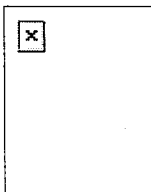




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## Recognizing Real Estate Fraud

by Ralph R. Roberts

Every day, in every city all over the country, real estate industry professionals participate in fraudulent transactions.

Many are fulfilling a carefully orchestrated scheme, while others are sincerely unaware that their actions could bring them fines, loss of licensure, or even jail time. They believe what they're doing is legal and condoned because "so many established people are doing the same thing." The key to preventing and detecting fraud is knowledge - by understanding what fraud is and how it works you can protect yourself, your business, and your customers.

No matter what your role is in the deal, you have the unique opportunity to affect the validity of a homeowner's real estate transaction, simply by touching the application. Each one is an opportunity for an honest loan, and each person your customer works with has a responsibility to continue that transaction with the same integrity. As the borrower is handed off from Realtor to loan officer to processor to underwriter to lender to title and escrow, there are hundreds of occasions for fraud. When you know what to look for (and refrain from infringing on the law yourself), you can have a significant positive impact on the quality of your business.

Although mortgage fraud evolves and becomes more complex as technology improves and forgeries are harder to identify, there are still two basic types of real estate fraud: fraud for property and fraud for profit. In a fraud-for-property transaction, the loan application is completed with falsified information, with the purpose of getting someone into a loan who wouldn't otherwise qualify. For example, a borrower might provide altered pay stubs, "enhance" their credit score, or claim that their down payment was a gift when in fact it was a loan from a third party (also called a "silent second"). Some applicants commit this fraud on their own and may or may not realize the seriousness of their actions, while others are "coached" by their real estate agent or loan officer to distort the facts. It is often (and erroneously) considered a "victimless crime" because the end result is someone getting the home of their dreams. This is a romanticized notion to say the least. When borrowers purchase homes they can't afford, they are at an elevated risk of defaulting and foreclosures. True, maybe one delinquency won't topple the real estate market-but consider that in the last quarter of 2005, the MBA reported a national delinquency rate of 4.44

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percent, out of nearly 41 million loans. That's a big hit for the industry to take.

Alternately, a fraud-for-profit scam is usually designed to manipulate the lender by conspiring with appraisers, straw buyers, or other insiders. These schemes are more difficult to detect because there are often several people involved, and you may not know who's on the "up and up." This is why it's so important to always work with associates you trust and feel confident in. Choosing your appraiser, title company, or other industry party based on price alone won't help you gauge their values; as in most aspects of the real estate world, strong, reliable relationships are essential. In addition, before you join a new company or meet with a recruiter, try to get an idea of their ethics, procedures, and fraud knowledge. Even if you're an established figure in the industry, don't assume that the person you've been referring business to for 15 years is immune from fraud. Know your associates and don't be afraid to tell them when you feel their actions violate the law.

Four common schemes to be on the lookout for include:

**Appraisal Fraud:** A property is over - or undervalued, often due to pressure from loan originators and real estate agents to alter appraisal reports. This pressure can be negative (yelling or threatening) or seemingly positive (gifts and other illegal kickbacks).

**Flipping:** A home is purchased and "flipped" or sold immediately for a severely inflated price, often upwards of 30 to 50 percent of the original selling price. That initial transaction is often concealed from the lender. The loan is never repaid and the lender is left high and dry.

**Identity Theft:** This can range from stealing a customer's identity, to using false names to take out loans, to appraisers using another's name to make false valuations. Identity theft happens swiftly, and finding someone who's real identity you may not know after the loan is completed can be nearly impossible.

**Straw Buyers:** One person (or company) pays someone else to pose as the home buyer, using their own information and credit score to purchase a property. The scammers then take over the title and mortgage. Essentially, the lenders think they're loaning money to one person, when in actuality, the home will be owned by someone else.

**Preventing Fraud**

In 2005 there were over 21,994 suspicious activities reports filed within the real estate industry, yet only three percent were ever investigated. Imagine if you only completed three percent of the items on your to-do list-you'd be frustrated, scrambling for resources, and in need of serious help. That's how the Financial Institution Fraud Unit of the FBI feels. Without adequate resources, or an agreed-upon way to fund all of these cases, the FBI and other enforcement officials are left treading water.

So what can you do? Take action when you suspect fraud. Do your due

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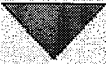

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diligence on every single real estate transaction that comes across your desk to catch false information before a loan closes, whatever the likelihood of fraud. You never know who else is involved in the deal, and what ulterior motives they may have. Check the property's background, look for recent sales, and get a second appraisal if you feel the numbers just don't add up. Ask for back-up verification on any questionable information.

If you know someone has committed fraud, report it. If you let it go, you can bet that person will go on to take advantage of another unsuspecting company. I recently spoke with a mortgage broker who found that one of his originators was going back through old files and enhancing the clients' credit scores using his personal credit. The loan officer was fired, and he promptly went down the street to set up business again. The broker chose not to report the fraud because he "didn't want a state investigation." He ended the loan officer's career within his company, but allowed him to go on to presumably continue his fraudulent practices and teach others how to do the same thing. This is why it is crucial that you file a fraud report without fear of retaliation or "making waves." While you won't necessarily be considered an "accessory" to the crime simply by looking the other way, you will be effecting the industry as a whole, now and into the future. The FBI stresses that self-policing within the real estate world is the best defense we have against the influx of fraud that threatens every deal we make.

Knowledge is power, and it's the best way to eliminate fraud in the real estate industry. Go to <http://flippingfrenzy.com/report.html> for fraud reporting information, or <http://MBAFightsFraud.MortgageBankers.org> for tips, news, and links.

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