A popular financial product many senior citizens have been utilizing is a reverse mortgage. A reverse mortgage is a complex loan that can cost you a lot of money and put your house at risk, if you are not careful Most unbiased financial professionals will advise you to view them as a loan of last resort.

A reverse mortgage is a loan that can allow you to turn a portion of the equity in your home into cash without having to move or repay a loan each month. In certain instances, a reverse mortgage can be a useful product if carefully used as part of a long term financial planning tool, as opposed to a crisis management tool or a tool to fund a splurge. If you are in a situation where you need to consider a reverse mortgage, this program will show you some vital considerations to mull over. We want you to think before you ink - take the time to make an informed decision.

For example, let's say you take out a reverse mortgage to live off of, and you receive a lump sum in the amount of $100,000. If your living expenses are $2,000 a month, or $24,000 a year, you will burn through that lump sum in a little over 4 years. What will you do when the money runs out? There may be better options for you.

A reverse mortgage is a loan against your home that you do not have to pay back until a payment triggering event occurs, and by that I mean that something happens to cause your loan to become due. The most common payment triggering events are moving out of the house, dying, or not paying for property taxes, insurance, or proper home maintenance. You are responsible for property taxes, insurance, and proper home maintenance because the title remains with you, the homeowner.

Although a reverse mortgage can allow you to turn a portion of the equity in your home into cash without having to move or repay a loan each month, eventually the loan has to be paid back with interest. The cost of a reverse mortgage can be very large, often several times more than what you borrowed. For example, if you take out a $200,000 reverse mortgage, you may owe over $400,000 just ten or so years later.

The cash you get from a reverse mortgage can be paid to you as:

- A lump sum of cash. This can be the most expensive option if you receive a large sum because you immediately start paying interest on the entire amount.
- A regular monthly cash advance. Generally, in a term option, you'll receive a higher monthly amount for a set period of time, such as 10 years, or, in a tenure option, a lower monthly amount indefinitely until you die or move out of the home.
- A "creditline" account that lets you decide when and how much of your available cash is paid to you. This can be a good option because you use only what you need, and you pay interest only on what you use.
- A combination of payment methods.
- Here's an example. Let's assume that Fred is 67 and owns a house worth $350,000 free and clear. Free and clear means Fred does not already have an existing mortgage on his home; he has paid it off. He could:
- Receive a lump sum of approximately $120,000 in the first year. (He could be eligible for an additional $80, 000 in year two.)
- Receive a monthly payment of $1,600 for 10 years (term option),
- Receive a monthly payment of $1,000 for as long as he occupies his home. (tenure option),
- Have a credit line with a limit of $120,000 in the first year that he can use when he needs it, or
- Combine payment methods, such as receiving a lump sum of $25,000 and a tenure payment of $800 a month until he dies or moves out of the home.

Again, receiving a lump sum is the most expensive way to receive your money because you immediately begin paying interest on the entire amount, rather than only paying interest on the smaller amounts you receive, as you receive them, in the other options. The majority of borrowers in default took proceeds in a lump sum, rather than monthly installments over a number of years. They relied on a loan to meet basic living expenses, then used up their equity and had nothing left for their remaining years.

Rather than taking a lump sum, Fred may be better served with the tenure option that will pay him $1000 a month as long as he occupies the home. He could use that and his social security payments to cover his living expenses.

To be eligible for most reverse mortgages, you must own your home and be at least 62 years of age. The reverse mortgage must be in a fist lien position so existing mortgages must be paid off. You can pay off your existing mortgage with your reverse mortgage, depending on the amount you are approved for. Reverse mortgages are often advertised as a way to keep you in your home or help with retirement, but your reverse mortgage amount will be limited and tied to the value of your home.

Speaking of limits, the maximum amount of cash you can withdraw largely depends on the age of the youngest borrower, your home value, and the prevailing interest rate. For example, with a interest rate of 5%, a 62 year old will be able to withdraw about 52% of the home's appraised value, minus fees. Generally, the older you are, the higher your home's value and the lower the interest rate, the more money you can withdraw

There have been major changes to the Home Equity Conversion Mortgage program, or HECM, that went into effect September 30, 2013. Most reverse mortgages are HECM's, insured by the Federal Housing Administration. To be clear, that insurance covers the lender, not you.

Withdrawal limits have been reduced by 10 to 15 percent, depending on your age, from prior limits.

There is also a new limitation on the amount of money you can borrow at closing or during the first year. This is because too many borrowers were taking out large lump sums and running out of money. Now, you will only be able to get 60% of the amount you are eligible for in the first year. For example, if you were eligible to withdraw a total of $200,000 in cash, you would be allowed to get only $120,000, or 60% of that sum, in the first year.

There are exceptions. You may be able to draw a bit more if your existing mortgage, along with other mandatory obligations like delinquent federal debts, exceed the 60 percent limit. You are required to pay off those items before qualifying for the loan. So, depending on the amount and your eligibility, you may be able to withdraw enough to pay off these mandatory obligations, plus another 10 percent of the maximum allowable amount. In our example, that's an extra $20,000, or 10 percent of $200,000. By the way, credit cards are not considered a mandatory obligation.

