Foreclosure Rescue Scams

HOW IT WORKS

The pitch

Foreclosure rescue firms use a variety of tactics to find homeowners in distress: Some sift through public foreclosure notices in newspapers and on the Internet or through public files at local government offices, and then send personalized letters to homeowners.

Others take a broader approach through ads on the Internet, on television or in the newspaper, posters on telephone poles, median strips and at bus stops, or flyers or business cards at your front door.

The scam artists use simple messages and broad promises, like: "Stop Foreclosure Now!" or "We can save your home!" A legitimate housing counselor will explain the hurdles in stopping a foreclosure and the risk that it may not be possible.

The claims

"We guarantee to stop your foreclosure."

No one can guarantee to stop a foreclosure except the lender.

"We have special relationships within many banks that can speed up case approvals."

Scammers offering to contact lenders charge a fee for making a call any homeowner can make for free. In most cases, lenders won't negotiate with a third party other than a homeowner's attorney or a HUD-certified credit counselor acting on behalf of a homeowner.

"We stop foreclosures every day. Our team of professionals can stop yours this week!"

Preventing a foreclosure, especially once the process has begun, is a lengthy, complex procedure that involves negotiations with a lender over a repayment plan or modification of the original loan terms.

Red flags

No legitimate housing counselor will:

• Guarantee to stop a foreclosure
• Tell you not to contact your lender or lawyer
• Collect a fee before providing you with services
• Ask for payment only by cashier's check or wire transfer
• Encourage you to lease your home and buy it back over time
• Collect mortgage payments from you directly
• Tell you to transfer your property deed or title
• Offer to buy your house for cash
• Offer to fill out paperwork without explaining it in detail
• Pressure you to sign paperwork you haven't had a chance to read thoroughly or that you don't understand.

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THE SCAMS

Phony counseling

The scammer offers to negotiate a deal with your lender to save your house in exchange for an upfront fee, often equal to one month's mortgage payment.

You may be told not to contact your lender, lawyer, or credit counselor, and to let the scam artist handle all the details. Once you pay the fee, the scam artist takes off with your money.

Sometimes, the scam artist insists that you make all mortgage payments directly to him while he negotiates with the lender. In this variation, the scammer may collect several months of payments before disappearing.

Bait and switch

The scammer offers to arrange a new loan to make a victim's existing mortgage current.

When the homeowner signs the "new loan," the scammer includes documents that turn over the title of the house to the scam artist. In some cases, the scammer uses the title to defraud a new lender by taking out a second loan on the property and pocketing the proceeds.

Victims of this scam often don't learn they've been cheated until they get an eviction notice.

Rent-to-Buy Scheme

The scammer offers homeowners a deal to let them stay in their homes as a renter and then buy it back over the next few years.

Victims are sometimes told that surrendering the title will allow a borrower with better credit rating to get new financing – and prevent the loss of the home.

But the terms of the deal are so burdensome it becomes impossible to buy back the house. Victims lose their home, and the scam artist walks off with all or most of the home's equity.

When the scammer defaults on the new loan, the original homeowner is evicted.

Sometimes, the scam artist raises the rent over time to the point that the former homeowner can't afford it. After missing several rent payments, the renter – the former homeowner – is evicted, leaving the "rescuer" free to sell the house.

Equity skimming

In this fraud, the scam artist offers to find a buyer for a homeowner facing foreclosure, but only if he or she signs over the deed and moves out. The scam artist promises to pay a portion of the profit when the home sells.

Once the deed is transferred, the scam artist rents out the home and pockets the proceeds while the lender proceeds with the foreclosure.

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Victims of this scam lose their home - but they're still responsible for the unpaid mortgage. Contrary to the scammer's promises, transferring a deed to another party doesn't end a homeowner's responsibility to pay back a mortgage.

Unauthorized bankruptcy

In this version, the scam artist promises to negotiate with the victim's lender or to get refinancing on his or her behalf in exchange for an upfront fee.

Instead, the scammer pockets the fee and enters a bankruptcy filing in the victim's name -- sometimes without the victim's knowledge -- by forging a signature or concealing the true nature of the paperwork.

Though a bankruptcy filing often suspends a foreclosure, it doesn't end it permanently. Once in bankruptcy, the victim faces additional legal costs and bears the burden of a credit record that will make it difficult to buy or rent a new home for as long as 10 years.

GET REAL HELP

Contact your lender

This is not always easy to do, but it's the first step to take if you're having trouble paying your mortgage. Start with the customer service number on your mortgage statement. Ask if the company owns your loan or is "servicing" – collecting monthly payments - for the lender that holds your mortgage.

One of the reasons rescue fraud is so prevalent is that lenders have been swamped with foreclosures and, until recently, not well prepared to work out loan modifications. The government's **Making Homes Affordable** program, which took effect March 4, sets aside $75 billion in incentives to try to spur lenders to refinance loans for borrowers in trouble.

If you've gotten a default or foreclosure notice, reply as soon as possible. Contact an attorney or HUD-approved counselor for help. The longer you wait the more difficult it will be to save your home.

Dealing with your lender

Before calling, get prepared. Lender agents will want to know your income and expenses and the equity in your home – the difference between what your home is worth and what you owe on any mortgages or home equity loan.

They'll also want to know why you missed your payments. If you've had a temporary setback, they'll want to know what steps you're taking to get back on your feet.

