

Fraud Schemes

Advance Fee

An advance fee fraud scheme typically begins when a person receives an unsolicited communication from someone in a foreign country, often Nigeria or other African nations, who purports to be a current or former official of the foreign government. The solicitation will assert an urgent need for the recipient's help to transfer a large amount of money. Explanations regarding the money's source will vary and may include proceeds from over-invoiced contracts or other contract fraud, disbursement of money from wills, sale of crude oil at below market prices, purchases of real estate, currency conversions, or winnings from an international lottery. The recipient is promised either most or all of the money to be transferred, or a substantial commission. These schemes have a common denominator - eventually the target of the scheme will be required to pay up-front (advance) fees (licensing fees, taxes, attorney fees, transaction fees, bribes, etc.) to receive the money or commission. Detailed information about these schemes is available from the United States Secret Service web site.

Appraiser Fraud

A person falsely represents himself as a State-licensed or State-certified appraiser. Appraiser fraud also can occur when an appraiser falsifies information on an appraisal or falsely provides an inaccurate valuation on the appraisal with the intent to mislead a third party or financial institution. Appraiser fraud is often an integral part of some fraud schemes.

Builder Bailout

A builder bailout usually occurs when a builder has sold the majority of homes in a tract or subdivision, but is left with some unsold homes. The builder may not want to bother with these last remaining properties or may feel a need to cover losses associated with the project. The builder may also be under pressure from a financial institution to repay the loans due to default status. To dispose of the remaining properties, the builder may utilize a variety of schemes that can include, but are not limited to, the use of a hidden seller with assisted financing as a front or the use of inflated property values. In an effort to attract RE investors, the builder may promise the investor that he will continue to manage the properties as rentals and may offer to absorb any negative cash flow for the first 12 to 18 months. The builder may or may not honor the promise to manage the property. Income potential is frequently overstated and operating expenses understated in an attempt to entice innocent investors. As a result of the scheme, the unsuspecting financial institution is often left with a loan that has poor cash flow and over-valued collateral.

Check Fraud

One common type of check fraud is the counterfeit check that mimics a particular bank's cashier's check or the check of another institution such as a title company. Another ruse is the alteration of duly issued check. A third type of check fraud is the illegal payment instrument, labeled variously, such as "Certified Bankers Check," "Comptroller Warrant," "Redeemable at Office of Post Master," "Common Trust Bond," or "Common Trust Draft." A fourth ruse is a check drawn on a foreign bank or in foreign currency that will be dishonored for insufficient funds or nonexistent account.

Chunking

Chunking is a variation of a land flip (see "Flip"). The scheme begins with an unsophisticated borrower attending a seminar that purportedly shows how to get rich by investing in multiple rental properties. At or following the seminar, a third party contacts the unsuspecting borrower to encourage him to invest in a specific property or properties with no money down. The third party acts as an agent for the borrower and simultaneously submits loan applications on the borrower's behalf to multiple financial institutions for the various properties. The borrower may or may not know that the third party has submitted the application to multiple lenders. The assistance of an appraiser, broker, and/or a representative of a title company is usually required to ensure that the borrower does not have to bring money to the closings. The third party acts as an agent for the borrower during the closings and often, unbeknown to the borrower, pockets the loan proceeds. The unsophisticated borrower is left with numerous loans from various financial institutions and usually has insufficient cash flow to repay the debt. The financial institutions are forced to foreclose on the properties and can suffer sizeable losses because of the scheme.

False Down Payment

In the false down payment scheme, a borrower colludes with a third party, such as a broker, closing agent, etc., to reflect an artificial down payment. When this scheme is carried out with collusion by an appraiser, the true loan-to-value greatly exceeds 100 and has the potential to cause substantial loss to the financial institution.

Double Loan Selling

Double selling is a scheme wherein a mortgage loan broker accepts a legitimate application, obtains legitimate documents from a buyer, and induces two financial institutions to fund the loan. In this scenario, the originator leads each financial institution to believe that the broker internally funded the loan for a short period. Since there is only one set of documents, one of the funding financial institutions is led to believe that the proper documentation will arrive any day. Double selling is self-perpetuating because different loans must be substituted for the ones on which documents cannot be provided to keep the scheme going. Essentially, the broker uses a lapping scheme to avoid detection. Another variation of double selling entails a mortgage loan broker accepting a legitimate application and proper documentation, who then copies the loan file, and presents both sets of documents to two investors for funding. Under this scheme, the broker has to make payments to the investor who received the copied documents or first payment default occurs.

