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Fraud Alert

New Land Flip Scheme Takes the Country by Storm

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This new fraud scheme is pervasive throughout the entire United States and is being perpetrated primarily by the "selling real estate agent or broker". The scheme also involves the TPO (Third-Party Originator), the settlement agent and borrower. There is **NOTHING LEGAL** about this scheme and participants risk significant civil and criminal penalties by engaging in this illicit fraud scheme designed to defraud the lender or secondary market investor.

A recent example will best describe how the scheme works. A residential property is listed through MLS for $375,000. The Buyer, through their real estate broker, tenders a Contract Offer that calls for the Seller to pay a percentage of the buyer's closing costs and is contingent on financing. Everything proceeds in a usual and customary manner until closing.

At closing the Seller is instead shown a HUD-1 that reflects a much higher sales price of $499,000 with 100% financing from a lender. More importantly, the HUD-1 also reflects a pay-off of a non-existent mortgage or lien for more than $100,000. This money represents the "proceeds" of the fraud scheme. We have also found these deals include over-inflated values in the appraisal; false earnest money deposit letters generated by the settlement agent and "straw buyers" being used as the Buyers in these transactions. Sometimes, the "straw buyer" is being paid a fee for the use of their credit.

Another variation of the scheme involves a property listed through MLS for $474,900. At the time the Contract Offer is presented to the Seller, the Contract calls for a Sales price of $600,000. An Addendum to the Contract provides that the net difference in the Contract sales price and the MLS sales price be paid to release a "non-existent" lien or mortgage or to pay a management fee, fix-up expense, etc. This amount is generally in excess of $100,000. As in the first example, no money is being brought to closing, financing is generally at 100% of the Contract sales price, the appraisal is grossly over-inflated and the borrower is an "investor" or "straw buyer". Investigation has shown the lender DOES NOT receive the Addendum to the

Contract and is not aware of the additional terms that would preclude them from funding this mortgage loan. In addition, the pay-off of the non-existent lien or mortgage is reflected on the seller's side of the HUD-1 Settlement Statement.

This new scheme is clearly designed by the fraudsters to defraud the lender into loaning more money on the property than what it is actually worth and to defraud the lender into believing the borrower is bringing money to closing when, in fact, they are not.

In this down market, fraudsters are becoming more and more inventive in their way to defraud lenders and title insurers. Unfortunately, many lenders today are also very desperate so they look the other way too often or don't undertake enough due diligence prior to funding the loan. It is only after the loan goes into default that someone else has to take the fall for their bad lending decisions.

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