



Short Sale Fraud Prevention Summary for Real Estate Industry Professionals

Strong fraud prevention and detection practices are an integral part of protecting your business. Whether you are a real estate agent or a closing agent, one of the best ways you can safeguard yourself and your organization against short sale fraud is to understand the scams taking place in the market. This summary provides you with key fraud prevention resources and reporting information, along with information on common short sale schemes, red flags, and important short sale fraud prevention tips.

➤ Mortgage Fraud Prevention Resources

The following Web resources provide additional fraud prevention information:

- Freddie Mac's Mortgage Fraud website: FreddieMac.com/singlefamily/preventfraud/.
- Federal Bureau of Investigation – Mortgage Fraud Web page: fbi.gov/hq/mortgage_fraud.htm.
- Realtor.org Field Guide to Mortgage Fraud: realtor.org/library/library/fg330.
- American Land Title Association Mortgage Fraud Prevention Web page: alta.org/advocacy/mortgagefraudlinks.cfm.
- Financial Crimes Enforcement Network: fincen.gov/news_room/rp/mortgagefraud_suspectedMortgageFraud.html
- Financial Fraud Enforcement Taskforce: stopfraud.gov/.

The second page of this fact sheet highlights common short sale fraud schemes and important tips to help you identify and take action against common fraud schemes.

➤ Mortgage Fraud Reporting

Report fraud to your state or **local governing boards**.

You may also contact the following resources:

- Federal Bureau of Investigation: 800-CALLFBI (225-5324) or email fbi.gov/contact-us.
- Housing and Urban Development Office of the Inspector General (HUD-OIG) for government backed loans: 800-347-3735 or email hotline@hudoig.gov.
- Federal Housing Finance Agency Office of the Inspector General (FHFA-OIG) 800-793-7724.
- Our Fraud Hotline at 800-4 FRAUD 8 to report incidents of fraud.

COMMON SHORT SALE FRAUD SCHEMES

<p>Manipulating or Influencing the Brokers Price Opinion</p>	<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 comparable sales to depress the value.</p> <p>Some of the following common red flags may occur with BPO manipulation:</p> <ul style="list-style-type: none"> • The point of contact for interior access to the property is not the listing agent. • The property was negatively “staged” to appear in disrepair.
<p>Short Sale Fraud</p>	<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 red flags may occur with any type of short sale fraud:</p> <ul style="list-style-type: none"> • Sudden borrower default, with no prior delinquency history, where the borrower cannot adequately explain the sudden default and is current on all other obligations. • The short sale request and the borrower’s qualifying financial package originates through a third party. • 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). • The borrower/seller refuses to speak to the agent and refers all calls to a third party. • The borrower acts as the listing agent or sells a property without a licensed real estate professional.
<p>Short Sale Fraud – Non-Arm’s Length Transactions</p>	<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 offer the title back to the borrower after closing. This non-arm’s length transaction is not disclosed.</p> <p>Some of the following red flags may occur with an improper non-arm’s length transaction:</p> <ul style="list-style-type: none"> • There is no record of the property listed for sale via the Multiple Listing Service (MLS) or the length of time of the MLS listing 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. • The buyer of the property is related to the borrower or knows the borrower.
<p>Short Sale Fraud – Property Flips</p>	<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 not disclosed to the Servicer or Freddie Mac.</p> <p>Some of the following red flags may occur with short sale flip fraud:</p> <ul style="list-style-type: none"> • Title to the property has been transferred to a trust, LLC, or corporation, prior to the short sale closing. • The buyer of the property is a trust, LLC, or corporation. • The purchase contract contains language that indicates the buyer’s intent to resell the property. • An “Option Contract” is utilized, which indicates the buyer’s intent to simultaneously resell the property. • Buyer’s proof of funds letter is from his or her IRA or a transactional funding company.

PROTECT YOURSELF FROM FRAUD

<p>Important Tips</p>	<ul style="list-style-type: none"> • The financial workout package should be sent directly from the borrower/seller to the short sale lender. • Loan workouts involving third-party facilitators may contain more risk and should be scrutinized more closely. • Trust your instincts. If there is a red flag pertaining to the settlement of a short sale that you believe impacts the short sale lender, contact the lender’s short sale negotiator. • The short sale approval letter is delivered directly from the short sale lender and not any other party. • Confirm the short pay approval terms and amount directly with the short sale lender’s negotiator. • Make sure that the short sale lender is aware of all aspects of your transaction and that all activities are documented. Side agreements, undisclosed payoffs or hidden addenda should alert you to possible fraud. • Reflect and identify all parties and fees on the HUD-1 Settlement Statement accurately. • If you are aware of any other offers or closings on the property or are aware of any payments to parties not on the short sale lender’s approval letter or the HUD-1, notify the lender’s short sale negotiator. • Ensure that title records are thoroughly researched to verify and validate the owner(s) of record. For example, a red flag could occur if the property records reflect that the borrower of record on the short sale is not in title to the property. • Ensure that the source of the short sale buyer’s funds to close is fully disclosed and transparent.
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For More Information:

- Visit FreddieMac.com/singlefamily/preventfraud/toolkit.html.