madigan urges older homeowners to carefully consider, based on proper disclosures, whether this type of mortgage is good for them and to be on the lookout for misleading advertisements that attempt to scare them into taking out these kinds of loans. Before applying for a reverse mortgage, consumers must meet with a counselor from a U.S. Department of Housing and Urban Development-certified housing agency to discuss a reverse mortgage's costs and financial implications, as well as possible financial alternatives. To find a counselor, visit www.hud.gov/offices/hsg/sfh/hecm/hecmli.stm. Counseling agencies typically charge about \$125 for sessions, which can be paid from the loan proceeds, but consumers cannot be turned away if they cannot afford the fee.

The following organizations also have resources available for consumers considering this type of loan product:

AARP Foundation

601 E Street, NW
Washington, DC 20049
www.aarp.org/revmort
1-800-209-8085

U. S. Department of Housing and Urban Development (HUD)

451 7th Street, SW
Washington, DC 20410
www.hud.gov/offices/hsg/sfh/hecm/rmtopten.cfm
1-800-CALL-FHA (1-800-225-5342)

Federal Trade Commission

Consumer Response Center
600 Pennsylvania Avenue, NW
Washington, DC 20580
www.ftc.gov/bcp/menus/consumer/credit.shtm
1-877-FTC-HELP (1-877-382-4357)

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