Lawyers exploit foreclosure ‘rescue’ fee loophole

Government decision enriches attorneys, stings homeowners

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Chicago's Willis Tower was home to a foreclosure rescue firm federal officials accused of using misleading sales tactics to scam homeowners.

- Strapped homeowners say they’ve been cheated by lawyers hired to help save their homes from foreclosure.

In 2011, three attorneys set up a firm called The Mortgage Law Group that took advantage of a federal program aimed at helping people threatened with foreclosure to stay in their homes.

Business boomed. In just over two years the Chicago firm signed up more than 5,200 clients who paid more than $18 million in advance fees for legal services they hoped would either reduce the size of their mortgage payments or hold off foreclosure.

But federal regulators say the firm was little more than a sophisticated telemarketing scam that masqueraded as a law practice and cheated thousands of financially vulnerable people.

Most Mortgage Law Group clients received little for their money, according to federal officials, who in a lawsuit filed in 2014 accused the firm of employing misleading and deceptive sales tactics to lure in customers.

One telemarketer deposed in the federal court case described the high-pressure atmosphere on the sales floor in the firm’s Chicago offices as straight out of the Leonardo DiCaprio movie *The Wolf of Wall Street*. He said some sales agents even posed as lawyers to close deals.

Attorney-affiliated firms that aggressively market mortgage reduction plans have mushroomed in the past few years because of a loophole in a government program called “loan modification.” Created in 2009, the program was designed to help struggling homeowners facing foreclosure brought on by the recession. But a government decision to exempt lawyers from a ban on charging advance fees for modification services has led to scams that have cheated thousands of homeowners.

Many homeowners who were supposed to benefit instead lost millions of dollars to firms that promised them loan modifications and other foreclosure-relief services that they failed to deliver, a Center for Public Integrity investigation has found.

Since 2010, these practices have drawn tens of thousands of consumer complaints to federal and state authorities, sparked multiple legal and ethical concerns over what constitutes the legitimate practice of law, and raised questions about how aggressively states have monitored the conduct of lawyers who profit from the schemes, the Center's investigation found.

The Center identified more than 1,000 attorneys — more than one-third of them in California and Florida — who participated in loan-modification and foreclosure-prevention schemes that resulted in either law enforcement actions or disciplinary reviews by state legal authorities.