Also, if you exceed the 60% limit with your lump sum, your upfront Mortgage Insurance Premium will be 2.5%, rather than the .50 percent you will pay if you do not exceed the 60% limit. On a $200,000 home, 2.5% is $5,000 versus $1,000 if you were paying .50 percent. Another reason to take out less money.

On January 13, 2014, lenders started analyzing all income sources of prospective reverse mortgage borrowers. This includes pensions, Social Security, IRAs and 401(k) plans, as well as your credit history. They look closely at how much money is left over after paying typical living expenses to determine if you have sufficient income to pay taxes, insurance, and maintain your home.

If a lender determines that you may not be able to keep up with property taxes and hazard insurance payments, they are authorized to set-aside a certain amount of funds from your loan to pay future charges. The amount of the set-aside is based on the life expectancy of the youngest borrower. If set-asides run out, it is still your responsibility to pay taxes and insurance.

There are four options when a reverse mortgage becomes due. S 1) You or your heirs can sell the home to pay off the reverse mortgage. If you are in contact with the loan servicer, you will have about 12 months to do this. After the reverse mortgage is paid off from the sale of the home, the profits would go to you or your estate. 2) You or your heirs can pay off the loan and keep the house.   Generally, you will have 12 months to do this. If the loan balance is worth more than the home, you or your heirs would only be required to pay back the fair market value of the home. HUD insurance would cover the lender's loss on the loan. 3) You can give the home to the bank. In this scenario, you or your heirs waive the responsibility to sell the house and the right to collect any profit made off the sale. 4) If nothing is done, the bank will foreclose on the house.

This is a good time to point out a key distinction between a reverse mortgage and a traditional, or forward mortgage. With a traditional mortgage, because you are <u>making</u> payments, your loan balance decreases and your equity increases. With a reverse mortgage, because you are <u>receiving</u> payments, your loan balance increases and your equity decreases. Simply stated, the amount you owe increases and this eats away at the equity you've built up in your home.

Here's a reverse mortgage example. Mary, a 75 year-old borrower lives in a home worth $250,000 and owes $50,000 on her existing mortgage. She qualifies for a reverse mortgage of about $121,000 with an interest rate of 7 percent., Mary borrows $67.000, to pay off her existing mortgage and for minor home repairs.

She would owe about $12,000 in upfront costs and interest and fees would be charged on the loan until it is paid back. In other words, the loan continues to grow.

Let's say Mary lives in the house for 12 years then moves into an assisted living facility, which would make the loan become due. At that time, the cost of Mary's $67,000 loan, meaning just the interest and fees, would amount to $136,000, or 200% more than what she borrowed. She'll also have to pay back the $67,000 she borrowed, making the cost of her loan amount to a grand total$of $203,000.

It's like her 7% interest rate doubled and she paid nearly twice as much in interest. Remember interest is a percentage added on to what you borrow. It's one cost of borrowing money. The higher the interest rate, the more interest you'll pay. When you are dealing with larger amounts of money, like in a reverse mortgage, your interest rate can have a tremendous impact on the cost of your loan.

This is because of compound interest. Or, interest being charged on interest. Your loan balance continues to grow, and as it grows you are charged interest on the larger balance. This is how your loan balance can skyrocket.

The biggest expense of Mary's loan was $111,000 in interest charges. Again, Mary's loan had an interest rate of 7%.

With a 10% interest rate, Mary's interest payments would total $143,274.

With a 4% interest rate, Mary's interest payments would total $40,269.

Interest rate matters. Know your interest rate. You should also know whether it's fixed or variable. If it's variable, it can increase, which will cost you more.

You should also be aware of your fees. Reverse mortgages come with large upfront fees that can be as high as 10% of the amount you borrowed. Because of the high upfront fees and costs of a reverse mortgage, you should assess how long you plan on staying in the home before you take out a reverse mortgage.

If Mary decides to move after two years of taking out her $67,000 reverse mortgage. At the end of two years, the total cost of the loan is about $26,000. That's 38% of her loan amount. She'll have to pay the $67,000 back too. Financially, she would have been better served not taking out the reverse mortgage.

Here's a simple way to think about reverse mortgages.
All reverse mortgages turn your home equity into three things:

1. Loan advances paid to you;
2. Loan costs paid to the lender and others;
   And
3. Leftover equity, if any, paid to you or your heirs at the end of the loan.

Reverse mortgages turn your home equity into only these three things; you can analyze any reverse mortgage by asking three simple questions:

1. How much would I get?
2. How much would I pay?
3. How much would be left at the end of the loan?

At the end of the loan, all of your home's value will have been turned into one of these three things: advances, loan costs, or leftover equity.

Let's look at Mary's situation:

1) She got paid a $67,000 loan
2) She'll have to pay $136,000 back plus the amount she was loaned ($67,000) for grand total of $203,000.
3) If Mary sells her house for $250,000 to pay back the loan, she'll have approximately $47,000 left at the end of the loan. If her house has increased in value, she'll have more. Regardless, she used up a large portion of her home equity on the reverse mortgage.

