

Principal Reduction Scam Alert

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Based on current trends in real estate fraud investigations, the following summary of a new version of a foreclosure rescue scam has been provided by a prosecutor in Northern California.

We have seen similar seminars and scams operating in Ventura County. One such scam has already resulted in the filing of criminal charges.

This is a relatively new variation of loan modification scam. I have started calling it the "Principal Reduction Scam". Here is how we see it working up in Alameda County, although I'm sure there are minor variations in each case.

1. Con artist opens company called TCP Trust, or CAA, Inc., or any other name. Puts up simple website or goes trolling at foreclosure rescue seminars at your local Holiday Inn.
2. Offer to homeowner is: We use loopholes in the Federal Reserve, or existing UCC law, or the sovereign power of the Constitution -- i.e., any kind of lie to make it look like the bad guy has found some secret loophole in the banking law. The bad guy tells the homeowner that with this new process they can either buy the homeowner's loan outright, or get it voided under UCC law, or take over servicing of the loan. Whatever the lie, the homeowner is tricked into believing the con artist can get control of their loan and wipe it out.
3. Con artist may file fraudulent Reconveyance Deeds to "show" the homeowner that their existing loan has been paid off. They will also give the homeowner all sorts of confusing, legal-looking documents. Many of our con artists seem to be right-wing extremists and use language consistent with groups such as the Sovereign Citizens groups (i.e., radical groups who disavow the Federal Government).
4. The con artist then "renegotiates" a new loan with the homeowner, and tells them that the loan is 20-40% of their original loan. Thus, if the homeowner had a \$500,000 loan, the con artist offers a loan for \$100,000. They give the homeowner a promissory note and file a new Deed of Trust in the name of TCP Trust, etc.
5. The homeowner is given a payment coupon book and told to use the book to make monthly payments to TCP, etc. The homeowner is instructed to STOP paying on their original loan, because it has been paid off! The homeowner is happy because they think they have gotten rid of their old loan and are paying thousands less per month.
6. We all know how this ends. The filing of all these wild deeds stops any foreclosure process, but only for about 4-6 months (and in some case, we are seeing homeowners going into these sham programs who are NOT in default -- they are just seeking to lower their monthly payments). Ultimately, the homeowner goes into default on the original loan because: A) It was never really paid off, and B) They stopped paying it.
7. By the time the homeowner has lost their home, been evicted, and made a report to law enforcement, it's too late. The bad guys will have laundered the money, closed up shop, and opened up a new company in a new city.
8. We are seeing a lot of this in Alameda County, and we have also heard from investigators in San

Joaquin, Stanislaus, and Riverside Counties who are seeing these. I'm afraid it's going to literally cause the next big wave of foreclosures.