



# Mortgage Fraud Prevention and Detection

## RESOURCE GUIDE

2nd Edition



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# Introduction





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# Introduction

Mortgage fraud is a multi-billion dollar criminal activity that creates significant negative financial impact on homeowners, businesses, and the national economy.

Mortgage fraud awareness and best practice mitigation techniques are critical to combating mortgage fraud. One of the most effective ways to safeguard your organization against mortgage fraud is to educate your employees about the various mortgage fraud types, schemes and associated red flags.

CoreLogic is committed to the fight against mortgage fraud and has developed numerous ways to prevent and detect mortgage fraud. Please consider this *Mortgage Fraud Prevention and Detection Resource Guide* as another key tool in your fight against fraud. This Guide provides insight into the various risk elements that may be present during the origination, servicing, and investigation processes of a mortgage loan. It also provides key tactics that can be used to mitigate that risk to prevent further financial loss.



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# Mortgage Fraud Definitions





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# Mortgage Fraud

Mortgage fraud is the intentional misstatement, misrepresentation, or omission of information used to determine whether or not to approve a mortgage-related transaction (e.g., purchase, refinance, modification). Mortgage fraud can be classified into two distinct categories: fraud for housing and fraud for profit.



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# Mortgage Fraud for Housing

Mortgage Fraud for Housing is committed for the primary purpose of purchasing, and residing in, a primary residence. This scheme usually involves a single loan where the borrower provides falsified information (i.e., altered pay stubs, W-2s, bank statements, tax returns, employment information, etc.). Although applicants may embellish or fabricate income and conceal debt, their intent is to repay the loan and reside in the property.

In most cases, the fraud is assisted or initiated by mortgage industry insiders with the required depth of knowledge to complete the fraud, including brokers, loan officers, appraisers, closing agents, etc.



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# Mortgage Fraud for Profit

Mortgage Fraud for Profit is committed for the primary purpose of gaining illicit proceeds. Fraud for Profit often involves multiple loans and elaborate schemes perpetrated by a group of people who play multiple roles in the transactions to gain illicit proceeds from property sales. Gross misrepresentations concerning appraisals and loan documents are common in fraud for profit schemes and participants are frequently paid for their participation.



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# Fraud Types & Fraud Red Flags





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# Air Loan

A loan to a straw or non-existent borrower, on a non-existent property.

## Air Loan

- ▶ Borrower not interested in type of loan, interest rate, closing fees, etc.
- ▶ Parties associated (employer, borrower, lender) have generic names (e.g., Jane Smith) or fictitious character names (e.g., Lisa Simpson)
- ▶ Application completed by someone other than borrower
- ▶ Discrepancies between credit report and application such as address, employment, etc.

# Appraisal/Valuation

Intentional overvaluation of real estate property, whereby the value of the property is deliberately appraised above its true market value. This may involve the use of invalid comparable sales, inaccurate subject or market information, misleading or fictitious photos or an appraisal performed by an unlicensed appraiser.

# Appraisal/Valuation

- ▶ Data missing on the appraisal
- ▶ Photos taken from an awkward standpoint, or don't match property description
- ▶ Comparable distances outside of acceptable ranges/dated sales used as comparables
- ▶ Information on appraisal inconsistent with loan files/other documents
- ▶ Appraisal dated before sales contract
- ▶ Appraisal ordered by a party to the transaction other than the lender
- ▶ Appreciation in a stable or declining market
- ▶ “Occupant” is identified as “tenant” or blank or “unknown”
- ▶ Excessive adjustments in urban/suburban area where marketing time is under 6 months
- ▶ Comps have high gross and net adjustments—site, view, design/appeal

# Assets

Misrepresentation of Verification of Deposit (VOD), bank statements, gift money or letters of investments, deposits or down payment checks, etc.

# Assets

- ▶ Deposits are inconsistent on bank statements
- ▶ Gift letter does not match with a bank deposit
- ▶ Bank records/balances do not align with deposits/down payments
- ▶ Assets do not align with reported income
- ▶ Account lists other undisclosed owners in addition to borrower
- ▶ Checking account activity is inconsistent with overall financial profile
- ▶ Paycheck deposit dates do not match paystubs
- ▶ Bank statements are not in the borrower's name or non-borrower account holders
- ▶ Bank statements do not reflect withdrawal of earnest money deposit (purchases)
- ▶ Savings account balance with average 2 months balance exactly the same as present balance — no interest accumulation



# Employment

Misrepresentation of employer, occupation, or employer location/  
contact information.

