



GREATER NEW ORLEANS  
**FAIR HOUSING  
ACTION CENTER**



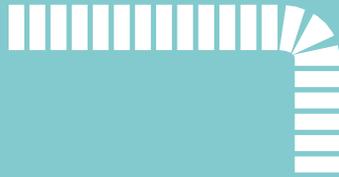
# **AVOIDING FORECLOSURE & FORECLOSURE SCAMS**



# WHAT IS FORECLOSURE



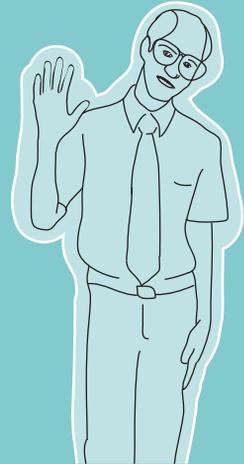
When a lender takes possession of a house from a homeowner who has not met the mortgage obligations. There are several different options for a lender to take, however, the most common is a public auction. This can result in public sales by the sheriff at auction. The majority of the time the lender buys the property back and the homeowner is evicted.



What is a housing counselor and how can they help you avoid foreclosure?

A housing counselor is someone who can help you through the process of working to save your home from foreclosure.

- There is no charge to work with a HUD-approved counseling agency
- A HUD-approved housing counselor will talk to you about your situation and help you decide what options are best for you
- Will explain what documents you will need to provide to your mortgage company and should be able to contact the mortgage company on your behalf
- Can help you make a budget that will show you how to meet your monthly mortgage payment and other expenses
- The counselor will also have information about local resources that may be helpful to you



# IMPORTANT DOCUMENTS FOR HOMEOWNERSHIP COUNSELING



**Proof of income:** paystubs, bank statements and any other benefit statements such as federal tax returns.



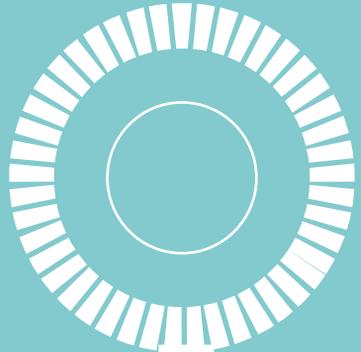
**Proof of hardship:** medical bills, death in the family, divorce, unemployment, etc.



**Proof of expenses:** utility bills, property insurance & tax bills, loan & credit card statements, car insurance, etc.



**Mortgage documents:** mortgage statements & correspondence, escrow analysis statements, attorney letters, seizure notice, etc.



**The Greater New Orleans Fair Housing Action Center is a HUD Approved Housing Counseling Agency, we employ certified housing counselors. For help with your mortgage please contact GNOFHAC at 504-592-2100.**

# WHAT ARE YOUR OPTIONS



## HOME RETENTION

- **Reinstatement**  
Borrower pays back all missed payments and fees in a lump sum
- **Repayment Plan**  
Borrower pays regular monthly payment plus additional amount to catch up on missed payments  
Will only work if borrower has enough income to pay extra each month
- **Forbearance Plan**  
Reduction or the coming suspension of monthly mortgage payments for a set period of time  
Short-term solution if borrower is unable to afford regular payments, especially if the borrower is unemployed  
After forbearance period is over, borrower must either reinstate loan or agree to another workout plan
- **Loan Modification**  
Permanent change to terms of the mortgage which can include changes to the interest rate, maturity date, loan balance, and monthly payment  
A Making Home Affordable Modification can reduce the interest rate, extend the maturity date, and defer or forgive principal in order to make the monthly payment of principal, interest, taxes, insurance, more affordable  
Modifications will usually add your missed payments back into your loan balance and may lead to your loan balance increasing

### ● Partial Claim

Only with FHA loans

A second loan at no interest that can pay from 4-12 months of missed payments to bring loan current

After partial claim is completed borrower resumes regular payments

Second loan does not need to be paid back until property is sold or loan is paid off

New FHA-HAMP program combines a partial claim and loan modification to reduce monthly payments

### ● Refinance

A new loan with a lower interest rate and monthly payments, if borrower is current on their mortgage and other debts and has good credit

Making Home Affordable Refinance (HARP) is available to borrowers whose loan is owned or guaranteed by Fannie Mae or Freddie Mac, and who are current on their mortgage

### ● Reverse Mortgage

Borrowers who are 62 years of age or older can use a reverse mortgage to pay off their existing mortgage

A loan based on the equity in your house that does not require monthly payments

Loan is not repaid until the borrower moves out of the property, the property is sold, or the borrower passes away

### ● Assumption

Another person, a friend or relative, can take over responsibility for mortgage payments

Only available in certain circumstances

Avoid scams where a stranger offers to assume your mortgage payments

# WHAT ARE YOUR OPTIONS



## LIQUIDATION

The borrower relinquishes their home with as little financial consequence as possible

Lender/servicer agrees to accept less than full payoff to release borrower from debt

- **Pre-foreclosure/Short Sale**  
If borrower can't afford mortgage payments, can sell house before foreclosure  
Mortgage company may accept less than balance owed to complete sale, but may be tax consequences for forgiven debt  
House must be listed for sale by a real estate professional
- **Deed-in-lieu of Foreclosure**  
Give the property back to the mortgage company to avoid the foreclosure process  
May be tax consequences for forgiven debt  
Borrower must make attempt to sell property first and not receive any reasonable offers  
Mortgage company may offer cash assistance to borrower to move out of the property  
The right to service your loan can be transferred at any time
- **Bankruptcy**  
Bankruptcy can temporarily stop foreclosure on a home  
Filing bankruptcy stops any collection and foreclosure while the bankruptcy court administers the case  
Consult with a licensed attorney to find out more about eligibility  

[www.lawhelp.org](http://www.lawhelp.org)  
to find legal resources

# UNDERSTANDING MORTGAGE SERVICING

The company that the homeowner is going to talk to is called a mortgage servicer. They do not necessarily own your loan. It is the servicer's job to collect payments and work with you if you fall behind. Depending on the type of loan you have, your options to avoid foreclosure may vary. Many people do not know which type of loan they have, to find out, consult your original loan documents or credit report.

