

Fraud Schemes and their Characteristics

Resources to Help You Combat Mortgage Fraud

Fannie Mae is committed to working with our industry partners to help combat fraud by offering you the following list of Fraud Schemes and their Characteristics.

Common characteristics accompany most fraud-for-profit schemes, and identifying them can be helpful in determining whether a loan is part of a larger fraud scheme. Inconsistencies in the loan file are often a tip off that the file contains misrepresentations (more detailed loan-level “red flags” are published in the Fannie Mae document “Common Red Flags”). These characteristics are only indicators of a potential scheme; the presence of one or more of these characteristics does not necessarily mean that there was fraudulent intent, but warrant careful examination.

Straw Buyer Characteristics

Straw buyers are loan applicants used by fraud perpetrators to obtain mortgages, and are used to disguise the true buyer or the true nature of the transaction.

- Mortgage payments are made by an entity other than the borrower
- The loan is usually an early payment default
- First-time home buyer, with substantial increase in housing expense
- Buyer does not intend to occupy - unrealistic commute, size or condition of property, etc.
- No real estate agent is employed (non arms-length transaction)
- Power of Attorney may be used
- “Boiler plate” contract with limited insertions, not reflective of a true negotiation
- Income, savings and/or credit patterns are inconsistent with applicant’s overall profile
- High LTV, limited reserves and/or seller-paid concessions
- Inconsistent signatures throughout the file
- Use of gift funds for down payment and/or closing costs, minimum borrower contribution
- Title to the property is transferred after the sale closes

Air Loan Characteristics

An air loan is a loan to a straw or non-existent buyer, on a non-existent property.

- Air loans typically involve straw buyers, so refer to straw buyer red flags.
- No real estate agent is employed (fictitious transaction)
- Mortgage payments are made by an entity other than the borrower
- Common payer among loans in scheme
- Common mailing address among loans in scheme
- Unable to independently validate chain of title
- The lender is experiencing financial distress

Double Sale Characteristics

A double sale is the sale of one mortgage note to more than one investor.

- Mortgage payments are made by an entity other than the borrower
- Mailing address is not the borrower’s address
- Two mortgages recorded on the same property

Fraud Scheme Characteristics

- Mortgage is not recorded in first lien position
- The lender is experiencing financial distress
- Two notes may be identical except for signatures (or one may be a color copy)

Property Flip Characteristics

Illegal property flipping occurs when property is purchased and resold quickly at an artificially inflated price, utilizing a fraudulently inflated appraisal.

- Flips typically involve straw buyers, so refer to straw buyer red flags
- Flips sometimes involve naïve purchasers
- Seller very recently acquired title, or is acquiring title concurrent with the subject transaction
- No real estate agent is employed (non arms-length transaction)
- Property was recently in foreclosure, or acquired at REO sale at a much lower sales price
- The appraised value is fraudulently inflated
- The appraiser frequently uses other property flips as comparables (examine comparable properties' sales histories)
- Owner listed on appraisal and/or title may not match the seller on the sales contract
- Refinance transaction utilized to payoff private short-term financing

Ponzi / Investment Club / Chunking Characteristics

The sale of properties at artificially inflated prices, pitched as investment opportunities to naïve real estate investors who are promised improbably high returns and low risks.

- No real estate agent is employed (club recruits buyers and / or non arms-length transaction)
- Property was recently in foreclosure, or acquired at REO sale at a much lower sales price
- Borrower may have paid a membership fee to participate in the “club”
- First-time landlord, non-savvy investors
- Seller offers to manage these rental properties
- Borrower may have been told that the seller or the “club” would make mortgage payments
- Borrower purchased multiple properties simultaneously, but did not disclose other loans in process to their lender (“**shot-gunning**”), watch for credit inquiries
- The appraised value is fraudulently inflated (See Property Flip Characteristics)
- Renovations performed by firms owned by members of the investment club

Builder Bailout / Excessive Sales Incentive Characteristics

Seller pays large financial incentives to buyer, and facilitates an inflated loan amount by increasing the sales price, concealing the incentive and utilizing a fraudulently inflated appraisal.

- Typically involves new construction, or new condo conversion
- Builder's marketing material advertises rent credit to investors, and/or payment credit
- HUD-1 reflects unexplained pay-outs or inflated commissions (paid outside closing to buyer)
- All comparables are from within the subject's development and also had inflated sales prices

Fraud Scheme Characteristics

Buy and Bail Characteristics

The homeowner is current on their mortgage but the value of their home has fallen below the amount owed, so they apply for a purchase money mortgage on another home. After the new property has been secured, the Buy & Bail borrower will allow the first home to go into foreclosure.

- The borrower defaults on the original mortgage shortly after purchasing a second property
- The borrower will be a first time landlord (renting out the original property)
- The borrower has minimal or no equity in the original property
- Inability to validate lease terms with the purported tenant
- Purported tenant has a pre-existing relationship with the homeowner

Foreclosure Rescue Characteristics

Foreclosure “specialists” promise to help the borrower avoid foreclosure. The borrower often pays for services that he/she never receives and ultimately loses their home.

