

# Avoiding Property Fraud



**PCS**  
PRECISION CLOSING SERVICES  
*Real Estate Title Insurance*

# Types of Fraud

- Fraud for property
  - Lying about income or property use
    - Not often prosecuted
- Fraud for profit
  - Straw buyers / Identity Theft
  - Illegal flips
  - Single-Sided Flips
- Fraud for other illegal activities
  - Money Laundering
  - Mob or terrorist activities
    - Shotgunning

# What is Property Fraud?

- The making of a statement that you know to be untrue, knowing that the person hearing it is relying upon it to make a decision about the property or the loan.
- The failure to disclose anything to the end lender.

# Single-Sided Flips

- Seller enters into contract for inflated sales price that is possibly tens to thousands of dollars more than asking price with an undisclosed side deal to accept the original asking price (or less) at closing.
- Excess proceeds are distributed to buyer or buyer's rep at closing with fake payoff, repair "escrows" or other payments *on the seller's side* of the settlement statement.
  - Everyone is being prosecuted: buyers, sellers, REALTORS, mortgage brokers, title agents, attorneys and appraisers

# Single-Sided Flips

- Protecting your seller and yourself:
  - Watch for assignable contracts
    - Often, the assignment is used to hide the flip fee
  - Watch for buyer insisting on using its title co.
    - Often, the title agent is known to the buyer to go along with the flip to draft the settlement statement to hide the undisclosed transaction
  - Watch for addenda to contract that relate to repair escrows, payments to third parties at closing, or an alternative method of calculating doc stamps and commissions based on a lower price.
  - Watch settlement statements that don't match the contract
    - Purchase price **MUST** match the contract
  - Don't allow your commission to be used to funnel money to the buyer

# Straw Buyers & Identity Theft

- A “Straw Buyer” is a buyer, usually with good credit, who is used to purchase the property in place of the true owner
  - Their good credit will ensure the loan will be funded
    - Often paid a fee after closing for use of their credit.
  - Have no intent of possessing or occupying the property.
  - Often the Straw Buyer has stolen the identity of a friend or relative with good credit.
- Used in Fraud for Profit and Fraud for Other Criminal Activities
  - Launders money and provides funds for other illegal activities.

# Straw Buyers & Identity Theft

- Protecting yourself and your customers:
  - Beware of buyers whose “friends” always view the property, but the buyer is nowhere to be seen until closing.
    - Madonna is *not* buying that house.
      - Watch “facilitators” who demand to be the single source of contact
  - Beware of requests for a single-sided flip
  - Request the prior title policy, hazard insurance or settlement statement at the listing appointment
    - Tenants sometimes sell the landlord’s house.
  - Let your title agent know if something doesn’t feel right with the deal

# Working together

- Measures we're taking
  - Two or more forms of identification at closing
    - At least one picture ID, plus more
    - Attendance sheets at closing
  - Checking names often throughout the transaction in specialized databases
  - Notifying the lender of *everything* we learn about the nature of the transaction and getting written approval before proceeding

# Working together

- Measures you can take:
  - Be aware of fraud issues
    - [www.mortgagefraudblog.com](http://www.mortgagefraudblog.com)
  - Notify the title agent if you become aware of anything that is not being disclosed to the lender
    - If the title agent won't cooperate, notify the lender directly
  - Involve your broker and an attorney early in the deal if something doesn't feel right.



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