Dual Contracts

This scheme requires collusion of seller and buyer, with likely assistance from an appraiser. Seller and buyer sign two contracts for a sale and purchase. One reflects the real sales price going to the seller. The other is for an inflated price, with a provision requiring expenditure for bogus items such as substantial repairs or relocation costs. The buyer obtains a mortgage loan based on the inflated purchase price, and it is a fictitious entity of the buyer whose bogus invoice for the repairs or other expenditures is paid through closing. The seller receives all that is due under the undisclosed contract. The buyer receives substantial cash for the bogus invoice. The victimized lender has a loan with little or no equity cushion.

Equity Skimming

Equity skimming, which is a federal crime, can occur in a variety of ways. The basic legal definition involves an individual engaging in a pattern of acquisition of residential rental RE through federal loan programs, failing to make payments, and diverting rental proceeds for personal use. Since the individual fails to service the debt or properly maintain the property, a default occurs. Equity skimming may also take place in purchase or refinance transactions. The buyer need not be directly responsible for the debt to be guilty of this offense. Slumping economic conditions, property value deflation, and overbuilt markets present the best opportunities for equity skimming to occur because the number of financially distressed owners usually increases under these conditions. This scheme is frequently perpetrated by unscrupulous appraisers and closing agents. One variation of equity skimming occurs when a purchaser obtains a loan using an inflated appraisal. By increasing the loan-to-value, the inflated appraisal allows the purchaser to obtain the property with little or no down payment. The borrower rents out the property and collects the rental payments, but fails to make mortgage payments or maintain the property. As time passes and the property deteriorates, the potential loss to the financial institution increases. Another version of equity skimming happens when a potential purchaser locates a homeowner who is desperate to sell usually due to loan default or past due taxes. The skimmer/purchaser convinces the seller to take a second mortgage with payments to begin later, perhaps in 6-12 months. During this period, the skimmer makes no payments on the first or the second mortgage. By the time the seller realizes that he will not receive payments, the first mortgagee has begun foreclosure proceedings. The skimmer's investment in the property is limited. Any profit is reduced by the amount of funds the skimmer is required to invest. Therefore, the skimmer will employ any method possible to entice the seller to pay closing costs, forgive a down payment, or take a second lien to cover those costs.

Fictitious Mortgage Loan

A fictitious mortgage loan scheme is perpetrated primarily by mortgage brokers, closing agents, and/or appraisers. In one version of this scheme, the identity of an unsuspecting person is assumed in order to acquire property from a legitimate seller. The broker persuades a friend or relative to allow the broker to use the friend's or relative's personal credit information to obtain a loan. The financial institution is left with a property on which it must foreclose and the third parties pocket substantial fees from both the financial institution and buyer.

Foreclosure Collusion

Examples of foreclosure collusion are sham foreclosure sales (foreclosure agent does not conduct a sale but purports to have done so or borrower and lender use foreclosure to strip off junior liens) and manipulated foreclosure sales in which the foreclosure agent uses inside information for its own investment purposes.

Flip

A land flip is a scheme in which individuals, businesses, and/or straw buyers buy and sell properties among themselves. The sales price is inflated for each transaction to give the appearance of rapidly increasing property values. Mortgage loan advances increase with each purchase until the amounts of the mortgages greatly exceed the actual value of the property. This scheme is designed to extract as much cash as possible from the property, frequently for unrelated uses. The loan proceeds are often used for purposes not stated on the application. Land flip schemes may include fictitious leases designed to show that the properties are occupied by tenants thereby generating rental income to service the mortgage. The most essential party in this scheme is the appraiser. This unscrupulous appraiser creates artificial comparables for each transaction to support the value needed for the loan. The appraiser may receive a high fee that comes from proceeds disbursed at closing or may be promised repeat business. The appraiser must appraise the properties in excess of the actual value; otherwise, there is no profit for the flip.

In another type of flip, a legitimate, unsuspecting buyer may purchase the property after prior flips at an inflated price in excess of the true value of the property. The unsuspecting buyer is usually not knowledgeable of the true market value in the local area. This type of transaction can occur in geographic areas that are experiencing substantial property value appreciation, areas that are ideal retirement communities or low-to-moderate income areas.

Foreclosure Rescue

In this scheme, a self-styled real estate investor plays the role of white knight that will help borrowers extricate themselves from foreclosure by promising a sale or refinance with some cash to the borrowers. As foreclosure bears down and the borrowers face post-foreclosure eviction, the investor changes the terms, and the borrowers face a closing with none of the cash they contemplated. The scheme may involve the investor acquiring title and renting to the borrowers with an option to purchase; however, the terms are sufficiently favorable to the investor that, either through subsequent eviction or exercise of the option, the investor acquires all of the borrower's equity.

Loan Sharking / Predatory Lending

The Mortgage Bankers Association's Ten Warning Signs of Predatory Lending. The questions below are a good way for you (a prospective borrower) to know if someone could be misleading you about a loan and its costs to you. Just because you answer "yes" to these questions does not mean you are or have been a victim of predatory lending, but, if you answer "yes" to some of the questions, MBA recommends that you contact the appropriate state agency for more information and guidance.

