

MORTGAGE

FRAUD

A DANGEROUS BUSINESS



HONDROS LEARNING™
4140 Executive Parkway
Westerville, Ohio 43081
www.hondroslearning.com

© 2007 by Hondros Learning™. All rights reserved
Published 2007. Printed in the United States of America

11 10 09 08 07 1 2 3 4 5

ISBN: 978-1-59844-105-5

No part of this book may be reproduced or transmitted in any form or by any means, electronic, mechanical, photocopying, recording, scanning, or otherwise, or stored in database or retrieval system, including but not limited to, in any network or other electronic storage or transmission, or broadcast for distance learning, except as permitted under Sections 107 or 108 of the 1976 United States Copyright Act, without the prior written permission from the publisher. The publisher makes every reasonable effort to ensure the accuracy and completeness of the information in this book. Due to the dynamic nature of the material and the possibility of human or mechanical error, the reader is encouraged to refer to original sources as the ultimate authority on this subject. Please keep in mind that the examples presented in this text are for demonstration purposes only. Actual values may vary greatly in different regions, states, and cities. Hondros Learning™ and the Hondros Learning logo are trademarks or registered trademarks of Hondros Learning, LLC in the United States and/or other countries. Other registered names and trademarks, etc., used in this publication, even without specific indication thereof, are not to be considered unprotected by the law.

For more information on or to purchase our products, please call 1-866-84LEARN or visit www.hondroslearning.com.

TABLE OF CONTENTS

CHAPTER 1: An Introduction to Mortgage Fraud	1
Introduction	2
Mortgage Fraud Defined	3
Who is Committing Mortgage Fraud?	3
Industry Insiders	4
Where Does Mortgage Fraud Occur.	6
A High Priority for the FBI	6
Effects of Mortgage Fraud	7
Who is Affected by Mortgage Fraud?	7
A Growing Problem	8
Less of a Problem in the Past	11
The Growth of Mortgage Fraud	11
Inside Mortgage Fraud	14
Summary	15
Quiz	16
CHAPTER 2: Types of Mortgage Fraud	17
Types of Fraud	18
Fraud for Profit.	18
Fraud for Profit Schemes	19
Case in Point.	24
A Real-life Flipping Scheme	24
New FHA Rules to Prohibit Flipping	25
Good Flipping versus Illegal Flipping	25
Attributes of Flipping Schemes	26
Forged Appraisals	27
Fraud for Property.	29
Summary.	31
Quiz	31
CHAPTER 3: Predatory Lending	33
Sub-prime Lending	34
Higher Interest Rates and Higher Fees	34
End of the Housing Bubble Means Trouble	34
Are all Sub-prime Lenders Predatory Lenders?	35

TABLE OF CONTENTS

Who Are the Sub-prime Lenders?	36
How is Predatory Lending Distinguished from Mortgage Fraud?	36
Another Predatory Lending Scheme	37
Consequences for the Borrower	38
“Extreme Lending”	39
Indicators of Predatory Lending	39
Some Solutions for Predatory Lending	44
Many States Have Passed or Have Pending Predatory Lending Laws.	45
Are Predatory Lending Laws Effective?	46
Federal Intervention	46
Existing Laws	46
Freddie Mac’s Response to Predatory Lending	47
Penalties Against Predatory Lenders!	47
Predatory Lending Consumer Protection	49
Some Ideas to Discourage Predatory Lending	49
Some Final Thoughts	51
Summary	51
Quiz	52

CHAPTER 4: Mortgage Fraud Participants: Title & Escrow Companies 53

Title and Escrow Companies Investigated for Fraud	54
Title and Escrow Companies’ Roles	54
Title Insurance	54
Escrow Account Holders	55
Escrow Account Money	56
Title Companies and The Real Estate Settlement Procedures Act	56
When Does RESPA Apply?	56
When Does RESPA Not Apply?	57
Changes to RESPA	57
RESPA Statement of Policy 2001-1 Withdrawn	57
HUD Rules Currently in Place	58
The HUD Settlement Statement	59
Affiliated Business Arrangements Must Be Disclosed	59
Required Disclosures at the Time of Settlement	59
Required Disclosures after Settlement	63