Try to come up with a reasonable plan before you make the call. If you want to keep your home, work out a payment proposal that's feasible. If you don't think you can afford your mortgage, consider discussing options that prevent a foreclosure – even though you'll lose your home.

Keep notes of all contacts with your lender or servicer, including the date and time, whether it was in person, or by phone, e-mail, fax or mail, the name of the person and the outcome.
Follow up any requests you make with a letter. Send it by certified mail, "return receipt requested," so you can document what the lender or servicer received. Keep copies of your letter and any enclosures.

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Meet all deadlines your lender or servicer gives you.

Stay in your home during the process, since you may not qualify for certain types of assistance if you move out. Renting your home will change it from a primary residence to an investment property and most likely disqualify you for any additional “workout” assistance from the servicer. If you choose this route, be sure the rental income is enough to help you get and keep your loan current.

Find a certified counselor

Foreclosure rescue scammers often pose as companies affiliated with legitimate housing and credit counselors. These real counselors, trained to deal with a variety of credit problems, usually provide help for free or a small charge and are certified by the Department of Housing and Urban Development.

You can find a certified counselor by clicking on this **HUD** Web site:
http://www.hud.gov/offices/hsg/sfh/hcc/fc/

Other national groups. Like the **National Foundation for Credit Counseling** and **Neighborworks America** can also provide referrals.

Make sure you’re dealing with the right Web sites. Some scammers have set up Web sites designed to look like the real thing. Others have hijacked paid search terms using legitimate foreclosure counseling resources to steer victims to their sites.

HOPE NOW

You also can contact a credit counselor through the nonprofit Homeownership Preservation Foundation, which operates a 24/7 toll-free hotline (1.888.995.HOPE) with free help for homeowners at risk of foreclosure.

HPF is a member of the HOPE NOW Alliance of mortgage servicers, mortgage market participants and counselors. More information about HOPE NOW is available at its Web site:
http://www.hopenow.com/

Report fraud

If you think you’ve been a victim of foreclosure fraud, do your neighbors a favor and try to put the scammer out of business.

To do so, file a complaint with one of these agencies:

Federal Trade Commission
You can file a complaint online at https://www.ftccomplaintassistant.gov/ or call toll-free, 1-877-FTC-HELP

Your state attorney general
Look for the Consumer Affairs office on your state’s Web site. Many states have set up special task forces to deal with mortgage fraud.

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REAL SOLUTIONS

Forbearance

This is a relatively uncommon solution in which your lender agrees to cut or suspend your mortgage payments until you can start paying again and make up the missed payments.

This is usually only an option if you can show that your income is reduced temporarily (for example, you are on disability leave from a job, and you expect to go back to your full-time position shortly).

Forbearance isn't going to help you if you're in a home you can't afford.

Loan modification

Under this option, you and your loan servicer agree to permanently change one or more of the terms of the mortgage contract to make your payments more manageable for you.

Under the government's recent foreclosure relief plan, modifications typically start with reducing the interest rate and extending the term of the loan to reduce monthly payments.

Missed payments are added to the new loan balance. A modification also may involve reducing the amount of money you owe on your primary residence by forgiving, or cancelling, a portion of the mortgage debt.

A loan modification may be necessary if you are facing a long-term reduction in your income or increased payments on an ARM.

Before you ask for forbearance or a loan modification, be prepared to show that you are making a good-faith effort to pay your mortgage. For example, if you can show that you've reduced other expenses, your loan servicer may be more likely to negotiate with you.

Selling your home

Depending on the real estate market in your area, selling your home may provide the funds you need to pay off your current mortgage debt in full.

Your lender or servicer may postpone foreclosure proceedings if you have a pending sales contract or if you have put your home on the market.

This approach works if proceeds from the sale can pay off the entire loan balance plus expenses such as agent fees.

A sale can allow you to avoid legal fees and damage to your credit rating, and protect your equity in the property.

Bankruptcy

Personal bankruptcy generally is considered the last option. A bankruptcy stays on your credit report for as long as 10 years, and can make it difficult to get credit, buy another home, get life insurance or even get a job.

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Still, the process was created to offer a fresh start for people who can’t satisfy their debts.

If you have a regular income, Chapter 13 may allow you to keep property, like a mortgaged house or car, which you might otherwise lose. In Chapter 13, the court approves a repayment plan that allows you to use your future income toward payment of your debts during a three-to-five-year period, rather than surrender the property.

After you have made all the payments under the plan, you receive a discharge of certain debts.

Short sale

Your lender or servicer may let you sell your house before foreclosing on the property and forgive any shortfall between the sale price and the mortgage balance.

This approach avoids a damaging foreclosure entry on your credit report. Under the Mortgage Forgiveness Debt Relief Act of 2007, the forgiven debt on your primary residence may be excluded from income when calculating the federal taxes you owe, but it still must be reported on your federal tax return.

If you decide on this option, make sure you get the lender's approval and settle on a short sale price before trying to find a buyer. Many short sales fall through because the buyer isn't willing or able to wait for the sometimes lengthy approval process.

Deed in lieu of foreclosure

With your lender or servicer's permission, you transfer your property title to them in exchange for cancellation of the remainder of your debt.

Though you lose your home, a deed in lieu of foreclosure can be less damaging to your credit than a foreclosure. You will lose any equity in the property, although under the Mortgage Forgiveness Debt Relief Act of 2007, the forgiven debt on your primary residence can be excluded from income when you file your federal tax return. (You still have to report it.)

A deed in lieu of foreclosure may not be an option if you have more than one loan secured by your home.