# Fraud Schemes and their Characteristics

## Resources to Help You Combat Mortgage Fraud

*Fannie Mae is committed to working with our industry partners to help combat fraud by providing this list of fraud schemes and their characteristics.*

*Common characteristics accompany most fraud-for-profit schemes, and identifying them can be helpful in determining whether a loan is part of a larger fraud scheme. Inconsistencies in the loan file are often a tip-off that the file contains misrepresentations (more detailed loan-level "red flags" are published in the Fannie Mae document Common Red Flags). These characteristics are only indicators of a potential scheme; the presence of one or more of these characteristics does not necessarily mean that there was fraudulent intent, but it may warrant careful examination.*

## Straw Buyer Characteristics

***Straw buyers*** are loan applicants used by fraud perpetrators to obtain mortgages and are used to disguise the true buyer or the true nature of the transaction.

- Mortgage payments are made by an entity other than the borrower
- The loan is usually an early payment default
- First-time home buyer with a substantial increase in housing expense
- Buyer does not intend to occupy: unrealistic commute, size or condition of property, etc.
- No real estate agent is employed (non-arm's length transaction)
- Power of attorney may be used
- "Boiler plate" contract with limited insertions not reflective of a true negotiation
- Income, savings, and/or credit patterns are inconsistent with the applicant's overall profile
- High loan-to-value (LTV) ratio, limited reserves, and/or seller-paid concessions
- Inconsistent signatures found throughout the file
- Use of gift funds for down payment and/or closing costs, minimum borrower contribution
- Title to the property is transferred after the sale closes

## Air Loan Characteristics

An ***air loan*** is a loan to a straw or non-existent buyer on a non-existent property

- Air loans typically involve straw buyers (refer to "Straw Buyer Characteristics" section)
- No real estate agent is employed (fictitious transaction)
- Mortgage payments are made by an entity other than the borrower
- Common payer among loans is involved in scheme
- Common mailing address among loans is used in scheme
- Unable to independently validate chain of title
- The lender is experiencing financial distress

## Double Sale Characteristics

A ***double sale*** is the sale of one mortgage note to more than one investor.

- Mortgage payments are made by an entity other than the borrower
- Mailing address is not the borrower's address
- Two mortgages recorded on the same property
- Mortgage is not recorded in first lien position
- The lender is experiencing financial distress
- Two notes may be identical except for signatures (or one may be a color copy)

## Property Flip Characteristics

Illegal ***property flipping*** occurs when property is purchased and resold quickly at an artificially inflated price, using a fraudulently inflated appraisal.

- Flips typically involve straw buyers (refer to "Straw Buyer Characteristics" section)
- Flips sometimes involve naïve purchasers
- Seller very recently acquired title, or is acquiring title concurrent with the subject transaction
- No real estate agent is employed (non-arm's length transaction)
- Property was recently in foreclosure, or acquired at real estate owned (REO) sale at low sales price
- The appraised value is fraudulently inflated
- The appraiser frequently uses other property flips as comparables (examine comparable properties' sales histories)
- Owner listed on appraisal and/or title may not match the seller on the sales contract
- Refinance transaction used to pay off private short-term financing

## Ponzi/Investment Club/Chunking Characteristics

***Ponzi, investment club, or chunking schemes*** involve the sale of properties at artificially inflated prices, pitched as investment opportunities to naïve real estate investors who are promised improbably high returns and low risks.

- No real estate agent is employed (club recruits buyers and/or non-arm's length transaction)
- Property was recently in foreclosure or acquired at REO sale at a low sales price
- Borrower may have paid a membership fee to participate in the "club"
- First-time landlord with non-savvy investors
- Seller offers to manage these rental properties
- Borrower may have been told that the seller or the "club" would make mortgage payments
- Borrower purchased multiple properties simultaneously, but did not disclose other loans in process to their lender (this is called "shot-gunning;" watch for credit inquiries)
- The appraised value is fraudulently inflated (see "Property Flip Characteristics" section)
- Renovations performed by firms owned by members of the investment club

## Builder Bailout/Excessive Sales Incentive Characteristics

A ***builder bailot*** is when a seller pays large financial incentives to the buyer and facilitates an inflated loan amount by increasing the sales price, concealing the incentive, and using a fraudulently inflated appraisal.

- Typically involves new construction or new condo conversion
- Builder's marketing material advertises rent credit and/or payment credit to investors
- The Closing Disclosure reflects unexplained pay-outs or inflated commissions (paid outside closing to buyer)
- All comparables are from within the subject's development and also had inflated sales prices

## Buy and Bail Characteristics

The homeowner is current on the mortgage, but the value of the home has fallen below the amount owed, so he or she applies for a purchase money mortgage on another home. After the new property has been secured, the ***buy and bail*** borrower will allow the first home to go into foreclosure.

- The borrower defaults on the original mortgage shortly after purchasing a second property
- The borrower will be a first-time landlord (renting out the original property)
- The borrower has minimal or no equity in the original property
- Inability to validate lease terms with the purported tenant
- Purported tenant has a pre-existing relationship with the homeowner

## Foreclosure Rescue Characteristics

A ***foreclosure rescue*** scheme involves foreclosure "specialists" who promise to help the borrower avoid foreclosure. The borrowers often pays for services that they never receive and, ultimately, lose their homes.

