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BACK TO BUSINESS

Subprime Brokers Resurface as Dubious Loan Fixers

By PETER S. GOODMAN

LOS ANGELES — From the ninth floor of a downtown office building on Wilshire Boulevard, Jack Soussana delivered staggering numbers of mortgages to homeowners during the real estate boom, amassing a fortune.

By Mr. Soussana's own account, his customers fared less happily. He specialized in the exotic mortgages that have proved most prone to sliding into foreclosure, leaving many now scrambling to save their homes.

Yet the dangers assailing Mr. Soussana's clients have yielded fresh business for him: Late last year, he and his team — ensconced in the same office where they used to broker mortgages — began working for a loan modification company. For fees reaching $3,495, with most of the money collected upfront, they promised to negotiate with lenders to lower payments on the now-delinquent mortgages they and their counterparts had sprinkled liberally across Southern California.

"We just changed the script and changed the product we were selling," said Mr. Soussana, who ran the Los Angeles sales office of Federal Loan Modification Law Center. The new script: You got a raw deal, and "Now, we're able to help you out because we understand your lender."

Mr. Soussana's partners at FedMod, as the company is known, were also products of the formerly lucrative world of high-risk lending. The managing partner, Nabile Anz, known as Bill, previously co-owned Mortgage Link, a California subprime lender, now defunct, that once sold $30 million worth of loans a month.

Jeffrey Broughton, one of FedMod's initial partners, served as director of business development at Pacific First Mortgage, a lender that extended so-called Alt-A mortgages for borrowers with tarnished credit for Countrywide Financial, which lost billions of dollars on bad mortgages before being rescued in an acquisition.

FedMod is but one example of how many of the same people who dispensed risky mortgages during the real estate bubble have reconstituted themselves into a new industry focused on selling loan modifications.

Despite making promises of relief to homeowners desperate to keep their homes, FedMod and other profit making loan modification firms often fail to deliver, according to a New York Times investigation based on interviews with scores of former employees and customers, more than 650 complaints filed with the Better Business Bureau, and documents filed by the Federal Trade Commission in a lawsuit against the company.

The suit, filed in California federal court, asserts that FedMod frequently exaggerated its rates of success, advised clients to stop making their mortgage payments, did little or nothing to modify loans and failed to promptly refund fees. The suit seeks an end to FedMod's practices, and compensation for customers.

"Our job was to get the money in and then we're done," said Paul Pejman, a former sales agent who worked out of FedMod's two-story headquarters in Irvine, Calif. He recounted his experience, he said, because "I really feel bad."

"I had people calling me crying, and we were telling them, 'You can pay me or you can lose your house,' " Mr. Pejman said. "People were giving me every dime they had, opening credit cards. But I never saw one client come out of it with a successful loan modification."

Mr. Anz, who is challenging the F.T.C. lawsuit, acknowledged that FedMod's business went "horribly wrong," but he maintains the company made genuine efforts to help delinquent borrowers. He said FedMod has refunded fees to 3,000 dissatisfied customers, while modifying 1,500 mortgages.

A New Mission

FedMod is among dozens of similar companies that have been accused by state and federal authorities of fraudulent business practices. On the same day in April that the F.T.C. sued FedMod, it brought action against four similar companies and sent letters of warning to 71 others. Last week, the commission brought lawsuits against four more loan modification companies, advancing an enforcement campaign involving 23 states.

Many of the companies formerly operated as mortgage brokers, The Times found. Since October, the California Department of Real Estate has ordered 210 businesses and individuals to stop offering loan modification or foreclosure prevention services, because they lacked a real estate license, as required by the state. In fact, nearly half the people have roots in the mortgage industry or other areas of real estate, according to public records.

Debt Barter Inc. is among them. A loan modification company based in Irvine that was cited by the state in January for collecting upfront fees without a license, it is owned by Sean R. Roberts, who formerly headed Instafi, a mortgage broker that closed $2 billion worth of loans a year at its peak. Since February, customers have filed 17 complaints against Debt Barter with the Better Business Bureau. Most accused the company of charging upfront fees, then failing to lower their payments.

"We can't please everyone all the time," said Mr. Roberts, who added that the company had modified loans for nearly 300 of its roughly 500 clients.

In Aliso Viejo, Calif., the Citywide Mortgage Corporation, which previously brokered Alt-A and subprime loans, last year became a loan modification company, USMAC. The company has not received a cease and desist order, but complaints on numerous consumer Web sites assert that it fails to deliver.

"I'm saving homes," said the company's president, Scott Gimbel, who claimed a success rate above 70 percent.

Chris Mozilo, nephew of Angelo R. Mozilo, the former chief executive of Countrywide Financial — a name synonymous with the subprime disaster — recently started a new business, eModifyMyLoan. It sells software that homeowners can use to apply for loan modifications.

Chris Mozilo worked at Countrywide for 16 years. “I’m very proud of my career in mortgage lending,” he said. “We helped millions of people achieve the goal of homeownership.”

From its inception in the middle of 2008, FedMod aimed to dominate the loan modification industry, growing swiftly with the aid of a national advertising campaign.

Mr. Broughton, 49, had worked in the mortgage industry since the mid-1980s. As the market ground to a halt in 2008, he founded FedMod with two Los Angeles entrepreneurs, Steven Oscherowitz and Boaz Minitzer.

Mr. Broughton sought to distinguish his company from the unscrupulous ventures that dominate the industry.

“You had a lot of these modification companies that were subprime guys,” he said. “All they cared about was making quick dollars.”

But the partners behind FedMod had their own questionable backgrounds. In the mid-1990s, Mr. Oscherowitz settled an F.T.C. lawsuit that accused his company, Universal Merchants, of falsely marketing the weight-loss benefits of a dietary supplement.

The partners entrusted Mr. Soussana with FedMod’s Los Angeles sales office precisely because he had proved adept at selling the sorts of loans that now required modification. In 2006, Mr. Soussana, then 30, was listed as the nation’s sixth most prolific mortgage broker by Mortgage Originator, a trade magazine, brokering $318 million worth of loans. The same year, he paid $1.8 million for a house near Beverly Hills.

“He was one of the biggest guys in subprime mortgages,” Mr. Minitzer said. “He basically wanted to get back to his old days of 50, 60, 70 guys in his office, and we could help because we were basically taking over the market.”

Bringing in the Law

The three original partners brought in Mr. Anz to gain a crucial asset: his law license. Having a lawyer in charge enabled them to market their venture as a law firm and thus collect upfront payments under California rules.

“Jeff asked me how I could, for lack of a better word, legitimize it,” Mr. Anz said.

The California Department of Real Estate warns consumers that many dubious loan modification companies have organized themselves as law firms solely to allow them to collect upfront fees, even though the lawyers have little, if anything, to do with the services provided. The department cautions consumers against hiring such companies.

In its lawsuit against FedMod, the F.T.C. contends that the company’s advertisements implied it had the backing of the federal government. “If you’re like the millions of Americans out there who are struggling to pay a mortgage, you may be eligible for the Federal Loan Modification Program,” radio ads beckoned.

Aggressive marketing ensured that Mr. Pejman, 22, never lacked for calls when he started at the Irvine sales office in January. He had worked at three wholesale mortgage brokerages. Now, a trainer emphasized he was at a law center.

“Our big sales pitch was that an attorney could do a better job with your loan modification,” Mr. Pejman said. “If you told them these were basically washed-up people from the mortgage industry, or just people sending in paperwork, they would say, ‘Well, why bother? I might as well do this myself.’ ”

He went on: “It was misleading to the client. Attorneys never touched those files.”

Among the 700-plus full-time employees who worked for FedMod this spring, only nine were lawyers, Mr. Anz said, though the company retained a lawyer in every state.

Mr. Pejman and his fellow agents urged homeowners to send FedMod $3,495; the agents were promised a 30 percent commission for fees they took in. Most clients could not come up with more than $1,000 and agreed to a payment schedule for the rest. Assurances of relief from a homeowner’s loan terms were typically extravagant, Mr. Pejman said.

“A big grabber was that your loan will be reduced to 2.5 percent to 5 percent on a 30-year fixed rate loan,” he said. “They’d print out all these mythical success stories for us to read over the phone.”

Under FedMod’s policies, agents were prohibited from making false claims, counseling clients not to pay their mortgages or providing success rates, Mr. Anz said. New clients received follow-up compliance calls to ensure they understood nothing was guaranteed.

But sales agents were told of such policies with a wink, Mr. Pejman said.

“They basically told us, ‘Do whatever you need to do,’ ” he said. “ ‘It’s a sales floor. You’re here to sell.’ People would quote success rates and just pull them out of thin air. People would say 60 percent, 80 percent, 90 percent. To the average Joe in Kansas, that sounded great. But the reality is that 50 percent were immediately declined by the lender.”

What shocked Mr. Pejman was how readily customers handed over their credit card numbers. Sales agents tapped into a deep vein of anxiety.