1. Were you encouraged to include false information on your loan application?
2. Were you asked to leave signature lines or any other important line-item of any form blank? Did the lender or broker alter any information you entered on your loan application?
3. Check your loan file. Are any of the following disclosures missing?
 - Good Faith Estimate
 - Special Information Booklet
 - Truth in Lending
 - HUD-1 Settlement Statement
4. Have you refinanced your loan several times, and in each instance increased either your monthly payment and/or the total amount you owe on your home?
5. Do your documents reveal that your interest rate calculation will change to require you to pay "daily interest" in instances when your payments are late?
6. Is your loan amount on the loan you obtained higher than the value of the home?
7. Did you incur any unexpected costs at settlement that were not explained to you prior to the settlement?
8. After settlement, were you surprised to find that the monthly payments on your mortgage loan were higher than you anticipated based on the initial disclosures?
9. If you have a balloon loan (one in which after a series of low payments the entire loan balance is due in a large lump sum), will you need to obtain another loan to finance that final lump-sum amount?
10. Were you required to buy credit insurance, insurance that will repay the debt if you die or become disabled?

(Note: Credit insurance is optional and will not affect your loan decision if you decline to buy it. It can, however, add considerable cost to the loan transaction. You should decide whether you are going to purchase credit insurance carefully.)

Mom and Pop

Intra-family fraud is sometimes referred to as "mom and pop" fraud. This may involve a fraudulently obtained or fraudulently used power of attorney or fraudulently obtained or forged conveyance. This category also includes fraudulent conveyances by one or more business partners to the detriment of the other partner or partners.

Money Laundering

Money laundering is the movement of illicit funds for the purpose of concealing the true source, ownership or use of the funds. Through money laundering, the monetary proceeds derived from criminal activity are transformed into funds with an apparently legal source. Money laundering provides the fuel for drug dealers, terrorists, arms dealers and other criminals to operate and expand their enterprises. We know that criminals manipulate financial systems in the United States and abroad to further a wide range of illicit activities.

Mortgage Elimination

The Internet provides easy access to mortgage elimination schemes. These seem to come in two variations. One is a phony reconveyance of a trust deed, in which the **borrower** purports to appoint a successor trustee, who in turn purports to reconvey the trust deed that secures a bona fide loan. The second scheme is a phony foreclosure. In this variation, the borrower also purports to appoint a successor trustee, but instead of purporting to reconvey the trust deed, the phony trustee records documents that mimic a foreclosure by advertisement and sale. The scheme culminates with a phony trustee's deed to a person participating in the scheme and may be followed by a second phony transfer and even a phony mortgage loan.

Phantom Sale

The perpetrator may identify an apparently abandoned property and record a fictitious Quit Claim Deed to transfer the property into his or her name. Once the perpetrator has recorded the necessary document, he applies for and executes a loan. He pockets the loan proceeds and disappears. The transaction could also involve property obtained from another scheme. The financial institution is left with a mortgage loan that has no cash flow support and is collateralized by fraudulently obtained property.

Silent or Sneaky Second

In this category, a buyer gains ownership typically with money released to the buyer at closing based on a representation that a portion of loan funds will be used to improve the property. Instead, the buyer rents out the premises immediately, makes no mortgage payments and pockets the rent (and construction funds) until foreclosure is completed. The money advance arrangement occurs because the seller agrees to accept a second position mortgage loan that, when combined with the first position loan, exceeds the sales price. In another variation, the buyer persuades the seller to acknowledge that down payment funds were received prior to closing, when in fact the seller is relying on the buyer to give the seller a second position mortgage after closing for the funds that never were paid and never get paid.

Straw Borrower

The straw borrower scheme involves the intentional disguising of the true beneficiary of the loan proceeds. The "straw" party, sometimes known as a nominee, may be used to:

- conceal a questionable transaction,
- replace a legitimate borrower who may not qualify for the mortgage or intend to occupy the property, or
- circumvent applicable lending limit regulations by applying for and receiving credit on behalf of a third party who may not qualify or want to be contractually obligated for the debt.

The straw borrower scheme is accomplished by enticing an individual, sometimes a friend or relative, to apply for credit in his or her own name and immediately remit the proceeds to the true beneficiary. The straw borrower may feel there is nothing wrong with this and fully believes that he is helping the third party. He expects the recipient of the loan proceeds to make the loan payments, either directly or indirectly. The recipient may be unable to or may never intend to make the payment. Over time, default would occur with the financial institution initiating foreclosure proceedings. This scheme can involve financial institution personnel, as well as other third party participants. The straw borrower may or may not be paid a fee for his or her involvement or know the full extent of the scheme.

Researched on the web @ www.fraudproblem.com

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