



REAL ESTATE FRAUD SCHEMES

Builder Bailout: These schemes are perpetrated by builders that are unable to sell newly constructed properties. The builder inflates the purchase price by offering fake down payment assistance, or by using shell affiliates or straw buyers. As a result of the inflated purchase price the loan-to-value ratio of the new mortgage will exceed 100%. This scheme creates a false impression that the builder is able to successfully sell units in the project, while also leaving the lender with loan exposure that is greater than the actual value of the property.

Chunking: As the name implies, this scheme involves multiple properties or mortgage loans that are “chunked” together. While acting as a realtor, or in some other capacity as an agent, the scammer convinces an innocent buyer to purchase a property. The scammer obtains the buyer’s personal information in order to obtain the loan. Without the buyer’s knowledge the scammer submits their personal information to several different lenders and for several different properties, not just the property that the buyer knows about. Another key element of a chunking scheme is that the scammer, or an affiliate of the scammer, is the seller of all of these properties. The closings ultimately occur on all of the properties and the scammer pockets all of the proceeds. The innocent buyer is left with several mortgages that cannot be paid, and the properties enter foreclosure.

Equity Skimming (or equity stripping): A false appraisal, inflated purchase price, an unrecorded lien, or any combination of the three, are used to get quick cash. After creating fake equity, or eliminating any real equity that the property may have, the fraudsters take off with the money and let the property go into foreclosure.

Mortgage Servicing Fraud: When a mortgage servicing company diverts principal, interest or escrow funds from the underlying lender and retains those funds for its own use.

Property Flip: Related parties buy and sell the same property to one another, and then obtain fraudulent appraisals as a way to artificially inflate the property value.

Reverse Mortgage Fraud: A fraudster obtains title to property and then deeds the property to a fake individual that qualifies for the age requirements of a reverse mortgage. The fraudster then obtains the “lump sum cash out” reverse mortgage option, or receives monthly

payments from the lender until the scam is identified.

Buy and Bail: This scam has become increasingly popular during the recent recession and involves homes purchased prior to the bursting of the real estate bubble that are now worth less than the outstanding debt. In other words, the homes are now “underwater”. While still current in their mortgage payments the homeowner identifies a similar home with a much lower purchase price. The homeowner obtains financing to purchase the new home while falsely saying that the existing home will be rented out. Shortly after purchasing the new home no more payments are made on the prior home, which ultimately enters foreclosure.

Double Selling: Double selling involves a conspiring mortgage broker or loan officer. The loan officer obtains a potential borrower’s personal information to obtain a mortgage loan. The loan officer then copies the loan application and sends it to several different warehouse lenders asking that they fund the loan. All of the closings are scheduled within a few days of each other so that each lender is unaware of the transactions. Each of the different funding lenders ultimately have competing loans against only one property.

Fictitious Loan: A bank insider or mortgage broker creates a fake loan application using a real person’s identity. The loan is funded and the “seller” receives proceeds for a property that does not exist.

Modification and Refinance Fraud: A borrower that is attempting to refinance or modify their existing loan intentionally understates income information, or misleads the lender to believe that the property is the primary residence, in order to persuade the lender to accept the modification or refinance on terms that benefit the borrower.

Phantom Sale: A fraudster identifies a property, which is typically abandoned, and then files a false deed that transfers the property to the fraudster or a co-conspirator. The scammer then applies for a mortgage loan, or conveys the property to a co-conspirator, and then pockets the loan proceeds or sale proceeds.

Short Sale Fraud: A property owner engages a co-conspirator to make an artificially deflated offer to purchase. The short sale lender, believing that the co-conspirator’s offer is bona fide, accepts the lower purchase price, resulting in a greater loss than would have been experienced had the conveyance involved a true bona fide purchaser.