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## **Selling and Securitization: The Secondary Market**

**MBA Fraud Issues Conference  
San Diego, CA**

**Jenny Brawley, Investigations  
Manager**

- Twists on schemes we are seeing
- Expectations of lenders - prevention

- Variations on a Property Flip
  - Short Sales
  - Purchases disguised as refinances
  - “Buy High Sell Higher”

- Distressed owner approached by schemer willing to buy property for \$50,000 (owes \$75,000)
- Appraiser **undervalues** property
- Lender agrees to short sale of \$50,000
- Schemer then obtains an **inflated** appraisal of \$200,000
- Flips property

# Disguise the Purchase as a Refinance

- WHY?
  - Don't need a down payment for a refinance
  - LTV based on appraised value and not a purchase price
  - No seasoning requirements on refinance required by many investors

## “Buy High Sell Higher”

- Property on the market (MLS) for \$300,000
- Motivated legitimate property seller (house has been on the market for a long time)
- Schemer lines up a “straw” who makes purchase offer for \$400,000 to seller
- Seller agrees to refund a portion of the difference (\$100,000) with schemer / straw (\$70,000) and seller keeps \$30,000

## “Buy High Sell Higher”

- Appraised value is inflated to support \$400,000
- Loan is originated based on inflated value and misrepresentation of straw borrower’s eligibility
- Seller is indifferent; gets asking price plus \$30,000
- One closing is held
- Schemer / straw split the net of \$70,000
- Property sits vacant – loan goes into early payment default

- Expectations of Lenders – Prevention

## Appraisals

- Use valuation models such as Freddie Mac’s Home Value Suite  
(<http://www.freddiemac.com/hve/index.html>)
  - Home Value Explorer®
  - Home Value Calibrator®
- Flip indicator software – identifies potential “flipped” property
- Verify subject and comparables sales data with databases (tax records, deed transfers, MLS) and look at aerials ([www.zillow.com](http://www.zillow.com) or google earth)

# Expectations of Lenders - Prevention

DATE OF INSPECTION (WE) ESTIMATE THE MARKET VALUE, AS DEFINED, OF THE REAL PROPERTY HEREIN (WHICH IS THE DATE OF INSPECTION AND THE EFFECTIVE DATE OF THIS REPORT)

APPRAISER:		SUPERVISOR:	
Signature		Signature	
Name		Name	
Date Report Signed	11/8/04	Date Report Signed	
State Certification #		State Certification #	PA
Or State License #	PA Certified Appraiser	Or State License #	PA

Freddie Mac Form 70 6-83 ClickFORMS Real Estate Appraisal Software by Bradford T...

Appraisers

Dear Mr. \_\_\_\_\_

Freddie Mac's review of the appraisal considered the subject property overvalued. A review appraisal showed the original report is unreliable and vastly over stated (71%). The field reviewer discovered the name of the appraiser was an appraiser that had died in 1999. An obituary was provided. It appears someone is using the license number of the deceased appraiser. It was recommended that the issues regarding the appraiser be brought to the attention of the State of PA Board of Real Estate for further investigation.

- Appraisals
  - Requirements for electronic appraisals (SF Guide Section 44.21)
    - Appraisal accountability
    - Appraisal independence
  - Audit appraisers and their work product
  - Appraisals ordered by interested parties

- Closing Agents
  - Provide closing agents and title companies with clear direction and greater responsibility to look for fraud
    - Don't issue cookie-cutter closing instructions
    - If closing agent identifies red flags, make certain that closing agent is instructed not to proceed until red flags are resolved

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