

# **MORTGAGE FRAUD**

## **Practical Tips to Avoid the Fraud Trap**

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Mortgage fraud is one of the fastest growing crimes in the United States. Today's automated mortgage loan underwriting and approval system greatly enhance the opportunities for mortgage fraud to occur through identity theft, forged or fraudulent appraisals and other documents, and outright theft. There are some practical ways to traverse the mortgage fraud minefield more safely.

**Tip #1: Have good closing instructions.** Title companies are very often your last defense against the closing of a fraudulent loan. A mortgage lender can protect itself with good closing instructions and closing practices. Lenders should carefully consider prohibitions on mail out closings (where the parties do not appear in person to execute documents) as well as restrictions on the use of powers of attorney, which can result in properties being "purchased" by "straw parties." In addition, you can request your title agent to provide you with a deed history. A deed history is very useful in determining if a "flip" transaction is occurring.

**Tip #2: Know your customer.** This sounds simple, but your customer in any loan transaction will typically be the buyer who is seeking a loan from your organization. Your suspicion should always be heightened when individuals with whom you had no prior relationship approach you for a loan, or where a broker or intermediary "brings you a transaction" on behalf of the borrower. When there are straw party transactions, it is not uncommon for the straw party to have little, if any, preexisting connection with your institution or with the transaction in general. Therefore, if someone with whom you have no preexisting deposit relationship walks into your institution, you might suspect that they have been directed to your institution by a third party. Likewise, you should always be suspicious if for some reason the proposed borrower never appears in your office. If all documents flow through some intermediary (a real estate agent or the seller), then there is an increased likelihood that a straw party may be involved.

**Tip #3: Audit, audit, audit.** President Ronald Reagan, when discussing a disarmament treaty made popular the phrase, "Trust but verify." There is simply no substitute for a pair of experienced eyes looking at a loan file. There is also no substitute for doing business with reputable vendors--especially appraisers and brokers. The time you should be most suspicious is when you see a request that rules be "stretched" or exceptions to policy be made. The hallmark of a straw party or fraudulent "sale of the property" is an inflated appraisal. Indeed the Texas Department of Savings and Mortgage Lending states that inflated appraisals are by far the single greatest source of fraudulent loans. This means that your appraisers are on the

front line of defense, together with your title companies. An appraisal that supports the purchase price is not enough. A good inside review of the appraisal can help spot the inflation of appraisals.

Something as simple as a telephone call can stop fraud cold in its tracks. With the rise of computers and software systems which allow one to scan and alter images, very convincing copies can be made of pay-stubs, W-2 forms, and other official documents. Identification cards and even very official-looking driver's licenses can be purchased from internet vendors. Sometimes a single phone call to the human resources department of an applicant's employer can unravel a fraudulent document.

**Tip #4: Avoid tunnel vision when underwriting a loan.** Another tip is to avoid the tunnel vision created by a singular "deal." Any individual loan file where fraud is involved often looks normal. A purchase contract supports the transaction; an appraisal supports the purchase price; and a credit report supports the loan. However, many of these deals unravel if you ask questions about the underlying transaction. Is the appraisal in line with the comparable properties shown as well as with other properties in the neighborhood as referenced on the tax rolls? How long have the purported purchasers of the property lived in their home, and is it "normal" for them to move so soon? If the buyers of the property are purchasing the property for investment purposes, are they in the business of running investment properties or new to it? Do you see any amount paid on the pro forma (preclosing) HUD statement which looks unusual or suspicious?

Mortgage fraud is indeed a growing crime. Like security in your home or at your bank, a lack of vigilance and care can make you an easy mark. Attention to the details of a transaction and its context are of the utmost importance in helping to prevent mortgage fraud.

*Originally published in the February 19, 2007  
issue of Bankers Digest (www.bankersdigest.com)*