

Mortgage Fraud Overview

May 2007

Fannie Mae's Anti-Fraud Strategy: *"Actively make a positive industry-wide contribution to mortgage fraud prevention and detection, helping our lender partners and ourselves minimize fraud losses"*

Definition

Fraud = “Deliberate deception perpetrated for unlawful or unfair gain.”

- Material
- Relied Upon
- Damaging
- Intentional

Motivations for mortgage fraud

Fraud for House

Fraud for Profit

Characteristics of Fraud for House/Property

“Fraud for property generally involves material misrepresentation or omission of information with the intent to deceive or mislead a lender into extending credit that would likely not be offered if the true facts were known.” (Definition from: Financial Crimes Enforcement Network (FinCEN) Mortgage Loan Fraud; An Industry Assessment based upon Suspicious Activity Report Analysis; November 2006)

- Borrowers intend to make all payments
- Participants are rarely paid
- Losses are smaller
- Participants usually involved:
 - *Borrower*
 - *Borrower's family members*

Common Fraud for House Schemes

- **Misrepresented income**
 - **False/forged employment verifications**
 - **False/forged tax returns, pay stubs or W-2s**
- **Misrepresented assets**
 - **False/forged bank statements**
 - **Undisclosed second mortgage**
 - **Loan represented as a gift**
 - **Undisclosed second mortgage**
- **Occupancy Fraud**
 - **Misrepresented intent to occupy**

Characteristics of Fraud for Profit Schemes

“The motivation behind fraud for profit is money. Fraud for profit is often committed with the complicity of industry insiders such as mortgage brokers, real estate agents, property appraisers, and settlement agents (attorneys and title examiners).” (Definition from: Financial Crimes Enforcement Network (FinCEN) Mortgage Loan Fraud; An Industry Assessment based upon Suspicious Activity Report Analysis; November 2006)

- ✓ Most perpetrators never plan to make full payments.
- ✓ Multiple participants are usually involved & paid.
- ✓ Multiple misrepresentations in file including inflated appraisal leading to large loss to lender.
- ✓ Entire file may be fraudulent - no borrower / no property.

Participants May Include:

Borrower
Real Estate Professional
Property Management Company
Rehab Contractor
Appraiser
Loan Officer
Processor
Underwriter
Lender
Closing Attorney

Common Mortgage Fraud Schemes

- Churning
- Chunking
- Straw Buyers
- SISA Abuse
- Foreclosure Rescue
- Equity Theft
- Property Flipping
- Affinity Fraud

Common Mortgage Fraud Schemes Defined

Churning - Excessive selling/lending activity for the purpose of generating fees and commissions. In some cases, the lender steps the rate down through multiple refinances. Each refinance is only to a slightly lower rate until the pre-arranged rate is reached.

Chunking - A fraudster promises to show investors how to get rich buying investment. Multiple loan applications are submitted to various lenders without disclosing the intent to purchase other properties. Sometimes the fraudster promises to handle the transactions, including leasing the properties. He takes a cut of the profit and never leases the property.

Straw Buyer - A person used to buy property in order to conceal the actual owner. The straw buyer does not intend to occupy the property or make payments & often deeds the property to the other individual immediately after closing. The straw buyer is usually compensated for use of his identity

Common Mortgage Fraud Schemes Defined

Stated Income/Stated Asset Abuse - Often called the “liar loan”. When borrowers can’t qualify for a loan using actual income and assets, loans are converted to SISA program. The result is that borrowers are put into homes they can’t afford and eventually lose the home and any equity.

Foreclosure Rescue Scam - The homeowner is deceived into signing over title to the property with the belief that he will be able to remain in the house as a renter and eventually buy it back over time. The terms are impossible to live up to, the homeowner loses his home and any equity he may have had. OR, The homeowners think they are signing documents to bring the mortgage current, but instead actually surrender their ownership. They usually don't even know they've been scammed until they are evicted.

Common Mortgage Fraud Schemes Defined

Equity Theft - Fraudsters forge a deed transfer or a satisfaction of lien, then obtain new liens on the property. The homeowner does not know about it until he receives an eviction notice. A foreclosure rescue scam is also a version of equity theft.

