



Foundations On-Demand

Fraud Schemes Workbook

Introduction To Fraud Schemes

The mortgage industry continues to see an evolution of fraud. Fraud in loan files is found by a close review of all documentation and a solid understanding of common red flags. To learn more about Red Flags for Fraud in Loan Files, click here.

Despite loan officers', processors' and underwriters' best efforts to identify deceptive tactics, fraudsters are constantly adapting. Our industry is seeing larger mortgage fraud schemes, which involve multiple loans, multiple misrepresentations and numerous participants. Not only are these schemes more challenging to detect, but the losses to the lending community are much greater. News headlines show evidence of these trends almost daily.

It's important that everyone within the mortgage lending community stay well informed about the different types of fraud schemes. Also, make sure to familiarize yourself with your company's Fraud Escalation process.

In this series you will learn about the following Fraud Schemes:

- ▀ Backwards Application and Identity Theft
- ▀ Strawbuyer and Occupancy Fraud
- ▀ Flip Transactions
- ▀ Real Estate Wire Fraud
- ▀ Foreclose Rescue
- ▀ Chunking
- ▀ Air Loans and Builder Bailout
- ▀ Internet Fraud



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Intro To Fraud Schemes

Notes:

Backwards Application and Identity Theft

The term Backwards Application may not be familiar, but this scheme is the one of the most common in the mortgage industry and played a significant role in one of our country's largest economic meltdowns. In backwards application schemes, the mortgage fraud perpetrator fabricates the unqualified borrower's income and assets to meet the loan's minimum application requirements.

Some characteristic include:

- Income is inflated or falsified
- Assets are created
- Credit reports are altered
- Previous residences data is altered

Example:

A borrower's monthly income is \$2000. Their loan officer leads the borrower to say that they earn \$5000 per month based on the amount needed to qualify for the mortgage, resulting in a fraudulent loan application and income documentation.

The motivator for a backwards application is profit. The perpetrator is committing fraud by falsifying information to close a loan and make money. The borrower may or may not be aware that their actions are fraudulent.



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Backwards Application and Identity Theft




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Notes:

Backwards Application and Identity Theft

Identity Theft is another common form of fraud. Each year, tens of millions of Americans are victims of Identity Theft. There are two types of Identity Theft.

Please record your answer in the space provided.

 What is Consumer Identify Theft?

 What is Professional Identity Theft?



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Backwards Application and Identity Theft



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Answer Me!


Notes:

Strawbuyer and Occupancy Fraud

Strawbuyer schemes are one of the most costly forms of mortgage fraud.

Please record your answers in the space provided.

 What is a Strawbuyer Scheme?

 What are the red flags for Strawbuyers?



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Strawbuyer and Occupancy Fraud



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Answer Me!

Notes:

Strawuyer and Occupancy Fraud

? Let's review a real example of a strawbuyer marketing email. It is an attempt to recruit people to use or essentially sell their "good credit" to purchase a home for a real estate investment group.

Circle or highlight anything that stand out to you as a concern.



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Passive Investors Wanted!

reply to: recruitingstrawbuyers@fraudster.fraud
Date: January 18th

There is very little involvement on your part. You will be helping a real estate investment group purchase properties. We put properties in your name and then buy them from you on contract for deed at the closing table.

You bring the good credit, we bring the 10% down payment! You will make \$3k per property at closing and another \$2,500-\$7,500 per property in 6-36 months when the contract for deed term is up.

We assume all payments and liability since it is considered a legal sale!!! We pay all mortgage payments and you do nothing more then go to closing and sign your name!

Our average investor is buying 4 properties in their name in 30-60 days and makes \$12k now and \$12k-\$30k over 6-36 months. ZERO out of pocket money!

Requirements:


- 700+ Credit Score
- 2 years in the same line of work
- Must be a homeowner

Contact us for details. Compensation: \$12,000-\$42,000

Strawbuyer and Occupancy Fraud

Occupancy Fraud is directly tied to the strawbuyer schemes. The motivations for these fraudsters may include a lower down payment requirement, reduced interest rate, or property flipping. They could also be looking to make a profit from the sale of the property. Occupancy fraud schemes might result in vacant properties that can reduce the value of other homes in the neighborhood.

Please record your answers in the space provided.

-  In what ways are Strawbuyers connected to Occupancy Fraud?



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Answer Me!


Notes:


Flip Transaction

Flipping properties has become a mainstream topic thanks to the shows all over the home improvement TV channels. In general, a property that is in need of renovations is purchased by an investor with the goal of completing renovations to improve the property and resell it for a profit. HGTV fans can rest easy knowing that property flipping is legal and can be a great investment!

However, not all flip transactions are legal. Unfortunately, illegal flisp occur all the time. In these scenarios, a fraudster will purchase a dilapidated hime and try to resell the home for a profit. What makes this illegal is that no work is doen to warrent the value increase and the appraisal has been falsified to inflate the value at or above the true market value. Without renovations, the home's value should not increase. To make it wors, the appraiser may have included photos of a different home or pulled comparables from a distant neighbor to try to validate the artificial value.

Please record your answers in the space provided.

-  What is an illegal property flip scheme?

-  What document is generally falsified in order to complete a flip transaction?



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Flip Transactions



Answer Me!

Notes:

Flip Transactions

Please record your answers in the space provided.

