



Fraud and Red Flags

Training , Policies, and Procedures

- Fraud
 - Scheme Participants
 - Refinances and Purchases
 - Appraisal
 - Fraud and Red Flags
- Fraud Terms
- What to Do

Learning Objectives



Fraud Participants

Fraud scheme participants can include:

- Recruiters targeting seniors at church and financial seminars
- Reverse sales professionals
- Realtors, real estate investors, builders
- Appraisers
- Closing attorneys
- Closers and notaries
- Relatives
- Caretakers, neighbors and casual acquaintances
- Persons who present themselves as “foreclosure specialists”
- The borrowers themselves



Red Flags

Red flags for refinances and purchases include:

- Quit Claim Deeds (QCDs) or Limited Warranty Deeds to the senior.
- Unrecorded documents, or documents with a noticeable gap between the date executed and the date recorded, indicating backdating.
- Liens on title that cannot be documented by legitimately recorded documents.
- Unrecorded liens reflected on title commitments.
- Multiple loans from one referral source with a high use of POAs.
- POAs executed after a borrower has become incapable of managing financial affairs.
- Low income seniors, with little income and little-to-no assets.
- Bogus HUD-1 showing senior sold a property.
- Bogus civil judgment settlements awarded to seniors.
- Anonymous land trusts where the borrower's claim of ownership cannot be documented.



Red Flags, cont.

- HECM purchase transactions for borrowers who purchase homes that are not in line with their income and assets.
- Homes that do not appear to fit the borrower's needs, such as two-story homes for older borrowers with limited mobility.
- Recent addresses on the credit report that suggest the borrower lives elsewhere, or is possibly a victim of identity theft.
- Tax records pulled directly from the IRS that differ from those provided by the borrower.
- Bank accounts showing frequent transactions not typical to a senior, such as debits to The Gap, Old Navy, monthly gym memberships, and so forth.
- Recording data on documents that does not display a book and page, or is inconsistent with typical evidence of being filed of record.
- Credit reports that show numerous recently opened accounts with balances at or near to credit limits when Power of Attorneys are used.



Red Flags, cont.

- Credit reports that show numerous recently opened accounts with balances at or near to credit limits when Power of Attorneys are used.
- Credit reports that indicate one or more repositories have been frozen, the address history is suppressed.
- Consumer fraud alerts with a contact phone number that is different from the phone number on the application.
- Recent mortgages, either private or commercial, taken out on properties that were free and clear. Ask yourself: was it done to circumvent the draw limitations in the first year?
- Equity trades, where the buyer and seller purchase each other's homes. This is not allowable on HECM purchases.
- Properties recently purchased with gifts of equity that show no cash investment by the borrower, and closing costs paid by seller.



Red Flags, cont.

- Borrowers' signatures appear different from state ID, driver's license or Social Security card.
- Documents provided to prove occupancy appear to be "cut and pasted."
- A HECM to HECM has a large and unsupported value increases within a short period of time.
- An amended title showing a borrower is vested without supporting documentation, and which is inconsistent with the date the vesting changed.
- Power of Attorneys who have no known family relationship to the borrower, such as caretakers, neighbors, church members, or a "friend."
- Assets appear to be out of line with the applicant's credit standing, income or lifestyle.
- Excessive earnest money was paid at the time sales contract was executed.
- Gift funds from a "family member" are wired directly to the title company prior to loan approval.
- Inconsistent family relationship are noted in the file. For example, the doctor's letter refers to a "niece," while the alternative contact show the same person as a "daughter" and a letter of explanation refers to the POA as a "grandchild."



Appraisals

Red flags on appraisals include:

- Empty, unfurnished rooms in refinances. Photos of ceilings and floors.
- Vague descriptions of completed repair work.
- Attached paid invoices from “contractors.”
- Comparables outside the subject’s neighborhood. The location map is minimized, and possibly distorts distance of comparable property.
- Floor plan sketches identifying a room as “other,” or large spaces that are not identified.
- Photos of the subject property do not agree with Uniform Appraisal Dataset (UAD) condition rating definitions, or are inferior to the MLS photos and descriptions of the comparables.
- Appraisers that are repeatedly assigned to a particular loan officer or company, without any evidence of a valid rotation process.



