SCR-05 — Foreclosure Relief, Equity Stripping & Phony Loan Modification Defense Guide

A Complete Handbook and Web Resource for Homeowners, Housing Counselors, and Real Estate Professionals

Published by Wounded Duck Studios LLC & SCAMREALESTATE.COM
Author: Mark Druckmiller, REALTOR®, Real Estate One (Saline / Washtenaw County, Michigan)

Distressed Homeowner Defense: Stopping Predatory Rescue Scams, Equity Stripping, and Fake Modifications

Executive Summary: Preying on Desperation

When homeowners experience financial distress—job loss, medical emergencies, divorce, or mortgage rate adjustments—they enter a vulnerable statutory window. The moment a lender records a formal Notice of Default or Lis Pendens in public county records, criminal foreclosure rescue operators pounce.

Scammers scour daily public foreclosure filings to identify struggling families. They flood distressed homeowners with urgent mailers, phone calls, text messages, and door-knocking visits offering "guaranteed government loan modifications," "foreclosure audit defense," or "equity rescue programs."

In reality, these operators execute predatory scams designed to drain the homeowner's remaining cash and steal their home equity:

1. **Phony Loan Modification Upfront Fee Scams:** Charging $2,500 to $5,000+ upfront for "attorney-backed loan modifications," instructing the homeowner to stop paying their mortgage and cease all communication with their lender, while submitting zero paperwork.
2. **Equity Stripping & Fake Bailout Leasebacks:** Convincing the homeowner to sign over their deed "temporarily" to an investor who will supposedly make the mortgage payments, leasing the home back to the family until they can "refinance." The investor pockets all equity, fails to pay the original loan, and eventually evicts the family.
3. **Foreclosure Surplus Funds Theft:** Contacting former homeowners after a tax or mortgage auction and demanding 40% to 60% finder's fees or tricking them into assigning away their rights to excess courthouse foreclosure proceeds.

Recent federal prosecutions—such as the Department of Justice's takedown of a $6.7M Boston-Miami mortgage fraud and luxury real estate syndicate (United States v. Sniders Jean-Jacques et al.)—demonstrate how predatory operators systematically exploit homeowners facing foreclosure.

This handbook outlines federal protections under the FTC MARS Rule, the red flags of rescue schemes, and legitimate, zero-cost loss mitigation pathways.

Section 1: The Federal MARS Rule (Your #1 Legal Shield)

The Federal Trade Commission's Mortgage Assistance Relief Services (MARS) Rule (12 C.F.R. Part 1021) is the core federal consumer protection governing mortgage relief services:

1. **Upfront Fees Are Strictly Illegal:**
    - Under federal law, it is a crime for any mortgage assistance relief company to collect a single penny of fees **before** they have produced a written loan modification or relief offer from your mortgage lender that you have reviewed and formally accepted.
    - Any company, consultant, or "loan modification specialist" that demands upfront retainers, monthly administrative fees, or document processing charges is violating federal law.
2. **Mandatory Disclosures:**
    - Relief companies must clearly disclose in all marketing: *"This company is not associated with the government, and our service is not approved by the government or your lender."*
3. **Prohibition on Severing Lender Communication:**
    - It is illegal for a relief company to tell you to stop communicating with your mortgage servicer, loan officer, or housing counselor.
4. **Prohibition on Diverting Payments:**
    - It is illegal for any third-party company to tell you to stop paying your mortgage and send your payments directly to them instead.

Section 2: The 5 Red Flags of a Foreclosure Relief Scam

If you are facing mortgage default, avoid any company exhibiting these warning signs:

Red Flag	Scam Behavior	Legitimate Solution
1. Upfront Fee Demands	Demands $2,000 to $5,000 upfront before negotiating with your lender.	Free assistance from HUD-approved counselors; fees are strictly illegal under the MARS Rule.
2. Communication Blackout	Instructs you: "Do not answer your lender's calls; let us handle all communications."	Your mortgage servicer's loss mitigation department is the only entity that can approve a modification.
3. Diverted Payments	Tells you to send your monthly mortgage payment to their escrow account.	All payments must be made directly to your official loan servicer of record.
4. Guaranteed Results	Promises: "We guarantee a 2% interest rate reduction and 50% principal reduction."	No third party can guarantee a lender's discretionary underwriting decision.

Red Flag	Scam Behavior	Legitimate Solution
5. Deed Surrender / Leaseback	Suggests: "Deed your home to our investor LLC temporarily; you can rent it and buy it back."	Signing over your deed surrenders your ownership and equity without releasing your mortgage debt.

Section 3: Legitimate, Zero-Cost Foreclosure Prevention Resources

You never need to pay for foreclosure prevention or loan modification assistance. The following resources are 100% free and government-approved:

1. **HUD-Approved Housing Counseling Agencies:**
    - The U.S. Department of Housing and Urban Development (HUD) sponsors certified, non-profit housing counseling agencies across every state.
    - Certified counselors work directly with you and your lender to assemble official Loss Mitigation Packages, evaluate loan modifications, explore forbearance agreements, and negotiate repayment plans at **zero cost**.
    - **How to Find a Counselor:** Visit **hud.gov/findacounselor** or call the HOPE NOW Hotline 24/7 at **888-995-HOPE (888-995-4673)**.
2. **Direct Contact with Your Mortgage Servicer's Loss Mitigation Department:**
    - Call the customer service number on your monthly mortgage statement and ask for the **Loss Mitigation Department**.
    - Under federal Consumer Financial Protection Bureau (CFPB) rules, servicers must offer a formal loss mitigation application review if submitted at least 37 days before a scheduled foreclosure sale. Options include:
        - **Loan Modification:** Capitalizing delinquent amounts, extending loan terms (e.g., from 30 to 40 years), or lowering interest rates.
        - **Forbearance Plan:** Temporarily pausing or reducing monthly payments during hardship.
        - **Repayment Plan:** Spreading missed payments over future monthly installments.
        - **Short Sale / Deed-in-Lieu:** Graceful exit options that forgive deficiency balances without a public foreclosure auction.
3. **State Homeowner Assistance Funds:**
    - In Michigan, the **Michigan State Housing Development Authority (MSHDA)** administers homeowner assistance programs and free counseling resources. Check with your state housing finance agency for emergency grant funding.

Section 4: Emergency Response Protocol — If You Paid a Scam Relief Company

If you paid upfront fees to a fraudulent modification company or signed predatory deed documents:

1. **Stop All Payments Immediately:** Cancel all credit card authorizations, stop automated bank drafts, and notify your bank's fraud unit.
2. **Call Your Mortgage Servicer Directly:** Contact your lender immediately. Explain that you were victimized by a third-party foreclosure relief scam. Submit a formal Loss Mitigation Application directly to

the servicer to pause foreclosure proceedings.

3. **File Federal Complaints under the MARS Rule:**
    - Federal Trade Commission: **reportfraud.ftc.gov**
    - Consumer Financial Protection Bureau (CFPB): **consumerfinance.gov/complaint**
4. **File State Complaints:**
    - File a complaint with your State Attorney General's Consumer Protection Division and your state licensing department (if licensed real estate or mortgage brokers were involved).
5. **Retain Legal Aid or a Real Estate Attorney:**
    - If you signed a deed transfer or leaseback agreement, contact your local Legal Aid office immediately to file emergency injunctive relief and rescind the fraudulent conveyance.

© 2026 Wounded Duck Studios LLC & ScamRealEstate.com. General consumer education only — not legal or financial advice. Questions: irving@woundedduckstudios.com · Call or text 657-305-5210