



Foreclosure Rescue Scams:

How to Avoid Becoming a Victim

Foreclosure rescue scams target homeowners facing foreclosure, particularly if they are equity-rich but cash-poor. Rescue scams cost consumers thousands of dollars and, often, their most valuable asset — their homes. [This information was updated in April 2009 from an article originally published in the 2007 edition of the *Community Liaison*.]

With foreclosure rates on the rise, foreclosure rescue scams are also increasing.¹ The elderly, and people with low incomes or blemished credit, are particularly vulnerable.

Common Types of Foreclosure Rescue Scams

Perpetrators of rescue scams promise much-needed help to homeowners in financial straits. The fraudulent practices generally fall into the following three categories.

- **Phantom help** - The rescuer charges exorbitant fees for telephone calls and paperwork that the homeowner easily could have handled, or promises robust representation and services that never materialize. In either event, the homeowner may have little or no financial resources remaining to save the home.
- **Bailout** - The rescuer bails out the homeowner by helping “dispose of” the house. The homeowner typically surrenders title to the house while believing they can stay on as renters and buy the house back once they resolve their financial matters. The terms are typically so onerous, however, that repurchase becomes impossible, the homeowner permanently loses possession, and the “rescuer” walks off with all, or most, of the homeowner’s equity.
- **Bait and switch** - Rescuers tell the victims they will obtain a new loan that will solve their problems. In reality, the homeowner signs documents that give the scammers ownership of the home, while the victims remain responsible for the mortgage repayment obligations.

Many homeowners believed they were signing documents for a new loan to make the mortgage current, or arranging for an intermediary to negotiate more favorable terms with the lender. Victims say they had no intention of selling or giving up their



home, although there frequently is no written documentation to substantiate agreed-upon terms and conditions.

How Do Rescue Scams Work?

While various programs can work to some extent for some borrowers, homeowners should carefully consider and review foreclosure rescue offers, especially when the potential “rescuer” seeks them out. The following list comprises tactics frequently used in foreclosure rescue scams:

- An individual or a company, after reviewing publicly available foreclosure notices, contacts the homeowner, offering to lend money to “stop foreclosure” or “save your house.” These businesses often refer to themselves as *foreclosure consultants* or *foreclosure rescue specialists*. Initial contact may occur by telephone, personal visit, or card/flyer left at the home, and often consists of a simple yet powerful message such as “*Stop foreclosure with just one phone call, “I’d like to \$buy\$ your house, “You have options, “or “Do you need instant debt relief and cash?”*

At this point, the lender has not foreclosed on the property, although foreclosure is possible because the homeowner has fallen behind on mortgage payments.

- Initial discussions emphasize a “fresh start,” and often feature “testimonials” from other homeowners the rescuer has supposedly helped.
- Scammers may instruct the homeowner to cease all contact with lawyers or the mortgage lender and let the rescuer handle negotiations. This tactic cuts off access to refinancing options while running out the clock on legitimate ways to prevent the foreclosure.
- The homeowner loses the property when the scam is completed or the house is sold to someone else at foreclosure. If there is a foreclosure sale, there may be little, if any, equity remaining.

Facing Foreclosure: What You Can Do

The following outline advises homeowners on constructive ways to deal with pending foreclosure:

- Do not panic or avoid the issue. The problem will not go away, and will worsen if ignored.
- Check the Web site of the U.S. Department of Housing and Urban Development (HUD) to locate a HUD-approved housing counselor. HUD’s Web site lists certified counselors by state at <http://www.hud.gov/offices/hsg/sfh/hcc/hcs.cfm>.
- Check the following Web sites for foreclosure prevention resources:
 - ◆ HOPE NOW at <http://www.hopenow.com/>
HOPE NOW is an alliance of HUD-approved counseling agencies, mortgage companies, investors and other mortgage market participants that provides free foreclosure prevention assistance. The site features information about the HOPE hotline, 1-888-995-HOPE, which is staffed by HUD-approved credit counselors who can guide homeowners to foreclosure options.
 - ◆ NeighborWorks® America at <http://www.nw.org/network/home.asp>.
NeighborWorks® America administers the federally appropriated National Foreclosure Mitigation Counseling (NFMC) program, which was created to significantly increase the availability of housing counseling geared to homeowners at risk of foreclosure.

¹ Foreclosure filings in the U.S. climbed 30 percent in February 2009 from the previous year, according to RealtyTrac, Inc. data. Properties with first-time foreclosure filings totaled 161,976, the highest number in RealtyTrac records dating to January 2005. One in 440 U.S. housing units received a foreclosure filing in February 2009; filings rose 6 percent from January 2009 figures.

