MORTGAGE FRAUD FACT SHEET

For Victim Service Providers and Attorneys

Understanding Mortgage Fraud Schemes

NATIONAL CRIME PREVENTION COUNCIL

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Mortgage fraud crimes have a significant adverse impact on homeowners, families, communities, businesses, and the economy. Awareness plays a critical role in combating and mitigating the harm of mortgage fraud activities. Individuals should understand what mortgage fraud entails, as well as the various types of schemes.

The FBI defines mortgage fraud as the employment of "some type of material misstatement, misrepresentation, or omission relating to a real estate transaction, which is relied on by one or more parties to the transaction." Mortgage fraud schemes are varied. Data reported by the FBI based on opened cases reveal that the most prevalent mortgage fraud schemes identified in fiscal year 2010 included loan origination schemes, followed by settlement-related schemes, real estate investment schemes, short sale schemes, commercial real estate loan frauds, foreclosure rescue schemes, advance fee schemes, builder bailout schemes, and bankruptcy fraud. The schemes have evolved to adapt to economic changes and modifications in lending practices. The current economic decline has resulted in an increase in schemes targeting vulnerable homeowners.

Affinity Fraud

These scams exploit the trust and friendship developed in groups of people who share affinity with one another. These groups have a common interest or bond. Examples of such groups are religious, professional, or age-related groups. This fraud is commonly perpetrated against senior citizens.

RED FLAGS: Large gift funds are provided by group members as the source of down payment; use of straw borrowers, falsified gift funds, and altered income, employment, or asset documentation.

Air Loans

This is a nonexistent property loan where there is usually no collateral. Air loans involve brokers who invent borrowers and properties, establish accounts for payments, and maintain custodial accounts for escrows. They may establish an office with a bank of telephones, each one used as the fake employer, appraiser, credit agency, to fraudulently deceive creditors who attempt to verify information on loan applications.

RED FLAGS: Associated parties such as the borrower, employer, or lender have generic or fictitious character names; the application is completed by someone other than the borrower; the borrower is not concerned about the type of loan, interest rate, fees, or other items that have an impact on the bottom line; significant discrepancies regarding personal, employer, or similar information exist between the credit report and loan application.

Builder Bailout/Condo Conversion

Builders facing rising inventory and declining demand for newly constructed homes employ bailout schemes to offset losses. Builders find buyers who obtain loans for the properties. The buyers then allow the properties to go into foreclosure. In a condo-conversion scheme, apartment complexes purchased by developers during a housing boom are converted into condos. When the market declines, developers have an excess inventory of units. Developers recruit straw buyers with cash-back or additional incentives and inflate the value of the condos to obtain a larger sales price at closing. In addition to failing to disclose the incentives to the lender, the straw buyers' income and asset information are often inflated in order for them to qualify for properties that they otherwise would be ineligible or unqualified to purchase.

RED FLAGS: The borrower is barely qualified or unqualified; builders' marketing materials advertise "rent credit" to investors or payment credit; the purchase and sale agreements contain unusual credits; personal property is included in the purchase; inflated appraisal; all comparables have inflated sales prices or value based on cash sales; appraisal photos do not match unit number; neighborhood where property is located experienced a sudden spike in volume and price after lagging sales.

Commercial Real Estate Loans

Owners of distressed commercial real estate obtain financing by creating bogus leases and using these fake leases to exaggerate the building's profitability, thus inflating their appraisal values using the income-method approach. These false leases and appraisals trick lenders into extending loans to the owner. As cash flows are restricted to the borrower, property repairs are neglected. By the time the commercial loans are in default, the lender is oftentimes left with dilapidated and unusable or difficult-to-rent commercial property. Many of the methods of committing mortgage fraud that are found in residential real estate are also present in commercial loan fraud.

RED FLAGS: Leases are not supported by business licenses and other records; inflated appraisal; no record of commercial improvements; neighborhood where property is located experienced a decrease or no appreciation in real estate value consistent with the leases and inflated appraisal values.

Equity Skimming

In this scheme the equity is drained from the property. An investor may use a straw buyer, false income documents, and false credit reports to obtain a mortgage loan in the straw buyer's name. Subsequent to closing, the straw buyer signs the property over to the investor in a quitclaim deed, which relinquishes all rights to the property and provides no guaranty to title. The investor does not make any mortgage payments and rents the property until foreclosure takes place several months later.

RED FLAGS: Borrower quitclaims property title to a third party; borrower is low-income and typically uninformed.

Foreclosure Rescue Schemes

The perpetrators identify homeowners who are in foreclosure or at risk of defaulting on their mortgage loans. The perpetrators then mislead the homeowners into believing the perpetrators can save their homes from foreclosure or can guarantee a loan modification with a reduced mortgage payment. They deceive the homeowners into transferring the deed or putting the property in the name of an investor. The perpetrators profit by selling the property to an investor or straw borrower, creating equity using a fraudulent appraisal, and stealing the seller proceeds or fees paid by the homeowners. The homeowners are sometimes told they can pay rent for at least a year and repurchase the property once their credit has been reestablished. However, the perpetrators fail to make the mortgage payments and usually the property goes into foreclosure.