Property Flipping – Illegal property flipping occurs when a property is refinanced or resold immediately after purchase for an artificially inflated value.

Affinity Fraud - Fraudsters rely on a common bond to support the scam. Certain ethnic, religious, professional or age-related groups are targeted.

Mortgage Fraud – Key Red Flags

- Loan participants/Motivations
 - *Know with whom you are doing business*
 - *Understand fraud schemes*
- Information discrepancies
- SSN discrepancies
- Documentation discrepancies
- Significant cash proceeds
- Undisclosed mortgages

Tips about Red Flags

- ✓ Learn to recognize red flags.
- ✓ Use a common sense approach when reviewing a loan file – If it doesn't make sense keep looking!
- ✓ Review pertinent documents individually for red flags.
- ✓ Compare documents to each other for inconsistencies.
- ✓ Use third party resources to verify key information in the file if it is questionable.
- ✓ Inconsistencies may seem legitimate when reviewed separately, but when taken as a whole, a pattern of deception may begin to emerge and require further investigation.
- ✓ If a loan application sounds too good to be true - it may be.
- ✓ A few inconsistencies in a loan file does not mean that the file contains fraud or misrepresentation.

Loan Application Red Flags

- **Significant or contradictory changes from handwritten to typed application**
- **Employer's address shown on as a post office box**
- **Commute is significantly unrealistic**
- **New house too small to accommodate occupants**
- **Borrower is downgrading to smaller or less expensive home**
- **Down payment in some form other than cash**
- **Significant changes as application process proceeds**
- **Lack of accumulation of assets compared to income**
- **Accumulation of assets compared to income appears to be too high**
- **Years of schooling not congruent to profession**
- **Incomplete or inconsistent borrower information**
- **Unsigned or undated application**
- **Same telephone number for borrower and employer**

Credit Report Red Flags

- **No credit history (possible use of alias)**
- **Invalid or recently issued Social Security number**
- **Liabilities on credit report that are not on mortgage application**
- **Significant differences between original and new credit report**
- **Also Known As (AKA) or Doing Business As (DBA) indicated**

Employment and Income Verification Red Flags

- Employer's address is a post office box, the property address or borrower's current residence
- Company and/or employee name is not printed
- Pay stub, VOE or W-2 is hand written
- Large employer, but check stubs are not pre-printed
- Sequence of payroll check numbers does not correspond with the payroll dates
- Social Security number is not consistent with numbers on other loan file documents
- Employer's name & address is similar to a party to the transaction (Seller, Applicant, Originator, Realtor)
- YTD earnings don't compute, don't match W-2's or pay stubs, or are in round dollar amounts
- Date of hire is weekend or holiday
- Deletions, cross-outs, or "squeezed-in" numbers

Appraisal Red Flags

- Appraisal ordered by a party to the transaction
- Comparable properties are a significant distance from the subject
- Occupant shown to be a tenant or unknown
- Significant appreciation in short period of time
- Appraisal indicates transaction is a refinance when it is a purchase
- Large positive adjustments made to comparable properties
- “For Rent” or “For Sale” sign appears in photographs
- Appraisal dated before sales contract
- Owner is someone other than seller shown on sales contract

Impact of Fraud on Communities

- Falsely inflated sales prices may cause **property taxes to be increased.**
- Legitimate sales prices (thus legitimate comparables) may become more difficult to determine – **prompting market confusion.**
- Foreclosures leave boarded-up houses and the **potential for vandalism.**
- Vacant houses are opportunities for straw buyers **to take money from the properties, but not occupy them.**
- Mortgage fraud is often affiliated with **money-laundering and other criminal behavior.**
- Lenders **raise mortgage rates and fees** to recover their losses.
- **Normally honest consumers and professionals are often implicated.**

Best Anti-Fraud Practices

- ✓ Know the people with whom you do business.
- ✓ Understand common mortgage schemes.
- ✓ Understand the unique nature of affinity relationships and fraud.
- ✓ Ensure transaction documentation is accurate.
- ✓ Report suspicious activity.

Anti-Fraud Assistance/Tools

- ***To Report Possible Fraud to Fannie Mae:***
 - 1-800-7FANNIE
 - www.eFannieMae.com
- ***Mortgage Fraud Information:***
 - www.eFannieMae.com