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## Greedy consumers fuelled mortgage scam

It was a very enticing sales pitch. "Imagine," it went, "if you never had to make a mortgage payment again. Imagine if you were able to eliminate the single biggest expense in your life and own your home free and clear. It's possible."

With a sales promotion under the banner "Eliminate your mortgage payments," this was the come-on of an organization named Brixdale Inc.

It conned some 3,000 Americans into shelling out more than \$900,000 in hopes of paying off their mortgages within a matter of months. (All figures U.S.)

At the end of June, New York state Attorney General Eliot Spitzer announced a consent judgment against a Long Island-based website operator and his associates who ran a string of fraudulent Internet operations.

In September 2005, Spitzer's office had filed a lawsuit against Jeffrey Augugliaro, of Malverne, N.Y., alleging he operated a mortgage payment scam. The state Supreme Court has now ordered Augugliaro to pay \$200,000 to consumers who were victimized by the operations of Brixdale.

The court judgment also requires him to pay additional restitution of more than \$700,000 to affected Brixdale consumers, and bars Augugliaro from operating any more Internet operations.

Using <http://www.brixdale.com>, Augugliaro promised consumers that if they allowed him to take control of the electronic transfers of their monthly mortgage payments, they could fully pay off an entire 30-year mortgage in a matter of months, and wind up with an additional quarter of a million dollars as a bonus at the end of the venture.

The attorney general's lawsuit alleged the Brixdale program was an illegal pyramid scheme. Consumers were encouraged to recruit others to participate. Those new members, in turn, had to recruit more new members to perpetuate the scheme.

Consumers were also lured into making "extra" mortgage payments to Brixdale.

But rather than forwarding the mortgage payments to the lenders as promised, Augugliaro allegedly siphoned off some of the funds for himself and to pay commissions to others. As a result, hundreds of thousands of consumer dollars were drained from the Brixdale account.

Although the Brixdale website is no longer online, copies archived by Google show Brixdale was promoting an "inverse mortgage" program, a realistic-sounding "innovative banking product the experts are calling the most powerful financial tool available today."

The site promised that the inverse mortgage "can eliminate more than 16 years worth of mortgage payments."

The way the scheme supposedly worked was for Brixdale to "take over" a borrower's monthly electronic mortgage payments from his or her bank account, and for a period of four months make those payments slightly earlier each month.

In some unexplained fashion, Brixdale would then take advantage of "banking rules on how loans are amortized" to pay off the mortgage within months, and give participants a free vacation worth \$4,000 after the four-month period was over.

Of course, there is no such thing as an inverse mortgage, which is not to be confused with the legitimate reverse mortgage used by many seniors to take cash out of their home to supplement pensions and retirement income.

It's debatable whether it was P.T. Barnum who coined the phrase "There's a sucker born every minute," but whoever said it, the maxim might well apply to Brixdale's 3,000 customers.

I'm not sure whether I have any sympathy for them. I'm debating whether Augugliaro or the greedy consumers should shoulder the losses created by the scheme.

I understand that many consumers are not financially astute, but I'm wondering how much of a role greed played in the whole Brixdale scam.

There is simply no logic to the possibility that a long-term mortgage could be paid off in a few months and provide participants with an additional promised \$250,000 bonus at the end.

If I were the New York attorney general, I would have directed Augugliaro's restitution money if he pays it to charity rather than the injured participants. Mostly, they were the authors of their own misfortune. In the meantime, here are a few of my own suggestions for dealing with homeownership, investing and borrowing:

- Always get some of your advice from lawyers, accountants or other fee-for-service professionals who are not selling anything and have nothing to gain if the client accepts or rejects the advice.
- It is possible to pay off a mortgage earlier than the scheduled payout, but only with more conventional methods. Make more frequent payments, use an accelerated amortization with higher payments, and take full advantage of annual prepayment privileges. For most people, making contributions to a Registered Retirement Savings Plan while trying to pay off a mortgage on a principal residence is not a good idea.
- Consider buying lottery tickets. The chances of success are better than a Brixdale-type program.
- And remember: If a financial scheme sounds too good to be true, it probably is.