RED FLAGS: Third-party company acts as the intermediary for the borrower; borrowers are directed to avoid contact with their mortgage servicers or lenders; borrower quitclaims property title to a third party.

Home Equity Conversion Mortgage (HECM)

A HECM is a reverse mortgage loan product insured by the Federal Housing Administration to borrowers who are 62 years or older, own their own property (or have a small mortgage balance), occupy the property as their primary residence, and participate in HECM counseling. It provides homeowners access to equity in their homes, usually in a lump sum payment. Perpetrators recruit seniors through local churches, investment seminars, and television, radio, billboard, and mailer advertisements. The scammers then obtain a HECM in the name of the recruited homeowner to convert equity in the homes into cash. The scammers keep the cash and pay a fee to the senior citizen or take the full amount unbeknownst to the senior citizen. No loan payment or repayment is required until the borrower no longer uses the house as a primary residence. In the scheme, the appraisals on the home are vastly inflated and the lender does not detect the fraud until the homeowner dies and the true value of the property is discovered.

RED FLAGS: Property is quitclaimed to the senior just before submission of the reverse mortgage loan application; the senior is persuaded to assign power of attorney on behalf of the senior prior to the reverse mortgage loan application, and communication with originator or underwriter is requested only to be done through the person with power of attorney.

Loan Modification and Advanced Fee Schemes

Perpetrators purport to assist homeowners who are delinquent in their mortgage payments and are on the verge of losing their homes by offering to renegotiate the terms of the homeowners' loans with their lenders. Perpetrators may also purport to reduce or eliminate the debt. The scammers, however, demand large fees up front and often negotiate unfavorable terms for the clients, or do not negotiate at all. Usually, the homeowners ultimately lose their homes. This scheme is similar to a foreclosure rescue scam.

RED FLAGS: Third-party company acts as intermediary for borrower; company charges excessive upfront fees; borrowers are directed to avoid contact with their mortgage servicers or lenders; the borrower quitclaims property title to a third party.

Loan Origination Fraud Schemes

The loan application and supporting materials contain information that is intentionally misrepresented in order to qualify for a loan. Such information can cover assets, employment, income, and occupancy (identifying a second home or investment property as a primary residence). The misrepresentation includes submission of altered or forged documentation. Mortgage loan origination fraud is divided into two categories: fraud for property/housing and fraud for profit. Fraud for property/housing entails misrepresentations by the applicant to purchase a property for primary residence. It usually involves a single loan and the intent to repay the loan. Fraud for profit generally involves multiple loans and elaborate schemes perpetrated to gain illicit proceeds from property sales. Loan origination fraud schemes come in many forms, including backwards application (fabrication of borrower's income and assets to qualify for loan), credit enhancement, fraudulently inflated appraisals, illegal property flipping (purchase and quick resale of property at greatly inflated prices based on fraudulent appraisal), and silent second or other undisclosed debt (intentional omission on mortgage application of undisclosed second mortgage from seller to buyer for down payment or other debt).

RED FLAGS: Assets do not align with reported income; account lists other undisclosed owners in addition to borrower; bank statements are not in the borrower's name; bank statements do not reflect withdrawal of earnest money deposit; employment information does not match across different loan documents or previous applications; employer's name is similar to borrower's name; area code of employer does not match with geographic location of given address; Internet search of employer's phone number references back to broker/ loan officer or some other third party involved in the mortgage transaction; occupation does not align with reported income; number of professional years or current position years in employment does not align with reported income; W-2, paystubs, or 1099 do not match with IRS tax return records; employer and employee names are not printed on paychecks or paystubs; SSI, Medicare, and tax deductions do not calculate properly; property is a significant or unrealistic commute distance from employer; appraisal report uses comparable sales or listing from properties involving the same seller or real estate broker as the subject property; appraisal report omits better matched comparables; seller has owned the property for a short period of time; seller is a trust or LLC; long list of cosmetic property improvements; additional credit inquiries on the credit report within the past 90 days; open trade lines appear on the credit report but not on the loan application; other unknown addresses associated with the borrower appear on the credit report; financial records reflect payment of taxes or hazard insurance on property not listed on the loan application.

Short Sale Schemes

A real estate short sale is a type of pre-foreclosure sale in which the lender agrees to sell a property for less than the mortgage owed. The scam occurs when false statements are made to loan servicers or lenders regarding hidden relationships or agreements that are in place to resell the property (typically for a period of 90 days).

RED FLAGS: Comparables have deflated sales prices or are based on poor selection of comparable properties; appraisal is significantly low in value compared to neighborhood; back-to-back or multiple real estate agent closings; LLC or trust serves as party to transaction; no record of short sale deed of trust; perpetrator refuses to allow broker or appraiser to access property without perpetrator's presence; long list of estimated repairs.

Sources

www.FBI.gov and Corelogic Mortgage Fraud Prevention and Detection Resource Guide.