Appraisals, cont.

- There is no evidence of necessary permits for the repairs and renovations stated as completed.
- Discrepancies of subject's square footage and county records, which could indicate unpermitted additions.
- Repairs are obviously necessary in photos, but the appraiser makes no condition for repairs.
- Properties have multiple front doors, back doors, electric meters, or kitchens, yet the appraiser indicates the property is a single family home.
- Rooms and dimensions used for accessory unit or commercial purposes are vague.
- External influences are not mentioned, or are addressed in vague terms.
- There are no photos of primary living areas, such as kitchen, living room, bathrooms and bedrooms.
- Inconsistent or vague description of zoning.
- Manufactured homes located in town are described as "rural."



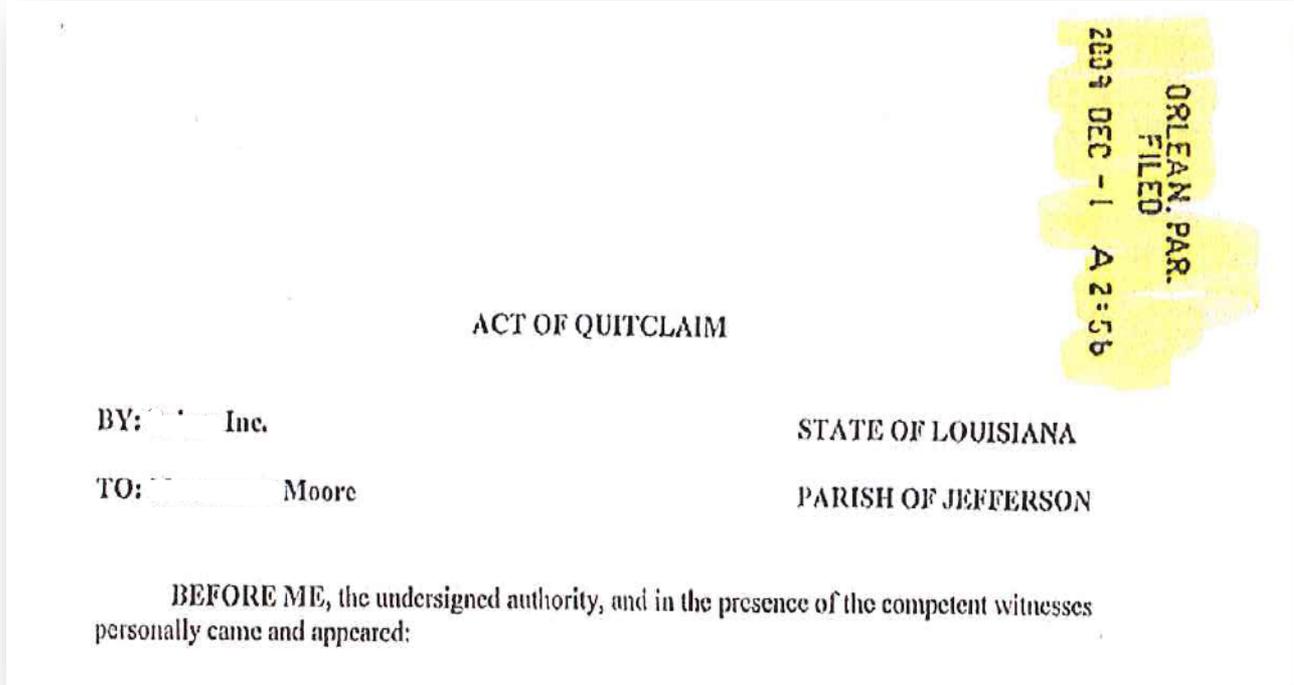
Appraisals, cont.