Rescue Scammers: How They Set the Trap

How do companies successfully lure borrowers into rescue arrangements? As described in a National Consumer Law Center Report, here are a few commonly used ploys.

- Employing saturation marketing of purported rescue services, commonly characterized by exaggerations, misrepresentations, and pressure tactics.
- Capitalizing on the homeowner's desperation to save the home, obtain needed cash, or make a fresh start, generally conducted in a manner in which the homeowner is encouraged to conclude there is very little time to act.
- Exploiting the homeowner's belief that someone would not lie to his or her face - reinforced by many sympathetic-sounding and often face-to-face sales pitches - or the false assurance that s/he is being helped when, in fact, the homeowner is left in a worse financial position.
- Keeping homeowners "in the dark" about the foreclosure process. This includes failure to provide

information about foreclosure deadlines, legal rights, and low-cost alternatives that can save the home.

- Using various fraudulent and deceptive documents, including forgeries. Scammers use many complex documents that disguise the rescuer's equity-stripping intent. Unscrupulous companies also may use documents that run out of space for signatures on pages containing critical text. The homeowner signs a blank page, and his/her signature is fraudulently transferred to an entirely different document.
- Using affinity-marketing strategies. These approaches appeal to the homeowners' belief that people who share similar ethnic, racial, religious or age profiles are their advocates, protecting them from those who don't act in their best interests.
- Preying on homeowners who lack financial awareness, particularly about sophisticated mortgage loan products.

NeighborWorks® America participates in the HOPE NOW Alliance.

- ◆ The Obama Administration has launched a comprehensive Financial Stability Plan to address key problems in the current housing crisis. A major initiative of that effort is "Making Home Affordable," a plan to stabilize the housing market and help up to 7 to 9 million Americans reduce their monthly mortgage payments to more affordable levels. Check the Web site at <http://www.makinghomeaffordable.gov/> for further information.
- Make sure that your home actually is in foreclosure. If you are behind in your mortgage payments, you will receive a delinquency notice from the lender. These letters notify you of your delinquency and give you a chance to resolve the debt. If you receive a *Notice of Trustee's Sale*, or similar document, your home is in foreclosure, and you need to respond accordingly.
- Ask your lender about renegotiating or refinancing your loan or working out a payment plan. Be honest about your financial situation. The sooner you contact your lender, the sooner you may be able to remedy the problem. The federal bank, thrift and credit union regulatory agencies are encouraging financial institutions to work with homeowners who are unable to make mortgage payments. The regulators also have advised financial institutions to consider working with reputable consumer advocacy entities to help finan-

cially stressed borrowers avoid predatory foreclosure rescue scams.

- Contact your attorney, *not* one referred by the individual or company that is involved in the foreclosure prevention/agreement.
- Do not sign a contract under duress. Request time to review documents. If you do not understand a document's contents, ask a trusted family member, attorney, or financial planner to review the documents with you.
- Do not accept verbal representations. Obtain offers in writing, and review all written offers thoroughly.

There are legitimate organizations, including nonprofit consumer advocacy groups that provide services to distressed homeowners. Reputable foreclosure rescue organizations will work with borrowers who are unable to meet their mortgage obligations, and assist homeowners in making mutually satisfactory workout arrangements with their lenders ■

— Prepared by Stacy Messett

Senior Project Manager in Compliance and Consumer Protection, Office of Thrift Supervision, Washington, DC.

— Updated by Stephanie Caputo

Senior Compliance Program Specialist in Compliance and Consumer Protection, Office of Thrift Supervision, Washington, DC.

Foreclosure Service Scams: Know the Warning Signs

The Department of Justice's U.S. Trustee Program outlines red flags that homeowners should keep in mind if they are falling behind on their mortgage payments or facing foreclosure.

- Be suspicious of any person or company that calls itself a *foreclosure consultant*, *foreclosure service*, or similar designation.
- Be wary of high-pressure marketing techniques. This includes the use of flyers or door-to-door solicitations.
- Proceed with care if an individual or company attempts to collect fee(s) before providing services to you, or instructs you to make your mortgage payments directly to the individual/company.
- Be suspicious of offers to take title to your home and lease it back to you, with the promise that you can buy it back over time.
- Avoid promises to "save your credit" or find a buyer for your home within a specific number of days.
- Never sign a contract or other documents under pressure. Review all paperwork with a representative of your choosing, preferably a real estate attorney.
- Do not sign documents containing blank lines or spaces. Unscrupulous parties could add information later without your knowledge or consent.
- Obtain all terms, conditions, provisions and special arrangements *in writing*. Make copies of the paperwork for your records.

Excerpted Article From The

Community
Liaison

