

New Twists on Old Schemes: Trends and Tips on Mortgage Fraud Schemes

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- New Twists in a Downturn Economy
 - Builder Bailouts
 - Foreclosure Rescue Scams



Builder bail-outs occur when the market has slowed and sales begin to lag. The builder and other industry professionals will engage in questionable practices in order to move the remaining inventory of properties, often without sacrificing the sales price.

Builder Bailouts – Old Scheme

- Old schemes typically involved down payment assistance with no tangible benefit to the borrower other than to gain housing

Builder Bailouts – Old Scheme



Property is worth \$100,000 but builder sells to buyer for \$120,000 based on inflated appraisal.



Buyer gets loan (\$100,000). Builder provides “seller second” to finance the down payment of \$20,000. Buyer often qualified based on misrepresentations.



Builder forgives the “seller second” debt. Builder gets his original asking price, the lender now has 100% LTV (no equity) and buyer has 100% financing.

Builder Bailouts – New Scheme

- New schemes can involve lavish incentives to induce borrowers
 - Cash back at closing
 - 4 years mortgage payments
 - HOA / property taxes for 4 years
 - Effortless ownership with guaranteed rental income

- Incentives are not disclosed to lender / loan officers / appraisers
 - Property seller, real estate agent, borrower
- Increase in the number of cases involving retail loan originations
- Incentives built into purchase price by inflating the value
 - The amount equaling the incentives are placed in a reserve account to be provided to the borrower AFTER closing as cash back or used to make the guaranteed mortgage payments

- Contracted sales price \$217,250
- Loan amount \$173,800
- LTV – 80%
- Less incentives \$177,598
- New LTV – 102%

- New construction or renovated condo conversions
- Slight decrease in sales and volume followed by a spike on prices and volume
- Multiple loans to one borrower
- Out of state borrowers
- Secondary financing (80 / 15 / 5%)

- Real estate agent with excessive commissions listed on HUD-1
 - Sometimes based on a lower “net” sales price
- Missing purchase contract addendums
- Originated as second homes
- May not be other loan level misrepresentations

- Percent of variance between true market value and original appraisal may fall below traditional appraisal fraud criteria
 - Incentives are not disclosed to appraisers
 - Comparables are under the influence of the same seller / similar incentive packages
 - Appraisers instructed to use “2 / 1” for comparables
 - Limited service MLS listings
 - Entered into MLS after closing

- May require a mandatory lease back requirement
- Payments made by builder / developer or third party for period of time
- Loans are current
- Entire development may remain vacant
- Individual unit construction / renovation incomplete

Characteristics of Builder Bailout

- Commitments made to borrowers (guaranteed rental payments) appear to be coming from proceeds of the sale (placed in reserve accounts) rather than rental income
- Third party non-lien disbursements
 - Blaring red flags

Dear Homeowner,

We realize that this is a very difficult time for you and your family. Foreclosure happens to the best of all of us, due to certain unforeseen circumstances, which can drain you mentally, physically, and emotionally. Not knowing whether or not you will be able to keep your home and afford the payments can be devastating to a family.

- The Set Up
 - Solicited by “rescuer” with promises of short term, private financing to pay off delinquent loan
 - **Get to stay in home** and rent back from “rescuer”
 - Pledges property as collateral (knowingly or unknowingly)

Foreclosure Rescue Scams

- The Set Up (cont'd)
 - Where does this private money come from for the short term financing to pay off the existing debt?
 - “Rescuer” recruits a straw borrower who thinks he is purchasing a “turn key” investment property at fair market value

- The Set Up (cont'd)
 - “Rescuer” arranges a mortgage loan for straw (to “purchase” homeowner’s house) based on fair market value
 - Straw is qualified based on material loan-level misrepresentation
 - Straw is usually compensated for his participation

