

Mortgage Broker Fraud Activity

Fannie Mae's Financial Crimes Investigation (FCI) team alerts the industry to potential and active mortgage fraud activity.

Fannie Mae has identified a pattern of mortgage-loan fraud involving a mortgage broker and multiple limited liability companies (LLCs), targeting two- to four-unit single-family investment properties located in New Jersey and neighboring states. The LLCs record deed transfer documents and approximately 60-180 days after the deed transfer, an individual associated with the LLCs applies for a limited cash-out refinance transaction. But the individual applying for a loan does not appear on the title. The appraised value of the properties in the refinance transactions are overestimated, allowing the individual to take out more money than the properties were actually worth.

FCI has also identified a New Jersey-based settlement company involved in the fraudulent activities. The settlement company has been actively involved in the payment of closing funds for apparent hard money loans for the involved LLCs. These apparent loans help drive the inflated value of the properties. The loans appear on the title commitment; however, the apparent hard money loan is not recorded against the subject property in public records. By not recording a hard money loan but including it on the title commitment, the prospective borrower is able to seek a limited cash-out transaction, when the borrower should be confined to seeking a cash-out refinance, which has more stringent requirements.



Red Flags:

- Deed transfers recorded 60 – 180 days prior to the loan origination.
- LLCs acting as both buyer and seller on the deed transfers.
- Multiple leases utilized at origination to help qualify the borrowers.
- Large value increases between the prior transfer and loan origination.
- Two- to four-unit single-family investment properties.
- Subject transaction pays off a private hard money loan.
- Dates of executed documentation for the acquisition and financing of the subject property do not align.
- Holder of the existing lien, including individuals holding ownership interest in the lender, have affiliation with the borrower.
- Mortgage being paid off cannot be validated with public records.

If suspicion of fraud exists:

- Follow established policies and procedures within your organization and the Fannie Mae *Selling Guide*.
- Complete and submit the [Suspected Mortgage Fraud Report](#) on the [Mortgage Fraud Prevention](#) web page.

More general steps lenders can take to detect and prevent fraud

- Know your third-party originators/brokers.
- Be “fraud smart” by educating your staff.
- Establish a zero-tolerance fraud policy.
- Share information within your organization.
- If the loan does not make sense, don't do it!
- Report any suspicious activity through established channels.



Watch for further “Fraud Alerts” and potential updates to this fraud alert by monitoring the [Mortgage Fraud Prevention](#) web page.