

# **A L E R T**

To: All Old Republic National Title Agents and Offices  
From: Underwriting Department  
Re: Mortgage Fraud  
Date: November 28, 2006

Mortgage fraud comes in many guises. We recently received information about some of the latest variations seen in the market today, and we want to share them with you. Generally, these schemes may involve two HUDs, two contracts or a contract and an Addendum, and requests for specific disbursements.

A recent example best describes it. A property is listed through MLS for \$474,900.00. When presented to the seller, the contract calls for a sales price of \$600,000.00. An Addendum to the contract provides that the net difference between the contract and MLS sales price is to be paid to release a "non-existent" lien or mortgage, a management fee, fix-up expenses, or some other fictitious expense. The amounts vary, but can be substantial. In these transactions, no money is brought to closing, financing is, most often, 100% of the contract sales price, the appraisal is grossly over-inflated and the borrower is an "investor" or "straw buyer" who is paid a fee for the use of their credit. Investigations show that the lender does not receive the Addendum and is not aware of any additional terms which would preclude them from funding this mortgage. In addition, the pay-off of the non-existent lien or mortgage is reflected on the seller's side of the HUD and the lender does not pay too much attention to that side of the closing statement.

Another scheme designed to defraud lenders into loaning more money on the property than what it is actually worth or to defraud lenders into believing that the borrower is bringing money to closing when, in fact, he is not, is the "ghost" mortgage. Here, the seller agrees to take back a second mortgage at closing so that the buyer's first mortgage has only a 90% loan-to-value ratio. The "ghost" mortgage is disclosed on the closing statement and documentary stamps and intangible taxes are collected. After closing, the seller "forgives" the mortgage and satisfies it, hence, the term "ghost" (the second mortgage appears and disappears). Of course, according to plan, the sales price is increased to include the amount of the mortgage, the buyer has \$ 0 equity in the property, and we have another over-inflated appraisal.

Please be vigilant in identifying these schemes.

***This Alert is to become a permanent part of your Bulletin Manual,  
and you are to comply with the requirements contained herein.***