by the FBI include:

Some common examples of mortgage fraud as described
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verifications provided by the buyers or others working
or employment history or help out by hand carrying
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interfere in the appraisal process, alter or not include
involve their seller clients. Agents may be asked to
of different ways in which the real estate agent may
legal and illegal mortgage practices. There are a number
real estate agents must be able to distinguish between
professionals. To protect themselves and their clients,
the witting or unwitting assistance of real estate
Mortgage fraud is accomplished through the use of false
damaged credit and credibility.

Individuals who provide false information to the lender
to help secure their own housing lack the same kind of
bad motivation and usually intend to make the payments
required to stay in the housing. If men they default on the loan
because they really were not qualified, the community is
still left with foreclosed housing and the individuals with
damaged credit and credibility.

Mortgage fraud is accomplished through the use of false
documents, identity theft, straw buyers, and sometimes
the witting or unwitting assistance of real estate
professionals. To protect themselves and their clients,
real estate agents must be able to distinguish between
legal and illegal mortgage practices. There are a number
of different ways in which the real estate agent may
inadvertently become involved in these schemes or
involve their seller clients. Agents may be asked to
interfere in the appraisal process, alter or not include
parts of the purchase agreement that is provided to the
lender or title company, intercept verifications of income
or employment history or help out by hand carrying
verifications provided by the buyers or others working
with the buyer. Any of these activities could be a part of
a mortgage fraud scheme.

Some common examples of mortgage fraud as described
by the FBI include:

**Property Flipping** - Property is purchased, falsely
appraised at a higher value, and then quickly sold. What
makes property flipping illegal is that the appraisal
information is fraudulent. The schemes typically involve
one or more of the following: fraudulent appraisals,
docured loan documentation, inflating buyer income,
etc. Kickbacks to buyers, investors, property/loan
brokers, appraisers, title company employees are
common in this scheme. A home worth $200,000 may be
appraised for $400,000 or higher in this type of scheme.

**Silent Second** - The buyer of a property borrows the
down payment from the seller through the issuance of a
non-disclosed second mortgage. The primary lender
believes the borrower has invested his own money in the
down payment, when in fact, it is borrowed. The second
mortgage is usually not recorded to further conceal its
status from the primary lender.

**Nominee Loans/Straw Buyers** - The identity of the
borrower is concealed through the use of a nominee who
allows the borrower to use the nominee's name and
credit history to apply for a loan.

**Fictitious/Stolen Identity** - A fictitious/stolen identity
may be used on the loan application. The applicant may
be involved in an identity theft scheme: the applicant's
name, personal identifying information and credit history
are used without the true person's knowledge.

**Inflated Appraisals** - An appraiser acts in collusion
with a borrower and provides a misleading appraisal
report to the lender. The report inaccurately states an
inflated property value.

**Equity Skimming** - An investor may use a straw buyer,
false income documents, and false credit reports, to
obtain a mortgage loan in the straw buyer's name.
Subsequent to closing, the straw buyer signs the property
over to the investor in a quit claim deed which
relinquishes all rights to the property and provides no
guaranty to title. The investor does not make any
mortgage payments and rents the property until
foreclosure takes place several months later.

As is demonstrated in each of the foregoing descriptions,
a key element of the problem is the imbalance of
information. One side, normally the borrower or
someone working with the buyer, conceals information
from or affirmatively misleads the lender. Anytime an
agent suspects this may be the case, further investigation
is warranted to rule out any involvement by the agent or
their unwitting client in a fraudulent transaction. There
are several clues which may alert the agent that there
may be a problem.

One of the most important documents in detecting fraud
is the original sales agreement and any addenda to that
agreement. It is the document which the real estate
agent is most likely to be involved in preparing. Thus,
care must be exercised in preserving its accuracy.

