Financial Institution/Mortgage Fraud

The FBI is committed to aggressively pursuing those who endanger the stability of our banking system and the safety of assets and personal information the public has entrusted to its care. In financial institution fraud (FIF) investigations, the Bureau continues to concentrate its efforts on organized criminal groups that prey on banks and engage in patterns of activity that lead to large aggregate losses. When FIF schemes involve single actors, the FBI prioritizes cases with high losses or significant community impact.

Financial Institution Fraud (FIF)

Financial institution fraud (FIF) is the class of criminal schemes targeting traditional retail banks, credit unions, and other federally-insured financial institutions. Many FIF schemes involve the compromise of customers' accounts or personal identifying information (PII); when identities are stolen, both the financial institution and customers are considered victims.

FIF can be categorized as either external—when perpetrators have no affiliation with the victim institution—or internal—when bank employees use their access to accounts and systems and knowledge of policies to commit fraud. Commonly investigated external FIF schemes include stolen or counterfeit checks, account holder impersonation, access device fraud (misuse/ unauthorized use of debit cards), credit card scams, and email hacking leading to loss. Unfortunately, as technology creates increased convenience and accessibility for customers, it also creates opportunity for criminal actors.

Embezzlement and misapplication of funds are two of the most common internal FIF schemes encountered in FBI investigations. And when the fraud is egregious enough, it can lead to the complete failure of the federally-insured financial institution.

Mortgage Fraud

Mortgage fraud is a sub-category of FIF. It is crime characterized by some type of material misstatement, misrepresentation, or omission in relation to a mortgage loan which is then relied upon by a lender. A lie that influences a bank's decision—about whether, for example, to approve a loan, accept a reduced payoff amount, or agree to certain repayment terms—is mortgage fraud. The FBI and other entities charged with investigating mortgage fraud, particularly in the wake of the housing market collapse, have broadened the definition to include frauds targeting distressed homeowners.

There are two distinct areas of mortgage fraud—fraud for profit and fraud for housing.

- **Fraud for profit:** Those who commit this type of mortgage fraud are often industry insiders using their specialized knowledge or authority to commit or facilitate the fraud. Current investigations and widespread reporting indicate a high percentage of mortgage fraud involves collusion by industry insiders, such as bank officers, appraisers, mortgage brokers, attorneys, loan originators, and other professionals engaged in the industry. Fraud for profit aims not to secure housing, but rather to misuse the mortgage lending process to steal cash and equity from lenders or homeowners. The FBI prioritizes fraud for profit cases.
- **Fraud for housing:** This type of fraud is typically represented by illegal actions taken by a borrower motivated to acquire or maintain ownership of a house. The borrower may, for example, misrepresent income and asset information on a loan application or entice an appraiser to manipulate a property's appraised value.

The FBI seeks to maximize its impact on the mortgage fraud and financial institution fraud as a whole thorough collaboration.
For example, the Bureau operates Financial Crimes Task Forces within several field offices throughout the country that act as force multipliers in addressing large scale financial fraud schemes. Comprised of federal, state, and local regulatory and law enforcement agencies who work together on a daily basis, these tasks forces have been an effective way to merge valuable resources of participating agencies.

The FBI also participates in both formal and ad hoc interagency working groups that address FIF and mortgage fraud matters. These task forces and working groups—comprised of federal, state, and local regulatory and law enforcement agencies nationwide, along with private industry to include bank security investigators—meet routinely to share intelligence, de-conflict cases, and initiate joint investigations.

By leveraging the skills, knowledge, and resources of various government agencies and private industry, the FBI and its partners are able to bring more perpetrators of fraud to justice.