Tools and Resources for Victims

To Report Scams and Make Complaints

- **Consumer Financial Protection Bureau**
  WEBSITE: www.consumerfinance.gov; Online Complaint Form
  PHONE: 855-411-CFPB (2372)
- **Federal Bureau of Investigation**
  PHONE: 800-CALLFBI (225-5324)
  ONLINE TIPS: FBI Tips and Public Leads Form
  To file a complaint with the FBI, contact the nearest FBI field office. Locations are listed at www.fbi.gov/contactus.htm or https://tips.fbi.gov/ or for major cases you can also report information by calling toll-free number 800-CALLFBI (225-5324).
- **Housing and Urban Development (HUD) Office of the Inspector General Hotline**
  PHONE: 800-347-3735
  FAX: 202-708-4829
  EMAIL: hotline@hudoig.gov
  ADDRESS: HUD OIG Hotline (GFI), 451 7th Street, SW, Washington, DC 20410
- **Loan Modification Scam Prevention Network**
  WEBSITE: www.PreventLoanScams.org; http://complaint.preventloanscams.org (complaint form)
  PHONE: 888-995-HOPE
- **Federal Trade Commission (FTC): Complaint Assistant**
  WEBSITE: www.ftccomplaintassistant.gov
  WEBSITE *(Spanish):* www.ftccomplaintassistant.gov/Consumer_HomeES.htm
  PHONE *(for complaints against companies, organizations, or business practices):* 877-FTC-HELP (382-4357)
  PHONE *(for complaints about identity theft):* 877-ID-THEFT (438-4338)
  EMAIL *(for complaints about spam or phishing):* spam@uce.gov

To Obtain General Information or Counseling

- **Consumer Financial Protection Bureau**
  WEBSITE: www.consumerfinance.gov
  PHONE: 855-411-CFPB (2372)
- **Financial Fraud Enforcement Task Force**
  WEBSITE: www.stopfraud.gov/protect-mortgage.html
  PHONE: 202-514-2000
  EMAIL: ffetf@usdoj.gov
- **Federal Bureau of Investigation**
  WEBSITE: www.fbi.gov/about-us/investigate/white_collar/mortgage-fraud/mortgage_fraud
  PHONE: 800-CALLFBI (225-5324)
- **Federal Trade Commission**
  WEBSITE: www.ftc.gov/bcp/edu/microsites/moneymatters/your-home.shtml
- **HOPE NOW Alliance Counseling Organizations**
  WEBSITE: www.hopenow.com
  PHONE: 888-995-HOPE (4673)
- **Making Home Affordable from the Departments of Treasury and Housing and Urban Development**
  WEBSITE: www.MakingHomeAffordable.gov
  PHONE: 888-995-HOPE (4673) or for hearing impaired 877-304-9709
- **Loan Modification Scam Prevention Network**
  WEBSITE: www.PreventLoanScams.org
  PHONE: 866-459-2162

Other Resources

- **Home Loan Learning Center by the Mortgage Bankers Association**
  WEBSITE: www.homeloanlearningcenter.com
  PHONE: 800-793-6222
- **Home Ownership Preservation Foundation**
  WEBSITE: www.995Hope.org
  PHONE: 888-995-HOPE (4673)
- **Loan Modification Scam Alert**
  WEBSITE: www.loanscamalert.org
  PHONE: 888-995-HOPE (4673)
- **NeighborWorks America**
  WEBSITE: www.nw.org
  PHONE: 202-220-2300

GLOSSARY

Appraisal - A report that helps to determine the market value of a property. An appraisal can be done in various ways, as required by a lender, from simply driving by a property to ordering a full-blown inspection, complete with full-color photographs of the property. Appraisals compare similar homes in the area to substantiate the value of the property in question.

Broker - An agent who negotiates contracts of purchase and sale (as of real estate, commodities, or securities).

Comparable - Comparable sales are that part of an appraisal report that lists recent transfers of similar properties in the immediate vicinity of the house being bought.

Equity - The difference between the appraised value of a home and any outstanding loans recorded against the house.

Earnest Money Deposit - A deposit made to a seller showing the buyer's good faith in a transaction. Often used in real estate transactions, earnest money allows the buyer additional time when seeking financing. Earnest money is typically held jointly by the seller and buyer in a trust or escrow account.

Escrow - A financial account set up by a lender to collect monthly installments for annual tax bills and/or hazard insurance policy renewals.

Income Method Approach - A real estate appraisal method that allows investors to estimate the value of the property based on the income produced.

Reverse Mortgage - A mortgage that allows especially an elderly person to convert home equity into available funds through a line of credit, cash advance, or periodic disbursements to be repaid with interest usually when the borrower dies, moves, or sells the home.

Straw Buyer - A person who makes a purchase on behalf of another person. A straw buyer is used when the real buyer cannot complete the transaction for some reason. It is not necessarily illegal to use a straw buyer, except where the transaction involves fraud or purchasing goods for someone who is legally barred from making the purchase themselves.

Glossary Sources

Investopedia (www.investopedia.com)
Mortgage Fraud 101: Second Edition by David Reed

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