

Foreclosure Rescue Scams:

Real Estate Fraud Prevention & Awareness



Foreclosure Rescue Scam Activity

The number of foreclosure rescue enterprises is growing in ever increasing numbers and these businesses are targeting those Americans who are either at risk or are in foreclosure.

Foreclosure Rescue Scam Activity

The hallmarks of these foreclosure rescue ventures include but are not limited to:

- Guarantees to stop the foreclosure process
- Instructions to not contact your lender/lawyer/housing counselor
- Upfront fee collection, before services are rendered
- Presentation of paperwork for you to sign that you are not given a chance to read
- A request that you sign your home over to the agency so that they can “more effectively work on your behalf”

Common Foreclosure Rescue Scams

- **Illegitimate Housing Counseling:** The scamming agency presents itself like a nonprofit housing or credit counseling agency, sometimes with a name so similar to a legitimate agency it creates confusion.
- **Bait-and-Switch:** The scammer convinces the borrower to sign documents making the mortgage loan current when in reality the borrower is signing over the ownership rights to the property.

Common Foreclosure Rescue Scams *cont.*

- **Rent-to-Re-Own:** The scammer explains to the troubled homeowner that the foreclosure has proceeded too far for rescue. The homeowner must therefore surrender the property title to the “rescue company,” which then rents the property to the former homeowner with the promise to sell it back when he or she is financially stable. Often, the rent is unaffordable, so the scammer evicts the renter.

Common Foreclosure Rescue Scams *cont.*

- **Rescue Loan Scheme:** The mortgagee is persuaded to sign over the home's title. The scammer pays the loan off and promises to pay half or some other portion of the mortgage when the home sells, but it never happens. The borrower is left without a home and is still obligated on the mortgage.

Emerging Scams

- **Elderly and Immigrant Identity Fraud:** Fraudsters take advantage of elderly and non-English-speaking consumers by stealing their identities and using them in straw buying or other fraudulent property transactions, including some involving reverse mortgages.

Occasionally, immigrant property renters discover that their identities have been used on fabricated loan transactions.

Source: (Eleventh Periodic Mortgage Fraud Case Report To: Mortgage Bankers Association) [MARI – Mortgage Asset Research Institute]

Emerging Scams *cont.*

- **Builder Bailout Fraud:** This involves securing funds for condominium conversion or planned community development properties that, unbeknownst to the investor, will not be completed. This scam entails multiple purchases from would be investors of false identities on fabricated loan transactions. Investors are lured by photos or inspections of a few converted units used as models with promises of further rehabilitation of remaining units. Once the contract is in place, the fraud continues as the perpetrator secures funding for the contracts; however, no additional work is done and the investors and lenders are left with incomplete and, in some cases, uninhabitable dilapidated buildings.

Source: *(Eleventh Periodic Mortgage Fraud Case Report To: Mortgage Bankers Association) [MARI – Mortgage Asset Research Institute]*

Emerging Scams *cont.*

- **Partial-Interest Bankruptcy Scams:** The homeowner is asked to deed a partial interest of the home to one or more people. The interest holder promises to pay the mortgage, and files bankruptcy to temporarily stop the foreclosure. However, the scam operator does not pay the existing mortgage, which the homeowner is still liable for.
- **Internet and Phone Scams:** The homeowner is duped into applying for a low-interest mortgage loan over the phone or Internet, then faxing personal documents and sending wire transfer payments to a phony company. Not only is the homeowner tricked out of money and still at risk of foreclosure, but also the sharing of personal documents puts the homeowner at risk of identity theft.

Scams Prevalent in the Southeast

- Florida: Foreclosure rescue, reverse mortgage, surplus foreclosure funds
- Georgia: Bogus bankruptcy filings, house-for-free, foreclosure rescue, mortgage origination
- Louisiana, Tennessee: Foreclosure rescue

Potential Red Flags of Loan Modification/ Foreclosure Rescue Scams

- You are making payments to someone other than the mortgage holder.
- You have engaged a third party to assist with negotiating the terms of your mortgage, and the third party has:
 - charged upfront fees
 - accepted payment by official check, cashier's check, or wire transfer

Potential Red Flags of Loan Modification/ Foreclosure Rescue Scams *cont.*

- used aggressive tactics to contact you by phone, e-mail, mail, or in person
- pressured you to sign paperwork you didn't have time to read thoroughly or didn't understand
- guaranteed that he or she can save your home from foreclosure or stop the foreclosure
- claimed the process will be quick with very little information required from you

Potential Red Flags of Loan Modification/ Foreclosure Rescue Scams *cont.*

- offered to buy your house and rent it back to you
- falsely claimed to be affiliated with the government
- instructed you not to contact your lender, a lawyer, or a housing counselor

Source: Financial Crimes Enforcement Network (FinCEN)

Five Tips to Avoiding Foreclosures

- Work only with a nonprofit, HUD-approved counselor.
- Don't pay an arm and a leg.
- Be wary of "guarantees."
- Know what you are signing—and be sure *you* sign it.
- Know that if it sounds too good to be true, it probably is.

Agencies Addressing Real Estate Fraud

- Federal Trade Commission: www.ftc.gov
- FinCEN : www.fincen.gov
- National Association of Attorneys General:
www.naag.org
- State, county, and city consumer protection offices:
www.consumeraction.gov/state.shtml
- HUD Office of Inspector General:
www.hud.gov/offices/oig

Additional Resources for Consumers

www.frbatlanta.org/comm_affairs/frc.cfm

www.fdic.gov/foreclosureprevention

www.findlegalhelp.org

www.makinghomeaffordable.gov

www.hud.gov

<http://portal.hud.gov>

Contact Information

Sibyl Slade

Senior Regional Community Development Manager

Federal Reserve Bank of Atlanta

1000 Peachtree Street, NE

Atlanta, Georgia 30309

Phone: 404.498.7242

E-mail: Sibyl.Slade@atl.frb.org