Investment Scams

Investment scams flourish in good and bad economic times and are creatively tailored to take advantage of consumers in all financial situations. Stocks, mutual funds, commodity scams, Ponzi schemes, internet scams, and investment seminars are among the many types of investment scams. Scams masquerading as legitimate investments draw in many unsuspecting consumers.

Con artists rely on the basic principles of human behavior for their schemes to succeed. Most people are afraid to take risks and con artists know you're afraid. They'll tell you there is little or no risk in an opportunity that could yield untold riches. If there's no risk, why not jump in? Con artists use urgency and scarcity to lure their victims quickly, before the victims have a chance to do any research or background checks on the legitimacy of the investment opportunity.

Although most insurance agents are reputable, some unscrupulous agents target the elderly or ill with get-rich-quick schemes that leave the agent rich and the elderly with nothing or far less than they bargained for. Insurance products are complicated and an unscrupulous agent can use these complexities, coupled with high pressure tactics, to lure unsuspecting consumers into worthless or overpriced insurance products.

Loan Flipping

A lender convinces you to refinance your home. You agree and make a few payments on the new loan. The lender then approaches you, offering a bigger loan for something such as a "dream vacation." When you accept the new offer, the lender refinances the original loan, lending additional money. In doing so, you are charged high points and fees and an increased interest rate for each refinancing. You'll also have to pay any prepayment penalties each time. The result is more debt over a longer period of time.

Reverse Mortgages

A reverse mortgage is a loan available to homeowners or home buyers, enabling them to access a portion of the home's equity. The homeowners can draw the mortgage principal in a lump sum, by receiving monthly payments over a specified term, or over their lifetime as a revolving line of credit.

Title to the property remains in the name of the homeowners, to be disposed of as they wish, but there will be a lien, or an amount that is owed to the reverse mortgage company.

Eligibility requirements will vary by lender but most will require the borrower to be at least 62 years old and occupy the property as a principal residence. There is no minimum income or credit requirement because no payments are required on the reverse mortgage.
The loan comes due when the borrower dies, sells the house, fails to keep the taxes or insurance current, or moves out of the house for more than 12 consecutive months. Once the mortgage comes due, the borrowers or heirs of the estate have an option to refinance the home and keep it, sell the home and cash out any remaining equity, or turn the home over to the lender.

Where to go for more information:

Pennsylvania Office of Attorney General
Bureau of Consumer Protection
15th Floor, Strawberry Square
Harrisburg, PA 17120
1-800-441-2555
www.attorneygeneral.gov

Pennsylvania Bar Association
100 South Street
Harrisburg, PA 17101
1-800-692-7375
www.pabar.org

www.attorneygeneral.gov

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How to Identify and Avoid

Living Trust & Investment Scams

Myths and Tips on Estate Planning including Loan Flipping and Reverse Mortgages

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Attorney General

Estate planning (directing what will happen to your assets after your death) is a responsible and considerate thing to do – it saves your loved ones added hardships during a difficult time. There are various estate planning tools, and you should research all available options in order to determine which tool is right for your needs.

Unfortunately, there are unscrupulous salespeople who may attempt to sell you pricey and often unnecessary estate planning products.

Useful Terminology

Probate:
A legal procedure where a will is filed with the Register of Wills at the courthouse. All wills must be probated.

Trust:
An agreement to hold legal title to property by a person for the benefit of himself or another.

Living Trust:
A trust created by you and administered by you or another person during your lifetime. It is used to distribute property after your death. The trust can be revocable (you can make changes) or irrevocable (you cannot cancel or make changes).

Beneficiary:
The person who is to receive the benefits of the property that is titled in the name of the trust or that s distributed under a will.

Trustee:
The person who is responsible for managing the property named in the trust.

Trustor:
The person who creates a trust.

Will:
A legal declaration of how a person wishes his or her possessions to be disposed of after death.

Myths about living trusts vs. wills:

Probate is nearly always a lengthy, costly, and intrusive process.

Unless there is a challenge to your will, probate can take months and only relevant parties are involved.

Living trusts are appropriate for nearly all estates.

Only a competent attorney can determine whether you need a living trust. Not everyone can benefit from or needs such a trust.

Living trusts reduce and/or eliminate income and estate taxes.

Putting your income into a living trust does not shield it from taxes. Inheritance taxes are applicable to everyone.

You don't need a will if you have a living trust.

A "pour-over will" is still necessary to transfer any property you own at your death that was not previously included in the trust.

Tips to help you avoid an estate planning scam:

- Beware of high-pressure sales techniques.
- Research what estate planning tool is right for you – consider consulting a licensed attorney for assistance.
- Never sign anything you do not fully understand.
- Verify the qualifications of the person offering to sell or prepare a trust for you.
- Remember the three-day "cooling off" rule. If the sales transaction occurs at your home or via your home telephone, you have three days to cancel the contract.
- Beware of "cookie-cutter" or pre-drafted living trusts. Your estate planning documents should be customized to meet your individual needs.
- Ask questions and do not purchase anything if the answers you receive are vague or confusing.
- Do not liquidate or transfer assets without knowing the cost.