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House buyout deals too good to be true

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Signs hanging on trees or light posts in the Washington area touting "We Buy Homes -- Fast Cash" can hide a dangerous truth.

Investors offering quick money for less than the value of a house or condominium sometimes leave homeowners with a bad deal, housing regulators say.

"They do it under the guise of helping you out of foreclosure," said Joe Rooney, Maryland's deputy commissioner of financial regulation.

Although the investors, sometimes called "foreclosure specialists," have always been around, the decline in the housing industry and rising foreclosure rates are helping them thrive.

Foreclosures rose 35 percent nationwide in the first three months of 2007 compared with a year earlier, according to RealtyTrac.com, an online foreclosure tracking organization.

The investors buy houses at discounts and then "flip" them by selling them quickly at a higher price.

Government regulators license mortgage lenders but can do little about buyers and sellers other than to prosecute fraud.

"If your house is worth \$200,000 and they offer you \$180,000, they're allowed to do that," Mr. Rooney said. "This is America."

Typically, the sellers are low-income homeowners who recently suffered a financial collapse.

"It tends to be a lost job, a medical condition or a lot of times a divorce," said Mike Burnette, spokesman for Housing Opportunities Made Equal, a nonprofit housing advocacy group in Richmond. "Everything they have is in their home, and they just don't have a lot of cash to bail themselves out."

Real-estate regulators warn sellers to check out investors carefully when offered cash for their houses to make sure that they are not being scammed.

"It's a buyer-beware situation," said Mary Broz-Vaughan, spokeswoman for the Virginia Real Estate Board.

The number of home investors is up about 30 percent in the past two years, said Jeremy Brandt, chief executive officer of 1-800-CashOffer, a Dallas company that seeks to certify home investors by checking their backgrounds and references. There are no official statistics to verify his estimate.

As many as 30 percent of the investors are "unethical," he said.

He suggests that home sellers "ask a lot of questions and get references."

Sellers should find out how many properties an investor has purchased in the past six months and check to see how they are funded to ensure he can pay, Mr. Brandt said. They also should have a lawyer review their home sales contracts.

Here are some of the most common scams:

- The bailout. A scammer offers to buy your home for much less than its value, with the understanding that you can rent it and eventually repurchase it if certain terms are met. However, the sales price or monthly payments are typically inflated, making it impossible for you to buy the home back. Eventually, the property is forfeited, and the new owner sells the home at market value and pockets the equity.
- The fake home sale. In this scheme, a scammer says he will buy your home to get control of the deed or title to the home. In some cases, homeowners believe their lender has been paid -- but don't get proof before handing over deeds. But the homeowners are still liable for the mortgage, because you have merely signed over the deed, not sold the home. The scammer rents the home to a tenant with an option to buy -- pocketing any down payment and rent -- but never making a mortgage payment. Eventually, the lender notifies you that it is foreclosing on the property. The deed holder walks away with no liability.
- Bogus help. This scheme is simple and common. The scammer promises to save your credit or get you low monthly payments. Instead, you pay thousands of dollars in fees, and they do nothing. In the end, you still might be forced into foreclosure or bankruptcy.

Most foreclosure scammers identify their victims by watching for property that has been listed for sale in court. They approach the homeowner with offers to help. Other scammers are contacted by potential victims who have seen a flier advertising "foreclosure rescue."

This article is based in part on wire service reports.