Here are some more things for you to think about if you are considering a reverse mortgage:

Carefully assess why you are interested in these loans and how you plan on using the money. A reverse mortgage is not a good way to get money to invest, spend on luxuries, or other things that are not necessities. Why? Because they cost so much. The upfront fees can exceed 10% of the loan in some cases and the compounding interest can make your loan balance skyrocket.

When you take out a reverse mortgage, you are responsible for paying your property taxes, homeowner's insurance, and home repairs. Failure to fulfill these requirements can result in the loan becoming due. If you can't pay back the loan, your house may go into foreclosure. Nearly 10% of reverse mortgage borrowers are at risk of foreclosure because they have failed to pay taxes and insurance. This figure increases if it includes those that cannot afford to properly maintain or repair their home. It is vital you remember to include budgeting for these costs. Otherwise, you may trigger your loan becoming due.

When you are making determinations about how long you will stay in your home, *assess your current and future health*, as best you can, as part of your decision. Reverse mortgages require borrowers to live in their home. They come with clauses that trigger repayment if a home is unoccupied for a stated amount of time. The usual amount of time is 12 months, but can be as low as three months. For example, if you become ill and have to be treated at an assisted living facility for four months, that may trigger repayment in some reverse mortgages. Assess your health as best you can and know the specific amount of time your loan states you can be away from the home.

If a married couple is living in the home, it is important that both spouses are listed as co-borrowers in the reverse mortgage loan documents. If only one spouse is listed in the loan documents, and the borrowing spouse dies, the surviving spouse will be required to sell the home or pay the loan balance under the terms of the reverse mortgage.

Reverse mortgage loans are only available to borrowers that are at least 62-years-old. Because of this requirement, a couple where only one spouse is older than 62 will not be allowed to list the younger spouse as a co-borrower. In this circumstance, a reverse mortgage broker might suggest that only the older spouse should be listed in the loan documents. This puts the non-borrowing spouse in a dangerous position, because he or she will have to move out of the home if the borrowing spouse dies or needs to move out of the home.[1] Also, a single older spouse may be entitled to a larger amount, and a broker may push for this. However, this puts the non-borrowing spouse in jeopardy.

As previously discussed, a reverse mortgage loan becomes due and payable when the borrower sells the home, moves out of the home for a specified amount of time, or dies. Because of this, children and other dependents should be prepared to move when an event occurs that triggers the reverse mortgage to become due.[2]

A reverse mortgage may affect your ability to take out other loans and/or the cost of those loans. Lenders assess your income, assets, debt levels, credit reports and scores when making lending decisions. If you have a reverse mortgage tied to your major asset, your house, lenders may determine you cannot afford another loan. Or, they may issue a loan at a much higher interest rate, making it more costly.

Your reverse mortgage may also make you ineligible for Medicaid and other benefits such as SSI or food stamps. Medicaid is a needs based program and, typically, monthly assets for a single person cannot exceed $2,000 or $3,000 for couples. Asset limits vary by state.   You should check to see if your reverse mortgage will affect these programs if you rely on them. Medicare, by the way, is an entitlement, and not based on income levels so a reverse mortgage will not affect that.

Take some time to think through your options. Consider if you have less costly options. Do you have other financial resources that you could use instead of taking out a loan?

If you don't, and if you could easily make the monthly repayments on a home equity loan or home equity line-of-credit, these alternatives are much less costly than a reverse mortgage. However, these loans usually require you to make monthly payments and they come with their own risks, such as losing your house if you are unable to make payments on the loan. Also, your income, savings and other cash, and credit rating may play a larger role in determining whether you qualify for these loans.

If you are having trouble paying property taxes or making home repairs, many state and local governments offer very low-cost loans for these expenses. Some state or local governments may also offer assistance with utility bills. If you have high medical expenses or long-term care needs, you may be eligible for Medicaid or other public benefits that can help you cover those costs.

Have you seriously looked into the costs and benefits of selling your home and moving into a less expensive one or renting? Selling your home will allow you to utilize most of your equity. In a reverse

1 Consumer Financial Protection Bureau, Considering a Reverse Mortgage, at 2.

2 *Id.*

mortgage, you only get a portion of your equity because you have to cover the fees and interest costs. Of course, if you sell your home, you have to find and pay for a new place to live. You might consider moving into a smaller, more affordable home.

If you decide to further explore a reverse mortgage, please be on alert:
We want you to know your money and equity are a target to people who may not be honest.

The lender may have a financial incentive to maximize his or her profit by steering you into a loan that may not be in your best interest. For example, a lender may steer you into a larger reverse mortgage with exorbitant costs, when you could have been eligible for a less expensive one. Slide: They may also persuade you to take a lump sum payment, which will cost you more. Some brokers may be misleading or leave out key facts. Realize brokers are paid on a commission so the more you borrow, the more money they make.

Watch out for the bait and switch: are you getting the low rates that were promised? Does the loan document contain the terms and conditions you were told? Don't rely on spoken promises. Get it in writing and know what you are signing.