“I’d hear people say, ‘Would you pay $1,000 to save your home? To save your marriage? Your kids’ education?’ ” he recalled. “I’d hear people say, ‘Yeah, we’re the federal government.’ There were a lot of corrupt people working there.”

In Charlotte, N.C., Joshua Garland telephoned FedMod in March after seeing one of its television commercials. Mr. Garland’s wife had been laid off from her hospital job. He had lost his job as a chef and was now bartending. Their monthly income had plunged from $3,200 to less than $1,000. They were already three months behind on their mortgage.

A FedMod agent confidently described how his company could cut their monthly payments from $1,200 to $532, Mr. Garland recalled. But first, he had to pay a $995 “retainer fee.”

This was nearly as much as Mr. Garland earned in two weeks. Dental bills were piling up for his three children. He was behind on his utilities.

“I told him, ‘We have $1,200 left to make our mortgage payment, and if we give that money to you, we’re going to get further behind,’ ” Mr. Garland recalled. “He said, ‘Go ahead and make the $995 payment, because once you’re under our plan, the bank can’t foreclose on you.’ ”

After several follow-up calls from the agent, Mr. Garland paid. Then, months passed with no contact from FedMod, he said. He left countless messages seeking updates, demanding a refund. His lender foreclosed on his house, scheduling a sale for Aug. 26.

“This guy hounds me for the $1,000, and then as soon as I pay him he disappears,” Mr. Garland said. “I usually don’t fall for stuff like this. I can usually tell if it’s a scam. But this guy, I mean he came with his guns loaded.”

Overwhelmed by Cases

FedMod was drowning in cases. The pipeline swelled by 8,000 clients from December to March, according to Mr. Anz.

Once sales agents took in applications, they passed files on to the processing department, where case managers were supposed to assemble documents and submit them to lenders. But their offices were hopelessly underequipped.

“The owners didn’t want to invest in software, so everything was tracked manually,” said Rachelle Cochems, who took over as operations manager on Jan. 19 and left the company in May after FedMod stopped paying her. “We couldn’t handle the volume we were taking in. The system was broken.”

Each case manager was responsible for as many as 200 files at a time, Ms. Cochems said, making it impossible to keep in regular touch with customers. Some files floated in limbo, because sales agent did not bother handing them over.

“You’re paying the sales agent upfront,” Ms. Cochems said. “So what motivation does he have to get it closed?”

In February, Mr. Anz shut the Los Angeles sales office, uncomfortable with reports that Mr. Soussana had filled it with “unsavory types” from the mortgage industry, he said.

“I’m not a shady person,” Mr. Soussana said.

By March, sales agents were inundated by calls from furious clients who had paid long ago, but not heard from anyone. Some called from motels, their belongings piled in boxes, weeping as they recounted losing their homes.

The agents let most calls go to voicemail, playing the most dramatic messages over speakerphones for communal amusement, Mr. Pejman said.

“Guys would sit there and laugh,” he said. “ ‘This lady’s going crazy,’ that sort of thing.”

The next month, Mr. Anz took full control of the company, banishing his partners and blaming them for “a train wreck." He ceased marketing, he said, and concentrated on processing the backlog of files.

In April, the F.T.C. filed its lawsuit, prompting credit card companies to freeze their accounts with FedMod. The court imposed a temporary restraining order, barring FedMod from acquiring new customers.

By the time Rana Hajjar began working there on April 13 as a client representative, she found the company utterly chaotic.

"They just handed me 70 files and told me to call these people because they're very upset," Ms. Hajjar recalled. "The majority of them had paid three or four months earlier and had never heard from anyone. I was yelled at from today until tomorrow."

Several times a week, clients called to report that the police were at their door, ordering them out for foreclosure sales, Ms. Hajjar said. When she alerted negotiators, they sometimes called banks and postponed sales, but usually they ignored her messages, she said.

When Ms. Hajjar cashed her first paycheck, it bounced, she said. Over the next three weeks, she never received payment. On Monday, May 11, her manager told her and dozens of other employees to take the rest of the week off because the company had no money for payroll.

She was never called back, later adding her name to a file of more than 120 wage disputes leveled against FedMod with the California Labor Commissioner.

Today, FedMod has only 40 employees, said Mr. Anz, pledging to plow through the company's 4,200 remaining files.

"We're doing what we can," he said. "I'm the bad boy of loan mods."

Yet as television advertisements attest, many other companies remain aggressive in what amounts to perhaps the last growth industry left in American real estate.

Toby Lyles and Jack Styczynski contributed research from New York, and Rebecca Cathcart contributed reporting from Los Angeles.