## Fannie Mae-

A government-sponsored enterprise. Fannie Mae purchased mortgages from banks and then sells them, largely through a process called securitizing. Once the mortgages have been purchased, banks are freed up to make more loans. Owned by the US government.

## Freddie Mac-

Government-sponsored enterprise that buys mortgages, pools them, and sells them as a mortgage-backed security to investors on the open market. Owned by the US government.

## Veterans Administration (VA)-

A government agency that supports military veterans. The VA guarantees mortgage loans for veterans.

## United States Department of Agriculture (USDA)-

A program that provides loans to people within a certain income eligibility that are buying a home outside of a major metropolitan area. The USDA loan program is the only loan program that allows you to purchase a house with no money down.

## Conventional Non-GSE (government sponsored enterprise)-

any mortgage that does not fit into any of the above categories, may be sold to investors. The owner of the loan has full discretion on any retention and work out options.

## Federal Housing Administration (FHA)-

A government agency that is part of the Department of Housing and Urban Development. FHA's purpose is to promote homeownership. It does this by insuring loans made by private financial institutions. All FHA loans include mortgage insurance to protect the lender from losses associated with foreclosure.

# FORECLOSURE SCAMS



## Phony Counseling or Foreclosure Rescue Scams

The scam artist poses as a counselor and tells you they can negotiate a deal with your lender to modify your loan or save your house—if you pay them a fee first.

Makes you pay a processing fee or administrative fee.

Tells you not to contact your lender, lawyer or housing counselor.

Insist that you make all mortgage payments directly to them.

## Fake "Government" Modification Programs

Scammers may claim to be affiliated with, or approved by, the government, or they may ask you to pay high, up-front or monthly fees to "qualify" for government mortgage modification programs.

The company name and Website may sound like a real government agency, but the Website may end with .com or .net instead of .gov.

You may also see terms like "federal," "HAMP," "MHA," "HARP" or other words related to official U.S. government programs.

Contact your lender first to see if you qualify for a government program

## Bait-and-Switch

Convinces you to sign documents for a "new loan modification" that will make your existing mortgage current.

You actually just signed documents that surrender the title or deed of your house to the scam artist in exchange for a "rescue" loan.

## Forensic Loan Audit

A forensic or mortgage loan “auditor” offers to review your mortgage loan documents to determine whether your lender complied with state and federal mortgage lending laws.

Will usually require that you pay a fee to start the process.

May say that you can use the audit report to avoid foreclosure, accelerate the loan modification process, reduce your loan principal, or even cancel your loan.

There is no proof that a forensic loan audit can save your home from foreclosure although it's conducted by a licensed, legitimate and trained auditor, mortgage professional or lawyer. Even if you sue your lender and win, your lender is not required to modify your loan to make it more affordable. If you cancel your loan, you will have to return the borrowed money, which may result in you losing your home.

## Mass Joinder Lawsuit

Usually a lawyer, law firm or a marketing partner, will promise that they can force your lender to modify your loan.

By joining other homeowners in a mass joinder lawsuit against a particular lender, you will be able to stop a foreclosure, reduce your loan balance or interest rate, receive monetary damages, or even receive title to your house free and clear.

Mass joinder lawsuits can be used legitimately; these lawyers are usually paid *\*after\** the lawsuit is over, on a contingency basis. However, mass joinder lawsuit scammers will try to "sell" you participation in a lawsuit against your mortgage lender, claiming that you cannot participate in the lawsuit until you pay some type of fee.

### Rent-to Own or Leaseback Scheme

A scammer urges you to surrender the title or deed 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.

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.

May have no intention of ever selling the home back to you.

### Short Sale Scam

"Short sale negotiators" or "short sale processors," may promise to expedite a short sale and usually require you to pay a fee.

May even include surcharges or hidden fees before the transaction closes.

May also misrepresent the value of the home to the lender.

A short sale may be a legitimate option for a homeowner in default or homeowner who is current yet the value of the home has fallen -- if the lender agrees to the short sale. But homeowners should only work with a licensed real estate professional or licensed real estate attorney since the law requires that the person be properly licensed to negotiate the short sale with your lender. Homeowners should verify licenses with their state licensing agencies.

# HOW TO AVOID FORECLOSURE SCAMS

Do not pay anyone other than your mortgage company

Seek assistance from a HUD- approved counseling agency

Don't give personal information to anyone who contacts you or solicits you through the mail

Do not pay any fee before you receive service

## Additional Resources

Find a Homeownership Counselor in your state through the Department of Housing and Urban Development website [www.hud.gov](http://www.hud.gov). You also may contact a credit counselor through the Homeownership Preservation Foundation (HPF), a nonprofit organization that operates the national 24/7 toll-free hotline (1.888.995.HOPE) with free, bilingual, personalized assistance to help at-risk homeowners avoid foreclosure.