



## Fraud Prevention Best Practices for Servicers

### Best Practices to Protect Your Servicing Business From Mortgage Fraud

Strong fraud prevention and detection practices are an integral part of responsible servicing that helps to ensure the success of Seller/Servicers and borrowers throughout the life of the mortgage. One of the best ways you can safeguard your servicing organization against fraud is to understand the servicing scams taking place in the mortgage industry, and continually educating your staff on the red flags and best practices.

#### > Mortgage Fraud Prevention Resources

- The Financial Fraud Investigation Unit (FFIU) is a key Freddie Mac resource for fighting servicing fraud. The FFIU is responsible for the prevention, detection, investigation, and resolution of mortgage fraud.
- *Single-Family Seller/Servicer Guide* (Guide) Chapter 7, about enhanced requirements related to fraud prevention, detection, and reporting of Freddie Mac mortgages.
- The 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.
- Guide Chapter B65.40, for information on the required use of a Short Sale Affidavit at, or prior to, closing for all approved short sale transactions.
- Our Mortgage Fraud website at [FreddieMac.com/singlefamily/preventfraud/](http://FreddieMac.com/singlefamily/preventfraud/).
- The second page of this fact sheet that highlights common servicing mortgage fraud schemes.

#### > Mortgage Fraud Reporting

There are circumstances in which Seller/Servicers must **immediately** notify Freddie Mac of fraud or possible fraud by calling the Freddie Mac fraud hotline at **800-4FRAUD8** as detailed in Guide Section 57.3(c).

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

Freddie Mac fraud reporting contact information:

- **Email:** [mortgage\\_fraud\\_reporting@freddiemac.com](mailto:mortgage_fraud_reporting@freddiemac.com)
- **Fax:** 571-382-4883
- **Mail:** Attn: Institutional Investigations  
8200 Jones Branch Drive  
MS 263  
McLean, VA 22102-3110