- The purchase price is substantially higher or lower than the predominate market value.
- Comparables' sales prices do not bracket the subject's adjusted value.
- Comparables are not similar in size, style, room count, amenities, location or view to the subject property.
- External influences are not mentioned or adequately addressed.
- Weather conditions in the photos are inconsistent with the appraisal completion date.
- The prior sales are listed for the subject property and comparables without adequate explanation.



Examples

A quit claim deed with false filing information:



Examples

This loan closed in 2013 and taxes here are normally the most recent.

SCHEDULE B-SECTION II EXCEPTIONS

The policy or policies to be issued will contain exceptions to the following unless the same are disposed of to the satisfaction of the Company:

1. Defects, liens, encumbrances, adverse claims or other matters, if any, created, first appearing in the public records or attaching subsequent to the effective date hereof but prior to the date the proposed insured acquires for value of record the estate or interest or mortgage thereon covered by this Commitment.
 - a. Defects, liens, encumbrances, adverse claims or other matters, if any, created, first appearing in the public records or attaching subsequent to the effective date hereof but prior to the date the proposed insured acquires for value of record the estate or interest or mortgage thereon covered by this Commitment.
 - b. RESTRICTIVE COVENANTS AS PER CHAIN OF TITLE
 - c. TAXES FOR THE YEAR 2007 AND SUBSEQUENT YEARS AND ANY TAXES OR SPECIAL ASSESSMENTS WHICH ARE NOT SHOWN AS EXISTING LIENS BY THE PUBLIC RECORDS.



Examples

A driver's license with a nonexistent address:



Examples

The horizontal foundation crack was not addressed by the appraiser or underwriter:



Examples

The appraiser includes a detached garage in the gross living area, which at \$50 a square foot enhances the property value by over \$10,000.

Living Area	
First Floor	1331.5 ft ²
1 Car Detached	242 ft ²
Nonliving Area	
Basement	335 ft ²
Covered Patio	204.25 ft ²
Patio	279.5 ft ²
Covered Porch	42 ft ²
Porch	65.68 ft ²
Patio	153.94 ft ²
Total Living Area (rounded):	1574 ft²

1331.5 + 242 = 1574



Examples

Oh, yes and here's the garage.....



Fraud Terms

- **Affinity Fraud:** various scams that prey on an identifiable group of people including minorities or church groups.
- **Air Loan:** financing that has been obtained based entirely or almost entirely on fabrications, including the borrowers' identities, title work, bank statements, and appraisals. In some cases, the property does not even exist.
- **Equity Skimming/Foreclosure Rescue:** a foreclosure scheme where the scheme participants obtain control of the home that is in foreclosure, either through vesting or as a lien holder. They then take the equity under the appearance of helping the homeowner out of foreclosure.
- **Property Flipping:** the act of purchasing a home at a low price, and then quickly selling it for a significantly higher price with little to no evidence that the buying and selling party made any improvements.



Test Yourself

Red flags are positive proof that fraud exists.

- True
- False

Which of the following are red flags? Select all that apply

- Different handwriting or font styles in a document.
- Discrepancies on how long the borrower has lived in the property.
- POAs were executed shortly before the borrower was unable to handle his or her personal and financial affairs.
- Properties are excessively neat and organized.
- Borrower's signature on application document does not include middle initial.

The best time to recognize a possible fraud scheme is.....

- After loan closes and funds
- At closing table
- Before the loan is approved and cleared to close
- Never



What to Do

If you notice any red flags:

1. Define them and identify the issues.
2. Report the issues to:
 - Your manager or team lead, if in Operations.Or,
 - The area manager or team lead, if in Sales.
3. Send a copy of the report to poneil@srfreedom.com.

Note: Senior management will make every effort to keep the report confidential, if requested.



FRAUD AND RED FLAGS TRAINING, POLICIES AND PROCEDURES ACKNOWLEDGMENT

The undersigned employee of Senior Freedom Inc. has read and received a retention copy of this policy and procedure training material and does hereby agree to follow the guidelines and policies set for herein.

Signature

Date

Name

NMLS