

Things to Know About Mortgage Fraud and Straw Buying

D.C. residents have contacted the D.C. Department of Insurance, Securities and Banking, known as DISB, with concerns about their identity and financial information being used to fraudulently purchase property. DISB wants you to know how to spot mortgage fraud and how to protect your identity and assets.

What is Mortgage Fraud?

Mortgage fraud occurs when someone deliberately falsifies information to obtain mortgage financing that would not have been granted otherwise. This may include:

- Misstating your position or inflating your income or length of service at your job;
- Stating you are a salaried/full time employee when you are a contract, part time, hourly or commission-based employee or are self-employed;
- Misrepresenting the amount and/or source of your down payment;
- Purchasing a rental property and misrepresenting it as owner-occupied;
- Not disclosing existing mortgage and/or debt obligations;
- Misrepresenting property details or omitting information in order to inflate the property value; or
- Adding co-borrowers who will not be living in the home and do not intend to take responsibility for the mortgage.

There are two common types of mortgage fraud by borrowers – fraud for property and fraud for profit. In the first instance, the borrower misrepresents him/herself on the loan application to get the property or cash but usually intends to repay the loan. In the second instance, people – sometimes industry professionals – work together to misrepresent the borrower or omit pertinent information from the mortgage application with no intention of repaying the loan. Not disclosing or misrepresenting any portion of the loan application to live in or obtain the property can be punishable by law.

Straw Buyers

Another common component of mortgage fraud is when someone with good credit is convinced to act as a "straw buyer." **Straw buyers** are people who consent to the use of their names and personal details by companies or people who will obtain mortgage loans but do not intend to live in the homes. Sometimes a straw buyer will be offered money for this "favor," or doesn't know that his or her name and information have been used on the loan application. **Straw buyers may also be asked to sign fake documents** and

may be involved in “*mortgage fraud rings*” where a group of people such as a lender, appraiser, broker, etc. are all taking part in the scheme. The scams could include inflating the value of the property with the appraiser, equity skimming (where the property and equity are taken from the unsuspecting homeowner who may even be tricked into leasing the home back as a renter) and loan modification schemes where the participants split the proceeds for their own personal benefit. The initiator of these schemes can successfully obtain large loan amounts for over-valued properties, and the straw buyers can end up being sued by the lenders who have extended the loan monies.

Even if straw buyers claim to not know about the fraud, they can be held criminally responsible. Recently, mortgage fraud was uncovered by DISB when a woman contacted us because too many outstanding properties on her credit report were preventing her from getting a car loan. Turns out, she was involved in a large mortgage fraud ring where she accepted money in return for use of her name. A group of bad actors identified District-area homes and straw buyers to obtain \$2.6 million in mortgages through false loan applications, forged documents and fraudulent settlements. DISB and other local and federal agencies led an investigation of the perpetrators and some of them are serving jail time.

Remember, borrowers who misrepresent information and straw buyers who allow others to purchase a property in their name are liable for any financial shortfalls in the event of default. They may even be held criminally responsible for these misrepresentations.

How to Protect Yourself When Purchasing a Home or Refinancing or Modifying a Home Loan

Never deliberately misrepresent information when applying for a mortgage. Never accept money, guarantee a loan or add your name to a mortgage unless you intend to purchase the property. If you allow your personal information to be used for a mortgage, even for a brief period, you could be held responsible for the debt even after the property is sold.

Unfortunately, mortgage fraud perpetrators can include those involved in the transaction like mortgage brokers, lenders, appraisers, underwriters, accountants, real estate agents, settlement attorneys, land developers, investors, builders, bank account representatives and trust account representatives. Never sign legal documents without reading and understanding them thoroughly. If you are uncertain, seek a second legal opinion outside of those involved in the transaction or referred by any of the individuals.

Also, if you are experiencing difficulty paying your mortgage, work directly with the lender on loan modification or refinancing options. Beware of offers to “help you with your mortgage” that ask you to pay upfront fees – you do not have to pay to modify your mortgage.

Additionally, DISB recommends that residents check their credit reports regularly to ensure their personal information was not used without your permission to purchase property or for other credit. You should dispute in writing any discrepancies with the credit reporting bureaus: Equifax – 800-685-1111; Experian – 888-397-3742; and TransUnion – 800-916-8800. If you think you’ve been a victim of mortgage fraud, we want to hear from you. Call us at 202-727-8000 or visit us online at disb.dc.gov.

About DISB

The D.C. Department of Insurance, Securities and Banking, also known as DISB, has two missions: to fairly and efficiently regulate financial services in order to protect the people of the District of Columbia; and to attract and retain financial-services businesses to the District. Visit us online at disb.dc.gov.