Common Mortgage Fraud Schemes

- **Foreclosure rescue schemes:** The perpetrators identify homeowners who are in foreclosure or at risk of defaulting on their mortgage loan and then mislead them into believing they can save their homes by transferring the deed or putting the property in the name of an investor. The perpetrators profit by selling the property to an investor or straw borrower, creating equity using a fraudulent appraisal, and stealing the seller proceeds or fees paid by the homeowners. The homeowners are sometimes told they can pay rent for at least a year and repurchase the property once their credit has been reestablished. However, the perpetrators fail to make the mortgage payments and usually the property goes into foreclosure.
- **Loan modification schemes:** Similar to foreclosure rescue scams, these schemes involve perpetrators purporting to assist homeowners who are delinquent in their mortgage payments and are on the verge of losing their home by offering to renegotiate the terms of the homeowners' loan with the lender. The scammers, however, demand large fees up front and often negotiate unfavorable terms for the clients, or do not negotiate at all. Usually, the homeowners ultimately lose their homes.
- **Illegal property flipping:** Property is purchased, falsely appraised at a higher value, and then quickly sold. What makes property flipping illegal is the fraudulent appraisal information or false information provided during the transactions. The schemes typically involve one or more of the following: fraudulent appraisals; falsified loan documentation; inflated buyer income; or kickbacks to buyers, investors, property/loan brokers, appraisers, and title company employees.
- **Builder bailout/condo conversion:** Builders facing rising inventory and declining demand for newly constructed homes employ bailout schemes to offset losses. Builders find buyers who obtain loans for the properties but who then allow the properties to go into foreclosure. In a condo conversion scheme, apartment complexes purchased by developers during a housing boom are converted into condos, and in a declining real estate market, developers often have excess inventory of units. So developers recruit straw buyers with cash-back incentives and inflate the value of the condos to obtain a larger sales price at closing. In addition to failing to disclose the cash-back incentives to the lender, the straw buyers' income and asset information are often inflated in order for them to qualify for properties that they otherwise would be ineligible or unqualified to purchase.
- **Equity skimming:** An investor may use a straw buyer, false income documents, and false credit reports to obtain a mortgage loan in the straw buyer's name. Subsequent to closing, the straw buyer signs the property over to the investor in a quit claim deed, which relinquishes all rights to the property and provides no guaranty to title. The investor does not make any mortgage payments and rents the property until foreclosure takes place several months later.
- **Silent second:** The buyer of a property borrows the down payment from the seller through the issuance of a non-disclosed second mortgage. The primary lender believes the borrower has invested his own money in the down payment, when in fact, it is borrowed. The second mortgage may not be recorded to further conceal its status from the primary lender.

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- **Home equity conversion mortgage (HECM):** A HECM is a reverse mortgage loan product insured by the Federal Housing Administration to borrowers who are 62 years or older, own their own property (or have a small mortgage balance), occupy the property as their primary residence, and participate in HECM counseling. It provides homeowners access to equity in their homes, usually in a lump sum payment. Perpetrators taking advantage of the HECM program recruit seniors through local churches, investment seminars, and television, radio, billboard, and mailer advertisements. The scammers then obtain a HECM in the name of the recruited homeowner to convert equity in the homes into cash. The scammers keep the cash and pay a fee to the senior citizen or take the full amount unbeknownst to the senior citizen. No loan payment or repayment is required until the borrower no longer uses the house as a primary residence. In the scheme, the appraisals on the home are vastly inflated and the lender does not detect the fraud until the homeowner dies and the true value of the property is discovered.
- **Commercial real estate loans:** Owners of distressed commercial real estate (or those acting on their behalf) obtain financing by manipulating the property's appraised value. Bogus leases may be created to exaggerate the building's profitability, thus inflating the value as determined using the 'income method' for property valuation. Fraudulent appraisals trick lenders into extending loans to the owner. As cash flows are lower than stated, the borrower struggles to maintain the property and repairs are neglected. By the time the commercial loans are in default, the lender is often left with dilapidated or difficult -to-rent commercial property. Many of the methods of committing mortgage fraud that are found in residential real estate are also present in commercial loan fraud.

Air loans: This is a nonexistent property loan where there is usually no collateral. Air loans involve brokers who invent borrowers and properties, establish accounts for payments, and maintain custodial accounts for escrows. They may establish an office with a bank of telephones, each one used as the fake employer, appraiser, credit agency, etc., to fraudulently deceive creditors who attempt to verify information on loan applications.

Financial Institution/Mortgage Fraud News

Copy the link below and paste it on the WWW search line, then you can read the 495 press releases dealing with Financial Institution and Mortgage fraud.

Read press releases and other news related to FBI financial institution fraud and mortgage fraud investigations.