Also watch out for those who pressure you to use your reverse mortgage to buy other financial products, like an annuity or long-term care insurance. Resist that pressure. You do not have to buy any products or services to get a reverse mortgage. In fact, in some situations, it is illegal to require you to buy other products to get a reverse mortgage.

Be on the lookout for deceptive ads claiming that a reverse mortgage is a government benefit and not a loan. Do not believe all of the advertisements you see or hear about this product.

The bottom line: If you don't understand the cost or features of a reverse mortgage or any other product offered to you – or if there is pressure or urgency to complete the deal – walk away and take your business elsewhere. Consider seeking the advice of a licensed professional, such as an attorney fee-based financial planner, or family member, friend, or someone else you trust.

If you suspect that someone involved in the loan transaction is breaking the law, let your housing counselor, lender, or loan servicer know. Then file a complaint with the Consumer Financial Protection Bureau and your state attorney general's office.

Instead of letting your guard down, keep it up. Never forget this is a serious business transaction. You can still be cordial, civil, and even friendly, but don't let your guard down.

Instead of being overly trusting, employ some healthy skepticism.

Verify key points. Get things in writing.

Instead of letting the lender or broker direct the conversation and ask the questions, you ask the questions you want answers to.

Instead of listening to the broker or lender tell you what the contract says, you read the contract and verify it. Or have a licensed professional such as an attorney read the contract.

Instead of thinking about how this is a good deal for you, look for ways it could be a bad deal too. Think about what's in it for them.

Remember the simple way to think about reverse mortgages:

1. How much would I get?
2. How much would I pay?
3. How much would be left at the end of the loan?

Think before you ink also means making an informed decision by knowing:

- High upfront costs that come with reverse mortgages
- monthly charges such as the servicing fees and MIPs
- interest rate
    - whether your interest rate is fixed or variable
    - amount your loan balance can grow
    - total it will cost you to pay back your loan
    - the amount of time you'll receive monthly payments
    - amount of time your lump sum will last, if you choose this expensive option
    - danger of not having a spouse on your loan documents
    - the repayment triggering events such as
        - death of the borrower or borrowers listed on the loan documents
        - moving out of the home for longer than the loan allows
        - not pay taxes, insurance or necessary home repairs

You should also know the:

- High cost of these loans if you move out of the house within a few years, and the need to also assess your health when making this determination
- Need to notify others living in the house to make future living arrangements
- Your reverse mortgage may affect other loans and medicaid, SSI
- a reverse mortgage is not a good way to fund investments or luxuries
- alternatives such as a home equity loan or HELOC, or selling your home

Comparison shop

- If you decide to move forward on a reverse mortgage, it is very important you comparison shop the loan. Just like you would comparison shop for a car or other item, do the same for the loan. Get different quotes and compare the terms and conditions. Don't just take out the loan from the first lender you run across. This could cost you thousands of dollars.
- Tell your housing counselor everything about your situation and beware of counselors that don't take the time to make sure you understand the product. Some housing counselors are better than others!
- Remember to think before you ink
- Do not be rushed, or pressured. Make an informed decision.

Please see our website for more information on reverse mortgages and other decisions involving your equity.

Also, on the website and in section three of this video, we cover planning for the aging process and that section includes equity considerations, such as signing over your house to a family member.

Now, let's talk about scams and frauds. Senior citizens lose billions of dollars each year to various kinds of consumer fraud. If you are over 50 years of age, you are especially vulnerable, according to a study by the AARP.

Let's start off with quick strike scams, the name I've given to quick and impersonal scams.

The scammer casts a wide net by sending mass mailers, emails, or telemarketing phone calls. They're not necessarily taking the time to make a personal connection, and for the most part, their offer is mostly, if not completely, bogus. They are hoping to ensnare gullible people, who will fall for their tricks. They want to make a quick buck.

Do you remember telling your children to beware of strangers? The same thing applies here. It's scammer stranger danger!

Let's take a look at a common quick strike scam example: a sweepstakes scam.

In this scam, the scammer tries to fool you into thinking you have won a prize or a sweepstakes. Or, in another version, tell you of your prize eligibility. These often arrive in the mail in an over-sized envelope. It will have your name printed on the material as being a winner or potential winner. These direct mailings will often have pictures of past winners describing how wonderful their lives are now that they are millionaires.

But there is a catch: to claim your prize, you need to pay a fee or purchase some merchandise, and you need to do it before the deadline. The scam is there is no prize or sweepstakes and the scammer pockets the fee or the money you spent on the merchandise.

Dangling a big prize in front of you is designed to get you to stop thinking logically and persuade you to act emotionally.

Wouldn't it be nice to be a millionaire? Think of all the ways you'd use that money. Enticing isn't it? The scammer wants to distract you by getting you to focus on acquiring the big prize or sweepstake. The whole set up is to stop you from thinking logically and get you to act on emotion. To further stoke your emotions, there's a deadline to create a sense of urgency. What if you miss out on this once in a lifetime opportunity?