**Things to be sure of:**
- The property is clearly identified
- All parties to the transaction are identified and
  have executed the agreement
- The signatures are legible or properly
  identified
- All riders and addendums are attached
- There are no blanks or inconsistent
  information in the purchase and sales
  agreement
- It accurately reflects the consideration to be
  paid by the buyer for the property

Other possible red flags:
- Significant sales price adjustments that are not
  supported by comparable market data possibly
  accompanied by request that list price in MLS
  be altered to reflect appraised value.
- Required use of a particular appraiser
- Down payment assistance programs that
  charge excessive fees or that attempt to place
  restrictions on how their participation is
  reported in contract documentation, including
  the HUD 1
- Large seller contributions, possibly in the form
  of provisions for large decorator or
  improvement allowances
- Mortgage brokers who refer pre-qualified
  buyers to agents
- Statement that the buyer will occupy the
  property is questionable. For example, the

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  buyers to agents
- Statement that the buyer will occupy the
  property is questionable. For example, the
buyer is retaining old property or there is unrealistic commute to the buyer employment
- Buyer has very limited credit history and existing history is with high rate consumer finance companies
- Credit history indicates the repayment of a prior obligation did not include any interest payments
- Unrealistic income for occupation
- Recent drastic increase in income due to a raise or a new job
- Sales contract, appraisal and title work disagree with respect to seller’s name and appraisal shows property or comps previously sold in past year.

If these warning signs are present in your transaction, bring the situation to the attention of your broker. While fraud isn’t involved every time one of these warning signs appear, the few minutes it will take to decide between innocent and fraudulent can save you and your broker time, money and maybe even your license, and reporting fraud will protect the communities in which you do business.

Mortgage fraud is more than a just a possibility for real estate professionals. Read the following fraud profile which describes one broker’s experience and lesson.

An agent was asked by a friend to help in the acquisition of a distressed property. This friend was in the mortgage brokerage business with her husband. The agent successfully assisted her friend in the purchase. Unbeknownst to the agent, the buyers arranged a simultaneous closing for the same property to another buyer for double the original purchase price. The issues of fraud were as follows:

1. The second buyer was a straw buyer whose loan qualifications were “enhanced”.
2. A fraudulent appraisal was obtained to substantiate the inflated second sale price to the lender funding the loan.
3. The simultaneous closing was doctored to allow the high LTV loan on the second transaction to close first in order to fund and close the first transaction.
4. Participation of the escrow closer is not documented but the closing sequence certainly should have raised questions.
5. Not surprisingly, the straw buyer did not perform on the loan and the lender took a large loss.

Outcome: The mortgage broker served Federal prison time. Unfortunately, his name has come up again following his release from prison. The agent was not prosecuted only because there was no evidence that she had any knowledge of the fraudulent second sale to the straw buyer.

Lesson learned: If the agent becomes aware of a short-term flip of a property for a lot more money, without justification for a higher value, the agent should be alerted that he or she could be implicated in a loan fraud investigation and take appropriate steps of self-defense.

Have your own story you would like to share or want to learn more about mortgage fraud? Go to http://www.realtor.org/letterlw.nsf/1006mortgagefraud

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Mortgage Fraud Recognizing the Signs

Financial crimes are one of the fastest growing areas of criminal activity in the United States and one of the fastest growing areas of financial crimes is mortgage fraud. Fraud involves two parties: one makes a false statement of fact material to the business involved and the other party relies on that statement to their detriment. In mortgage fraud false or inaccurate information in connection with a mortgage application is provided and that information causes a lender or another in the chain of approving and funding that loan to make the loan or to make the loan on terms and conditions different than if the true facts were known.

Mortgage fraud includes a whole category of illegal business dealings. The different schemes that may be used include, but are certainly not limited to, property flipping, equity skimming, application fraud, credit or income misrepresentation or asset and down payment misrepresentation. Mortgage industry professionals and law enforcement break these different schemes into two groups.

There is “Fraud for Housing” in which a borrower will knowingly provide false or at least inaccurate information regarding his or her qualification for the loan. This might be something as innocent sounding as fudging a little on their income levels or employment in order to qualify for the loan or for better terms on a loan.

Although we would like to see everyone be able to obtain the American Dream of homeownership, real estate agents must be careful when counseling purchasers to avoid any suggestion that enhancing certain facts may assist a buyer in qualifying for the necessary mortgage. The desire to be helpful can not override good sense and honesty. The REALTORS® Code of Ethics requires members to treat all parties to the transaction honestly, including those providing the financing for the purchase.

There is also “Fraud for Profit” which is sometimes referred to as “industry insider fraud” because it