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Watch Out for 'Mortgage Protection' Schemes

There have always been scammers ready to prey on naïve homeowners, but mortgage fraud schemes seem to have propagated like rabbits during the past several years as first the housing industry boomed and then crashed. One of the most recent mortgage schemes is the creation of dummy 'mortgage protection' companies and campaigns.

'Mortgage protection' is an actual product. It is basically a type of life insurance that assures that dependents will be able to stay in their home in the event of the head of household's death. The policy will provide for the money to pay off the remaining mortgage balance.

"This can provide pretty significant protection to a young family," said Brad Wenger, president of the Assn. of California Life and Health Insurance Companies, in an interview with the LA Times. "It's a very legitimate product."

That is how any scam starts though - using a legitimate service as a façade for a deceptive scheme. Many false 'mortgage protection' companies have sprung up during the past several years, bombarding new homeowners with offers for their services. The problem with these so-called companies is the same as many 'debt relief' companies today. They do not really exist or they do not really provide the service advertised; they just take your money.

These companies typically buy address lists of recently purchased homes and send out mailers en masse, advertising great prices on mortgage protection policies. Look out for these typical warning signs:

They will often ask for plenty of sensitive personal information. They do not provide a telephone number or address. They provide a phony telephone number or address. (You should always check out the information before promising any money to a company.) They either list a false license number or do not list one at all (definitely illegal! You can verify the license number by plugging it into the website of your state's Department of Insurance. You should contact the department if you receive a flyer missing the number or providing a falsified one.) They ask you to pay for a service you can do for yourself for free (i.e. filling out a 'declaration of homestead' form.)

If you are truly interested in acquiring a mortgage protection policy, avoid the whole scam problem, by contacting an insurance company yourself. You might even start with the company that provides your homeowners insurance or your auto insurance. Taking the initiative yourself means you can verify the company is real and legitimate by visiting their premises and talking with an agent personally. You can also check out their license information with the state as well as check out their business practices and history with the Better Business Bureau. You can ask for references to get testimonials from current clients. By contacting several different local and national insurance companies, you can also find the very best price by making them compete for your business.

When it comes to fliers and advertisements showing up in your mailbox, 'caution' is the name of the game. Be a smart homeowner and consumer, by verifying the legitimacy of any company before paying them money!