The important point to remember about sweepstakes is your chances of winning are practically non-existent, at best. You cannot increase your chances of winning by buying merchandise from a company that uses sweepstakes as a promotion And, it's illegal for a company to require you to make a purchase or spend money in order to play the sweepstakes they are running.

Thinking logically, it's a house of cards. The business model is to profit off the fees or merchandise you pay for. That is how they make their money and they are trying to get your money by dangling the promise of a prize or sweepstake in front of you. If it were a business, it couldn't operate by giving away more prizes and sweepstakes than it makes in fees or merchandise purchases.

<u>Here's some more quick strike scams:</u>

Phishing. Fraudulent operators may try to "phish" for your private banking information in order to make unauthorized withdrawals from your account. Phishing begins with a call, letter, email, or fax to you purporting to come from your financial institution or another company you do business with. The documents look authentic or the caller sounds professional. The correspondence typically requests you to disclose or "verify" your private financial information. Often the correspondence includes an official looking logo, and asks you to contact a "secure" telephone line, email, or Internet site. Instead, you are redirected to a fraudulent operation or website, where they try to convince you to disclose your information for "security" purposes or other reasons. Remember scammers can fake many things to get you to reveal your personal information: job applications, medical forms, benefits forms, account information. Be on the look out.

In some cases online, the scam operator may even download spyware onto your computer with the ability to find your private information.

Foreign Lotteries. The Foreign Lottery Scam is initiated by a call, letter, email, or fax claiming that you have won a prize in a foreign lottery or contest. The scammer typically requests that you disclose your banking information for a "deposit" but instead drains your account through unauthorized withdrawals. Oftentimes this scam is combined with the Fake Check Scam. The scammer may also ask you to send money to cover fees for processing, legal operations, foreign customs, taxes, etc. No one has ever received their supposed winnings through this scam, and such scams violate federal law.

Advance Fee Fraud. Advance Fee Fraud is a long-running scam whereby an unscrupulous scammer convinces you to send payment or an "advance fee" in exchange for a line of credit. Once the perpetrator of the scam receives the fee, however, the credit is not extended and you've lost your money, Oftentimes the perpetrator may ask you for additional money for "fees" or "processing" charges.

Fake Check Scams. Another form of Advance Fee Fraud is known as the Fake Check Scam. The perpetrator of the fraud may pretend to be interested in buying an item you have for sale. Rather than paying the exact amount of the transaction, however, the "buyer" will send you a cashier's check for an amount in excess of the agreed upon value, asking you to wire the difference to the "buyer's" agent (oftentimes located in another state or country). Once you have sent the extra money, you learn that the check or money order is fraudulent and never hear from the "buyer" or the "agent" again.

Foreign Advance Fee Fraud. In this variation of the Advance Fee Fraud, you receive a letter, email, or fax from someone claiming to represent a foreign government entity, attorney, or relative of a foreign dignitary requesting "help." The scam artist requests assistance in transferring millions of dollars into the United States, in exchange for paying you a commission (usually between 25-35 percent of the transferred funds). Through correspondence, the perpetrator of the scam convinces you to disclose your private bank account information to "deposit" the funds, but instead drains your account. In the latest twist of this scam, the fraudster poses as an American soldier trying to wire money out of Iraq.

Those five scams are very common, but please be aware: scammers and con criminals are constantly coming up with new scams. The following is a relatively recent example:

Scam on grandparent. Typically, the scam on grandparents works like this: a perpetrator calls a senior on the telephone and whispers or mumbles phrases designed to get the senior to reveal a grandchild's name. For example, the caller may say "Grandma, it's me!" or "Grandma, is that you?" in an effort to get you to say your grandchild's name. Once the perpetrator has the grandchild's name, he or she will impersonate the grandchild and claim to have lost a wallet or been in an accident. Then, the perpetrator will ask the senior to wire money to the perpetrator — which often doesn't require identification to collect. To whip up your emotions further, the scammer may make up an immediate deadline, such as "They're going to arrest me unless I pay today." The scammer may also get a grandchild's name off of the Internet or social media and use that and other information to pose as the grandchild. Don't reveal your grandchild's name on the phone, and ask questions only your grandchild would know, such as what you did the last time you were together.

We cover additional scams on our website. Like we said, scammers come up with new scams all the time. We may not be able to list every scam, but we can provide you with some steps to take to protect you from quick strike scams:

AG: Shift your point of view to include some healthy skepticism.
You should start with the attitude that unsolicited mailings, emails, text messages, and telemarketing phone calls are bad deals or scams. Remember Scammer stranger danger!

Instead of thinking about how the offer could be a good deal for you, think about how it could be a bad deal or scam.

Don't get caught up in the emotion or excitement. Assess if persuasion-based tactics are working on you.

JO: Protect yourself by:

1. Never disclose your credit card number, check routing information, or other banking information to telemarketers or other solicitors.
2. Do not believe claims that you need to pay in order to "collect your winnings" from a

contest or to obtain a line of credit.

