Foundations On-Demand

Fraud Schemes Answer Key

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Answer Key!

Backwards Application and Identity Theft

Q: What is Consumer Identity Theft?

A: The type of identity theft that occures when someone's identy and credit history are used to complete a credit transaction.

Q: What is Professional Identity Theft?

A: The type of identiy that occurs whe nan idustry professional, like an appraiser has their identity sotle in order to complete fradulent forms.

Strawbuyer and Occupancy Fraud

Q: What is a Strawbuyer Scheme?

A: A type of fraud that diguises the true buyer of the transcation. A strawbuyer is a person who makes a purchase on behalf of another person. Most frequently, this is when the real buyer cannot qualify for the transaction themselves.

Q: What are the red flags for Strawbuyers?

A: Income,savings or credit are not consistent with the applicants overall profile. Post-closing you may find early-default and/or the mortgage payments are being made by someone other than the borrower of the loan.

Q: In what ways are Strawbuyers connected to Occupancy Fraud?

A: A type of fraud that includes a borrower applying for mortgage without the intention of occupying the home as indicated on their loan application. Example: A property that is actually to be used as an investment property listed as a primary residence on the loan application

Flip Transaction

Q: What is an illegal property flip scheme?

A: A fraud for profit scheme when a home is purchased and resold within a short time frame at an artificially inflated value.

Q: What document is generally falsified in order to complete a flip transaction?

A: The flip typically involves a fraudulent appraisal. Often the fraudulent appraisal will indicate significant renovations to a property to justify the increased value, when there may have been no renovations completed or only minor cosmetic improvements.

Q: In the example provided, was the flip legal? Why or why not?

A: The flip involves a fraudulent appraisal, which indicate that renovations were made to the home, when, in fact, there were none.

Q: Who are the perpatrators of flip transactions?

A: Based on the scenario provided, the Realtor, Builder, and Appraiser have all participated in fraud for profit. Although it is important to know that property flipping schemes may include anyone in the Lending and Real Estate Services community – Realtors, Builders, Appraisers, Loan Officers, Underwriters, Home Inspectors, etc.

Answer Key!

Real Estate Wire Fraud

Q: What is Real Estate Wire Fraud?

A: A type of fraud that occurs when funds are electronically transferred to a fraudulent account, most commonly as a result of a fraudulent email.

Q: How does this Fraud commonly occur?

A: Real Estate Wire Fraud commonly originates with an email hacker sending a fraudulent email to an unsuspecting mortgage professional or consumer (buyer or seller of real estate).

Q: How can we prevent Real Estate Wire Fraud?

A: Real Estate Wire Fraud can be prevented by making sure that real estate professional and their customers are well educated on what these emails may look like and be encouraged to verify wiring instructions and any last minute changes. In general, real estate professionals should always use a secured email and anti-virus software.

Foreclosure Rescue

Q: How does Foreclosure Rescue work?

A: Scammers will present themselves as helping a borrower by convincing them that they are being "rescued" from a foreclosure. The borrower is asked to sign a few legal documents to restructure their debt. In reality, the borrower is unknowingly assigning title to the scammer without any financial compensation. In many cases the borrower is also signing a Power of Attorney, giving the scammer full control of the situation.

Chunking

Q: What concerns do you have with this example?

A: Sometimes this scheme may include a fraudulent cashier's check that can be sent to the bank to satisfy a mortgage.

Q: What are the components of debt-elimination schemes?

A: Ponzi, investment club, or chunking schemes pitch investment opportunities to naïve real estate investors and generally involve the sale of properties at artificially inflated prices. These often occur through real estate investment advertisements or seminars

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Answer Key!

Air Loans and Builder Bailout

Q: What is an Air Loan Scheme?

A: A fraud for profit scam that relies on a fraudulent appraisal indicating property value with land and dwelling (home). In reality, they a duped into securing a vacant parcel of land.

Q: When an air loan defaults, how does this impact the lender?

A: In most foreclosures, the lender will incur financial losses even when the property is resold. In an air loans, the property will immediately be without the dwelling and therefore at a lower price. This significantly increases the financial loss potential for the lender. These losses can impact the lender, title insurance company and potentially unsuspecting homebuyer that may have been duped into believing that a home would be built on the property.

Q: What is a Builder Bailout scheme?

A: This type of fraud commonly occurs in distressed real estate market. The builder, with short term construction financing obligations to pay, is unable to sell enough homes in the project to pay off construction debt and is unable to secure new financing.

Q: What are the different ways a builder bailout can occur?

A: Convince buyers to purchase a property with undisclosed down payment or closing costs paid by the builder. Make false promises of community amenities such as a pool or clubhouse with fitness center. Provide excessive undisclosed upgrades and incentives to the buyer. Involve strawbuyers. Entice real estate investors by overstating income potential or offering property management services that later will not be available. Sell a property to corporations that they have set up to shift liability and inflate property values.

Internet Fraud

Q: What are the red flags you can look for to help you identify internet fraud?

A: Borrower's income is not sensible with the borrower's employment profie. Borrower on the job for a short period of time while earning substantial income. Employer cannot be found through internet searches. Employer's location is not valid based on searches. Paystub templates are similar for different borrower's and different employers. Tax deductions are not accurate or consistent.

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