



Fraud Schemes and their Characteristics

Resources to Help You Combat Mortgage Fraud

Fannie Mae is committed to working with our industry partners to help combat fraud by providing this list of fraud schemes and their characteristics.

Common characteristics accompany most fraud-for-profit schemes, and identifying them can be helpful in determining whether a loan is part of a larger fraud scheme. Inconsistencies in the loan file are often a tip-off that the file contains misrepresentations (more detailed loan-level “red flags” are published in the Fannie Mae document [Common Red Flags](#)). These characteristics are only indicators of a potential scheme; the presence of one or more of these characteristics does not necessarily mean that there was fraudulent intent, but it may warrant careful examination.

Straw Buyer Characteristics

Straw buyers are loan applicants used by fraud perpetrators to obtain mortgages and are used to disguise the true buyer or the true nature of the transaction.

- Mortgage payments are made by an entity other than the borrower
- The loan is usually an early payment default
- First-time home buyer with a substantial increase in housing expense
- Buyer does not intend to occupy: unrealistic commute, size or condition of property, etc.
- No real estate agent is employed (non-arm’s length transaction)
- Power of attorney may be used
- “Boiler plate” contract with limited insertions not reflective of a true negotiation
- Income, savings, and/or credit patterns are inconsistent with the applicant’s overall profile
- High loan-to-value (LTV) ratio, limited reserves, and/or seller-paid concessions
- Inconsistent signatures found throughout the file
- Use of gift funds for down payment and/or closing costs, minimum borrower contribution
- Title to the property is transferred after the sale closes

Air Loan Characteristics

An **air loan** is a loan to a straw or non-existent buyer on a non-existent property

- Air loans typically involve straw buyers (refer to “Straw Buyer Characteristics” section)
- No real estate agent is employed (fictitious transaction)
- Mortgage payments are made by an entity other than the borrower
- Common payer among loans is involved in scheme
- Common mailing address among loans is used in scheme
- Unable to independently validate chain of title
- The lender is experiencing financial distress



Double Sale Characteristics

A **double sale** is the sale of one mortgage note to more than one investor.

- Mortgage payments are made by an entity other than the borrower
- Mailing address is not the borrower's address
- Two mortgages recorded on the same property
- Mortgage is not recorded in first lien position
- The lender is experiencing financial distress
- Two notes may be identical except for signatures (or one may be a color copy)

Property Flip Characteristics

Illegal **property flipping** occurs when property is purchased and resold quickly at an artificially inflated price, using a fraudulently inflated appraisal.

- Flips typically involve straw buyers (refer to "Straw Buyer Characteristics" section)
- Flips sometimes involve naïve purchasers
- Seller very recently acquired title, or is acquiring title concurrent with the subject transaction
- No real estate agent is employed (non-arm's length transaction)
- Property was recently in foreclosure, or acquired at real estate owned (REO) sale at low sales price
- The appraised value is fraudulently inflated
- The appraiser frequently uses other property flips as comparables (examine comparable properties' sales histories)
- Owner listed on appraisal and/or title may not match the seller on the sales contract
- Refinance transaction used to pay off private short-term financing

Ponzi/Investment Club/Chunking Characteristics

Ponzi, investment club, or chunking schemes involve the sale of properties at artificially inflated prices, pitched as investment opportunities to naïve real estate investors who are promised improbably high returns and low risks.

- No real estate agent is employed (club recruits buyers and/or non-arm's length transaction)
- Property was recently in foreclosure or acquired at REO sale at a low sales price
- Borrower may have paid a membership fee to participate in the "club"
- First-time landlord with non-savvy investors
- Seller offers to manage these rental properties
- Borrower may have been told that the seller or the "club" would make mortgage payments
- Borrower purchased multiple properties simultaneously, but did not disclose other loans in process to their lender (this is called "shot-gunning;" watch for credit inquiries)
- The appraised value is fraudulently inflated (see "Property Flip Characteristics" section)
- Renovations performed by firms owned by members of the investment club



Builder Bailout/Excessive Sales Incentive Characteristics

A **builder bailout** is when a seller pays large financial incentives to the buyer and facilitates an inflated loan amount by increasing the sales price, concealing the incentive, and using a fraudulently inflated appraisal.

- Typically involves new construction or new condo conversion
- Builder's marketing material advertises rent credit and/or payment credit to investors
- The Closing Disclosure reflects unexplained pay-outs or inflated commissions (paid outside closing to buyer)
- All comparables are from within the subject's development and also had inflated sales prices

Buy and Bail Characteristics

The homeowner is current on the mortgage, but the value of the home has fallen below the amount owed, so he or she applies for a purchase money mortgage on another home. After the new property has been secured, the **buy and bail** borrower will allow the first home to go into foreclosure.

- The borrower defaults on the original mortgage shortly after purchasing a second property
- The borrower will be a first-time landlord (renting out the original property)
- The borrower has minimal or no equity in the original property
- Inability to validate lease terms with the purported tenant
- Purported tenant has a pre-existing relationship with the homeowner

Foreclosure Rescue Characteristics

A **foreclosure rescue** scheme involves foreclosure "specialists" who promise to help the borrower avoid foreclosure. The borrowers often pay for services that they never receive and, ultimately, lose their homes.

- The borrower was advised by a foreclosure specialist to avoid contact with the servicer
- The borrower has paid someone to negotiate with the servicer on his or her behalf
- The borrower states that he or she is sending mortgage payments to a third party
- Borrower receives a purchase offer greater than the listing price
- Borrower states that he or she will be renting back from new owner
- The borrower quitclaimed (any portion of) the title to a third party at the advice of a foreclosure specialist
- Borrower signature varies between the short sale contract and loan origination documents
- The borrower has recently updated his or her contact information
- Borrower claims he or she does not have to pay because the mortgage is invalid (debt elimination)

Short Sale Fraud Characteristics

In **short sale fraud**, the perpetrator profits by concealing contingent transactions or falsifying material information, including the true value of the property, so the servicer cannot make an informed short sale decision.

