

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 offering you the following 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 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 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 arms-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 applicant’s overall profile
- High LTV, limited reserves and/or seller-paid concessions
- Inconsistent signatures throughout the file

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, so refer to straw buyer red flags.
- No real estate agent is employed (fictitious transaction)
- Mortgage payments are made by an entity other than the borrower
- Common payer among loans in scheme
- Common mailing address among loans 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

Fraud Scheme Characteristics

- Two notes may be identical except for signatures (or one may be a color copy)

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.

- SSN issued recently, or death claim filed under SSN
- Income and Assets are frequently misrepresented
- Employment and / or addresses on credit report do not match borrower's application
- Credit patterns are inconsistent with income, assets, age & education

Property Flip Characteristics

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

- Flips typically involve straw buyers, so refer to straw buyer red flags
- 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 arms-length transaction)
- Property was recently in foreclosure, or acquired at REO sale at a much lower 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

Ponzi / Investment Club / Chunking Characteristics

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 arms-length transaction)
- Property was recently in foreclosure, or acquired at REO sale at a much lower sales price
- Borrower may have paid a membership fee to participate in the "club"
- First-time landlord, 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 ("**shot-gunning**"), watch for credit inquiries
- The appraised value is fraudulently inflated

Builder Bailout / Excessive Sales Incentive Characteristics

Seller pays large financial incentives to buyer, and facilitates an inflated loan amount by increasing the sales price, concealing the incentive and utilizing a fraudulently inflated appraisal.

- Typically involves new construction, or new condo conversion
- Builder's marketing material advertises rent credit to investors, and/or payment credit
- HUD-1 reflects unexplained pay-outs or inflated commissions (paid outside closing to buyer)

Fraud Scheme Characteristics

- All comparables are from within the subject's development and also had inflated sales prices

Buy and Bail Characteristics

The homeowner is current on their mortgage but the value of their home has fallen below the amount owed, so they apply for a purchase money mortgage on another home. After the new property has been secured, the Buy & 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

Foreclosure "specialists" promise to help the borrower avoid foreclosure. The borrower often pays for services that he/she never receives and ultimately loses their home.

- The borrower was advised by foreclosure specialist to avoid contact with their servicer
- The borrower has paid someone to negotiate with the servicer on their behalf
- The borrower states that they are sending their mortgage payments to a third party
- Borrower receives a purchase offer which is greater than the listing price
- Borrower states that they will be renting back from new owner
- The borrower quit claimed (any portion of) title to a third party at the advice of a foreclosure specialist

Short Sale Fraud Red Characteristics

Borrower owes more than the current value of the property and feigns financial hardship, discontinuing mortgage payments, and an accomplice of the borrower submits a low purchase offer. The lender grants a short sale, unaware that the short sale offer was rendered on behalf of the original borrower.

- 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)