3. If you receive correspondence claiming that your financial institution, or account has been jeopardized, do not immediately disclose your account or other information. Contact the company at a telephone number or address that is listed in the telephone book, your account statement or the company's official website or that you know to be an accurate contact for the company.
4. Be wary of solicitations asking you to wire money or send payment to a foreign country. It may be difficult for law enforcement officials to pursue lost funds outside of the jurisdiction of the United States.
5. Do not send payment or wire money to a third party in response to a cashier's check or personal check "overpayment" in connection with your sale of a vehicle, product or service. Remember, just because the bank may make funds from a cashier's check available quickly does not mean the check is good. Financial institutions can take up to a week or longer to verify that a given cashier's check or personal check is legitimate.
6. Never respond to correspondence regarding a foreign lottery. These lotteries are illegal!
7. Do not open spam email, or "click" on attachments, images, or links in e-mail messages, instant messages, or pop-up messages.
8. When shopping online, always use a secure website (preferably one that offers encryption) or a well-known payment service. Do not disclose your pin numbers or other sensitive information in connection with a purchase unless you are absolutely positive that you are dealing with a reputable company.
9. Don't be rushed. People often make poor decisions when they are hurried. Most victims of scams later realize that if they had taken their time and thought it through, they would not have agreed to disclose their information or send money to a given scam operator.
10. If it sounds "too good to be true," it is.

Now let's talk about a higher level of scamming, often involving investment fraud. These scams involve more money, sophistication, and persuasion by the scammer. Their biggest weapon is the use of a personal connection that is fostered over the telephone or in-person at a sales presentation or luncheon. This personal connection is used to crank up the persuasion. The scammer will put more time into these scams than the quick strike scams and they will also go after more of your money. The irony is they'll use the promise of riches to draw you into these scams.

Fraud expert Doug Shadel has broken down the tactics of scammers. To protect yourself, you need to build up an awareness of persuasion-based tactics. Like Mr. Shadel says, you don't have to memorize the tactics. Just try to assess if they've been used on your before. So you can stop it in the future.

Emotion stoking
The scammer's first goal is to exploit your fear, greed, insecurity, compassion, or fantasy. The goal is to stop you from thinking logically and persuade you to make decisions based on emotions.

Phantom riches
With your critical-thinking cap off, and your emotions stoked, the scammer will solve your problem with promises of wealth or riches. But it's a lie and the promises are false. Phantom riches. There are no riches, or not nearly as much as promised. The point is to get you to do something you wouldn't ordinarily do because if you want something bad enough it can hinder your ability to examine an offer critically.

Source credibility
A scammer will try to fool you into thinking the offer is legitimate. Give you every excuse to believe**...**Scammers will appear to look and sound legitimate and they'll make you think their offer is too. They'll dress professionally. Sound like they know what they are talking about. If you are thinking emotionally, the part of you that wants to believe in the phantom riches of the offer will be satisfied by the fake credibility the scammer creates. It will stop you from acting logically and looking deeper. The scammer is counting on this.

Social consensus
A scammer will also use the tactic of "social consensus" to get you to think that everyone is doing it. This is another attempt to legitimize the product and the offer. Another attempt by the scammer to keep you from thinking critically and looking deeper.

Reciprocity:
This is a big tactic of scammers. They'll give you something, for instance, free lodging, lunch or a gift, and then use it against you later. Most people are trained to give back once they are given something. A scammer will exploit this.

Scarcity
To keep you in the emotional state, and up the ante, the scammer will apply scarcity. This could come in the form of a deadline or a supposed limit on the amount of items they have or offers they'll accept.

Slide: "Stupid people don't have $50,000 laying around." Jim ----, convicted scammer

Anybody can be taken. Con artists are slick. It doesn't mean the victims are stupid, or they have a lack of education. In fact, most of the scams happen against folks who have a good degree of education and are smart, who know something about finance, and who have cash in the bank. THIS IS WHY SENIORS ARE NOW A TARGET.

<u>JO:</u> You can become a victim of these scams:

- If you don't look skeptically at unsolicited mailings, phone calls, or sales pitches.
- If you don't ask a lot of questions. Also, be careful of the questions you answer.
- If you don't read paperwork and wait for the scammer to tell you what it says.
- If you don't look for why the offer is a scam, and focus only on why the offer will make you money.
- If you let the scammer's persuasion-based tactics work: you fail to think critically about the offer.

<u>HERE START:</u>

In his book, <u>Outsmarting the Scam Artist</u>, Doug Shadel profiles how a fraudulent gold coin company bilked people out of their retirement money. The company advertised primarily on Christian radio because they felt Christians are more trusting. Targeting a specific audience or group is a common scam tactic. The radio advertising campaign which also included 20 minute infomercials, had the objective to stir up fear in its listeners by talking about the collapsing economy and uncertain financial markets. Their answer was to convince people gold coins were the solution. The company's goal was to get you on the phone and then unleash a full arsenal of persuasion-based tactics. There are different scams, but the tactics remain the same.

Edna Jones was one of its victims. She heard the ads on her favorite Christian radio station. The 20 minute infomercial gave her the impression she could call the 800 number and talk to one of the company's "financial advisors" for some objective advice. Edna's husband had died several years before and he handled all of the finances. She was a novice investor and an easy target. She was bilked out of $95,000 and had to hire an attorney for a case that lasted two years to get her money back.

