

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.

Two Sets of Settlement Statements: One settlement statement, prepared and provided to the seller, accurately reflects the true selling price of the property. A second fraudulent statement, given to the lender, shows a highly inflated selling price. The lender provides a loan in excess of the property value and, after the loan is settled, the proceeds are divided among the conspirators.

Fraudulent Qualifications: Real estate agents or loan brokers assist buyers who would not otherwise qualify by fabricating their employment history or credit report.¹

Occupancy Fraud: Mortgage lenders require higher downpayments on a loan for second homes and investment properties than for a loan secured by a principal residence. To obtain better loan terms, borrowers will state that a second home or investment property is, or will become, their principal residence after the closing.²

Foreclosure Rescue (downpayment assistance): To avoid foreclosure, the homeowner sells to a rescuer at a "fire sale" price. The rescuer promises to sell the home back at a higher price in a year or two through a land contract or a lease with an option to purchase. The rescuer or straw party obtains a conventional loan to buy the home. These transactions can be complex, and false assurances are given by rescue artists so the victims are often unaware that they are giving away their property and equity.

3 Foreclosure Scam Scenarios:²

- The Phantom Help: The "rescuer" does light duty work around the home.
- The Bail Out: Homeowner is tricked into signing over title to the "rescuer."
- The Bait and Switch: The homeowner is unaware they have signed title over to the "rescuer."

Inflated Appraisals: An appraiser inappropriately inflates the value of the property and provides the misleading appraisal report to the lender.

Affinity Fraud: This type of fraud exploits the trust and friendship that typically exist in groups of people who have something in common. The fraudsters who promote affinity scams frequently are – or pretend to be – members of the group, i.e., church group, pastors, professors.

Identity Theft: In most states, a fraudulent deed is a voidable deed. A mortgage signed by someone who is not an authorized agent of the owner is void. Driver licenses and other forms of government-issued ID can be forged. Stolen ID cards can be altered. Use a black light to identify valid government ID cards to view security features.

Builder Bail-outs: 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.²

Condominium Conversions: Similar to a builder bail-out scheme, conversions are common in areas with larger apartment complexes and declining rental business. Apartments are represented as conversions to condos. Appraisals indicate fully updated property, but rehab is seldom done (repairs are often superficial). Borrowers are often "straws."²

Silent Second: The buyer of a property borrows the downpayment 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 downpayment when, in fact, the downpayment has been borrowed. The second mortgage may not be recorded to further conceal its status from the primary lender.

Nominee Loans/Straw Buyers: 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.

Fictitious/Stolen Identity: A fictitious/stolen identity may be used on the loan application. The applicant may be involved in an identity theft scheme, using the fictitious/stolen identity (name, personal identifying information, and credit history).

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 quitclaim 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.

Air Loans: This is a non-existent property loan typically involving no collateral. An example of an air loan would be when a broker invents borrowers and properties, establishes accounts for payments, and maintains custodial accounts for escrows. To satisfy the verification process, a bank of telephones may even be set up to provide contact numbers for employer, appraiser, credit agency, etc.

1. IRS Criminal Investigation (CI), September 2007

2. Recognizing Mortgage Fraud, (<http://www.michbar.org/realpreoptry/pdfs/lax.pdf>)