- The borrower was advised by foreclosure specialist to avoid contact with their servicer
- The borrower has paid someone to negotiate with the servicer on their behalf
- The borrower states that they are sending their mortgage payments to a third party
- Borrower receives a purchase offer which is greater than the listing price
- Borrower states that they will be renting back from new owner
- The borrower quit claimed (any portion of) title to a third party at the advice of a foreclosure specialist
- Borrower signature variations between the, short sale contract and loan origination documents
- The borrower has recently updated their contact information
- Borrower claims they do not have to pay because the mortgage is invalid (debt elimination)

Short Sale Fraud Characteristics

The perpetrator profits by concealing parties to the transaction and/or contingent transactions or falsifying material information including the true value of the property so the servicer cannot make an informed short sale decision.

- Sudden default, no workout discussions, and immediate offer at short sale price
- Ambiguous or conflicting reasons for default
- The mortgage delinquency is inconsistent with the borrower’s spending, savings and other credit patterns
- Short sale offer is from a related party
- Short sale offering price is less than current market
- Cash-back at closing to the delinquent borrower, or other disbursements that have not been expressly approved by the servicer (sometimes disguised as “repairs” or other payouts)
- The buyer and real estate agent may be the same person or related parties

Unauthorized Fees and/or Payouts Characteristics

An advance fee scheme perpetrated by foreclosure rescue specialists where fees and/or payouts that were not approved by the servicer agreeing to the short sale are reflected on the HUD-1.

- Short sale HUD-1 has unauthorized management, consulting or short sale negotiation fees
- Short sale HUD-1 reflects excessive, unauthorized payoffs to second lien holders

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Non-Arm's Length Short Sale Characteristics

A fictitious purchase offer is made by the homeowner's accomplice (straw buyer) in an attempt to fraudulently reduce the indebtedness on the property and allow the borrower to remain in their home.

- Purchaser has previous or current ownership of the subject property
- Purchaser address matches the borrower's address
- Purchaser's name is similar to the borrower's
- Purchaser employment address matches the borrower's employment address

Short Sale Flip Characteristics

The perpetrator manipulates the short sale lender into approving a short payoff and conceals an immediate contingent sale to a pre-arranged end buyer at a significantly higher sales price.

Short Sale Flip: Title Issues –Transfer to Business, LLC or Trust

Short Sale Loan:

- The borrower is not in title to the property on the date the short sale closes
- Short sale HUD-1 dated after title transferred to third party, yet borrower is listed as seller
- The borrower is transferring title to a business, trust or LLC

End Purchase Loan:

- The seller is not the recorded title holder
- The seller on the sales contract does not match current owner on appraisal or vesting on title
- The title commitment is dated prior to the sales contract or initial loan application
- Title commitment requires additional deeds be recorded to perfect 'current vested owner'

Short Sale Flip: Bait-and-Switch with 'Decoy HUD-1'

- The seller is netting significant cash
- Title reflects outstanding significantly higher liens than amounts to be paid on the HUD-1
- All liens reflected on title are not being paid on the HUD-1

Reverse Mortgage Fraud Characteristics

The perpetrator manipulates the senior citizen into obtaining a reverse mortgage loan and then pockets the senior victim's reverse mortgage loan proceeds.

- The senior claims he/she received the house free from a "special government program"
- Distressed property is quit claimed to the senior just prior to the reverse mortgage loan application
- There is a power of attorney on behalf of the senior
- A caregiver or family member appears to be coaching the senior
- The power of attorney is held by a caregiver but the senior has relatives (children, grandchildren)
- The senior has no prior home ownership
- For sale signs in the yard
- Appraisal photos suggest the property is vacant
- Appraisal uses comparable sales that are outdated or outside of the property's neighborhood

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- Communication with the loan officer is only done through the person holding power of attorney
- The senior's credit report is inconsistent with information on the loan application
- Monthly mortgage statements are not sent to the senior's address
- The senior borrower withdraws large amounts of cash or has unusual spending activity
- The senior obtains a reverse mortgage but deposits little or no funds into his/her bank account
- Proceeds of the reverse mortgage are being used to satisfy a non-borrower lien
- Power of attorney documentation is inconsistent with physician letters and dates regarding competency of the senior borrower
- The senior claims he/she invested the loan proceeds in an annuity or other financial product
- The senior takes HECM loan proceeds in a lump sum at closing (Fraudsters are not interested in the line of credit or annuity distribution options.)
- The loan officer's bank account reflects large deposits/withdrawals inconsistent with his income

Affinity Fraud Characteristics

In affinity fraud, perpetrators rely on a common bond and exploit the trust and friendship that typically exist in the group of individuals with a common bond to support the scheme. Certain ethnic, religious, professional or age-related groups are targeted.

- Parties to the transaction (loan officer, closer, realtor, borrower, appraiser, etc) have a common bond
- Common surnames for multiple parties to the transaction
- Large gifts from group members as the source of down payment
- The borrower works for what appears to be a member of the group
- Common tactics include the use of straw buyers, falsified gift funds and altered employment or asset documentation.