

Mortgage Fraud News: October 2008

Mortgage Fraud Perpetrators Find Opportunity in Defaulting Loans

Mortgage fraud perpetrators have found foreclosure rescue scams, short-sale schemes, and buy and bail tactics to be lucrative avenues for turning illegitimate profits. It is important to understand the following basic information about these types of frauds.

Short-Sale Fraud: The borrower deliberately withholds mortgage payments, forcing the loan into default so that an accomplice can submit a “straw” short-sale offer at a purchase price less than the borrower’s loan balance. The borrower deceives the servicer into believing that the straw short-sale offer is legitimate.

Some red flags of a short-sale fraud are:

- ☞ The borrower had a strong payment history prior to default and request for short sale.
- ☞ The borrower requests a short sale before exploring other workout options.
- ☞ The proposed buyer has commonalities with the borrower (for example, the same surname).

Foreclosure Rescue: A “foreclosure specialist” promises to assist the defaulted borrower to avoid foreclosure. The specialist usually charges the borrower an upfront fee (HUD-approved counseling agencies do not charge) for services that are not delivered. The specialist typically advises the homeowner **not** to speak to the servicer; and may offer to (1) forward payments to the servicer on behalf of the borrower, or (2) temporarily take title to the property and rent the property back to the borrower. These scams usually further encumber the property and/or result in the homeowners losing title. The scams always ultimately force the borrower into foreclosure status, but sometimes delay the servicer’s ability to accomplish the foreclosure, through elaborate bankruptcy filings.

Some red flags of a foreclosure rescue fraud are:

- ☞ The borrower has been advised **not** to speak to the servicer
- ☞ The borrower has paid a foreclosure specialist to negotiate on his or her behalf.
- ☞ The borrower indicates that he or she has recently deeded title or a portion of ownership.
- ☞ The borrower is renting the property he or she formerly owned.

Buy and Bail: The borrower is current on the mortgage, but the value of the home has fallen below the amount owed. The borrower continues to make payments on the home, while applying for a purchase money mortgage on another home that has been priced in alignment with today’s prices. After the new property has been obtained, the buy and bail borrower will allow the first home to go to foreclosure.

Some red flags of a buy & bail fraud are:

- ☞ The borrower will be a first-time landlord.
- ☞ The borrower defaults on the mortgage shortly after purchasing a second property.

Fannie Mae provided new guidelines in Announcement 08-16 in an effort to stem the proliferation of buy and bail frauds. For details, see [Announcement 08-16: Bankruptcy, Foreclosure, and Conversion of Principal Residence Policy Changes; and Revised Property Value Representation and Warranty Requirements](#).

Fannie Mae partners with a wide variety of industry groups, with law enforcement, and with our customers in mortgage fraud detection and prevention efforts. If you have any questions or suggestions about this information, please contact Fannie Mae's [Mortgage Fraud Program](#) or your Customer Account Manager.