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FTC Sues Mortgage Foreclosure “Rescue” Operation

In a case that affects consumers throughout the nation, the Federal Trade Commission has charged a mortgage foreclosure “rescue” company with falsely claiming that it will stop foreclosure or fully refund consumers’ money. A federal court ordered a halt to the alleged practices and froze the defendants’ assets pending trial. Many people who paid the company ultimately lost their homes to foreclosure, and others avoided foreclosure only through their own efforts. The FTC seeks to prohibit the deceptive claims and make the company pay consumer redress.

According to the Commission, the company promotes its “Fresh Start Program” by mailing ads to consumers who are behind on their mortgage payments and facing foreclosure. One of its postcards states, “We are happy to inform you that you have been pre-approved to have your current mortgage, including your past due payments, wrapped into a new loan . . . Following final approval, our program may allow any foreclosure proceedings to be stopped.” Another version of the postcard states, “It is required that you are notified of these options. We have attempted to contact you without success. Please contact us soon. Your time to enter a repayment plan is running out. Rights may include: 1. a repayment plan 2. putting your past due payments into the balance of the loan 3. paying your past due payments at the end of your loan. 100% GUARANTEE.”

Consumers who call the company are told that negotiations with lenders will begin once consumers pay a fee ranging from \$300 to more than \$1,000, which typically is paid before the consumer receives a contract. After the fee is paid, the company often doesn’t return consumers’ phone calls, and in many instances when consumers manage to reach a company representative they’re told, falsely, that negotiations are proceeding.

According to the complaint, consumers who do not lose their homes are harmed by having purchased the company’s services because of its delays in starting negotiations with lenders, and because of the additional late fees and other costs that accrue during the delays. The Commission charged the company with violating the FTC Act by falsely representing that it will stop foreclosure in all or virtually all instances, and that it will give full refunds if foreclosure is not stopped.

The defendants are National Foreclosure Relief Inc., David Ealy, Chele Stone, also known as Chele Medina, and Hugo Tapia. The Commission vote to authorize staff to file the complaint was 4-0. The complaint was filed in the U.S. District Court for the Central District of California on February 2, 2009; the court entered a temporary restraining order and asset freeze later that day.

NOTE: The Commission files a complaint when it has “reason to believe” that the law has been or is being violated, and it appears to the Commission that a proceeding is in the public interest. The complaint is not a finding or ruling that the defendant has actually violated the law.

The Federal Trade Commission works for consumers to prevent fraudulent, deceptive, and unfair business practices and to provide information to help spot, stop, and avoid them. To file a complaint in English or Spanish, visit the FTC’s online Complaint Assistant or call 1-877-FTC-HELP (1-877-382-4357). The FTC enters complaints into Consumer Sentinel, a secure, online database available to more than 1,500 civil and criminal law enforcement agencies in the U.S. and abroad. The FTC’s Web site provides free information on a variety of consumer topics.

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