

***This is educational information.
Get independent legal advice.***

DO's and DON'T's:

- **Do open your mail.** Ignoring it may result in the loss of important rights.
- **Don't panic.** Assess your options. Get informed about the foreclosure process in your state. Watch carefully for deadlines.
- **Do stay in touch with your lender.** Call them, even if it is embarrassing. They have dealt with *many* other people in trouble. If you stay in touch, they are more likely to deal fairly with you. Instead, scammers may want you to break off communications with the lender, which just gives the scammer power over you.
- **Don't pay your mortgage payments to someone other than your lender.** This is important, even if someone promises to pass them along.
- **Do get *independent* advice.** People sometimes think that foreclosure is just a price they have to pay for financial trouble. You have rights. For assistance, contact your personal attorney, the local bar association, state attorney general, or local legal services office. *Do not* depend on a translator or attorney provided by the "rescue" firm.
- **Don't decide under pressure.** Scammers may tell you that their offer expires today. If it is a legitimate option today, it should be legitimate tomorrow. Take your time to get advice and assess your options.

- **Don't sign away your property unless you are paid a fair price.** If the house is going into somebody else's name, whether it is a "trust," a stranger, a friend, or even a family member, you should *get a fair price*. Do your own research (www.zillow.com) or ask a real estate agent what your house is worth.
- **Don't count on a buy-out lease-back deal.** Scammers may ask you to sell them the house for a cheap price, but then say you can stay on as a renter. Even if you get an option to buy your home back later, it will often be outrageously expensive or otherwise out of reach. You may never get your home back.
- **Don't sell your home without paying off the mortgage.** Call your lender to get a payoff amount. Check at the closing that your documents indicate that your loan will be paid off. Then confirm with the lender afterwards.
- **Don't make a verbal agreement.** Get all promises in writing; keep copies. Get ID for each person you deal with.
- **Don't sign anything with blank lines or spaces.** Information could be added later that you did not agree to.

***When in doubt,
do not sign***

**Hale & Dorr Legal Services Center
of Harvard Law School**

What to Do When You Face

FORECLOSURE

Your home may be your biggest asset—containing thousands of dollars of *your money*. That money makes you an attractive target for an entire industry of con artists. Some may offer to negotiate for you, to sign the house over to a "trust," or to buy it and lease it back to you. Be careful—these scammers could make things worse or steal all of your equity!

**Market value of your house
minus mortgages & liens
equals **YOUR HOME EQUITY****

Assess Your Real Options

Cure the default

Pay the amount past due. Make arrangements with your lender to catch up. Lenders often give 3–6 months to bring the account current. This won't be an option for everybody, but make sure that your priorities are straight. It is generally better to pay your secured debts (mortgage) before your unsecured debts (credit cards). Consider getting help from family or selling assets such as cars or jewelry.

Workout an arrangement

If you are unable to cure the default, you may be able to make special arrangements such as:

- forbearance—a repayment plan that reduces or suspends your payments;
- mortgage modification—a permanent alteration of the terms of your loan such as extending the term or reducing the interest;
- partial claim—a one-time payment from a Federal insurance fund for FHA loans that brings your mortgage current. It will be repaid if you someday sell the home.

Refinance

Get a new loan that pays off your old loan. This could be a very expensive option. Your old loan may have pre-payment penalties and your new loan will have closing costs, destroying as much as \$20,000 of your equity. Watch out for bad terms such as yield spread premiums, balloon payments, and payments that look low only because they exclude taxes and insurance. Be realistic—will you really be able to afford this new loan, if you couldn't afford the old one?

Sell the house yourself

Get a fair price and avoid the fees and credit problems of foreclosure. This may be the best option for preserving your equity, if you are willing to move and can get a good price. Selling takes time and more money to fix up the house and pay a realtor. To get the time you need, consider negotiating with your lender, curing the default, or bankruptcy.

Declare bankruptcy

Hire an attorney to file a court petition that may allow you to keep your house and create a payment plan for your other debts. In most cases, filing a bankruptcy petition creates a “stay” that stops all collections actions, including foreclosure. Filing may require about \$2,000 in legal fees, unless you qualify for free legal services. While bankruptcy can hurt your credit, if your credit is already ruined, bankruptcy may give you a fresh start.

Do nothing

Allow the foreclosure to happen. Foreclosure sales often result in very low sales prices and cost thousands in fees. This could destroy your equity, but if the sale does bring enough to pay off the loan, the lender must return any surplus to you. If the house sells for less than you owe, you may still owe the remainder as a deficiency judgment.

Key: Be flexible and realistic

It may be best to stay in your house, or it may be better to sell it and use your equity to find a more affordable home. You may have more options than you think. Explore them, but do not procrastinate.

**Other “rescue” proposals
may be scams
to steal your equity**

Beware of scammers who:

- Cold call, knock on your door, or advertise with flyers.
- Call themselves a mortgage consultant, foreclosure service, rescue firm, etc.
- Collect a fee before providing services.
- Propose to buy your house “as-is.”
- Promise to “save your credit.”
- Promise to “pay your first two months rent in your new place.”
- Tell you that “if you sign the house over to us, the foreclosure will be recorded against us, not you.”
- Offer to “get you a new mortgage with low monthly payments” (without telling you how much is borrowed or how many payments).

Get additional assistance

Contact your own attorney, a legal services agency, or a HUD-approved housing counseling agency. For one near you, call: 800-569-4287. See also HUD's website, www.hud.gov/foreclosure.

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