# Employment

- ▶ Employment information does not match across different loan documents or previous applications
- ▶ Employer name is similar to borrower name
- ▶ Area code of employer does not match with geographic location of given address
- ▶ Distance to employer is unreasonable
- ▶ Employer address is a P.O. Box
- ▶ Employer search determines business is owned by the borrower, is not a business, or has been closed
- ▶ Borrower is in sales; shows no commission on Verification of Employment (VOE)
- ▶ Generic job titles shown (Manager, General Manager, Accountant)
- ▶ Deletions, cross-outs and “squeezed in” numbers in handwritten information provided
- ▶ Internet search of employer phone number references back to broker/loan officer or some other third party involved in the mortgage transaction

# Identity Theft

The unauthorized use of personally identifying information such as a name and Social Security Number (SSN) to obtain credit, a loan or commit fraud or other crimes.

# Identity Theft

- ▶ SSN appears invalid; SSN starts with '666' or '9' or has zeros in the 4th or 5th position
- ▶ SSN issue year inconsistent with borrower DOB
- ▶ Borrower unable to provide appropriate proof of SSN (such as SSN card)
- ▶ SSN validation and/or credit report shows other names associated with SSN
- ▶ SSN match against death master list
- ▶ SSN state of issue not a state borrower has a history of having resided (applicable on SSNs issued prior to June 25, 2011)

# Income

When a mortgage applicant's income is intentionally misrepresented in order to qualify for a loan. Often involves altered or forged income documentation (W-2, pay stubs, tax returns, bank statements, assets, etc.)

# Income

- ▶ Job Title/Occupation does not align with reported income
- ▶ Number of professional years or current position years in employment does not align with reported income
- ▶ W-2, paystubs or 1099 do not match what is documented on IRS tax returns
- ▶ Payroll deposit dates and/or deposit amounts do not match application income
- ▶ Even dollar amount on YTD or annual earnings from prior years
- ▶ SSI, Medicare and tax deductions do not calculate properly
- ▶ Employer and Employee names not printed on paychecks or paystubs
- ▶ Unemployment compensation reported on tax return; no gap of employment disclosed
- ▶ Business code is not consistent with type of business on tax returns
- ▶ Prior year(s) tax returns filed recently (just before loan application)

## Non-Arm's Length Transaction

Occurs when one or more parties to a mortgage transaction or subject real estate has “an interest” in the transaction either by relationship to the individual or monetary interest.

## Non-Arm's Length Transaction

- ▶ Parties in the loan transaction play more than one role
- ▶ Similarity in names of buyer and seller
- ▶ LLC or Trust is seller
- ▶ POA (Power of Attorney) is used
- ▶ Title shows borrower had previous interest in property



# Occupancy

Falsely identifying occupancy intent on a home that is being purchased. Typically the borrower will claim intent to use the purchased property as their primary residence, when in fact it is used as a second home or rented as an investment property.

## Occupancy

- ▶ Subject property is in lesser value area than current residence/other property owned
- ▶ Subject property is smaller in square footage and lower in value than current residence or other properties owned
- ▶ Subject is in close proximity to current primary residence
- ▶ Significant/unrealistic commute distance from employer

# Senior Lien Release

Fraudulent documents filed to release a senior lien.

## Senior Lien Release

- ▶ Document number not consistent with other recorded documents
- ▶ Release is within a short amount of time from purchase/refinance of property
- ▶ Recorded release uses fictitious names or is shown as returned to an address other than the borrower's home address

# Settlement Agent

Settlement or Closing Agent receives funds from a mortgage lender for loan closing and retains the loan proceeds without satisfying the existing liens.

# Settlement Agent

- ▶ Excessive closing fees
- ▶ Payouts to unknown parties that do not appear as debt holders in borrower's credit
- ▶ Lender submitted HUD-1 that differs from the final HUD-1 signed at closing
- ▶ Sub-agents used in closing and/or agent not approved by lender
- ▶ Sales price differs from sales contract
- ▶ Zero amount due from buyer
- ▶ HUD-1 contains unusual credits, disbursements, delinquent loans paid off, or multiple mortgages paid off

## Short-Sale

Disguising the nature of a distressed property sale; an unscrupulous short sale negotiator may attempt to facilitate the sale of a home to an affiliated party at below market value, with plans to resell it immediately to a third party for a substantial profit.

