



MORTGAGE FRAUD INDICATORS

Reprinted from the Federal Bureau of Investigation website:

(http://www.fbi.gov/publications/financial/fcs_report2007/financial_crime_2007.htm#Mortgage)

Inflated Appraisals

- Exclusive use of one appraiser

Increased Commissions/Bonuses - Brokers and Appraisers

- Bonuses paid (outside or at settlement) for fee-based services
- Higher than customary fees

Falsifications on Loan Applications

- Buyers told/explained how to falsify the mortgage application
- Requested to sign blank application

Fake Supporting Loan Documentation

- Requested to sign blank employee or bank forms
- Requested to sign other types of blank forms

Purchase Loans Disguised as Refinance

- Purchase loans that are disguised as refinances
- Requires less documentation/lender scrutiny

Investors-Short Term Investments with Guaranteed Re-Purchase

- Investors used to flip property prices for fixed percentage
- Multiple "Holding Companies" utilized to increase property values

COMMON MORTGAGE FRAUD SCHEMES

Property Flipping - Property is purchased, falsely appraised at a higher value, and then quickly sold. What makes property flipping illegal is that the appraisal information is fraudulent. The schemes typically involve one or more of the following: fraudulent appraisals, doctored loan documentation, inflating buyer income, etc. Kickbacks to buyers, investors, property/loan brokers, appraisers, and title company employees are common in this scheme. A home worth \$20,000 may be appraised for \$80,000 or higher in this type of scheme.



Silent Second - The buyer of a property borrows the down payment from the seller through the issuance of a non-disclosed second mortgage. The primary lender believes the borrower has invested his own money in the down payment, when in fact, it is borrowed. The second mortgage may not be recorded to further conceal its status from the primary lender.

Nominee Loans/Straw Buyers - The identity of the borrower is concealed through the use of a nominee who allows the borrower to use the nominee's name and credit history to apply for a loan.

Fictitious/Stolen Identity - A fictitious/stolen identity may be used on the loan application. The applicant may be involved in an identity theft scheme: the applicant's name, personal identifying information, and credit history are used without the true person's knowledge.

Inflated Appraisals - An appraiser acts in collusion with a borrower and provides a misleading appraisal report to the lender. The report inaccurately states an inflated property value.

Foreclosure Schemes - The perpetrator identifies homeowners who are at risk of defaulting on loans or whose houses are already in foreclosure. Perpetrators mislead the homeowners into believing that they can save their homes in exchange for a transfer of the deed and up-front fees. The perpetrator profits from these schemes by remortgaging the property or pocketing fees paid by the homeowner. The three most used foreclosure schemes are identified as: phantom help; bust-out; and the bait and switch.

Equity Skimming - 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 quit claim 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.

Air Loans - This is a non-existent property loan where there is usually no collateral. An example of an air loan would be where a broker invents borrowers and properties, establishes accounts for payments, and maintains custodial accounts for escrows. They may set up an office with a bank of telephones, each one used as the employer, appraiser, credit agency, etc., for verification purposes.

General Fraud Tips

Mortgage fraud is a growing problem throughout the United States. People want their home's equity to be greater than the mortgage loan on the home, and with housing



booms going on throughout the U.S., there are people who try to capitalize on the situation and make an easy profit.

Tips to protect you from becoming a victim of Mortgage Fraud:

- Get referrals for real estate and mortgage professionals. Check the licenses of the industry professionals with state, county, or city regulatory agencies.
- If it sounds too good to be true, it probably is. An outrageous promise of extraordinary profit in a short period of time signals a problem.
- Be wary of strangers and unsolicited contacts, as well as high-pressure sales techniques.
- Look at written information to include recent comparable sales in the area and other documents such as tax assessments to verify the value of the property.
- Understand what you are signing and agreeing to and do not sign any blank forms. If you do not understand, re-read the documents or seek assistance from an attorney.
- Make sure the name on your application matches the name on your identification.
- Review the title history of the home you are anticipating to purchase to determine if the property has been sold multiple times within a short period. It could mean that this property has been "flipped" and the value falsely inflated.
- Know and understand the terms of your mortgage. Check your personal information against the information as listed on the loan documents to ensure it is accurate and complete.
- Never sign any loan documents that contain "blanks." This leaves you vulnerable to fraud.
- Check out the tips on the MBA's website at <http://www.StopMortgageFraud.com> for additional advice on avoiding Mortgage Fraud.

Mortgage Debt Elimination Schemes

- Be aware of e-mails or web-based advertisements that promote the elimination of mortgage loans, credit card, and other debts while requesting an up-front fee to prepare documents to satisfy the debt. The documents are typically entitled Declaration of Voidance, Bond for Discharge of Debt, Bill of Exchange, Due Bill, Redemption Certificate, or other similar variations. These documents do not achieve what they purport.
- There is no easy method to relieve yourself of debts you have incurred.



- Borrowers may end up paying thousands of dollars in fees without the elimination or reduction of any debt.

Foreclosure Fraud Schemes

Perpetrators mislead the homeowners into believing that they can save their homes in exchange for a transfer of the deed, usually in the form of a Quit-Claim Deed and up-front fees. The perpetrator profits from these schemes by remortgaging the property or pocketing fees paid by the homeowner, without preventing the foreclosure. The victim suffers the loss of the property, as well as the up-front fees.

- Be aware of offers to "save" homeowners who are at risk of defaulting on loans or whose houses are already in foreclosure.
- Seek a qualified credit counselor or attorney to assist.

Predatory Lending Schemes

- Before purchasing a home, research information about prices of homes in the neighborhood.
- Shop for a lender and compare costs. Beware of lenders who tell you that they are your only chance of getting a loan or owning your own home.
- Beware of "No Money Down" loans. This is a gimmick used to entice consumers to purchase property that they likely cannot afford or are not qualified to purchase. Be wary of mortgage professional who falsely alter information to qualify the consumer for the loan.
- Do not let anyone convince you to borrow more money than you can afford to repay.
Do not let anyone persuade you into making a false statement, such as overstating your income, the source of your down payment, or the nature and length of your employment.
- Never sign a blank document or a document containing blanks.
- Read and carefully review all loan documents signed at closing or prior to closing for accuracy, completeness, and omissions.
- Be aware of cost or loan terms at closing that are not what you agreed to.
- Do not sign anything you do not understand.
- Be suspicious if the cost of a home improvement goes up if you accept the contractor's financing.
- If it sounds too good to be true—it probably is!