



Preventing Mortgage Fraud

Best Practices to Protect Your Business From Mortgage Fraud

Protecting your business from fraud can be a daunting task. Strong fraud prevention and detection practices are an integral part of responsible lending that helps to ensure the success of Seller/Service providers and borrowers throughout the life of the mortgage. 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 and portfolio analysis in loan servicing.

> Key Resources

- Visit our Mortgage Fraud Web site at FreddieMac.com/singlefamily/preventfraud/.
- Review the quality control policies in *Single-Family Seller/Service Provider Guide* (Guide) Chapter 48.
- Visit our Quality Control and Fraud Prevention Resources at FreddieMac.com/singlefamily/quality_control.html.

For Seller/Service providers:

- Review Guide Chapter 7, which announced enhanced requirements related to fraud prevention, detection, and reporting of Freddie Mac mortgages. These requirements are effective **January 1, 2011**.
- Review our Exclusionary List of individuals and entities excluded from performing any functions related to the origination, sale or servicing of mortgages sold to Freddie Mac. Refer to Guide Chapter 2.24 for the requirements relating to this list.

> Mortgage Fraud Reporting

As detailed in Guide Section 7.3(c), there are circumstances in which Seller/Service providers must **immediately** notify Freddie Mac of fraud or possible fraud by calling the Freddie Mac fraud hotline at **800-4FRAUD8**.

In all other cases, the fraud or possible fraud must be reported within **30 days**, either by submitting the new Freddie Mac mortgage fraud reporting forms, available on our Mortgage Fraud Web site, or by submitting the information required in the form via fax, email or regular mail.

The new reporting forms are Excel spreadsheets. One form is for origination-related fraud, and the other for servicing-related fraud.

Freddie Mac fraud reporting contact information:

- **Email:** mortgage_fraud_reporting@freddiemac.com
- **Fax:** 571-382-4883
- **Mail:** Attn: Institutional Investigations
8200 Jones Branch Drive
MS 263
McLean, VA 22102-3110

COMMON MORTGAGE FRAUD SCHEMES

<p>Builder and Condominium Conversion Bailout Schemes</p>	<p>Builder and condominium conversion bailouts occur when the builder or developer is motivated to move property quickly in a depressed real estate market and is willing to “do anything” to sell a property. Some of the following red flags may occur in builder and condominium conversion bailouts:</p> <ul style="list-style-type: none"> • Buyer incentives are built into the sale price, inflating the purchase price and utilizing an inflated appraisal. • No-money-down sales are included; therefore, the source of down payment funds is questionable. • The HUD-1 Form, <i>Settlement Statement</i>, may indicate a portion of the net proceeds going to unrelated third parties. • The HUD-1 Form, <i>Settlement Statement</i>, reflects either zero or excessive real estate commissions. • Buyers are often recruited from out of state. • Occupancy misrepresentation occurs when the buyer states that a property is owner occupied, or a second home, when it is a rental. • The appraisal uses only comparables from within the subject development, or from other developments controlled by the same developer.
<p>Multi-lien Fraud (“Shotgunning”)</p>	<p>A multi-lien fraud occurs when multiple loans on the same home are obtained simultaneously for a total amount greatly in excess of the actual value of the property. Although multi-lien frauds are difficult to detect, some of the following red flags may occur:</p> <ul style="list-style-type: none"> • Borrowers apply for loans through large national retail lenders via loan origination call centers or Internet conduits. • The borrowers credit report indicates multiple, recent inquiries from mortgage lenders. • Involves a single borrower who has recently purchased the subject property for cash within the last 3-6 months. • Borrower disinterest in the interest rate and/or fees associated with the loan.
<p>(Illegal) Property Flips</p>	<p>Property flips often occur when ownership of one property changes several times in a brief period. Illegal property flips are often used to artificially inflate the value of the property to obtain larger loans than what might otherwise be possible and drain the phantom equity out of the property. Illegal 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:</p> <ul style="list-style-type: none"> • Ownership changes two or more times in a brief period of time with the property value increasing significantly. • Two or more closings occur almost simultaneously. • The seller has owned the property for only a short time or the property seller is not in title to the property.
<p>Cash-Out Purchases</p>	<p>A cash-out purchase normally involves one closing and occurs when properties have been on the market for an extended length of time – usually when a desperate seller is unable to find a qualified buyer. The seller may be offered a way out with an offer that exceeds the listing price of the property with an agreement to refund money to the buyer after closing. Some of the following red flags may occur in a cash-out purchase:</p> <ul style="list-style-type: none"> • The home may have been on the market for an extended period of time. • The sale price is significantly higher than the listing price. • The sale contract may have been modified or may include an addendum regarding the payment to the borrower. • The appraisal may be artificially inflated to the sale price.
<p>Short Sale/Payoff Fraud</p>	<p>A short sale / short payoff is an alternative to foreclosure that allows the borrower to sell their property for less than the total amount owed on the mortgage, with the lender, in certain cases, forgiving the remaining debt. A fraud may occur where there is a misrepresentation or omission of fact that would induce the lender, investor or insurer to agree to the terms of a short sale / short payoff that would not be approved if all the facts were known.</p> <p>Some of the following red flags may occur with a short sale fraud:</p> <ul style="list-style-type: none"> • Sudden borrower default, with no prior delinquency history, and the borrower cannot adequately explain the sudden default and the borrower is current on all other obligations. • Short sale / short payoff requests that originate from a third party. • Title to the property has been transferred to a trust, which may indicate the intent to flip the property. • The buyer of the property is an entity. • The purchase contract has an option clause (recorded or unrecorded) to resell the property indicating the buyer’s intent to flip the property simultaneously with the short sale transaction.
<p>Foreclosure Rescue Scheme</p>	<p>A foreclosure rescue scheme is a type of fraud that takes advantage of homeowners who have fallen behind on their mortgage payments. There are several variations of this scheme, however, the common theme is that the perpetrators solicit homeowners and promise to save the home from foreclosure.</p> <p>Some of the following red flags may occur in a foreclosure rescue scheme:</p> <ul style="list-style-type: none"> • Servicer receives a third-party authorization/agreement to release information about an individual or entity. • Servicer is verbally contacted by a third party on the borrower’s behalf. • Borrower refuses to speak to the servicer, but refers collection calls to a third party.

PROTECT YOURSELF FROM MORTGAGE FRAUD

<p>Important Tips</p>	<ul style="list-style-type: none"> • Know the parties with whom you are doing business • Provide all appropriate employees in your organization with the following: <ul style="list-style-type: none"> ▪ Clear directives as to their responsibility and the escalation process when they suspect fraud. ▪ An awareness of the major types of origination and servicing fraud. ▪ An understanding of underwriting and servicing red flags and their use. ▪ A list of resources available to them to detect and investigate fraud. ▪ Empowerment to suspend or decline a questionable transaction until all red flags have been cleared.
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