Fraud Allegations against Title and Escrow Companies63
 Kickbacks63
 Case in Point.64
 More from California67
Educating Consumers68
Summary70
Quiz71

CHAPTER 5: Mortgage Fraud Participants: Appraisers & Real Estate Agents 73

Appraisers and Mortgage Fraud Schemes74
 Inflating the Numbers.74
 Giving in to Pressure from a Client or Other Third Party75
 Performing Comparable Searches76
 Stealing Other Appraisers’ Identities.....78
 Knowingly Referencing False or Altered Purchase Contracts78
 Failing to Adequately Describe the Property’s Neighborhood79
 Using Listings as Comparable Sales.....79
 Using False Comparables.....79
 Using Comparables that are Not Comparable80
Skill Builder80
 Making Unreasonable Adjustments81
 Making False Condition Statements81
 Failing to Inspect the Subject Property81
 Not Reporting Previous Sale Price(s) of the Subject Property82
 Ignoring Seller Concessions82
Real Estate Agents and Mortgage Fraud83
 Over-valuing Properties83
 Marketing Properties to Unqualified Buyers.....83
 Inventing Straw Buyers84
 Raising List Prices After Sales Contracts are Signed84
 Falsifying MLS Records84
 Targeting Out-of-Town Lenders to Provide Fraudulent Loans84
 Preparing Bogus Appraisal Reports.....84
Summary.....84
Quiz85

TABLE OF CONTENTS

CHAPTER 6: Mortgage Fraud Red Flags	87
Key Indicators of Mortgage Fraud.....	88
Red Flags.....	88
Summary.....	91
Quiz.....	92
CHAPTER 7: Foreclosure: The Result of Mortgage Fraud	93
The Rising Foreclosure Rate.....	94
How Foreclosures Work.....	95
Case in Point.....	95
Foreclosure Scams.....	96
Smooth Operators.....	97
Foreclosure Fraud Tactics.....	98
Consumer Strategies.....	99
When Foreclosure is Imminent.....	100
Summary.....	102
Quiz.....	102

According to the 2007 U.S. Foreclosure Market Report, in January through March, more than 430,000 foreclosure filings were reported nationwide—an increase of more than 30 percent from the same time frame in 2006.

The foreclosure rate in the U.S. is the highest it has ever been and rising. There are many reasons for this trend, including the increase in mortgage fraud. Each year, millions of dollars are lost to mortgage fraud and, despite efforts made by the FBI and local law enforcement, the outlook is not good. As thieves become savvier, the scams they concoct become more elaborate and more difficult to catch.

Unfortunately, *industry insiders* like appraisers, real estate agents, mortgage lenders, and title professionals are often involved in mortgage fraud scams. And as an industry insider, it is *your* responsibility to yourself, your company, and your customers to know what mortgage fraud is, how to prevent involvement, and how to protect your customers from becoming victims.

This textbook was designed with you, the professional, in mind. In the field, you've probably witnessed cases of mortgage fraud. With the information you learn here, you will have the knowledge to help stop the mortgage fraud epidemic from growing further, as well as prevent any inadvertent involvement on your part.

Using This Text

Mortgage Fraud: A Dangerous Business gives you the information you'll need to protect yourself and your customers and to be one step ahead of your competition. You'll find **key indicators of fraud** and **strategies for avoiding common scams**. Also included are **real-life examples of mortgage fraud**, from which you will see just how easy it is to get caught up in mortgage fraud scams and the **serious consequences** of doing so.

This textbook can also serve as a reference guide, providing helpful information for you and your customers.

Hondros Learning™

Hondros Learning is a leading provider of educational materials for real estate, appraisal, mortgage lending, home inspection, insurance, and financial services. Together with Hondros College, we have provided training for more than one million students, many of whom are among the most successful in their field.

For more information on this, or any of our other products, please visit www.hondroslearning.com.

ABOUT THE AUTHOR

Beth Sigg has taught thousands of real estate and appraisal students during her career as an instructor with Hondros College. A Certified General Appraiser, she specializes in commercial and industrial properties, and provides expert witness testimony for court cases. In addition to being certified by the Appraiser Qualifications Board of The Appraisal Foundation as a USPAP instructor, Beth has written numerous online and classroom appraisal courses. She has been licensed as a real estate broker for over 25 years.