

REVERSE MORTGAGE SALES ABUSES TARGETING SENIORS IS TOPIC OF HEARINGS BEFORE US SENATE SUBCOMMITTEE

On December 12, 2007 the Senate Subcommittee on Aging will hear testimony and consider evidence that details unlawful sales practices targeting seniors by Financial Freedom Senior Funding Corporation based in Irvine, California. The hearings, chaired by Senator Claire McCaskill (D-MO), come on top of lawsuits filed in California, San Diego involving the sale of Reverse Mortgage Products by Financial Freedom Senior Funding Corporation alleging excessive fees and use of proceeds to purchase additional financial products, such as deferred annuities.

During the course of the hearings AARP will be unveiling a 200 page report which is an in depth study of the Reverse Mortgage industry, highlighting many of the sales practice abuses directed towards seniors. In a letter signed by Senator McCaskill and minority chair Senator Gordon Smith (R-OR), the Senate Panel invited Financial Freedom to attend the hearings. To defend its conduct, Financial Freedom's general counsel and Vice President, Joel Schiffman had agreed to send a corporate representative to testify before what is expected to be an incredulous and possibly hostile Senate Panel. However, yesterday Financial Freedom reversed course and stated that they will NOT be sending a representative after all. Financial Freedom's Vice President and Senior Counsel Mr. Schiffman who at first told senate staffer's "thanks for inviting us" and whom had himself agreed to attend; has now informed the Senate that Financial Freedom will not be attending the Senate hearings due to a "scheduling conflict". Members of the Reverse Mortgage Association are very concerned over the nature and content of the hearings and have been courting their republican allies to garner some support.

The Senate's concern was raised by lawsuits against Financial Freedom filed in California, San Diego. Such as the one filed on behalf of the elderly Ms. Boach who was conned into purchasing a reverse mortgage with exceptionally high fees and then sold several insurance and annuity products with the proceeds. The case, Ernestine Boach v. Financial Freedom Senior Funding Corporation was filed in San Diego Superior Court on January 11, 2007 and alleges that the elderly Ms. Boach was advised to take out a reverse mortgage from Defendant Financial Freedom Senior Funding Corporation for \$171,000 on the home she owned free and clear. The proceeds of which were to be used to purchase insurance products, including, a Fidelity and Guaranty deferred annuity with enormous surrender charges for \$80,000, and a \$44,350 immediate annuity to fund payments on a \$250,000 flexible premium life insurance policy (also containing surrender charges).

Ms. Boach loyally followed the advice of her agents: Financial Freedom's Vice President/Area Manager, Melanie Parks; and Penn Mutual's Regional Manager (San Diego), Jason Barney who told Ms. Boach that the scheme would "not cost her a thing". Ms. Boach's San Diego attorney Ronald A. Marron claims that this is an instance of a pervasive "equity stripping scheme" which involves Financial Freedom's agents working in tandem with insurance brokers using reverse mortgage proceeds. Mr. Marron states, "Do the math, multiple commission and greater borrowing fees. It's a win-win for these financial companies, and a lose-lose for Seniors caught up in the scheme".

In response to letter directed to Fidelity by Ms. Boach, Fidelity defended the practice, stating that, “Utilizing a reverse mortgage can be an acceptable means to finance an annuity.” Ms. Boach’s San Diego attorney, Ronald Marron is alarmed by the practice of home equity stripping for the purpose of effectuating sales of deferred annuities. According to Marron, in most situations the advice creates a “liquidity time bomb” because the senior is earning less income and cannot obtain funds in the deferred annuity without a huge surrender penalty, and must borrow more money. In addition, even if the senior had the financial resources, in many circumstances there are early payoff penalties on the reverse mortgage. Marron says, “The practice of equity stripping is not merely unsuitable...it’s unconscionable and fraudulent”.

Marron is hopeful the Senate hearings will result in effective legislation that protects seniors, “nobody likes to see seniors getting ripped off, I think this is something we can all agree on regardless of party affiliation.”. Of course, there are the Reverse Mortgage Association lobbyist and an election year to consider. Stay tuned for what is likely to be a lively exchange in the Senate tomorrow, with sharp questioning expected from Senator McCaskill, a former prosecutor.

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