



Key Resources

- Report fraudulent practices you suspect or discover to our Fraud Investigation Hotline at (800) 4FRAUD8
- Review *Discover Gold Through Quality* online at www.FreddieMac.com/dgtq/
- Review our quality control policies in Chapter 48 of our *Single-Family Seller/Servicer Guide* (the Guide).
- Review our Exclusionary List of brokers and other persons who have been excluded from performing any function related to the sale or servicing of a mortgage sold to Freddie Mac. Refer to Guide Chapter 5 for applicable uses of the Exclusionary List.

Preventing Mortgage Fraud

Best Practices to Protect Your Business

Protecting your business from fraud can be a daunting task today. It sometimes seems as though there are as many different fraud schemes as there are criminals who use them to defraud lending institutions. One of the best ways you can safeguard yourself against fraud is through a rigorous post-funding quality control program, in addition to sound pre-funding quality control practices.

Types of Fraud

Fraud for property: Borrowers mostly commit this type of fraud. They provide falsified information about their employment, income or assets in order to qualify for a loan. In many cases, the borrower can make the housing payment.

Fraud for profit: This type of fraud is the most costly. These schemes often involve a group of people who play multiple roles in the fraud. The initiators often receive the larger percentage of the profit while the others involved may be paid several thousand dollars for their part of the misrepresentation.

Common Fraud Schemes and Red Flags to Watch For

Straw Borrower Scheme: A straw borrower is an individual used to serve as a cover for a questionable transaction. The use of a straw borrower will occur when the true identity or motivation of the actual borrower is kept secret to gain loan approval because the actual borrower cannot qualify for a loan. Some of the following *red flags* may occur in straw borrower transactions:

- A quitclaim deed is used either right before, or soon after, loan closing.
- Investment property is represented as owner-occupied.
- There is no credit history on the borrower.
- Someone signed on the borrower's behalf.
- Names were added to the purchase contract.
- There are sales to a relative or related party.
- No sales agent is involved.
- There is an indication of default by the property seller.
- The source of funds is questionable.

See reverse for additional details.

Builder Bailout Scheme: Builder bailouts occur when the builder or developer is motivated to move property quickly in a depressed real estate market. Some of the following *red flags* may occur in builder bailouts:

- The builder is willing to "do anything" to sell property.
- The borrower is barely qualified or unqualified.
- The sales price and appraisal are inflated.
- No-money-down sales are included.
- "Silent" second mortgages are involved.
- The source of funds is questionable.
- There is a reference to secondary financing on the HUD-1 or purchase contract.
- Parties to the transaction are affiliated.

Property Flips: Flips occur when ownership of one property changes several times in a brief period. Flips are often used illegally to artificially inflate the value of the property to obtain larger loans than what might otherwise be possible and to skim the equity off of the property. Flips also may be used to conceal the identity of the true buyer or seller of the property. Some of the following *red flags* may occur in flips:

- Ownership changes two or more times in a brief period of time.
- Two or more closings occur almost simultaneously.
- The seller has owned the property for only a short time.
- The property seller is not on the title.
- The property value increases significantly.
- There is a reference to double escrow or other HUD-1 form.
- Parties to the transaction are affiliated.

More Red Flags to Watch For

Pre-Funding

- The property seller is a business entity or LLC.
- The same mortgage brokers, appraisers, and closing agents appear in numerous transactions.

- A borrower is purchasing several properties within a short period of time.
- The seller in a purchase transaction is not in title to the subject property.
- The borrower in a refinance is not in title to the subject property, or has only been in title for a short time.
- The qualifying documentation is inconsistent.

Valuation/Appraisal

- The appraisal is dated prior to the loan application.
- The subject property is noted as vacant.
- Comparable sales are lacking similarities to the subject property.
- Comparable sales are outside of the neighborhood.
- Reports are incomplete—no photos, adjustments are not supported, no prior sales listed.
- Information is inconsistent.

Post-Closing

- No real estate commissions were paid.
- Unreasonable fees were charged.
- Disbursements were made to individuals or entities with no interest or liens on the subject property.

Tools to Help Protect You From Fraud

- Know the parties with whom you are doing business, whether it is other lenders from whom you source loans or contract firms assisting in your operations.
- Provide all appropriate employees in your organization with the following:
 - Clear directives as to their responsibility when they suspect fraud.
 - An awareness of the major types of fraud.
 - An understanding of underwriting *red flags* and their use.
 - A list of resources available to them to detect and investigate fraud