Mortgage Fraud News:

Shot-gunning occurs when a fraud perpetrator simultaneously secures loans from multiple lenders, but does not disclose any of the other loan applications in process to each individual lender. Each lender, believing that it has the only mortgage loan in process grants a loan to the applicant.

Shot-gunning can accompany many of the schemes recently discussed in this column, such as flipping and investment club schemes. In those cases, the perpetrator would not qualify for multiple purchase money mortgages, and so the perpetrator applies with various lenders but doesn't reveal the other applications to any given lender. Until a loan is granted the only clues of this activity are credit bureau-reported mortgage inquiries, which can be explained by the applicant as price and term comparison shopping. Each lender simultaneously funds what it believes to be the only new mortgage loan.

Through a series of investigations and other information, we have learned about a current shot-gunning scheme that is even more menacing than what is described above. By leveraging the timing of deed records with the timing of credit reporting, the perpetrator simultaneously purchases a property and obtains multiple cash-out refinance loans on the same property, with no intention of repaying any of the mortgages (the end result is as many as 8 or 9 mortgages outstanding on the same property). One such case involved properties located primarily in the Philadelphia and Los Angeles areas, although we have received reports of additional incidents in Long Island and in New Jersey. It appears that all of these incidents, although geographically disbursed, may be connected through a common ring of individuals.

The disarming property pictured in this article is an example from Jenkintown, PA, a suburb of Philadelphia. On April 25, 2008 a grant deed was recorded, documenting the perpetrator's purchase of this property for $350,000. From August 1 through September 5, 2008 the perpetrator simultaneously obtained eight cash-out refinances, telling each lender that the property was owned free-and-clear of debt, and netting over $2.15 million. The perpetrators are allegedly recent immigrants and speak limited English. When the closing agent on one of these transactions sensed that something was amiss and began to ask questions, the borrower attempted to distract them by accusing the inquirer of discrimination. The perpetrator made no mortgage payments on the loans, and foreclosing lenders were surprised to discover that they were not in first lien position.

The borrowers in these incidents do not appear to be the master minds behind the scheme, but appear to be "straw buyers" for the true kingpin. Refer to Straw Buyer Characteristics in the newly published "Fraud Schemes and their Characteristics" on eFannieMae.com. As is the case in many straw buyer scenarios:

- The borrower does not move into the property.
- The borrower's signatures differ throughout the files.
- The borrower's income/employment is misrepresented:
  - The borrowers are portrayed as professionals, but are actually in jobs such as dishwasher.
  - A recurring phone number is reflected on employment docs among borrowers in this scheme.
- A common bank account is used by various borrowers.

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.