

# REAL ESTATE FRAUD SCHEMES

**Builder Bailout:** These schemes are perpetrated by builders that are unable to sell newly constructed properties. The builder inflates the purchase price by offering fake down payment assistance, or by using shell affiliates or straw buyers. As a result of the inflated purchase price the loan-to-value ratio of the new mortgage will exceed 100%. This scheme creates a false impression that the builder is able to successfully sell units in the project, while also leaving the lender with loan exposure that is greater than the actual value of the property.

**Chunking:** As the name implies, this scheme involves multiple properties or mortgage loans that are “chunked” together. While acting as a realtor, or in some other capacity as an agent, the scammer convinces an innocent buyer to purchase a property. The scammer obtains the buyer’s personal information in order to obtain the loan. Without the buyer’s knowledge the scammer submits their personal information to several different lenders and for several different properties, not just the property that the buyer knows about. Another key element of a chunking scheme is that the scammer, or an affiliate of the scammer, is the seller of all of these properties. The closings ultimately occur on all of the properties and the scammer pockets all of the proceeds. The innocent buyer is left with several mortgages that cannot be paid, and the properties enter foreclosure.

**Equity Skimming (or equity stripping):** A false appraisal, inflated purchase price, an unrecorded lien, or any combination of the three, are used to get quick cash. After creating fake equity, or eliminating any real equity that the property may have, the fraudsters take off with the money and let the property go into foreclosure.

**Mortgage Servicing Fraud:** When a mortgage servicing company diverts principal, interest or escrow funds from the underlying lender and retains those funds for its own use.

**Property Flip:** Related parties buy and sell the same property to one another, and then obtain fraudulent appraisals as a way to artificially inflate the property value.

**Reverse Mortgage Fraud:** A fraudster obtains title to property and then deeds the property to a fake individual that qualifies for the age requirements of a reverse mortgage. The fraudster then obtains the “lump sum cash out” reverse mortgage option, or receives monthly payments from the lender until the scam is identified.

**Buy and Bail:** This scam has become increasingly popular during the recent recession and involves homes purchased prior to the bursting of the real estate bubble that are now worth less than the outstanding debt. In other words, the homes are now “underwater”. While still current in their mortgage payments the homeowner identifies a similar home with a much lower purchase price. The homeowner obtains financing to purchase the new home while falsely saying that the existing home will be rented out. Shortly after purchasing the new home no more payments are made on the prior home, which ultimately enters foreclosure.

**Double Selling:** Double selling involves a conspiring mortgage broker or loan officer. The loan officer obtains a potential borrower’s personal information to obtain a mortgage loan. The loan officer then copies the loan application and sends it to several different warehouse lenders asking that they fund the loan. All of the closings are scheduled within a few days of each other so that each lender is unaware of the transactions. Each of the different funding lenders ultimately have competing loans against only one property.

**Fictitious Loan:** A bank insider or mortgage broker creates a fake loan application using a real person’s identity. The loan is funded and the “seller” receives proceeds for a property that does not exist.

**Modification and Refinance Fraud:** A borrower that is attempting to refinance or modify their existing loan intentionally understates income information, or misleads the lender to believe that the property is the primary residence, in order to persuade the lender to accept the modification or refinance on terms that benefit the borrower.

**Phantom Sale:** A fraudster identifies a property, which is typically abandoned, and then files a false deed that transfers the property to the fraudster or a co-conspirator. The scammer then applies for a mortgage loan, or conveys the property to a co-conspirator, and then pockets the loan proceeds or sale proceeds.

**Short Sale Fraud:** A property owner engages a co-conspirator to make an artificially deflated offer to purchase. The short sale lender, believing that the co-conspirator’s offer is bona fide, accepts the lower purchase price, resulting in a greater loss than would have been experienced had the conveyance involved a true bona fide purchaser.

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# REAL ESTATE FRAUD RED FLAGS

## DESKTOP REFERENCE

1. Documentation includes deletions, correction fluid, or other alteration
2. Different handwriting or type styles within a document
3. Buyer currently resides in subject property
4. Seller is not currently reflected on title
5. Buyer is not the applicant
6. Buyer(s) deleted from/added to sales contract
7. Power of Attorney is used
8. Owner is someone other than seller shown on sales contract
9. Purchase price is substantially higher than predominant market value
10. Purchase price is substantially lower than predominant market value
11. Title Work Prepared for and/or mailed to a party other than the lender or attorney
12. Evidence of financial strain may indicate a compromised sale transaction (flip, foreclosure rescue, straw buyer refinance, etc.), or might suggest undisclosed credit problems in the case of a refinance
  - a. Income tax, judgments or similar liens recorded
  - b. Delinquent property taxes
  - c. Notice of default or modification agreement recorded
13. Seller owned property for short time
14. Buyer has pre-existing financial interest in the property
15. Date and amount of existing encumbrances appear suspicious
16. Chain of title includes an interested party such as realtor or appraiser
17. Buyer and seller have similar names (property flips often utilize family members as straw buyers)
18. Borrower or seller name is different than on sales contract and title
19. Payouts to unknown parties or parties not providing real estate related services
20. Refinance pay offs for previously undisclosed liens
21. Short sale offer is from a related party
22. Numbers on the documentation appear to be “squeezed” due to alteration
23. Loan purpose is cash-out refinance on a recently acquired property
24. Earnest money deposit equals the entire down payment, or is an odd amount
25. Real estate commission is excessive
26. Down payment source is other than deposits (gift, sale of personal property)
27. Significant or unrealistic commute distance
28. Excessive sales commissions
29. Excessive fees and/or points
30. Cash proceeds to borrower are inconsistent with final application and loan approval
31. Cash-back at closing to the delinquent borrower, or disbursements that have not been expressly approved by the servicer
32. Buyer is reluctant to bring good funds to closing
33. Lender or broker request changes, not in writing, which are contrary to written closing instructions

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