PMI
Integral to Homeownership℠

FRAUD SCHEMES RED FLAGS CHECKLIST

RED FLAGS	RED FLAG IDENTIFIED	ACCEPTABLE

This checklist is designed to assist in identifying some of the more common types of mortgage fraud schemes.
Below are descriptions of the various types of fraud schemes and some of their associated loan file characteristics.

SECTION 1: IDENTITY THEFT/IDENTITY FRAUD CHARACTERISTICS		
Identity fraud involves the use of another person's social security number (SSN), or use of a fraudulent SSN. Identity theft involves theft of another individual's identity.		
1) SSN issued recently, or death claim filed under SSN		
2) Income and Assets are frequently misrepresented		
3) Employment and/or addresses on credit report do no match borrower's application		
4) Credit patterns are inconsistent with income assets, age & education		

SECTION 2: Nominee Loans/Straw Borrower Scheme		
A straw borrower is an individual whose identity is concealed through the use of a nominee that either knowingly or unknowingly (identity theft) allows the borrower to use the nominee's name and credit history to apply for a loan.		
1) Mortgage payments made by an entity other than the borrower		
2) The loan is usually an early payment default		
3) First time homebuyer, with substantial increase in housing expense		
4) Buyer doesn't not intend to occupy - unrealistic commute, size or condition of property, etc.		
5) Income, savings and/or credit patterns are inconsistent with applicant's overall profile		
6) Inconsistent signatures throughout the file		
7) High LTV, limited reserves and/or seller-paid concessions		
8) "Boilerplate" contract with limited insertions, not reflective of applicant's overall profile		
9) A quit claim deed is used either right before, or soon after, loan closing		
10) Investment property is represented as owner-occupied		
11) Someone signed on the borrower's behalf		
12) Appears that names were added to the purchase contract after the contract was initially written		
13) Parties to the transaction are affiliated		
14) No sales agent is involved		
15) There is an indication of default by the property seller		
16) High FICO score		
17) Power of attorney for borrower		
18) Good assets, but gift used as down payment		
19) Repository alerts on credit report		

SECTION 3: Property Flipping		
Property is purchased, falsely appraised at a higher value, and then quickly sold. What makes the transaction illegal is that the appraisal information is fraudulent. The schemes typically involve one or more of the following: fraudulent appraisals, doctored loan documentation, inflated buyer income, etc. Kickbacks to buyers, investors, property/loan brokers, appraisers, and title company employees are common in this scheme. A home worth $20,000 may be appraised for $80,000 or higher in this type of scheme.[2] Some of the following red flags may occur in flips:		
1) Flips typically involve straw buyers, so refer to straw buyer red flags		
2) No sales agent is involved		
3) Property was recently in foreclosure, or acquired at REO sale at a much lower sales price		
4) The property seller is not on the sales contract		
5) Ownership changes two or more times in a brief period of time.		
6) Appraised value is based on major improvements; however, there is no evidence that improvements exist or have been made.		

One source of materials is eFannieMae.com: https://www.efanniemae.com/utility/legal/pdf/fraudschchar.pdf

PMI
Integral to Homeownership℠

FRAUD SCHEMES RED FLAGS CHECKLIST

RED FLAGS	RED FLAG IDENTIFIED	ACCEPTABLE
SECTION 3: Property Flipping (continued)		
7) Two or more closings occur almost simultaneously		
8) The property has been owned for a short time by the seller		
9) The property seller is not on title		
10) There is a reference to double escrow or other HUD-1 form		
11) Parties to the transaction are affiliated		
12) Up and down fluctuation of sales price over short period of time		
13) Multiple investment properties obtained by same buyer within short timeframe		
14) "Purchases" disguised as "refinances" to circumvent a down payment		
15) Property seller is an entity/corporation		
16) Unusual cash payouts at closing on HUD-I		
17) Comparable sales on appraisal are previously flipped properties		

SECTION 4: Builder Bailout Scheme		
When the market slows and sales begin to lag, the builder and other industry professionals may engage in questionable practices in order to move the remaining inventory of properties. The builder will typically offer secret/hidden incentives that may be fraudulent in order to sell the property quickly. Bail-outs typically involve: new construction; properties in resort-like upscale communities; straw borrowers often recruited from out of state.[1]		
1) Builder's marketing material advertises rent credit to investors, and/or payment credit		
2) HUD-1 reflects unexplained pay-outs or inflated commissions (paid outside closing to buyer)		
3) Builder has provided incentives and/or sales concessions possibly not shown on the contract but stated in the MLS listing (if any) or ads		
4) The borrower is barely qualified or unqualified		
5) The sales price and appraisal are inflated		
6) No-money-down sales are included		
7) "Silent" second mortgages are involved; may appear as a credit inquiry on the credit report or on the HUD-1 after the close of escrow		
8) The sales price is adjusted upwards		
9) The source of funds is questionable, such as borrowed funds or funds from an unverifiable source		
10) There is a reference to secondary financing on HUD-1 or purchase contract		
11) Parties to the transaction are affiliated		
12) Multiple sales to same person		

SECTION 5: AIR LOAN CHARACTERISTICS		
An air loan is a loan to a straw or non-existent buyer, on a non-existent property.		
1) Typically involves straw or non-existent buyer, on a non-existent property.		
2) No real estate agent is employed (fictitious transaction)		
3) Mortgage payments are made by an entity other than the borrower		
4) Common payer among loans in scheme		
5) Common mailing address among loans in scheme		
6) Unable to independently validate chain of title		
7) The lender is experiencing financial distress		

One source of materials is eFannieMae.com: https://www.efanniemae.com/utility/legal/pdf/fraudschchar.pdf

PMI
Integral to Homeownership℠

FRAUD SCHEMES RED FLAGS CHECKLIST

RED FLAGS	RED FLAG IDENTIFIED	ACCEPTABLE
SECTION 6: DOUBLE SALE CHARACTERISTICS		
A double sale is the sale of one mortgage note to more than one investor.		
1) Mortgage payments are made by an entity other than the borrower		
2) Mailing address is not the borrower's address		
3) Two mortgages recorded on the same property		
4) Mortgage is not recorded in first-lien position		
5) The lender is experiencing financial distress		
6) Two notes may be identical except for signatures (or one may be a color copy)		

SECTION 7: PONZI/INVESTMENT CLUB/CHUNKING CHARACTERISTICS		
The sale of properties at artificially inflated prices, pitched as investment opportunities to naive real estate investors who are promised improbably high returns and low risks.		
1) No sales agent is involved		
2) Property was recently in foreclosure, or acquired at REO sale at a much lower sale price		
3) Borrower may have paid a membership fee to participate in the "club"		
4) First-time landlord, non-savvy investors		
5) Seller offers to manage these rental properties		
6) Borrower may have been told that the seller or the "club" would make mortgage payments		
7) Borrower purchased multiple properties simultaneously, but did not disclose other loans in process to their lender ("shot-gunning"); watch for credit inquiries		
8) The appraised value is fraudulently inflated		

1. The information at these sites is subject to change, and PMI does not represent that the content of these sites is either correct or current.
2. These resources are a source of information, but do not substitute for

[1] Recognizing Mortgage Fraud, http://www.michbar.org/realpreoprty/pdfs/lax.pdf

[2] The FBI 2006 Financial Crime report

RESET

PRINT

One source of materials is eFannieMae.com: https://www.efanniemae.com/utility/legal/pdf/fraudschchar.pdf