# Mortgage Fraud Prevention Tips

## DO

- **DO** provide your confidential financial and personal information only to someone you trust and know works for the mortgage broker or lender. If you have doubts, call your state Department of Banking and Finance.
- **DO** be honest when completing the loan application and answering questions during the application process.
- **DO** request and keep copies of everything you provide to the mortgage broker or lender and everything you are required to sign.
- **DO** review the Good Faith Estimate of Closing Costs that is required to be given to you by your mortgage broker or lender. Ask about:
  - Any parties being paid with whom you are unfamiliar
  - Fees you do not understand or with which you disagree
  - For a written confirmation of the interest rate lock-in once you have agreed to lock in a rate
- **DO** read all of the documents presented to you before you sign them. Ask questions about anything you do not understand.
- **DO** proceed with caution if you are encouraged to become a real estate investor of multiple properties in a short period of time, especially if you are not required to put money down, or, if you will receive money back from the transaction.

## DON'T

- **DON'T** provide, or pay anyone else to provide, false information about your employment, income, credit or bank accounts.
- **DON'T** lend your credit or social security number for someone to take out a loan in your name.
- **DON'T** close a loan that you know has false or misleading information including appraisals with inflated values, down payment or earnest money that did not come from you, or rental leases that you believe to be inaccurate.
- **DON'T** pay your down payment or earnest money to anyone other than your real estate agent or the seller of the home you are purchasing. If you have doubts about who really owns the home you are purchasing, call the county tax assessor to verify the current owner and find out when they took ownership.
- **DON'T** let anyone sign anything for you during the loan process without your written approval and authorization.
- **DON'T** expect to get "paid" for purchasing a home. You should bring a certified check to closing in order to buy the home.
- **DON'T** pay anyone additional fees or costs associated with the loan closing or application process after the loan closes. If someone asks you to do this, refuse and obtain legal advice.

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| COMMON MORTGAGE FRAUD SCHEMES | |
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| **Builder Bailout Scheme** | Builder bailouts occur when the builder or developer is motivated to move property quickly in a depressed real estate market. Some of the following ***red flags*** may occur in builder bailouts:<br>• The builder is willing to "do anything" to sell property.<br>• Buyer incentives are built into the sales price, inflating the purchase price and utilizing an inflated appraisal.<br>• No-money-down sales are included.<br>• The HUD-1 Form, *Settlement Statement*, may indicate a portion of the net proceeds going to unrelated third parties.<br>• The source of funds is questionable.<br>• Buyers are often recruited from out of state. |
| **Condominium Conversion Bailout Scheme** | Condominium conversion bailouts are similar to builder bailouts and occur when the developer is motivated to move units quickly in a depressed real estate market. Condominium conversion bailouts are apartment conversions typically located in areas that have larger apartment complexes in declining rental communities. The appraisal will often indicate a fully rehabilitated property. Some of the following ***red flags*** may occur in condominium conversion bailout schemes:<br>• Buyer incentives are built into the sales price, inflating the purchase price and utilizing an inflated appraisal.<br>• No money down sales are included.<br>• Renovations made to the units are non-existent or superficial.<br>• Buyers are often recruited from out of state.<br>• The HUD-1Form may indicate a portion of the net proceeds going to unrelated third parties.<br>• Occupancy misrepresentation occurs, i.e., buyer states that a property is owner occupied when it is a rental.<br>• The appraisal uses only comparables from within the subject complex. |
| **(Illegal) Property Flips** | Property flips often occur when ownership of one property changes several times in a brief period. Illegal property flips are often used to artificially inflate the value of the property to obtain larger loans than what might otherwise be possible and drain the phantom equity out of the property. Illegal property flips also may be used to conceal the identity of the true buyer or seller of the property. Some of the following ***red flags*** may occur in flips:<br>• Ownership changes two or more times in a brief period of time with the property value increasing significantly.<br>• Two or more closings occur almost simultaneously.<br>• The seller has owned the property for only a short time.<br>• The property seller is not in title. |
| **Investment Property Scheme** | An investment property scheme involves an individual or a group of individuals who use legitimate investment buyers or straw buyers to purchase one or more investment properties either locally or out of state. Investment property schemes have been linked to builder bailouts and condominium conversion bailouts as well as the resale of distressed properties in declining neighborhoods. Some of the following ***red flags*** may occur in investment property schemes:<br>• No money down offers on multiple properties sold to one borrower.<br>• Purchases disguised as refinances to circumvent the down payment requirement.<br>• Artificially inflated appraisal values.<br>• Buyers often recruited from out of state. |
| **Cash-Out Purchases** | A cash-out purchase normally involves one closing and occurs when properties have been on the market for an extended length of time – usually when a desperate seller is unable to find a qualified buyer. The seller may be offered a way out with an offer that exceeds the listing price of the property with an agreement to refund money to the buyer after closing. Some of the following ***red flags*** may occur in a cash-out purchase:<br>• The home may have been on the market for an extended period of time.<br>• The sales price is significantly higher than the listing price.<br>• The sales contract may have been modified or may include an addendum regarding the payment to the borrower.<br>• The appraisal may be artificially inflated to the sale price. |
| MORTGAGE FRAUD RED FLAGS | |
| **Pre-funding and Post-Closing** | • The property seller is a business entity or LLC.<br>• The same mortgage brokers, appraisers, and closing agents appear in numerous transactions.<br>• A borrower is purchasing several properties within a short period of time.<br>• The seller in a purchase transaction is not in title to the subject property.<br>• The borrower in a refinance is not in title to the subject property, or has only been in title for a short time.<br>• The qualifying documentation is inconsistent or appears altered.<br>• No real estate commissions were paid.<br>• Unreasonable fees were charged.<br>• Disbursements were made to individuals or entities with no apparent interest in or liens on the subject property. |
| **Valuation/Appraisal** | • The appraisal is dated prior to the loan application or prior to the sales contract.<br>• A third party participating in the transaction ordered the appraisal.<br>• The subject property is noted as vacant or tenant occupied.<br>• Comparable sales are lacking similarities to the subject property and are outside the neighborhood.<br>• Reports are incomplete—no photos, adjustments are not supported, no prior sales listed.<br>• The owner of record is not the seller on the contract or not in title. |
| PROTECT YOURSELF FROM MORTGAGE FRAUD | |
| **Important Tips** | • Know the parties with whom you are doing business<br>• Provide all appropriate employees in your organization with the following:<br>▪ Clear directives as to their responsibility when they suspect fraud.<br>▪ An awareness of the major types of fraud.<br>▪ An understanding of the underwriting red flags and their use.<br>▪ A list of resources available to them to detect and investigate fraud.<br>▪ Empowerment to suspend or decline a questionable transaction until all red flags have been cleared. |