- Sudden default, no workout discussions, and immediate offer at short sale price
- Ambiguous or conflicting reasons for default



- The mortgage delinquency is inconsistent with the borrower's spending, savings, and other credit patterns
- Short sale offer is from a related party
- Short sale offering price is less than current market
- Cash-back at closing to the delinquent borrower or other disbursements that have not been expressly approved by the servicer (sometimes disguised as "repairs" or other payouts)
- The buyer and real estate agent may be the same person or related parties

Unauthorized Fees and/or Payouts Characteristics

An advance fee scheme perpetrated by foreclosure rescue specialists during which **fees and/or payouts** that were not approved by the servicer agreeing to the short sale are reflected on the Closing Disclosure.

- Short sale Closing Disclosure has unauthorized management, consulting, or short sale negotiation fees
- Short sale Closing Disclosure reflects excessive unauthorized payoffs to second lien holders

Non-Arm's Length Short Sale Characteristics

A **non-arm's length short sale scheme** involves a fictitious purchase offer made by the homeowner's accomplice (straw buyer) in an attempt to fraudulently reduce the indebtedness on the property and allow the borrower to remain in their home.

- Purchaser has previous or current ownership of the subject property
- Purchaser address matches the borrower's address
- Purchaser's name is similar to the borrower's
- Purchaser employment address matches the borrower's employment address

Short Sale Flip Characteristics

In a **short sale flip scheme**, the perpetrator manipulates the short sale lender into approving a short payoff and conceals an immediate contingent sale to a pre-arranged end buyer at a significantly higher sales price.

Short Sale Flip: Title Issues –Transfer to Business, LLC or Trust

Short Sale Loan:

- The borrower is not in title to the property on the date the short sale closes
- Short sale Closing Disclosure dated after title transferred to third party, yet borrower is listed as seller
- The borrower is transferring title to a business, trust, or LLC

End Purchase Loan:

- The seller is not the recorded title holder
- The seller on the sales contract does not match current owner on appraisal or vesting on title
- The title commitment is dated prior to the sales contract or initial loan application
- Title commitment requires additional deeds to be recorded to perfect "current vested owner"



Short Sale Flip: Bait-and-Switch with “Decoy Closing Disclosure”

- The seller is netting significant cash
- Title reflects outstanding significantly higher liens than amounts to be paid on the Closing Disclosure
- All liens reflected on title are not being paid on the Closing Disclosure

Reverse Mortgage Fraud Characteristics

In a **reverse mortgage fraud** scheme, the perpetrator manipulates a senior citizen into obtaining a reverse mortgage loan and then pockets the senior victim's reverse mortgage loan proceeds.

- The senior claims he/she received the house free from a “special government program”
- Distressed property is quitclaimed to the senior just prior to the reverse mortgage loan application
- There is a power of attorney acting on behalf of the senior
- A caregiver or family member appears to be coaching the senior
- The power of attorney is held by a caregiver but the senior has relatives (children, grandchildren)
- The senior has no prior homeownership
- “For Sale” sign in the yard
- Appraisal photos suggest the property is vacant
- Appraisal uses comparable sales that are outdated or outside of the property's neighborhood
- Communication with the loan officer is only done through the person holding power of attorney
- The senior's credit report is inconsistent with information on the loan application
- Monthly mortgage statements are not sent to the senior's address
- The senior borrower withdraws large amounts of cash or has unusual spending activity
- The senior obtains a reverse mortgage but deposits little or no funds into his or her bank account
- Proceeds of the reverse mortgage are being used to satisfy a non-borrower lien
- Power of attorney documentation is inconsistent with physician letters and dates regarding competency of the senior borrower
- The senior claims he or she invested the loan proceeds in an annuity or other financial product
- The senior takes Home Equity Conversion Mortgage loan proceeds in a lump sum at closing (fraudsters are not interested in the line of credit or annuity distribution options.)
- The loan officer's bank account reflects large deposits/withdrawals inconsistent with income

Affinity Fraud Characteristics

In **affinity fraud**, perpetrators rely on a common bond and exploit the trust and friendship that typically exist in the group of individuals with a common bond to support the scheme. Certain ethnic, religious, professional, or age-related groups are targeted.

- Parties to the transaction (loan officer, closer, realtor, borrower, appraiser, etc) have a common bond
- Common surnames for multiple parties to the transaction



- The borrower's excessive assets do not align with job type
- Large gifts from group members as the source of down payment
- The borrower works for what appears to be a member of the group
- Common tactics include the use of straw buyers, falsified gift funds, and altered employment or asset documentation

Reverse Occupancy Fraud Characteristics

In **reverse occupancy fraud**, a borrower buys a home as an investment property and lists rent proceeds as income to qualify for the mortgage. But then instead of renting the home, the borrower occupies the home as a primary residence.

- The subject properties are sold as investment properties
- Purchasers are first-time home buyers with minimal or no established credit
- Purchasers have low income but significant liquid assets that are authenticated by bank statements
- Purchasers make large down payments
- The appraisal has a comparable rent schedule (to show expected rental income from the subject property)
- Purchasers present “rent free” letters stating they are not paying rent to live in their primary residence
- The purchasers and other parties to the transaction belong to an identifiable group that share certain characteristics that are often seen in cases of affinity fraud
- Transactions occurring in a specific geographic region