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Avoiding Loan Modification Scams

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This information describes the most common loan modification scams and where you can turn for help.

Common Loan Modification Scams

Information

The scam artist poses as a counselor and tells you he can negotiate a deal with your lender to save your house if you pay him a fee first. He may even tell you not to contact your lender, lawyer or housing counselor and that he'll handle all details. He may even insist that you make all mortgage payments directly to him while he negotiates with the lender. Once you pay the fee, or a few mortgage payments, the scammer disappears with your money

Phony Counseling or Foreclosure Rescue Scams

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Fake "Government" Modification Programs

Some scammers may claim to be affiliated with, or approved by, the government, or they may ask you to pay high, up-front fees to qualify for government mortgage modification programs. The scammer's company name and Web site may sound like a real government agency. You may also see terms like "federal," "TARP" or other words related to official U.S. government programs. Your lender will be able to tell you if you qualify for any government programs to prevent foreclosure. And you do not have to pay to benefit from these programs.

Bait-and-Switch

The scam artist convinces you to sign documents for a "new loan modification" that will make

your existing mortgage current. This is a trick. You actually just signed documents that surrender the title of your house to the scam artist in exchange for a "rescue" loan.

Rent-to-Own or Leaseback Scheme

A scammer urges you to surrender the title of your home as part of a deal that will let you stay in your home as a renter and then buy it back in a few years. He may tell you that surrendering the title will permit a borrower with a better credit rating to get new financing—and keep you from losing your home. However, the scammer may have no intention of ever selling the home back to you. But the terms of these deals usually make buying back your home impossible. Worse yet, when the new borrower defaults on the loan, you're evicted.

Variations

The scammer raises your rent over time to the point that you can't afford it. After missing several rent payments, you are evicted, leaving the "rescuer" free to sell your house. The scammer offers to find a buyer for your home, but only if you sign over the deed and move out.

The scammer promises to pay you some of the profit when the home sells. But the scammer simply rents out your home and keeps the profits while your lender proceeds with the foreclosure. You lose your home and are still responsible for the unpaid mortgage, because transferring the deed does not affect your mortgage obligation.

Bankruptcy to Avoid Foreclosure

The scammer may promise to negotiate with your lender or get refinancing on your behalf if you pay a fee up front. Instead of contacting your lender or refinancing your loan, he pockets the fee and files a bankruptcy case in your name—sometimes without your knowledge.

A bankruptcy filing often stops a home foreclosure, but only temporarily. Filing bankruptcy stops any collection and foreclosure while the bankruptcy court administers the case. But, eventually you must start paying your mortgage, or the lender will be able to foreclose. You could lose the money you paid to the scammer and your home. Worse yet, a bankruptcy stays on your credit report for 10 years, which makes it difficult to obtain credit, buy a home, get life insurance or even get a job.

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Links:

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