Edna called the gold company's financial professionals and let them direct the conversation. She did not ask questions and get into the details of the deal. Most scammers don't like it when you ask a lot of questions. In fact, the sales staff was trained to get off the phone with people who asked too many questions.

The infomercial opened the scam door for Edna. The so-called "financial professionals" from the gold company that Edna called pulled her through it, so to speak. They were trained to instill fear in Edna about her past investments losing value. Their promises of guaranteed riches seemed to be a solution to her problem. These phantom riches didn't solve her problem, but they kept her from thinking logically.

The gold coin company representatives she spoke with on the phone assured Edna gold was going to go up in value. They told her they had a team of numismatists (or just "gold experts") who would hand pick her portfolio to give her the highest annual return. They told her they've been averaging about 30% a year on the return for her portfolio. She was also told that, according to Wall Street experts, gold was at $1,200 and was headed to $1,500.

These statements, though completely untrue, were designed as a way to legitimize the business and the product. That along with the traditional advertising on the Christian radio station achieved source credibility. The scammers normalized the business product by claiming that smart investors were jumping on this trend. This is social consensus.

They told her she better act fast because this offer won't last. Scarcity achieved.

Even though investment best practice guidelines recommend no more than 15% or 20% of a portfolio should be in gold, the gold coin company was trained to ask for all of the customer's investment money. They told her it's the only way for her to protect her money, again exploiting the fear the original infomercial incited and the fake financial professionals stoked on the phone.

The gold coin reps were trained to identify how much money the victim has and where he or she has it so they can go after it.

In Edna's case, this meant finding out whether she had a 401(k), an annuity account, or any other investments.

The company told Edna not to worry about any liquidating penalties because they told her this was the only way she can protect her money and leave something for her kids and grandkids.

She made a list of all her investments and sent it to the gold coin company. What she didn't realize when the express delivery driver came to pick up the list was the receipt they had her sign committed her to invest her life savings of $190,000.

The company contacted Edna's investment company trying to convince them Edna had authorized them to invest her entire $190,000. The investment company contacted Edna and she told them she had not agreed to invest the entire amount.

Edna contacted the gold coin company and they agreed to lower the amount to $95,000.

Edna never saw the gold coins until they arrived at her house. Buyers were told they were receiving a shipping and account agreement that they needed to fill out so their gold shipment would be protected. What they really signed was a contract that bound them to the purchase. They didn't receive a list of what they purchased until it actually arrived.

A former representative of the company said customers rarely asked to see a list of the coins they were buying before they purchased them. He speculated people were afraid to look stupid or look like they were questioning the salesmen. That's how these high persuasion scams can work. The con fakes being an expert and fakes a personal connection to you to keep you from thinking critically about the offer. If you are hesitant to ask questions because you fear you may look stupid or you might hurt their feelings, the con has done his or her job.

Ultimately, Edna agreed to purchase $95,000 worth of coins. Actually getting the coins was another matter. It took six months of persistent phone calls to get the coins. When she received them, some of the coins were silver and she suspected they weren't worth as much as she was promised.

So she took them to a local coin shop to have them appraised. The appraiser told her she had paid $95,000 for $40,000 worth of coins.

This is all too common. The point of this and other scams is to get as much money out of someone as possible.

According to the sales person, when the buyer receives his or her coins, they are listed with the prices next to them, but the prices are not the actual value of the coins. The prices are significantly inflated and all the extra money goes to the scammer. Because most people don't know how much the coins are worth, they assume they paid the market price for them. They don't realize they paid $3,300 for a one-ounce Liberty coin, and that coin has a value of $1,400.

As victims of this scam find out, comparing numismatic gold coins to the market price of gold is deceptive because the price of an ounce of gold that is traded is based on something called bullion- solid bars of pure gold- which is not the same as gold coins.

Edna was one of the lucky ones. After a two-year lawsuit, she got her money back and her attorney fees paid for.

Edna was a novice. However, fraud can happen to you too, if you are not careful and let your guard down. If you think this kind of thing can't happen to you, your defenses come down and you end up being more vulnerable

HERE STOP

When a scammer talks to you, they want to direct the conversation. They will want to ask personal questions to size you up and see how they need to tailor the pitch to appeal to you. Scammers direct the conversation and ask questions to get information about you. Victims answer them.

A con's first goal is to appeal to and exploit your compassion, fantasy, fear, greed, and/or insecurities. By asking personal questions and sizing you up, a con will know which one of these to hit on to convince you to move forward. "Let's make some money" may work on some, while "Let's make a difference" or "Let's build up your retirement" may work on others.

Though this particular example doesn't have an obvious display of reciprocity, where the scammer will give you something and then use it to pressure you later, a scammer can still achieve this tactic by making you feel like he's giving you a special deal because he or she has a personal connection with you.

This gold coin scam is just one example of a high persuasion scam. There are many more. Certain investment opportunities, timeshares, fraudulent oil and gas deals, and fake charities are waiting to take your money. We break down more of these scams on our website.

