

Be Alert for Fraud Warning Signs



New fraud schemes are constantly emerging. Are your antennae up? Are you watching for warning signs? Did you know that some underwriters may offer a reward or incentive for detecting mortgage fraud?

Be on alert for the following warning signs:

Buyer/Borrower Warning Signs

- **Deposit:** The earnest money deposit should come from the borrower, or information about a gift of deposit money should be available.
- **Suspicious behavior:** Here your instincts can be the best indicator. Don't guess or assume. If something appears amiss, it is OK to ask your supervisor or underwriter if you have questions.

Financial Warning Signs

- **Carry-back:** The practice of seller-financing on a second note is acceptable only if it is disclosed to the lender and they agree with it. Resist the temptation to "help" your customers by preparing seller carry-back documents that are not being disclosed to the lender. If you do not disclose the discrepancy, you are participating in mortgage fraud.
- **Payments to third parties:** Beware of loan proceeds, fees, or checks being made payable to individuals that will not appear on the HUD-1 settlement statement. The HUD-1 must show all receipts and disbursements.

Property-related Warning Signs

- **A last-minute change in the mortgage amount:** This usually indicates that costs are being rolled into the loan amount, or additional funds are being targeted for future property improvements. When you recognize the discrepancy, notify the lender about the change.
- **Recent sales:** Recent sales with increases in price and checks to others at closing could be a sign of flipping.
- **Substitution of sales contract:** Any time you become aware of a new sales contract for a higher amount, you should be sure that the lender is aware of it as well. If you notified the lender and they authorized you to continue the closing, document your file.
- **Blank documents:** Never allow the signing of blank documents.
- **Purchase price increases:** Be wary of changes in sale price. Sometimes the sale price may be adjusted to cover closing costs. If you notice that the original contract price has been increased, be sure that the lender is aware.

Exercise Fraud Prevention



Here are some procedures you can follow to prevent fraud:

- **Verify Identification:** Train all employees to carefully check all aspects of the ID. There was a case in which a caregiver stole the personal information of his elderly employer by getting a replacement driver's license with his picture on it. The caregiver applied for a refinance and walked away with \$65,000. In this case, a check of the birth date would have been a tip-off that something was wrong. The FTC's Identity Theft Site has a five minute consumer-oriented video and other resources on this topic. For more details, visit <http://www.ftc.gov/bcp/edu/microsites/idtheft/>
- **Know Your Customers:** A settlement services provider should call the mortgage broker or banker's main office line on occasion, not just the direct or cell phone number provided by the contact. Consider periodic checks on partner and customer companies with your local Better Business Bureau.
- **Verify Licensing:** Check the licensing status for lender and Realtor® customers to determine whether they are current and if any complaints have been filed.
- **Chain of Title:** Be sure to file a complete and carefully documented chain of title.
- **Lock in Lender Approvals:** Always get any changes to the HUD-1 charges approved by the lender. Distribute and accept funds directly to and from the lender.
- **Verify Third-Party Notarization:** Do not permit employees to notarize documents that they did not witness. This is a common practice which can be very risky.

Recognize the Penalties



Title professionals who find themselves involved with fraudulent schemes or activities discover that the consequences and penalties can be severe. Penalties can include:

- Loss of license
- Loss of professional reputation
- Loss of employment
- Substantial fines
- Jail time