COMMON SERVICING MORTGAGE FRAUD SCHEMES	
<b>Foreclosure Rescue / Loss Mitigation Services Scheme</b>	<p>Many homeowners who have fallen behind on their mortgage payments seek the assistance of a third-party foreclosure rescue / loss mitigation service to help save their home. Parties offering these services solicit homeowners and promise to save the home from foreclosure, which is often not the case.</p> <p>Some of the following <b>red flags</b> may occur where a foreclosure rescue / loss mitigation service is involved:</p> <ul style="list-style-type: none"> <li>• Servicer receives an authorization/agreement to release information about the borrower to a third party.</li> <li>• Borrower refuses to speak to the servicer, but refers collection / loss mitigation calls to a third party.</li> <li>• Servicer is contacted by a third-party and the borrower's qualifying financial package is routed through this third party.</li> </ul>
<b>Borrower Misrepresentations</b>	<p>Borrowers are required to submit a financial package to the Servicer, which includes a financial statement, bank statements, pay stubs, tax returns/W-2's, and a hardship letter, in order to be considered for a loan workout. Some borrowers may misrepresent their income, household expenses, occupancy of the property, and/or claim a hardship that does not exist. Some of the following <b>red flags</b> may occur if the borrower misrepresents his or her financial situation:</p> <ul style="list-style-type: none"> <li>• A borrower's qualifying financial package is sent through a third party.</li> <li>• Pay stubs, bank statements, and W-2's may have different fonts, round dollar amounts, or balance inconsistencies.</li> <li>• Net pay on the pay stub is inconsistent with deposits on the bank statements.</li> <li>• Retail and installment debts listed on the borrower's financial statement do not match the credit report.</li> <li>• The borrower is claiming owner occupancy, but the credit report, bank statements, or pay stubs indicate the borrower resides at an address other than the subject property.</li> </ul>
<b>Manipulating or Influencing the Brokers Price Opinion</b>	<p>A Brokers Price Opinion (BPO) is an estimate of a property's fair market value as determined by a real estate agent, and is often used in establishing value for a property under short sale consideration. The individual organizing the short sale may attempt to influence the BPO agent through bribery, providing false repair estimates or inappropriate comparables sales to depress the value.</p> <p>Some of the following <b>red flags</b> may occur with BPO manipulation:</p> <ul style="list-style-type: none"> <li>• The point of contact for interior access to the property is not the listing agent or borrower and may even be located out of state.</li> <li>• Comparable sales and listings are not similar to the subject property.</li> <li>• Excessive distance from comparable sales and listings to the subject property, especially in a densely populated area.</li> <li>• The repairs listed on the BPO appear high considering the condition of the subject property as reflected in the pictures.</li> </ul> <p><b>If you believe you have a questionable BPO, send a request to <a href="mailto:bpoescalations@freddiemac.com">bpoescalations@freddiemac.com</a> for value reconciliation.</b></p>
<b>Short Sale Fraud</b>	<p>A short sale is a foreclosure alternative that allows the borrower to sell his or her property for less than the total amount owed on the mortgage, with the lender, in certain cases, forgiving the remaining debt. Fraud may occur where there is a misrepresentation or omission of fact that would entice the lender, investor or insurer to agree to the terms of a short sale that would not be approved if all the facts were known. Examples of short sale fraud could include undisclosed non-arm's length transactions between the short sale parties and/or undisclosed, higher purchase contracts effecting immediate resale of the property.</p> <p>Some of the following common <b>red flags</b> may occur with any type of short sale fraud:</p> <ul style="list-style-type: none"> <li>• Sudden borrower default, with no prior delinquency history, where the borrower cannot adequately explain the sudden default and is current on all other obligations.</li> <li>• The short sale request and the borrower's qualifying financial package originates through a third party.</li> <li>• Questionable fees and/or payouts on the HUD-1 to parties with no apparent connection to the transaction (e.g., unauthorized and/or suspicious administrative, marketing, negotiation, or processing fees).</li> <li>• The borrower acts as the listing agent or sells a property without a licensed real estate professional.</li> </ul>
<b>Short Sale Fraud – Non-Arm's Length Transactions</b>	<p>A borrower seeking to stay in his or her home with a principal balance reduction may enlist a friend or family member to purchase the property and then reconvey title back to the borrower after closing. This non-arm's length transaction is not disclosed.</p> <p>Some of the following <b>red flags</b> may occur with an improper non-arm's length transaction:</p> <ul style="list-style-type: none"> <li>• There is no record of the property listed for sale via the Multiple Listing Service (MLS) or the length of time in the MLS may be minutes or a few days in order to establish a listing identification number. The listing may also state that no showings are available at the time of listing.</li> <li>• The buyer of the property is related to the borrower or knows the borrower.</li> </ul>
<b>Short Sale Fraud – Property Flips</b>	<p>Short sale flip fraud may occur when a buyer immediately resells the property for a higher price the same day or shortly after the short sale closes and the subsequent offer is <b>not disclosed</b> to the Servicer or Freddie Mac.</p> <p>Some of the following <b>red flags</b> may occur with short sale flip fraud:</p> <ul style="list-style-type: none"> <li>• Title to the property has been transferred to a trust, LLC, or corporation, prior to the short sale closing.</li> <li>• The buyer of the property is a trust, LLC, or corporation.</li> <li>• The purchase contract contains language that indicates the buyer's intent to resell the property.</li> <li>• An "Option Contract" is utilized which indicates the buyer's intent to simultaneously resell the property.</li> <li>• Buyer's proof of funds letter is from his or her IRA or a transactional funding company.</li> </ul>

## PROTECT YOURSELF FROM SERVICING FRAUD

### Important Tips

- Loan workouts involving third-party facilitators may contain more risk and should be scrutinized more closely.
- Review the borrower's financial statements carefully for font, round numbers, and balance consistency.
- Talk to the borrower directly to validate the financial data submitted and terms of the loan workout.
- Verify the MLS listings and property condition via Realtor.com, Trulia, or Zillow.
- Read the purchase contracts to determine if there is a notice of intent to flip. Ask the buyer if there is another offer pending.
- Review the title report to make certain the borrower is vested in title.
- Question any unauthorized fees and/or payouts.
- Provide all appropriate employees in your organization with the following:
  - Clear directives as to their responsibility and the escalation process when they suspect fraud.
  - An awareness of the types of fraud that can be identified through your servicing operations as well as an understanding of red flags and their use.
  - A list of resources available to help them detect fraud.
  - Empowerment to suspend or decline a questionable transaction until all red flags have been cleared.

### ***For More Information:***

- Visit [FreddieMac.com/singlefamily/service/tools.html](http://FreddieMac.com/singlefamily/service/tools.html).
- Call 800-FREDDIE.