

Testimony of
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Los Angeles County
Department of Consumer Affairs

Before the

Subcommittee on Housing and Community Opportunity
Committee on Financial Services
U.S. House of Representatives

“The Housing Crisis in Los Angeles and Responses to Preventing
Foreclosures and Foreclosure Rescue Fraud”

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Introduction:

Good Morning, my name is Pastor Herrera, Jr., Director of the County of Los Angeles Department of Consumer Affairs. We appreciate the opportunity to share the Department's experiences in the subject area of today's hearing.

Since April, 1976, the County of Los Angeles Dept of Consumer Affairs (DCA) has provided consumer protection, counseling, complaint investigation and mediation services to consumers and businesses in Los Angeles County through advocacy, empowerment and education. The department conducts special investigations that are presented to prosecuting agencies for civil and criminal prosecution. The Department also operates other programs, such as a Small Claims Court Advisor, Mediation, Elder Fraud Investigation and Prevention, Identity Theft, a Volunteer and College Internship Program and a Public Outreach section that educates consumers and businesses through print publications, Internet resources, and community events.

DCA serves as the central reporting agency for real estate fraud and works closely with private industry groups, government agencies, and law enforcement agencies to detect and investigate real estate fraud. The Department counsels consumers in areas, such as: foreclosure prevention, recorded documents, buying a home, reviewing loan documents, and assistance for first-time homebuyers through the Los Angeles County Community Development Commission. DCA also accepts complaints and conducts investigations in the areas of foreclosure consultants, predatory lending, fraudulent recorded documents, and refinance transactions.

The current staffing of our Real Estate Fraud Prevention unit includes 1 Supervising Investigator and 4 investigators. In the past twelve months, the unit provided counseling to more than 37,000 homeowners. The unit also opened 1,384 individual cases for investigation. Of these, 187 (14%) involved foreclosure consultants.

I. Foreclosure Rescue Scams that DCA is working on

The most common scams involve foreclosure consultants. Foreclosure consultants obtain lists of homes that a Notice of Default has been recorded against. They then contact the homeowners in person, by telephone or mail. They promise the homeowners that they can save their home and collect a fee from the homeowner of from \$2,000 to \$15,000. Desperate to save their homes, homeowners pay the fee. Typically, the homeowner receives services of little value, or no service at all and the home is lost to foreclosure.

A disturbing trend is that more and more attorneys are engaged in foreclosure consulting. California law regulates foreclosure consultants, but attorneys are exempt. Many of the complaints we receive against attorneys engaged in foreclosure consulting involve the same complaints we see against non-attorneys: the homeowner pays in advance, receives services of little or no value, and their home is lost to foreclosure.

Another common foreclosure rescue fraud involves loan modifications. In this scam, the foreclosure consultant promises to obtain a low interest fixed-rate loan for the homeowner. The homeowner pays the consultant a fee of \$1,500 or more, but the consultant never delivers the promised loan. In a variation of this scam, the consultant instructs the homeowner to send their mortgage payments to the consultant while the new loan is being processed. The results are the same: no new loan is obtained and the homeowner loses their home to foreclosure.

II. How our Agency Addresses these Scams. Other Agencies and Organizations we Work With

Our staff investigates foreclosure consultant scams and works with the Los Angeles County District Attorney, Los Angeles City Attorney and the California State Attorney General's office to prosecute these scams. We also participate in monthly meetings of the Los Angeles County District Attorney's Real Estate Fraud Taskforce.

Our department provides extensive information to the public on our website concerning foreclosure fraud and the housing crisis, and we publish numerous brochures.

III. How Homeowners Can Avoid These Scams

Our message to homeowners is: Help with foreclosure is available free of charge. Do not pay for help.

Homeowners facing foreclosure can obtain free assistance from numerous agencies including their department of consumer affairs, numerous HUD-approved counseling agencies and from their lender. Paying for foreclosure help does not guarantee results. In most cases, it only guarantees that the homeowner will lose their home and the money they pay to save it.

IV. Outreach and Collaboration with other Groups to Homeowners at Risk

DCA believes that the most effective outreach provides notification to homeowners at the time of need. Since 1997, Los Angeles County has operated a Homeowner Notification Program. The program is conducted by the Registrar-Recorder\County Clerk (RR|CC) and the Department of Consumer Affairs (DCA). The program provides notification to homeowners whenever a deed, quitclaim deed, or deed of trust is recorded against their home. The notification includes a copy of the recorded document, information about real estate fraud and DCA's real estate hotline number for homeowners to call for counseling or to file a fraud complaint.

DCA participates in numerous community housing events, many sponsored by Los Angeles Neighborhood Housing Services, specifically targeted for homeowners in or facing foreclosure. These events allow homeowners to meet with lenders and

HUD-approved counseling agencies. Victims of fraud can file a complaint with our DCA staff.

Our department also publishes brochures and our website dca.lacounty.gov contains extensive information to assistance homeowners facing foreclosure. On our telephone system, homeowners can speak with a counselor during normal business hours by calling 800-973-3370, or by visiting our offices. Recorded information is available to callers 24 hours a day.

V. Tools and Resources Needed to Further Assist Homeowners.

Foreclosure consultant scams are the aftermath of predatory lending practices that placed consumers into homes they could not afford. We believe that the laws governing home lending need to be strengthened to crack down on predatory loans.

Additionally, laws governing foreclosure consultants need to be strengthened and should not exempt attorneys or real estate professionals from their provisions.

In Los Angeles County, the Chief Executive Office in a report to the Board of Supervisors has recommended that the Los Angeles County Homeowner Notification Program be expanded to include notification to homeowners when a Notice of Default is recorded. The report was the result of a motion by Supervisor Mark Ridley-Thomas to deal with predatory lending and the foreclosure crisis in Los Angeles County. DCA believes that the most effective outreach provides notification to homeowners at the time of need. Currently, homeowners in default and renters in those homes receive no contact from the government to offer counseling and assistance. Instead, homeowners and those who rent a home in foreclosure are inundated with letters, calls and home visits from foreclosure consultants and foreclosure rescue services who promise to save their home for a fee. The vast majority of consultants operate in a fraudulent manner, taking money from homeowners but providing no service of any value. Most homeowners simply lose their home.

Additionally, more resources are needed to provide counseling, outreach and assistance to homeowners.