- The borrower was advised by a foreclosure specialist to avoid contact with the servicer
- The borrower has paid someone to negotiate with the servicer on his or her behalf
- The borrower states that he or she is sending mortgage payments to a third party
- Borrower receives a purchase offer greater than the listing price
- Borrower states that he or she will be renting back from new owner
- The borrower quitclaimed (any portion of) the title to a third party at the advice of a foreclosure specialist
- Borrower signature varies between the short sale contract and loan origination documents
- The borrower has recently updated his or her contact information
- Borrower claims he or she does not have to pay because the mortgage is invalid (debt elimination)

## Short Sale Fraud Characteristics

In ***short sale fraud***, the perpetrator profits by concealing contingent transactions or falsifying material information, including the true value of the property, so the servicer cannot make an informed short sale decision.

- Sudden default, no workout discussions, and immediate offer at short sale price
- Ambiguous or conflicting reasons for default

- The mortgage delinquency is inconsistent with the borrower's spending, savings, and other credit patterns
- Short sale offer is from a related party
- Short sale offering price is less than current market
- Cash-back at closing to the delinquent borrower or other disbursements that have not been expressly approved by the servicer (sometimes disguised as "repairs" or other payouts)
- The buyer and real estate agent may be the same person or related parties

## Unauthorized Fees and/or Payouts Characteristics

An advance fee scheme perpetrated by foreclosure rescue specialists during which ***fees and/or payouts*** that were not approved by the servicer agreeing to the short sale are reflected on the Closing Disclosure.

- Short sale Closing Disclosure has unauthorized management, consulting, or short sale negotiation fees
- Short sale Closing Disclosure reflects excessive unauthorized payoffs to second lien holders

## Non-Arm's Length Short Sale Characteristics

A ***non-arm's length short sale scheme*** involves a fictitious purchase offer made by the homeowner's accomplice (straw buyer) in an attempt to fraudulently reduce the indebtedness on the property and allow the borrower to remain in their home.

- Purchaser has previous or current ownership of the subject property
- Purchaser address matches the borrower's address
- Purchaser's name is similar to the borrower's
- Purchaser employment address matches the borrower's employment address

## Short Sale Flip Characteristics

In a ***short sale flip scheme***, the perpetrator manipulates the short sale lender into approving a short payoff and conceals an immediate contingent sale to a pre-arranged end buyer at a significantly higher sales price.

### Short Sale Flip: Title Issues –Transfer to Business, LLC or Trust

**Short Sale Loan:**

- The borrower is not in title to the property on the date the short sale closes
- Short sale Closing Disclosure dated after title transferred to third party, yet borrower is listed as seller
- The borrower is transferring title to a business, trust, or LLC

**End Purchase Loan:**

- The seller is not the recorded title holder
- The seller on the sales contract does not match current owner on appraisal or vesting on title
- The title commitment is dated prior to the sales contract or initial loan application
- Title commitment requires additional deeds to be recorded to perfect "current vested owner"

### Short Sale Flip: Bait-and-Switch with "Decoy Closing Disclosure"

- The seller is netting significant cash
- Title reflects outstanding significantly higher liens than amounts to be paid on the Closing Disclosure
- All liens reflected on title are not being paid on the Closing Disclosure

## Reverse Mortgage Fraud Characteristics

In a ***reverse mortgage fraud*** scheme, the perpetrator manipulates a senior citizen into obtaining a reverse mortgage loan and then pockets the senior victim's reverse mortgage loan proceeds.

- The senior claims he/she received the house free from a "special government program"
- Distressed property is quitclaimed to the senior just prior to the reverse mortgage loan application
- There is a power of attorney acting on behalf of the senior
- A caregiver or family member appears to be coaching the senior
- The power of attorney is held by a caregiver but the senior has relatives (children, grandchildren)
- The senior has no prior homeownership
- "For Sale" sign in the yard
- Appraisal photos suggest the property is vacant
- Appraisal uses comparable sales that are outdated or outside of the property's neighborhood
- Communication with the loan officer is only done through the person holding power of attorney
- The senior's credit report is inconsistent with information on the loan application
- Monthly mortgage statements are not sent to the senior's address
- The senior borrower withdraws large amounts of cash or has unusual spending activity
- The senior obtains a reverse mortgage but deposits little or no funds into his or her bank account
- Proceeds of the reverse mortgage are being used to satisfy a non-borrower lien
- Power of attorney documentation is inconsistent with physician letters and dates regarding competency of the senior borrower
- The senior claims he or she invested the loan proceeds in an annuity or other financial product
- The senior takes Home Equity Conversion Mortgage loan proceeds in a lump sum at closing (fraudsters are not interested in the line of credit or annuity distribution options.)
- The loan officer's bank account reflects large deposits/withdrawals inconsistent with income

## Affinity Fraud Characteristics

In ***affinity fraud***, perpetrators rely on a common bond and exploit the trust and friendship that typically exist in the group of individuals with a common bond to support the scheme. Certain ethnic, religious, professional, or age-related groups are targeted.

- Parties to the transaction (loan officer, closer, realtor, borrower, appraiser, etc) have a common bond
- Common surnames for multiple parties to the transaction

- The borrower's excessive assets do not align with job type
- Large gifts from group members as the source of down payment
- The borrower works for what appears to be a member of the group
- Common tactics include the use of straw buyers, falsified gift funds, and altered employment or asset documentation

## Reverse Occupancy Fraud Characteristics

In ***reverse occupancy fraud***, a borrower buys a home as an investment property and lists rent proceeds as income to qualify for the mortgage. But then instead of renting the home, the borrower occupies the home as a primary residence.

- 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
- The purchasers and other parties to the transaction belong to an identifiable group that share certain characteristics that are often seen in cases of affinity fraud
- Transactions occurring in a specific geographic region