## Short-Sale

- ▶ Agents or company charges upfront fees or asks to transfer title to the home to a third party or trust
- ▶ Third-party short sale negotiator is involved in the transaction and notifies the lender that all communications must go through him or her on behalf of the borrower
- ▶ Purchase offers that are well below market value, as well as any payments, transfers of funds or payoffs that are not included in the sales contract
- ▶ Odd amounts as an earnest money deposit
- ▶ Purchase and sales agreement includes 'Right of Assignment' clause
- ▶ Seller and real estate agent are the same person
- ▶ No inspection of property as part of the purchase and sales agreement
- ▶ Sale is subject to seller acquiring title
- ▶ Non-Arm's Length transactions — real estate agent or other party related to the potential purchaser



# Shot-Gunning

Occurs when multiple loans for the same home are obtained simultaneously for a total amount greatly in excess of the actual value of the property.

## Shot-Gunning

- ▶ Borrower not interested in type of loan, interest rate, closing fees, etc.
- ▶ Multiple recent credit inquiries on credit report
- ▶ Property history showing the property has recently been purchased for cash by borrower, or that mortgage lien has recently been released

# Straw Borrower

A borrower with a good credit profile is used to purchase a property in order to conceal the actual owner of record. The straw borrower does not intend to occupy the property or make payments and often deeds the property to the other individual immediately after closing. A straw borrower can be a knowing participant or unaware that his or her credit is being used.

# Straw Borrower

- ▶ Borrower is buying out of state, very close to current residence or out of price range
- ▶ Power of Attorney (POA) may be used for borrower
- ▶ Recent quit claim of property
- ▶ Recent credit inquiries for other properties
- ▶ Borrower receiving funds out of proceeds (straw borrower being paid for use of his or her identity)
- ▶ Names added/deleted on purchase contract
- ▶ Sales to relative or related party
- ▶ No sales agent involved

# Undisclosed Debt

Intentional omission of debt on a mortgage application.

## Undisclosed Debt

- ▶ Open trade lines appear on the credit report that are not on the loan application
- ▶ Other addresses appear on credit report which are associated with the borrower
- ▶ Credit inquiries on the credit report within the past 90 days
- ▶ Payment of taxes or hazard insurance on property that is not listed on application

# Mortgage Fraud Schemes & Scams





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# Affinity Fraud

Affinity fraud is generally accomplished through the cooperative efforts of people with affinity to one another. These individuals have a common financial interest or bond, such as certain ethnic, religious, professional or age-related groups. These scams exploit the trust and friendship that exist in groups of people who have something in common.

## Affinity Fraud

- ▶ Parties to the transaction (loan officer, broker, closing agent, real estate agent, borrower, appraiser, etc.) have a relationship or common financial interest
- ▶ Common surnames are used for multiple parties to the transaction
- ▶ Large gift funds are provided from group members as the source of down payment
- ▶ Common tactics include the use of straw borrowers, falsified gift funds and altered income, employment or asset documentation

## Builder Bail-Out

Builder bailouts occur when the builder or developer is motivated to move property quickly in a depressed real estate market. Builder bailouts can involve whole developments consisting of both completed and partially built homes, or occur when the bulk of inventory is sold but unsold homes remain.

# Builder Bail-Out

- ▶ Typically involves new construction, or new condo conversion properties
- ▶ The borrower is barely qualified, or unqualified
- ▶ Builder's marketing material advertises 'rent credit' to investors, and/or payment credit
- ▶ HUD-1 reflects unexplained pay-outs or inflated commissions (paid outside closing to buyer)
- ▶ All comparables are from within the subject's development and/or have inflated sales prices
- ▶ Unusual credits listed in the purchase and sale agreement
- ▶ Chattel or movable personal property is involved in the purchase
- ▶ Appraiser typically involved if appraisal appears inflated

# Condo Conversion Scams

Typically, a developer or investor buys an entire apartment building with the intent of completing renovations to each unit. Once renovations are completed, each unit is resold as a condo unit. It becomes a condo conversion scam when property values are artificially inflated or documented renovations are not completed but reflected in the new appraised value. The scam commonly involves multiple perpetrators who create and promote incentive packages that are deliberately concealed from lenders. This scheme can also involve the masking of illegitimate cash disbursements on the settlement statement.

## Condo Conversion Scams

- ▶ The neighborhood where the property is located had lagging sales followed by a sudden spike in volume and price
- ▶ Large number of condominium conversions in a particular area
- ▶ Comps used for appraised value were cash sales
- ▶ Confirm appraisal photos match to unit number; sometimes photos of another unit that has been fixed up are substituted

## Equity Skimming

In an equity skimming scheme, an investor buys the property from a homeowner facing foreclosure and agrees to lease the home to the homeowner who may remain in the home as a tenant. The rescue artist or arranged investor pays off the amount owed in foreclosure to acquire the deed, and receives any remaining portion of the homeowner's equity (where allowed by law). The rescue artist will reconvey the property back to the homeowner in the form of a lease or a contract for deed.

