

ScamCast with the FTC Podcasts

Transcript - Foreclosure Rescue ScamsPodcast

This is Carol Kando-Pineda. I'm an attorney with the Federal Trade Commission, the nation's consumer protection agency. One focus of my work is outreach to the military community, giving you tips and tools to avoid scams, manage your money, and protect yourself in the marketplace.

Today I'm going to talk about scams targeting homeowners facing foreclosure. We call these "foreclosure rescue scams" or "mortgage fraud." So, how do these scams work and what do they look like? These firms use a variety of tactics to find homeowners in distress. They sift through public foreclosure notices in newspapers, on the Internet, through local files at government offices, and then they send personalized letters to homeowners. Others go through ads on the Internet, TV, newspapers, posters on telephone poles, you name it. And then they slip business cards under your front door. They say things like, "We guarantee to stop your foreclosure," "We have special relationships with many banks that can speed up case approvals," or, "We can save your home, guaranteed. Free consultation!"

So, now they've got your attention. This is how they try to trick you. One twist on the scam is phony counseling or phantom help. The scammer tells you he can negotiate a deal with your lender to save your house, if you pay a fee first. They may tell you not to contact your lawyer, lender, 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. They isolate you, and then they take it.

Sometimes the scam artist insists that you make all the mortgage payments directly to him while he negotiates with the lender. In this case, the scammer may collect a few months of payments before they actually disappear. Then there's the old bait and switch. With this approach, you think you're signing documents for a new loan and to make your existing loan current, but it's a trick. You've actually signed documents that surrender the title of your house to the scam artist in exchange for a rescue loan.

Then there's rent to buy. With these schemes, you're told to surrender the title as part of a deal that lets you remain in your home as a renter and then you can buy it back within the next few years. So you may be told that surrendering the title will permit a borrower with a better credit rating to come in and get financing and it prevents the loss of the home. But the terms of these deals are usually so burdensome, that buying back your home becomes completely impossible. You lose the home and the scammer walks off with all or most of your home's equity. Worse yet, when the new borrower defaults on the loan, you're evicted from your own house. In a variation, the scam artist raises the rent over time to the point that you the former homeowner, can't afford it. So, after a few missed rent payments, you're evicted and it leaves the rescuer free to sell the house.

In a similar equity-skimming situation, the scam artist offers to find a buyer for your home, but only if you sign over the deed and move out. The scam artist offers to pay you a portion of the profit when the home sells, but once you transfer the deed, the scam artist simply rents out the house and pockets the proceeds. Your lender goes ahead with the foreclosure. In the end, you lose the home, and you're still responsible for the unpaid mortgage.

That's because transferring the deed does absolutely nothing to transfer your mortgage obligation.

So, what about bankruptcy foreclosures? The scam artist here may promise to negotiate with your lender, get refinancing on your behalf if you pay a fee upfront. Instead of contacting your lender or refinancing your loan, the scam artist pockets the fee and files a bankruptcy case in your name. Sometimes they don't even tell you that they filed bankruptcy in your name. So the bankruptcy filing often stops foreclosure, but it's only temporary. And even so, bankruptcy is complicated, expensive, and unforgiving. So, if you fail to attend the first meeting with the creditors, the bankruptcy judge can dismiss the case and the foreclosure proceedings will still continue. If this happens, you can lose the money you paid to the scammer, as well as your home. Worse yet, a bankruptcy stays on your credit report for 10 years and it can make it difficult to get credit, buy a house, get life insurance, and sometimes even a job.

Lately we've seen a new twist on these scams called forensic loan audit scams. They call themselves forensic loan auditors, mortgage loan auditors, or foreclosure prevention auditors. For an upfront fee of several hundred dollars, as usual, they promise to review your mortgage loan documents, and find out whether your lender complied with state, federal, and mortgage lending laws. They say you can use the audit report to avoid foreclosure, accelerate the loan, modification process, reduce your loan principle, or even cancel your loan. Basically, they're looking for loopholes to get you out of the loan. Sounds good, right? Well, nothing could be further from the truth. First, there's no evidence that these audits will get you a loan modification or any other relief. Even if they're conducted by a licensed, legitimate and trained auditor, mortgage professional, or a lawyer. Some federal laws allow you to sue your lender based on errors in your loan documents. But even if you sue and win, your lender isn't required to modify your loan simply because you can't make your payments or you want them to be more affordable. If you cancel your loan, you'll lose your home and you'll have to return the money you borrowed to your lender.

So, these are some of the foreclosure scams out there today. If you think you've been a victim of one, contact the Federal Trade Commission at ftc.gov. It's very easy to file a complaint online. You can also contact your state attorney general. To learn more about mortgages and other credit related issues, visit ftc.gov/credit and mymoney.gov. That's the U.S. government's portal to financial education. And as always, you can go to Military OneSource for help. This free, 24-hour service is available to all active duty, guard, and reserve members regardless of activation status and their families. Consultants provide information and make referrals on a wide range of issues. Call 1-800-342-9647, or visit www.MilitaryOneSource.com to learn more.