? A builder and a realtor purchased a home in Southern California for \$300,000. The property is located in a neighborhood with well-maintained homes selling for approximately \$600,000. The property is in need of significant repairs, including:

- Roof replacement
- Kitchen renovation
- 2 Bathroom renovations
- New HVAC system
- New flooring and paint throughout

They did not make those improvements. Instead, the walls were painted, flooring was replaced, and the HVAC was maintained. The home is under contract for \$600,000. An appraiser, recommended by the realtor, supported the \$600,000 value on the appraisal indicating that the full repairs were completed. The report also shows photos of a different property in an attempt to support the value increase.

Is this flip legal? Why or why not?

? Who are the perpetrators of flip transactions?



Answer Me!

Notes:

Flip Transactions

There are several red flags to look for as indicators of potential illegal property flipping transactions. Red flags for illegal property flip include:

- The title indicates the seller newly acquired the property.
- The Owner of Public Record does not match the purchase agreement or title. Strawbuyers are commonly connected to illegal property flip transactions.
- No real estate agent is used.
- Property was recently in foreclosure or acquired at a low price.
- Appraised comparable properties from distant neighborhoods or other flip properties.
- No work has been done to the home to warrant the price adjustments.
- No real estate agent is used.

If you see these discrepancy, proceed with caution and follow your company's fraud escalation process.



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Notes:

Real Estate Wire Fraud

Real Estate Wire Fraud is one of the fastest growing cybercrimes in the US. New technology provides real estate professionals and consumers' more convenient access to funds. That innovation also provides greater access to clever fraudsters.

? What is Real Estate Wire Fraud?

? How does this fraud commonly occur?

Example:

A realtor or real estate settlement agent opens an email that contains a virus or malware. The email account is hacked and allows the perpetrator to gain access to sensitive information and to generate emails that appear to be from a reliable source to trusting home buyers or sellers. Wiring instructions, for what appears to be the real estate transaction, are provided and the customers lose their funds as soon as they complete the transfer.

? How can we prevent real estate wire fraud?



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Real Estate Wire Fraud



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Answer Me!

Notes:

Foreclosure Rescue

A foreclosure rescue scheme is a type of fraud that targets homeowners who have fallen behind on their mortgage payments and are facing potential foreclosure. The fraud perpetrator promises the homeowner that they can prevent the foreclosure, modify loan terms, pay off the delinquent mortgage and help the homeowner stay in the property. Ultimately the homeowner is forced out of their home and stripped all equity.

Please record your answers in the space provided.

? How does foreclosure rescue work?

Foreclosure rescue scams can affect anyone in financial distress, but commonly perpetrators targets seniors who are unable to make their payments, but also have significant equity in their home.

Sadly, this type of fraud is very difficult for lenders to detect and prevent. Loan Servicing departments who work with borrowers behind on their payments have some opportunities to pinpoint fraud. They can pick up on cues in conversations, ask probing questions, and educate borrowers on the importance of not signing over title without careful consideration or legal counsel.



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Foreclosure Rescue



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Answer Me!

Notes:

Chunking

We have all seen “We Buy Houses” signs or advertisements for real estate investment seminars. Be cautious, they may actually be a chunking scheme. Chunking occurs when the perpetrator offers to eliminate mortgage debt, without actually paying it off.

A common objective of chunking schemes chunking/ real estate investment clubs.

Please record your answers in the space provided.

? What concerns do you have with this example?

? What are the components of debt-elimination schemes?



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Chunking



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Answer Me!

Notes:

Air Loans and Builder Bailout

Both air loan and builder bailout schemes have significant involvement by an appraiser as well as multiple other perpetrators.

Please record your answers in the space provided.

? What is an air loan scheme?

? When an air loan defaults, how does this impact the lender?



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Air Loans and Builder Bailouts



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Answer Me!

Notes:

Air Loans and Builder Bailouts

Please record your answers in the space provided.

? What is a builder bailout scheme?

? What are the different ways a builder bailout can occur?

Perpetrators of this fraud scheme may include a builder with an appraiser, mortgage loan officers, and sometimes a title or settlement agents. But luckily there are some red flags that a mortgage professionals and look for to help prevent this fraud.

- ▀ Builders promoting no money down purchases
- ▀ Buyers barely qualify for a loan
- ▀ Sources of funds is questionable
- ▀ Property was recently in foreclosure or acquired at a low price.
- ▀ Secondary Financing is listed by source is unclear
- ▀ Indicators of Strawbuyers



Answer Me!



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Notes:

Internet Fraud

It's not surprising that mortgage related internet fraud is on the rise. The lending community is seeing an increase in fraudulent documents that are produced using online tools. Tech savvy fraudsters even have websites providing tips on how to create fake income documentation. As a result lenders are experiencing larger scale and very costly losses.

These schemes are complex and well planned. In some cases entire loan files have been fabricated. In a digital world, these documents are easier to produce and harder to detect. Some recent examples of internet fraud include:

- ◆ Paystubs and W2s created for companies that do not exist.
- ◆ Verification of employment routed through fake call-centers create specifically to verify a false employment.

Please record your answers in the space provided.

- ◆ ? What are a few red flags that you can look for to help identify Internet Fraud?

You can expect internet related fraud to continue to evolve. It's important that you stay aware of new fraud rings and indicators. Escalate any questions or concerns using your company's fraud escalation process or hotline.



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Internet Fraud



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Answer Me!

Notes: