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FINANCIAL SERVICES
ROUNDTABLE

MORTGAGE FRAUD PREVENTION: AN EDUCATION AND AWARENESS TOOLKIT FOR CONSUMERS

A PUBLICATION OF THE
BITS FRAUD REDUCTION STEERING COMMITTEE

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EXECUTIVE SUMMARY

Mortgage fraud continues to be a concern for consumers, financial institutions, and law enforcement. While the overall economic loss to the lending industry is substantial[1], the personal and financial loss experienced by consumers who fall victim to these scams can be even more devastating.

This toolkit was developed by the BITS Mortgage Fraud Reduction Project Group to provide financial institutions with information to use as part of their efforts in educating consumers on what mortgage fraud is and how to protect against it. The toolkit contains simple and comprehensive examples of the various types of mortgage fraud schemes currently targeted towards consumers and provides tips on how consumers can identify these scams. Also included are recommended "dos and don'ts" for consumers to consider when getting a mortgage and resources they can refer to for more information.

We hope financial institutions will the use information contained in the *Mortgage Fraud Prevention: An Education and Awareness Toolkit for Consumers* and, as appropriate, incorporate it into fliers, closing documents, and websites as a means of educating consumers about this alarming and devastating dilemma.

[1] In March, 2007, the Federal Bureau of Investigation (FBI) reported that fraud cost mortgage lenders between $946 million and $4.2 billion in 2006. (Source: "Mortgage Fraud: New Partnership to Combat Problem.")

INTRODUCTION

The following is based on a true story; however, the names of the people and locations have been changed:

> *John Smith lost his job and decided to sell his home. After contacting a local real estate agent, he discovered that his four-bedroom colonial home was worth only $80,000 - just 44% of the $183,750 he paid for the new home a year before. Smith could not afford the monthly mortgage payment, nor could he afford to sell the house and pay off the remaining $147,000 mortgage. Having few choices to relieve himself of this situation, Smith's home was foreclosed upon.*
>
> *Many others in the same county where Smith lived experienced this hardship which was attributed to several local home builders and mortgage brokers. In this scheme, builders and mortgage brokers colluded to inflate appraisals and exploit unknowing buyers who purchased homes well above their real market value.*

Mortgage fraud is on the rise and the above story is just one example of how consumers are being targeted by this crime. Mortgage fraud may never be eliminated, but it can be mitigated through increased consumer awareness. In an effort to educate and protect consumers from becoming victims of mortgage fraud, financial institutions worked collaboratively to develop this toolkit.

For the purposes of this toolkit, "property buyers," "purchasers," and/or "borrowers" are collectively referred to as "consumers." In addition, the scope of mortgage fraud within the context of this document considers any mortgage-related transaction, including first mortgages, second mortgages, and home equity lines of credit (HELOCs).

This toolkit does not address predatory lending or abusive lending practices by brokers or lenders. Predatory lending is often used to describe the practices of lenders who target low-income borrowers or those with negative credit histories with the intent of deceiving them about loan terms and/or providing them with loans they cannot afford to repay. For information on how to protect yourself against predatory lending, please visit the Federal Trade Commission website for Protecting America's Consumers at http://www.ftc.gov/bcp/conline/pubs/credit/risky.shtm.

What is mortgage fraud?

Mortgage fraud occurs when a consumer or mortgage industry professional provides or intentionally uses incorrect information that is relied upon by an underwriter or lender to cause them to fund, purchase or insure a mortgage loan which they otherwise would not have approved. The intentional omission of certain information, such as the borrower's self employment status or true source of funds used for the down payment, earnest money deposit and/or closing costs, can also be considered an act of mortgage fraud. Mortgage fraud may occur with or without the knowledge or active participation of the borrower.

There are two basic motives for fraud:

Fraud for Property: The primary motivation is the borrower's desire to own their own home, but something in their credit profile - or a lack or assets or verifiable income - prevents them from meeting lender requirements. The intent is to occupy the subject property and repay the mortgage as agreed.

Fraud for Profit: The primary motivation is profit or financial gain. Oftentimes, the perpetrators are well organized and multiple loans are involved. The ringleaders often receive a large portion of the profit while others may be paid several thousand dollars for their part in the fraud. This type of fraud is a major concern for consumers and lenders because this is where the highest losses are incurred.

How can mortgage fraud affect me?

As detailed in the introductory example, mortgage fraud can have many adverse consequences for both the consumer and the community. Specifically, mortgage fraud can result in:

- higher interest rates;
- identity theft[2];
- compromised credit ratings;
- higher property taxes;
- defaulted loans and foreclosed properties; and/or
- the inability to sell a home due to factors such as lower property values and deterioration of neighborhoods caused by increased crime and abandonment of nearby properties.

Mortgage fraud is investigated by the Federal Bureau of Investigation (FBI) and is punishable by up to 30 years in federal prison or $1,000,000 fine, or both. It is illegal for a person to make any false statement regarding income, assets, debt, or matters of identification, or to willfully overvalue any land or property, in a loan and credit application for the purpose of influencing in any way the action of a financial institution[3].

[2] 1.3% of 246,035 consumers who reported identity theft to the FTC in 2006 reported that a fraudster took a real estate loan in their name (includes both mortgage and home equity loans). Source: "Consumer Fraud and Identity Theft Complaint Data January – December 2006," Federal Trade Commission, February 2007, http://www.consumer.gov/sentinel/pubs/Top10Fraud2006.pdf.

[3] See Appendix A for FBI's Mortgage Fraud bulletin.

COMMON MORTGAGE FRAUD SCHEMES

While there are an infinite number of mortgage fraud schemes, the following describes some of the most common:

Property Flipping

This term is often misunderstood due to popular TV shows such as "Flip This House" or "Property Ladder" where houses are acquired, improvements are made and the houses are legitimately resold quickly for a profit. Property flipping fraud begins when property ownership is transferred multiple times in a short period and becomes illegal when the mortgage for the subsequent sale(s) is obtained using an appraisal that overstates the property's market value and/or does not disclose these recent transfers. Oftentimes, the borrower is not aware of the flip. Typically, the property is in poor condition and was acquired through a distressed or foreclosure sale. If repairs are made, they are cosmetic only and do not truly improve the property's state of disrepair.

Examples of Fraudulent Property Flipping:

- Sarah is a real estate agent and her neighbor, Jack, is an appraiser. They learn of several properties in the city that are in foreclosure and purchase them for pennies on the dollar. Sarah immediately lists the properties for three times the amount she just paid. Jack agrees to provide an appraisal for each property that would support this higher amount while Sarah finds people willing to buy them.
- Adam relocates from another state and wants to purchase a home for his family. A friend refers him to John, a real estate broker who pressures him into purchasing a specific property that John claims to be the perfect house. When Adam closes on or attempts to refinance the home, he discovers that the property's value is not only inflated far above the current market value, but the house has been sold four times within the past two months by the same real estate company. Now Adam's mortgage far exceeds the value of the property.

Property Flipping Red Flags[4]*:*

- The date of the appraisal is prior to the sales contract and/or application date.
- The seller identified on the sales contract does not own the property according to real estate tax assessment[5] records.
- The seller recently acquired the property for a significantly lower price or there have been several transfers of the property according to the real estate tax assessment record.

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[4] "Red flag" is a warning term used to signify the need for further analysis or investigation when inconsistencies within the loan file are identified. Examples of inconsistencies that may fall into the "red flag" category are typographical errors, mathematical errors, inconsistent information from one document to another, etc. Finding one or more red flags does not confirm fraudulent intent; however, the potential for fraud increases in relation to the number and severity of red flags detected.

[5] This coincides with the following recommendation, as contained on page 14, "**DO** be an informed buyer. Know what market values in the neighborhood are or should be. Consult the local tax assessor regarding recent sale prices and review the sales history of the property as several sales within a short period of time could indicate inflated values…"

- The seller will acquire ownership through a Quit Claim deed[6] at closing.
- The seller's signature is inconsistent throughout the transaction documents.
- At closing, the HUD-1 Settlement Statement[7] reflects unusual and/or previously undisclosed fees.
- Realtor, broker, or loan originator advises against obtaining a property inspection or requires you to use a particular inspector.

Appraisal Fraud

Appraisal fraud is a component of most large mortgage fraud schemes. An appraiser may overstate the property value and/or omit material information that would negatively impact the property's marketability. The appraiser is compensated for his assistance in the fraud. In some cases, the seller may use the money obtained at the closing to pay off the appraiser and anyone else involved in the scam. Oftentimes, the borrower loan is foreclosed because he/she is neither able to afford the mortgage payments nor able to sell the home because the fair market value is not sufficient to offset the mortgage debt.

Another motivation for appraisal fraud occurs when a sales contract is written for more than the listed price or true market value for the purpose of providing cash from the sale to the purchaser or other third party. This may occur when an oversupply of homes for sale encourages sellers to be creative and offer excessive incentives to a realtor, third party or directly to a buyer to facilitate the sale of their property. This is also known as "puffing."

Example of Appraisal Fraud:

- Todd signs a contract to purchase a new home, but needs the equity from his current home to close the deal. Due to a downturn in the market, Todd is unable to find a buyer for his current home and he is not qualified for the mortgage debts on both properties. Todd's friend, Paul, is a real estate appraiser and recommends that Todd refinance his current home as a way to cash-out the equity. Paul advises Todd that if he performs the appraisal, Paul would provide the value needed for Todd to get enough cash proceeds to buy his new home. Paul performs the appraisal and inflates the value by $20,000. Todd applies for refinancing at a different lender and requests the lender to use the completed appraisal from Paul. Todd does not disclose that the house is already listed for sale. Todd closes on both homes, but after several more months he is still unable to sell his previous home or make the mortgage payments on both properties.

Appraisal Fraud Red Flags:

- The consumer, whether acting as the buyer or seller, is pressured into signing documents changing the loan terms at or near the time of closing.

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[6] A Quit Claim deed is a legal document in which the seller only transfers whatever interest he or she has in the property, which may be only a partial interest in the property or no interest at all. Although the interest is transferred, no warranty is made on the rights which others may claim from the property.

[7] An HUD-1 Settlement Statement is a loan document which is signed at closing and itemizes expenses, disbursements, and adjustments relating to the purchase of real property.

- The appraiser is associated with or is physically located in the realtor's or broker's office.
- You are encouraged to misrepresent your intent to occupy the property.
- You are restricted from visually inspecting the property's interior prior to purchasing.
- The property is located in a high-risk area and nearby homes are in poor condition, have recently foreclosed, etc.
- The tax assessment for the current year is well below the asking price for the property.
- Characteristics of the property (lot size, photographs, square footage, room count, amenities, etc.), as reflected on the appraisal report, are inaccurate.

Straw Buyers

A straw buyer is an individual that allows the use of his credit profile to help someone else obtain a mortgage they are unable to obtain on their own. A straw buyer is used when the potential homeowner cannot qualify for a mortgage or the true identity of the actual borrower must be kept secret to obtain loan approval. Typically, the straw buyer is a paid participant in a larger fraud scheme. The lender qualifies the straw buyer and the loan closes in the straw buyer's name. The straw buyer does not intend to occupy the property or make the mortgage payments.

Example of a Straw Buyer:

- Bob's daughter, Jeanne, would like to purchase a home but doesn't qualify for the loan. Bob agrees to help Jeanne by applying for the mortgage loan in his name with the understanding that Jeanne will live in the house and make all of the payments. At application, he leads the mortgage lender to believe that he will occupy the property and make the mortgage payments on his own, even though he had no intention to do so. Shortly after closing, Bob completes a Quit Claim deed and assigns the property rights over to Jeanne.

Straw Buyer Red Flags:

- A relative or friend with credit difficulties asks you to apply for a mortgage on their behalf.
- Another party to the transaction asks you to sign a power of attorney to conduct business on your behalf.
- You have little or no interaction with the lender. Communication is only between you and the builder, realtor, or another third party.
- Names have been added to or deleted from the sales contract.
- The person identified as the seller on the sales contract is not the owner of the property according to tax assessment records.
- A Quit Claim deed is used immediately before or soon after loan closing.

Borrower Identity Theft

Borrower identity theft is the act of unlawfully using one or more pieces of another individual's personal identifying information to obtain a mortgage.

Examples of Borrower Identity Theft:

- Maria has lived in the U.S. for several years but has not obtained a Social Security number (SSN). A friend offers to help her "purchase" an SSN which Maria then uses to obtain financing for a new home. Unbeknownst to Maria, the SSN she purchased was actually issued to someone else.
- Sam knows that, due to his negative credit history, he will most likely be denied for a mortgage. Therefore, he provides his deceased father's personal information on the application and uses fake documentation to represent his income and job title.
- Stan begins receiving calls from a collection agency regarding an unpaid second mortgage. Upon review of his credit report, he learns that someone applied for and received a mortgage using his personal information without his knowledge.

Borrower Identity Theft Red Flags:

- Your SSN is not represented accurately on the loan application or on other documents in the loan file.
- You are asked to "lend" your SSN to someone.
- Someone offers to sell you an SSN.
- You have an Individual Taxpayer Identification Number (ITIN)[8] but are encouraged to use another person's SSN to apply for the mortgage.
- You receive calls or mailings regarding a mortgage loan that you are not aware of and did not enter into a contract to finance.

Silent Seconds

In this fraud, the buyer is able to obtain the property with little or no money down. The primary lender believes the source of the down payment is from the borrower's own funds. In most cases, the buyer borrows the down payment from the seller through the issuance of an undisclosed second mortgage. The fraud occurs when the information has not been disclosed to the lender.

Example of Silent Seconds:

- Paul and Cathy have been living in an apartment for years and want to purchase a newly constructed home. They find a house that was recently finished, but do not have enough money saved to pay the required down payment. The builder offers to increase the sales price enough to lend them the money they need for the down payment and advises them not to disclose this loan to their lender because he will be repaid with the loan proceeds. Although Paul and Cathy obtained their loan, now they owe more for the house than it is really worth.

Silent Seconds Red Flags:

- The difference between the sales price and the loan amount (referred to as the required down payment) is more than you are able to save before closing. The seller,

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[8] An ITIN is a tax processing number issued by the Internal Revenue Service to individuals who are required to have a U.S. taxpayer identification number, but are not eligible to obtain a Social Security Number from the Social Security Administration.

or someone else involved in the transaction, offers to provide assistance with the money needed, but the lender is not notified of this.

- The seller, builder, realtor or other interested party offers to lend you the down payment amount and requires you to sign a promissory note, the terms of which are not disclosed in the sales contract.
- The seller requests you to sign an addendum to the purchase agreement disclosing other financing terms, but the lender is not provided with a copy. Or you are asked to execute two different purchase agreements; one for the lender to see and one to be kept from the lender because it reflects terms that the lender would not allow.
- Information disclosed on the HUD -1 or Settlement Statements do not accurately reflect the terms of the transaction (i.e., incorrect down payment, sales price, funds to close).

Foreclosure Bailout Schemes

These schemes prey on the desperation of people who have fallen behind in their mortgage payments and are in danger of losing their home. The fraudster may contact the homeowner in the beginning stages of foreclosure and offer to eliminate the debt and save the house for a fee. The fraudster collects the fee and disappears without providing any real assistance to the homeowner. In another scheme, the homeowner is approached by the fraudster who offers to help refinance the loan. The homeowner is then asked to sign documents that they later learn transferred ownership of their home to the company supposedly helping them.

Examples of Foreclosure Bailout Schemes:

- Anna lost her job and has fallen behind in her mortgage payments. Worried that her house will go into foreclosure, she contacts a company listed on a neighborhood flyer that advertises financial counseling to those who are having trouble paying their mortgage. The company counselor offers to help her for an upfront fee of $300. However, the information provided by the company is insufficient and does not help Anna in any way. Now she is out $300 and even further behind in her mortgage.
- A long illness has caused Michael to fall behind on his mortgage payments. Instead of contacting his lender to discuss his situation, he contacts a representative from a foreclosure service company that held a seminar at his church. This representative, Tom, offers to help Michael by assuming the title to the home and the mortgage payments while allowing Michael to live there as a tenant until he is back on his feet and able to buy the house back. However, once Michael tries to buy the house back, Tom inflates the price of the home far beyond what Michael can afford to pay. Michael loses the house as well as any equity he had built up over the years[9].
- Mary is approached by Steve who offers to help save her property from foreclosure. Steve instructs Mary to sign the property over to his company using a Quit Claim deed and his company will assume all debts and liabilities, allowing Mary to walk away free and clear of payments on her mortgage. Steve's company rents the house to another party, but makes no payments on the house. After a year of non-

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[9] This is also an example of equity stripping and can be a form of predatory lending. For information on how to protect yourself against predatory lending, please visit the Federal Trade Commission website for Protecting America's Consumers at http://www.ftc.gov/bcp/conline/pubs/credit/risky.shtm.

payment, the house is foreclosed upon. However, unbeknownst to Mary, even though the house was deeded to Steve's company, Mary's name remained on the mortgage. Steve's company and the renters walk away from the house and Mary is still left with the responsibility for the mortgage.

Foreclosure Bailout Scheme Red Flags:

- Unsolicited offers of help from individuals who claim to be "mortgage representatives," but are actually from foreclosure service or counseling companies. These companies target consumers whose homes are at risk of foreclosure and oftentimes advertise their services through leaflets or the Internet.
- Companies that require upfront fees for their services.
- Companies that request you (as a distressed homeowner) make your mortgage payments directly to the foreclosure service company rather than your mortgage company.
- Companies that request you to execute a Quit Claim deed to transfer your interest in the property into their name.

Consumers who are in danger of losing their homes should contact their lenders first for assistance. Consumers may also contact the Homeownership Preservation Foundation which provides free phone counseling by HUD-approved agencies and is available 24 hours a day, 7 days a week. The foundation provides the Homeowner's HOPE™ Hotline[10] (888-995-HOPE) where specially-trained foreclosure prevention counselors listen to the homeowner's situation and then offer a customized, written action plan with budget analysis and recommendations. If more counseling or contact with the lender is needed, the counselors will link their callers to their lenders, to local NeighborWorks® organizations and to other nonprofits for specific help. For more information, please visit http://www.995hope.com.

Real Estate Investment Schemes (also known as "chunking")

Consumers are regularly targeted or recruited for participation in investment property schemes. Many of these begin with seminars, programs or advertisements that purportedly show borrowers how to get rich by investing in rental properties. While owning real estate may be a smart investment with proper guidance from a tax professional, consumers should research thoroughly before joining an "investment club" or purchasing multiple properties simultaneously. Fraud is committed when the purchasers apply to multiple lenders for financing without disclosing that multiple properties are being acquired and/or financing is requested for owner occupied properties or second homes, when the properties are actually for investment purposes.

Example of Real Estate Investment Schemes:

- Dave and Ellen attend a seminar on how to get rich through purchasing real estate. At the seminar, a salesman, Victor, convinces them to purchase several rental

[10] The Homeowner's HOPE™ Hotline is a product of the Homeownership Preservation Foundation, a national non-profit working to prevent foreclosures. The hotline is staffed 24 hours a day, 7 days a week by HUD-certified homeownership counselors and the counseling is free for all consumers.

properties in another state. Victor says these properties already have tenants paying rent which would help cover the mortgage. In addition, Victor offers to pay them $15,000 for each home that they purchase. He offers to take care of all of the paperwork and details. All Dave and Ellen have to do is provide their personal information (SSN, address, employer name, etc.). Several months later, the couple receives phone calls and letters from different mortgage companies notifying them that their mortgage loans are in default and payments are necessary. Dave and Ellen are unable to contact Victor and, upon traveling to the rental properties, they discover that all are vacant and in substandard condition. There is no way they can afford to repair these properties or continue to make the mortgage payments. Eventually, all of the properties are lost to foreclosure and the couple's credit is ruined.

Real Estate Investment Scheme Red Flags:

- Newspaper advertisements or online solicitations intended to attract "investors."
- You have little or no interaction with the lender. Communication is only between you and the builder, realtor, or another third party.
- You are pressured to purchase properties "sight-unseen."
- You are offered payment for the use of your personal/credit information.
- The seller or other party to the transaction requests that pre-existing relationships between you, the appraiser, and/or the seller not be disclosed to other parties to the transaction, such as the mortgage lender.

Reverse Mortgage Scams

Reverse mortgages are a new product offered to eligible senior citizens who have accumulated a sizeable amount of equity in their home. With a reverse mortgage, qualified senior citizens can turn the value of their home into cash without having to move or to repay the loan each month. No matter how this loan is paid out to you, repayment is typically not required until you die, sell your home, or permanently move out of your home. Once any of these events occur, the property is relinquished to the mortgage lender who may sell it to recoup the loan balance, fees and interest. While there is nothing illegal with this type of loan, which can actually help some senior citizens who face unexpected costs, the process can be complex and homeowners must carefully review all of the terms and conditions (preferably with family members and an attorney[11]) before signing anything. Often, senior citizens can be taken advantage of by unscrupulous estate planners who charge fees for information that is available at no charge from the U.S. Department of Housing and Urban Development (HUD)[12] or by "mortgage consultants" who insist that unnecessary renovations be done to the home in order to qualify for the loan and specify which contractor should be used to make these repairs.

[11] Seniors may contact their local Attorney General's office to determine what free legal services and/or clinics may be available to them.
[12] For more information, visit http://www.hud.gov/offices/hsg/sfh/hecm/rmtopten.cfm.

Senior citizens interested in obtaining a reverse mortgage are encouraged to contact HUD at 1-888-466-3487 where you will be referred to a HUD-approved housing counseling agency. You may also ask to receive a list of HUD-approved reverse mortgage lenders.

Example of a Reverse Mortgage Scam:

- To qualify for a reverse mortgage, Walter hired a consultant, Mary, who had delivered leaflets in his neighborhood. Mary charged $500 as an initial consulting fee to review information about the reverse mortgage process. Upon hiring an appraiser recommended by Mary, the appraiser inspects Walter's home and says that the kitchen needs to be renovated in order to qualify for the loan. Mary then suggests Walter contact a local contractor that has done several upgrades for homes in the area. Trusting Mary, Walter called the contractor who required a $2,500 deposit. However, once paid, the contractor never returned and Mary also disappeared. After learning that he was out $2,500 for the repairs that were never performed, Walter also learned that the information Mary had provided him, for the $500 fee, was available at no cost from HUD.

Reverse Mortgage Red Flags:

- Unsolicited offers of reverse mortgages.
- Consultants who insist that you use specified appraisers to inspect your house and then recommend contractors to perform costly renovations in order for you to qualify for a loan.
- Attempts by the lender to exclude your family or attorney from the information gathering, application, or closing process.
- Lenders who are not on the approved reverse mortgage lenders list, as maintained by the HUD.

To receive a free copy of the American Association of Retired Persons (AARP) brochure, "Home Made Money: A Consumer's Guide to Reverse Mortgages," please call 1-888-687-2277, or write to AARP Fulfillment #EE01492, 601 E Street, NW, Washington, DC 20049. You may also download the brochure from the AARP website at http://assets.aarp.org/www.aarp.org_/articles/revmort/homeMadeMoney.pdf.

RECOMMENDED "DOs and DON'Ts" FOR GETTING A MORTGAGE[13]

When entering into a mortgage, consumers must take reasonable steps to protect themselves and their identity and provide accurate and truthful information. The following "Dos and Don'ts" are simple steps that consumers may take to protect themselves.

Recommended DOs

- **DO** be an informed buyer. Know what market values in the neighborhood are or should be. Consult your county tax assessor regarding recent sale prices and review the sales history of the property, as several sales within a short period of time could indicate inflated values. Further, an appraisal should be ordered and provided by the lender and not the seller or real estate agent.
- **DO** provide your confidential financial and personal information only to someone you trust and know works for the Lender. Get referrals for real estate and mortgage professionals[14]. Check the licenses of the industry professionals with state, county, or city regulatory agencies.
- **DO** be honest when completing the loan application and answering questions during the application process, regardless of whether others are pressuring you to do otherwise.
- **DO** proceed with caution if you are encouraged to become a real estate investor of multiple properties in a short period of time, especially if you are not required to put money down or, even worse, if another party offers to pay you for your participation in the transaction.
- **DO** obtain a property inspection, especially if you are unsure about the soundness and safety of the property.
- **DO** request a copy of the property appraisal before closing. (Note: you are entitled to a copy of the appraisal if you paid for it.)
- **DO** read and understand all of the documents presented to you <u>before</u> you sign them. Carefully review all loan documents[15] signed at closing or prior to closing for accuracy, completeness, and omissions. Do not sign anything that contains blanks or provisions that you did not originally agree to. Ask questions about anything you do not understand, especially as they relate to fees that are paid to parties that you do not know.
- **DO** request and keep copies of everything you provide to the Lender and everything you are required to sign. Do be leery of lenders who are unwilling to meet this request.
- **DO** be wary of offers to "save" you from foreclosure. Work with your mortgage service instead or contact the Homeowner's HOPE™ Hotline (888-995-HOPE).
- **DO** file complaints of fraud with your local Attorney General's office as well as with your county or state's Department of Consumer Affairs.

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[13] Sources include Georgia Real Estate Fraud Prevention and Awareness Coalition (GREFPAC) and the FBI's "Financial Crimes Report to the Public, Fiscal Year 2006."

[14] Consumers may check organizations like the Better Business Bureaus or their local Chamber of Commerce (see http://www.entrepreneur.com/worklife/travelcenter/resources/article39714.html for a list of state chambers of commerce).

[15] One example of a loan document is a HUD-1 Settlement Statement.

Recommended DON'Ts

- **DON'T** provide, or pay anyone else to provide, false information about your employment, income, credit, bank accounts or any other documentation submitted with your loan request[16].
- **DON'T** let anyone convince you to borrow more money than you can afford to repay.
- **DON'T** accept payment for the use of your personal information, such as your name, credit or social security number.
- **DON'T** close a loan that you know has false or misleading information such as an appraisal reflecting an inflated value, down payment or earnest money deposit that did not come from you, rental leases that you believe to be inaccurate, etc.
- **DON'T** pay your earnest money deposit to anyone other than your real estate agent or the seller of the home you are purchasing. If you have doubts about who really owns the home you are purchasing, contact the real estate tax assessor to verify the current owner and find out when they took ownership and how much they paid.
- **DON'T** expect to get "paid" for purchasing a home. YOU should be bringing a certified check to closing in order to buy the home.
- **DON'T** agree to pay anyone additional fees or costs associated with the loan closing or application process after the loan closes. If someone asks you to do this, refuse and obtain legal advice.
- **DON'T** sign documents that are incomplete. Never sign a blank document or a document containing incomplete information and do not allow someone else to complete or sign documentation on your behalf. Take time to consider the risk associated with authorizing another person to execute legal documents on your behalf.
- **DON'T** sign final *closing* documents without a notary present, if required. Most documents will specify when a notary signature is required.

[16] It is illegal for a person to make any false statement regarding income, assets, debts or matters of identification, or to willfully overvalue any land or property, in a loan and credit application for the purpose of influencing in any way the action of a financial institution. See Appendix A for FBI's Mortgage Fraud bulletin.

RESOURCES

Learn more about mortgage fraud and where to report it.

Mortgage Fraud Blog
http://www.mortgagefraudblog.com
Central clearinghouse for information on recent mortgage fraud schemes, indictments and prevention.

FraudProblem.com
http://www.fraudproblem.com
Real estate and mortgage fraud information and assistance center. This website offers an on-line resource of national and state governments where consumers may report mortgage fraud.

FBI Financial Crimes Website[17]
http://www.fbi.gov/publications/financial/fcs_report2006/financial_crime_2006.htm#Mortgage
List of the various financial crimes the FBI investigates. It includes a list of the common fraud schemes and "do's and don't's."

Georgia Real Estate Fraud Prevention and Awareness Coalition (GREFPAC)[18]
http://www.grefpac.org
Source for articles, news, contact information and links related to real estate fraud prevention and awareness.

US Department of Justice Consumer Alert — Mortgage Foreclosure Scams[19]
http://www.usdoj.gov/ust/eo/public_affairs/factsheet/docs/fs06.htm
Press release regarding bankruptcy scam operators.

Mortgage Fraud Against Lenders Resource Center
http://mbafightsfraud.mortgagebankers.org/
Offers consumers a link of where to report mortgage fraud by state.

Flipping Frenzy
http://www.flippingfrenzy.com
Source for news, information and commentary about real estate and mortgage fraud along with a fraud reporting center.

Homeownership Preservation Foundation
http:// www.995hope.org
Website for a 501(c)(3) nonprofit which creates partnerships with local governments, nonprofit organizations, borrowers and lenders to help families overcome obstacles that could result in the loss of their homes.

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[17] Used as a source for the "Dos and Don'ts" section.
[18] Used as a source for the "Dos and Don'ts" section.
[19] Used as a source for foreclosure bailout scheme red flags.

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KeyCorp
National City Corporation
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Regions Financial Corporation
Sovereign Bancorp, Inc.
State Farm Insurance Companies
SunTrust Banks, Inc.
USAA
Wachovia Corporation
Washington Mutual, Inc.
Webster Financial Corporation
Wells Fargo & Company

ABOUT BITS AND THE BITS FRAUD PROGRAM

About the BITS Fraud Reduction Program
Established in 1998, the BITS Fraud Program is one of BITS' flagship programs. The BITS Fraud Steering Committee was created to:

- Identify successful strategies for reducing fraud and make those strategies available to the industry;
- Assess fraud-risk exposure and develop strategies to minimize losses; and
- Reduce payments-related fraud losses.

Current Working Groups and projects under the BITS Fraud Program include:

- ACH Risks
- Debit Card/ATM Fraud
- Mortgage Fraud Reduction
- Remote Channel Fraud
- Rising Fraud Risks

About BITS
BITS was created in 1996 to foster the growth and development of electronic financial services and e-commerce for the benefit of financial institutions and their customers. A division of The Financial Services Roundtable, BITS works to sustain consumer confidence and trust by ensuring the security, privacy and integrity of financial transactions. BITS provides intellectual capital and addresses emerging issues where financial services, technology and commerce intersect, acting quickly to address problems and galvanize the industry. BITS' efforts involve representatives from throughout our member institutions, including CEOs, CIOs, CISOs, and fraud, compliance and vendor management specialists. For more information, go to www.bitsinfo.org.

About The Financial Services Roundtable
The Financial Services Roundtable represents 100 of the largest integrated financial services companies providing banking, insurance, and investment products and services to the American consumer. Member companies participate through the Chief Executive Officer and other senior executives nominated by the CEO. Roundtable member companies provide fuel for America's economic engine, accounting directly for $65.8 trillion in managed assets, $1 trillion in revenue, and 2.4 million jobs.

APPENDIX A: FBI MORTGAGE FRAUD WARNING

MORTGAGE FRAUD IS INVESTIGATED BY THE FBI

Mortgage Fraud is investigated by the Federal Bureau of Investigation and is punishable by up to 30 years in federal prison or $1,000,000 fine, or both. It is illegal for a person to make any false statement regarding income, assets, debt, or matters of identification, or to willfully overvalue any land or property, in a loan and credit application for the purpose of influencing in any way the action of a financial institution.

Some of the applicable Federal criminal statutes which may be charged in connection with Mortgage Fraud include:

18 U.S.C. § 1001 - Statements or entries generally
18 U.S.C. § 1010 - HUD and Federal Housing Administration Transactions
18 U.S.C. § 1014 - Loan and credit applications generally
18 U.S.C. § 1028 - Fraud and related activity in connection with identification documents
18 U.S.C. § 1341 - Frauds and swindles by Mail
18 U.S.C. § 1342 - Fictitious name or address
18 U.S.C. § 1343 - Fraud by wire
18 U.S.C. § 1344 - Bank Fraud
42 U.S.C. § 408(a) - False Social Security Number