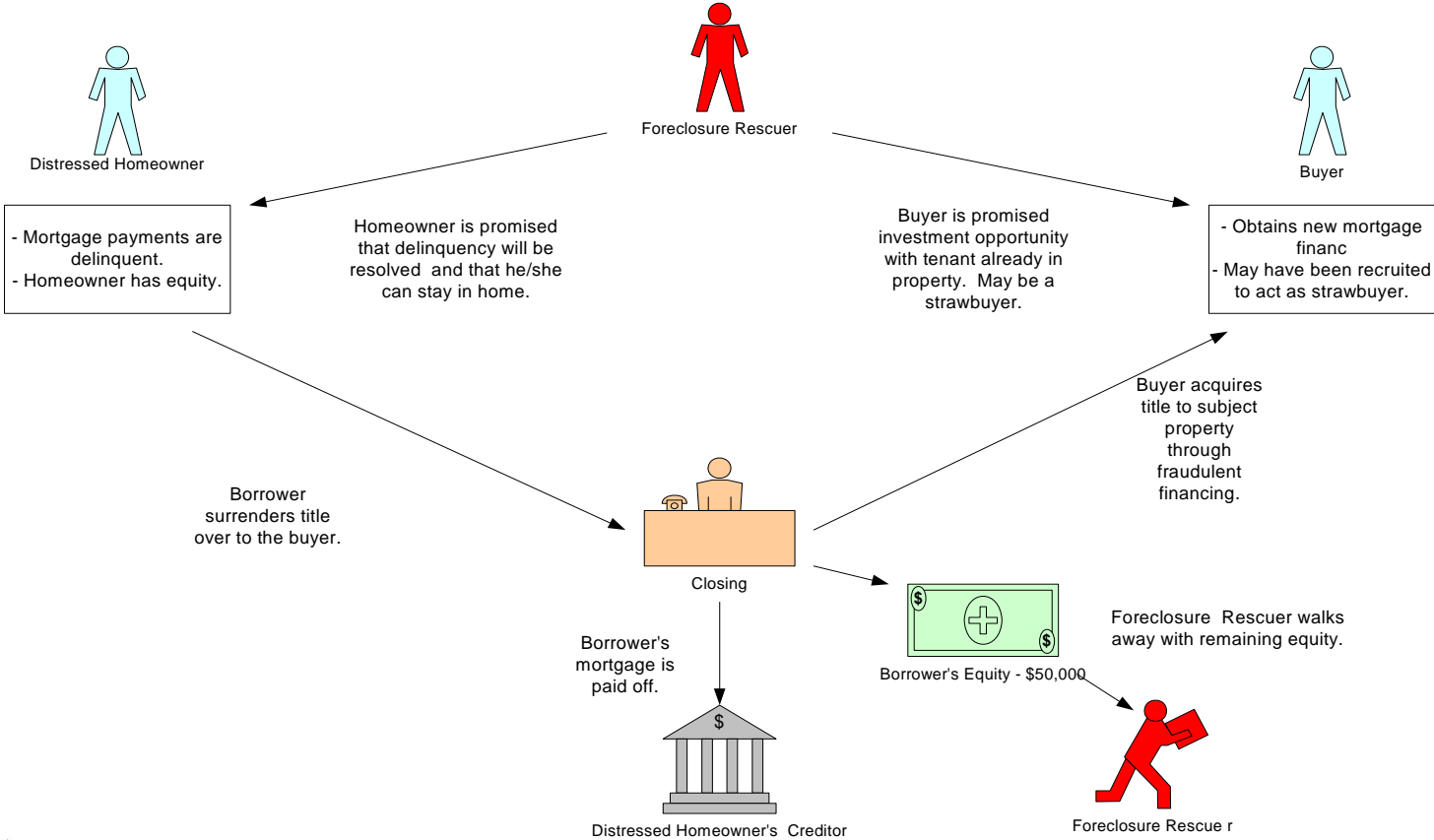
- The Sting
 - Homeowner attends a “closing” and unknowingly conveys property to the straw at fair market value
 - At closing, the proceeds from straw’s loan pays off the defaulted loan amount
 - Homeowner gets \$0 funds
 - “Rescuer” pockets equity

Foreclosure Rescue Scams

- The Sting (cont'd)
 - HUD-1 disbursements
 - HUD-1 shows equity going to seller who is tricked into signing this disbursement check over
 - HUD-1 shows equity going to seller but disbursement summary shows that amount going to another party
 - HUD-1 shows \$0 to seller and equity disbursed to a non-lien third party

- The Sting (cont'd)
 - Straw collects rent from homeowner / tenant equal to amount of his loan payment
 - Homeowner is not able to keep rent current
 - Straw pockets the rent and defaults on his loan
 - Lender initiates foreclosure proceedings
 - Homeowner / tenant evicted
 - Resulting in loss of home and equity

Foreclosure Rescue Scam



- Seller is elderly or long time resident with large amount of equity
- Property being purchased is in foreclosure
- “Kitchen closing” or mail away closing
- Suspicious “seller” signature on purchase contract

- No value issues
- HUD-1 indicates large disbursement to third party instead of seller
- No real estate agent or realtor commissions
- No earnest money deposit