Fannie Mae®

Reverse Occupancy Scheme

Fannie Mae's Mortgage Fraud Program (MFP) alerts the industry to potential and active mortgage fraud scenarios. This alert addresses reverse occupancy schemes.

What is Reverse Occupancy?

A borrower buys a home as an investment property and lists rent proceeds as income in order to qualify for the mortgage, but instead of renting the home, the borrower occupies the home as a primary residence.

Common Characteristics of the Scheme

Sales transactions involved in reverse occupancy schemes often have several common denominators, including, but not limited to:

- The subject properties are sold as investment properties.
- Purchasers are first-time home buyers with minimal or no established credit.
- Purchasers have low income but significant liquid assets that are authenticated by bank statements.
- Purchasers make large down payments.
- The appraisal has a comparable rent schedule (to show expected rental income from the subject property).
- Purchasers present "rent free" letters stating they are not paying rent to live in their primary residence.

Additional characteristics MFP has seen in reverse occupancy schemes include:

- Ethnic commonality among the purchasers and other parties to the transaction.
- Transactions occurring in a specific geographic location (e.g., a recent scheme was identified in New York State).

What Can Lenders Do?

Prudent origination, processing, and underwriting practices should include looking for red flags in the loan documents that raise questions about the transaction. Closely reviewing liquid assets as compared to income and the source of qualifying income can identify a potential reverse occupancy scheme.

Here is an example:

A borrower is purchasing an investment property with a sales price of $1,080,000. The down payment is $280,000 with a loan amount of $800,000.

Borrower's Income:	$1,448 per month
Liquid Assets:	$361,573 verified by bank statements

In this scenario, the income as compared to the assets presents an obvious red flag.

Lenders must exercise caution in these situations and take appropriate steps to prevent the institution from being the victim of fraud.

More general steps lenders can take to detect and prevent fraud include:

- Know your third-party originators/brokers.
- Be "fraud smart" by educating your staff.
- Establish a zero tolerance fraud policy.
- Share information.
- If the loan doesn't make sense, don't do it!
- Report any suspicious activity through established channels.