AG: The think before you ink mindset will help you protect yourself from high persuasion scams.

1. Understand you are a target: be skeptical of biased sales pitches
2. Realize you can be taken advantage of and it only takes one bad choice
3. Scam Stranger danger: Be wary of unsolicited telemarketing calls, mailings, or emails.
4. Keep your guard up with the salesperson. Don't share personal information with people who are trying to sell you something.
5. You direct the conversation and ask questions you want answers to. Don't be pressured. You can walk away or hang up.
6. Think critically: what's in it for them?
7. Use common sense: is it too good to be true?

8. Be skeptical: instead of thinking how this offer is going to make you money, think about how it could be a scam.
9. Watch out for high risk offers
10. Assess whether your "high risk, high reward" attitude makes you vulnerable. Those who are going for the home run, may be vulnerable to the promises of phantom riches. **SWITCH TO AG**
11. Be aware if something is stoking your emotions, fear, greed, compassion, insecurity and never make a buying decision when you are in a heightened emotional state. Wait at least 24 hours.
12. Know there is no such thing as a free lunch. Nothing is for free. Don't let the sales person use the free gift or award against you.
13. Do your homework. Don't just rely on advice of the sales person. For sophisticated deals with a lot of money at stake, don't solely rely on the advice of friends and family either. Talk to a licensed professional who doesn't have a biased interest in the transaction, such as an attorney or fee-based financial planner.
14. What are the nuts and bolts of the deal? Do you understand?
    a. What is the deal? What do you get?
    b. How much will it cost?
    c. What is the risk? Is it reasonable? What could go wrong?
        i) will I make back my money? Is that likely?
15. Comparison shop: are there better offers?
16. Think about opportunity cost: Are there wiser ways to use this money?

JO: You may want to have a refusal plan or script and get comfortable saying no and ending the conversation. Something like "I'm not interested." Or "I don't listen to unsolicited offers." Or "I never make a decision without consulting with my _______ (spouse, child, investment professional, attorney, or accountant)."

You may also want to reduce the amount of pitches you are exposed to:

- To stop receiving prescreened offers of credit and insurance, call the toll-free number 1-888-567-8688 or visit www.optoutprescreen.com.
- To reduce the number of telemarketing calls you get, call 1-888-382-1222 or visit www.donotcall.gov.
- You can also opt out of receiving unsolicited commercial mail from many national companies for five years by registering with on the Direct Marketing Association's Mail Preference Service.

Here's some additional defense tactics specific to investment fraud:

- Ask and check before you hand over your money or sign an agreement:
    - Is the person selling the investment product licensed?
    - If not, be skeptical. A legitimate investment professional must be properly licensed, and his or her firm must be registered with the Financial Industry Regulatory Authority (FINRA), the Securities and Exchange Commission (SEC) or a state securities regulator, such as the Washington State Department of Financial Institutions (DFI), depending on the type of business the firm conducts.
    - So ask: Are you and your firm registered with FINRA? With the SEC? With a state securities regulator? Which one(s)?
    - What is his or her license number?
    - Is this investment registered with the SEC or my state securities regulator? With very few exceptions, companies must register their securities with the SEC before they can sell shares to the public. Be wary of investment products that are not registered with the SEC, such as low price penny stocks and promissory notes.
    - Verify the answers by checking the seller's background. Visit SaveAndInvest.org or call (888)295-7422. We provide more resources on our website. A con won't be afraid to claim he's registered and give you a fake registration number. By the way, if you do find a licensed professional and a licensed product, it doesn't guarantee your investment will be fraud free, it just reduces the chances of fraud.

    - Check the criminal or disciplinary record of the investment professional you are working with.
- Be wary of free financial or investment seminars or luncheons: remember there's no such thing as a free deal
- Be wary of unsolicited "investment opportunities" that come by phone, mail, or online.
- Talk to someone first. If the sales person tries to get you to keep it a secret, that's a bad sign.
- Don't just rely on the advice of friends and family. Do your homework or talk with a trusted financial professional. (such as an attorney or fee based financial planner)

JO: This information is to help you avoid an investment fraud. You still need to do your homework to make sure you have a smart investment strategy and are making wise investment decisions. Our website provides some further resources to help you make sure you are following best practices when investing. Remember there is always risk when investing. However, with a smart plan and wise choices carrying out that plan, you can minimize your risk.

Edna said she learned the hard way to never invest in something you don't understand and never buy something without seeing it first so you can check it out.

There are, of course, legitimate coin dealers, who offer products at a fair price, and gold coins can be a profitable investment. Here's some more pointers specific to gold coins:

- Shop around with several local dealers for the best price on any particular coin you are considering purchasing
- Never buy coins of any kind from a telemarketer
- Never put an excessive amount of any of your investment portfolio into one type of vehicle/product like gold
- If you buy gold or silver coins, take possession of them and store them in a safety deposit box, don't let the seller store them for you.

You can find a reputable precious-metals dealer at money.org, the website

Learn more at: www.cftc.gov