



OLD REPUBLIC
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BULLETIN

FLORIDA BULLETIN 98-8

TO: ALL OLD REPUBLIC TITLE AGENTS AND BRANCH OFFICES

FROM: JAMES C. RUSSICK 
FLORIDA STATE UNDERWRITING COUNSEL
FLORIDA STATE OFFICE

DATE: JULY 29, 1998

SUBJECT: MORTGAGE FRAUD

Those of you who have attended some of our recent seminars have heard of the latest trends in mortgage fraud and how they can impact you as an agent. The problems associated with illegal land flips, undisclosed secondary mortgages, and various schemes to circumvent an otherwise proper HUD-1 settlement statement cannot be overemphasized. Accordingly, we are attaching a memo on mortgage fraud, which was written by Jim Uecker, Old Republic's Senior Underwriting Counsel. It is important reading for all closing personnel.

Please disseminate the enclosed and feel free to address any questions you may have to either Craig Jontz or me.

JCR/pm



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BULLETIN

612-98-0717

TO: DISTRIBUTION
FROM: Jim Uecker
DATE: July 17, 1998
SUBJECT: Mortgage Fraud

Recently, real estate trade publications have begun presenting articles describing cheating in the home-loan business which has the potential for costing lenders billions of dollars. Much of this "cheating" involves non-parties such as brokers, loan originators or appraisers who will financially benefit from the transaction. Old Republic Title and its agents may be unwittingly involved in closing and insuring these transactions even though they have no knowledge of the deception.

One of our agents recently declined to participate in a transaction involving a subprime mortgage because they became aware of certain facts which would have resulted in the completion of a HUD-1 Settlement Statement inaccurately representing the transaction. The property in question was originally listed for sale with an asking price of \$79,000.00. The negotiated purchase price was \$77,000.00 with a \$500 down payment, \$7,700.00 seller's Note bearing 9% interest for 36 months, and cash at closing from buyer to seller of \$3,350.00. The remaining 85% of the purchase price (\$65,450.00) was to be paid through an FHA-insured loan. Prior to closing the agent discovered that the \$7,700.00 Note would be forgiven by the seller at closing, meaning the actual sales price was \$69,300.00. Based upon that purchase price an FHA-insured loan would only be available in the amount of \$58,905.00. The agent refused to participate in the transaction because it would require the agent to prepare a HUD-1 Settlement Statement reflecting an inaccurate purchase price possibly subjecting the agent to liability under the Federal False Claims Act or under HUD rules.

The agent made a prudent decision. HUD is required to exclude parties from participation in federal programs or activities when they do not comply with program requirements. An example of debarment and suspension for non-compliance with federal rules occurred in a decision by a HUD Administrative Judge styled Matter of Thomas L. Zebert, Sunset Investment Company, Inc., and McKinley, Zebert & Childre. Mr. Zebert was a Mississippi attorney who closed five FHA loans in which the sellers and buyers concealed the fact that the down payment as shown on the HUD-I was not actually made by the borrower. Mr. Zebert, relying on statements by the seller or buyer that monies that would have otherwise been paid in cash at closing had already been paid, prepared HUD-I's which failed to disclose that the money had been paid outside of closing. In each case the monies had not been paid. For this the administrative judge prohibited Zebert from closing FHA loans for 16 months even though the judge also found he had no intent to defraud, misstate or mislead—he merely did not know how to fill out a HUD-I correctly.

JCU:dln