## Equity Skimming

- ▶ The borrower quit claims the ownership of the property to a third party
- ▶ Loan is being paid off by third party
- ▶ Borrower is low-income and typically uninformed



# Foreclosure Rescue

Mortgage fraudsters target homeowners who are delinquent on their mortgage, in default or on the brink of foreclosure, with false promises of being able to save their home from foreclosure or guaranteeing a loan modification with a reduced mortgage payment. The homeowners are deceived into signing over title to the property with the belief that they will be able to remain in the house as renters and eventually buy it back over time.

## Foreclosure Rescue

- ▶ Third party company acts as an “intermediary” for the borrower
- ▶ Borrowers disclose that they were advised by ‘foreclosure specialist’ to avoid contact with their servicer
- ▶ The borrower quit claims property title to a third party

# Loan Modification Scams

Loan Modification companies claim they can assist homeowners facing delinquency or foreclosure with options that allow them to keep their property, refinance or modify an existing mortgage, repair credit or help “stay in the home longer.” Typically, these companies charge excessive upfront fees for their “work,” fail to execute any of their promises, and put the homeowners at a much greater risk of losing their home.

## Loan Modification Scams

- ▶ Loan Modification company acts as an “intermediary” for the borrower
- ▶ Borrowers disclose that they were advised by ‘modification specialist’ to avoid contact with their servicer
- ▶ The borrower quit claims title of property to a third party, a Trust or an LLC

# Ponzi Scheme

Ponzi schemes (also known as “pyramid schemes”) occur when new “investor” money is used to make payments to earlier investors to give the illusion that an investment is successful (such as real-estate investments). This ploy is used to trick new investors to invest in the scheme and to lull existing investors into believing their investments are safe, secure and providing substantial returns. In reality, the fraudster typically steals the investors’ money for personal use. This type of scheme depends on a continual supply of new investors; when the supply of investors inevitably dries up, the scheme collapses and the investors discover that most or all of their money has been embezzled.

## Ponzi Scheme

- ▶ Unusual transfers of funds between related entities
- ▶ Sudden inconsistencies in currency transaction patterns
- ▶ May involve use of a 'shell' company, Trust or LLC

# Property Flipping

Recently acquired real estate property is resold for a considerable profit with an artificially inflated value. The real property is resold within a short time frame, often after making only minor improvements to the property. Illegal property flipping often involves collusion between a real estate appraiser, a mortgage originator and a closing agent. The cooperation of a real estate appraiser is necessary since a false and artificially inflated appraisal report is typically required.

# Property Flipping

- ▶ Comparable sales or listings used in the appraisal report are properties involving the same seller and/or real estate broker as the subject property
- ▶ Property has been owned by the seller for a short period of time
- ▶ Seller is often a company such as a Trust or LLC
- ▶ Transactions in which the contract seller is not the current owner of record verified through the title binder/policy
- ▶ Better matched comps are omitted from appraisal
- ▶ Only one spouse on loan application and previous owner was a non-borrowing spouse
- ▶ Long list of property improvements; however improvements are cosmetic in nature



# Property Flopping

A real estate property's value is falsely deflated for its first purchase (typically a short sale or REO transaction), then resold for its true market value in a subsequent transaction, shortly after the first transaction. In some instances, a real estate agent may be involved by withholding higher offers in order to induce a lender to accept a low offer.

## Property Flopping

- ▶ Use of a Broker Price Opinion (BPO) to determine the value of the property vs. a full Uniform Residential Appraisal Report (URAR)
- ▶ Date on contract for sale that predates the seller acquiring title to property
- ▶ History of LLC buyers/sellers aligned with short sales in subject neighborhood
- ▶ Odd amount as an earnest money deposit
- ▶ Purchase and sales agreement includes 'Right of Assignment' clause; and no inspection of property included
- ▶ Seller and real estate agent are the same person
- ▶ Sale is subject to seller acquiring title

# Reverse Mortgage Fraud Scheme

The fraud perpetrator manipulates a senior citizen into obtaining a reverse mortgage loan and embezzles the victim's reverse mortgage loan proceeds.

## Reverse Mortgage Fraud Scheme

- ▶ Property is quit claimed to the senior just prior to the reverse mortgage loan application
- ▶ May involve the use of a power of attorney (POA) on behalf of the senior
- ▶ A 'caregiver', family member or relative appears to be coaching the senior
- ▶ Communication with originator or underwriter is requested to only be done through the person holding power of attorney



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11-MFFLIP-0812-03