Mortgage Fraud News:

Flipping Alert!

The proliferation of loan defaults and foreclosed properties creates an environment in which illegal property flipping thrives. Take a few easy steps to prevent being victimized by this costly fraud.

Illegal property flipping occurs when a property is purchased and resold quickly for an artificially inflated price supported by a fraudulently inflated appraisal. The purchaser is generally an accomplice of the perpetrator and has no intention of repaying the new mortgage. That mortgage typically becomes an early payment default. Perpetrators of this fraud usually acquire distressed real estate such as a foreclosure or REO in order to minimize their initial investment and maximize their proceeds from the scam. (Some involve perpetrators negotiating short sales and then illegally flipping the property immediately after or concurrent with closing the short sale.) Frequently the appraiser makes false representations about rehabilitation of the property to support the inflated appraisal.

Neighborhoods that simultaneously experience foreclosure sales and legitimate property rehabilitations are the most challenging for lenders and appraisers to analyze accurately. Illegal property flipping often thrives in these conditions.

Certain homes in a given neighborhood might be tidy in appearance, but have turbulent sales histories. One MFP case involved a property that had transferred ownership 8 times during the past 10 years, ultimately being foreclosed upon 5 times! We estimate that over the past 10 years, financial institutions will have lost over $500,000 on this modest bungalow estimated to be worth approximately $55,000. Our research suggests that there are many other such properties with a history of “serial flipping” in cities with high foreclosure concentrations.

Avoiding Illegal Flips:

1. Validate significant value increases: Real estate get-rich-quick schemes have become part of the American consciousness - a popular television show is airing an episode this week suggesting that a home approximately 2 miles from the example shown above can be purchased and re-sold at a significant profit. Rarely are the profits from legitimate flips as dramatic as shown in the example above. If it seems too good to be true, it probably is!

2. Follow chain of title: Ensure that the seller holds title, understand the property history and watch for pre-existing relationships between the buyer and seller.

3. Understand the borrower: Evaluate the buyer’s motive, employment and assets. The application of an individual who plans to walk away from their loan is typically weak and/or fraudulent.

Fannie Mae partners with a wide variety of industry groups, with law enforcement, and with our customers in mortgage fraud education and prevention efforts. If you have any questions or suggestions about this information, please contact Fannie Mae’s Mortgage Fraud Program or your Customer Account Manager.