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Credit Enhancement Schemes

Credit enhancement schemes may take various forms. In the most basic scheme, a loan officer and home builders are taking measures to encourage borrowers to have their names added to the bank accounts of friends or family members temporarily to circumvent the underwriting process to show that they have sufficient deposits on hand. Additionally, some originators and homebuilders are depositing money into the accounts of loan applicants who are in the process of trying to qualify for a mortgage to be used as an asset. Once the underwriting process qualifies the loan and it closes, the builder withdraws the money and uses it for the next potential borrower. According to Fannie Mae, perpetrators are also filing amended tax returns and paying "back taxes" on unreported income for previous years to aid in the verification of income process for a new loan application.

Perpetrators are also using credit enhancement schemes to circumvent tightened lending practices established by Fair Isaac Credit Organization (FICO) 08.34 The schemes include purchasing credit privacy numbers (CPNs)35 and seasoned trade-line accounts,36 creating fraudulent retailer financial relationships, and staging credit-washing schemes with the intent to strengthen a perpetrator's credit history and ability to apply for new loans. These schemes are facilitating both mortgage fraud activity and illicit credit representation practices.37

Builder-Bailout Schemes - Modified
Builder-bailout schemes continue to be problematic in the current distressed market in which builder inventory is increasing while demand is decreasing (*see Appendix A for an explanation of a builder-bailout scheme*). These schemes typically consist of builders offering excessive incentives to buyers, which are not disclosed on the mortgage loan documents. Recent modifications to this scheme involve condominium-conversion, and “pump and pay” schemes (*see below*).

Builder-Bailout - Condominium Conversion
Individuals are participating in builder-bailout and property flipping schemes using apartment complexes that were converted into condominium developments. During the housing boom, many apartment complexes were purchased by developers and contractors and converted into condominiums. When the housing market began to decline, developers had excess inventory of units that they could not sell. They began to offer incentives such as cash-back at closing and paid condominium association dues to encourage investors to purchase units within the newly established developments. Since the buyers purchased the condos as investment properties, they were not owner-occupied. The developers and contractors claimed that they would find people to rent the condos, would oversee the management of

the complex, and would collect rent from the tenants. These schemes often target investors interested in low to no-risk investment properties. Perpetrators of these schemes typically inflate the value of the condominium to obtain a larger sales price to offset the cost of the incentives.

Builder-Bailout - Pump and Pay

Builders in Florida , North Carolina , California , Texas , and various other locations throughout the United States are working with co-conspirators to inflate the appraised value of their properties. This false equity is distributed to the perpetrators and disguised as set-asides for future maintenance, insurances, and tax payments on the property.

Foreclosure Rescue Schemes

Foreclosure rescue schemes continue to be problematic, especially in the current distressed market in which more than 2.3 million properties were in foreclosure in 2008 (*see Appendix A for an explanation of a foreclosure rescue scheme*). These schemes typically consist of perpetrators soliciting homeowners in foreclosure and offering to "rescue" them from losing their home for a fee. Recent modifications to this scheme involve arson/insurance fraud, bankruptcy schemes, and loan modification program schemes (*see below*).

Foreclosure Rescue - Arson

Homeowners, property flippers, and investors are committing arson to avoid real estate foreclosure.38 The insurance policy holder files a false insurance claim following the arson to extract illicit proceeds from the property to avoid foreclosure.39

Foreclosure Rescue - Bankruptcy

Perpetrators are exploiting US Bankruptcy courts to defraud homeowners who are facing foreclosure.40 They are targeting distressed homeowners through Internet advertisements, newspapers, flyers, and through publicly available county foreclosure notices. They offer to provide the homeowner with assistance designed to prevent them from losing their home. They charge the homeowner an up-front fee, typically ranging from $200 to $1,000. In many instances, the perpetrators convince the homeowner to continue to make their monthly mortgage payment, but to direct the payment to the perpetrator. They also misguide the homeowner to cease any communication with the lender. The perpetrators direct the homeowner to complete the necessary paperwork which includes signing a bankruptcy petition. The perpetrator subsequently files the bankruptcy petition in the homeowner's name with either the signed petition or a forged petition.

The bankruptcy petition invokes the automatic stay, resulting in the imminent foreclosure being postponed, and the homeowner stops receiving collection calls and letters. Frequently, homeowners are unaware of the bankruptcy petition and believe that the perpetrators have fulfilled their obligation to prevent them from losing their home. The perpetrators further misinform the homeowners to ignore any court notices to appear at the bankruptcy hearing. However, when no one appears at the bankruptcy hearing, the foreclosure process begins again.

In a variation of this scheme, the perpetrators convince the homeowner to "quit-claim" the property to the perpetrator or to sell the property for a nominal fee, usually $1. The perpetrators charge the homeowner rent until the mortgage problems are resolved. After which, the homeowner is able to repurchase the property or share the profits if the perpetrator sells the property. In some property transfers, the homeowner is instructed to transfer only a fractional interest in the property to the perpetrator who then transfers that interest to another individual or entity (often fictitious). Often, the fractional interest is transferred numerous times as the automatic stays are lifted, which delays foreclosure for months and generates additional proceeds for the perpetrators. According to the Executive Office of US Trustees, one residential property was linked to 24 different bankruptcy cases.

Foreclosure Rescue - Loan Modification Program Schemes
Loan modification schemes, typically in the form or an advance-fee/foreclosure rescue scheme, are emerging as recent vulnerabilities in HERA and EESA legislation (*see text box, page 7*) becomes apparent. Lenders are mandated by recent legislation to work with homeowners to assist them in keeping their homes out of foreclosure; however, individuals are perpetrating advance-fee schemes to generate income from victim homeowners. Perpetrators solicit homeowners with mail flyers offering to help them stop the foreclosure process on their homes. Homeowners are falsely told that their mortgages would be renegotiated, their monthly payments would be reduced, and delinquent loan amounts would be renegotiated to the principle. Perpetrators require an up-front fee ranging from $1,500 to $5,000 from homeowners to participate in the loan-modification program. Perpetrators often request that the victim homeowners stop payments and communication with their lender. When victims receive delinquency and foreclosure notices, the perpetrators convince them that the loan was renegotiated, but that the lender needs a good faith payment to secure the new account.

Serial Property Flipping
Illegal property flipping continues to be a significant scam identified by both industry and law enforcement agencies. Perpetrators are taking advantage of the distressed housing market and repeatedly flipping the same property numerous times.

Short Sale Schemes - Modified
Short sale fraud schemes continue to be used in combination with foreclosure rescue schemes in an effort to victimize homeowners and financial institutions (*see Appendix A for an explanation of a short sale scheme*). Perpetrators across the country are recruiting real estate agents and paying them referral fees for locating and soliciting homeowners undergoing foreclosure. Homeowners are entering into agreements with perpetrators deeding their property to them in the form of a land trust. The homeowner is listed as the beneficiary of the trust and the real estate agent is listed as the trustor. The perpetrators then negotiate a short sale with the lender. After the short sale, the real estate agent sells the property for a profit to another previously identified buyer, but the lender and the homeowner do not know

this. In effect, the perpetrator sells the property for less than the mortgage and re-sells the property, often the next day, for a profit.