



# Mortgage Fraud in Murrieta



## Fraud Task Force

- Southwest Riverside County Association of REALTORS® and the Inland Valleys Association of REALTORS® have joined to form a Task Force.
- The Task Force is comprised of Directors from both Associations, attorneys from Giardinelli & Duke, APC, and various members of the real estate community.





## Purpose of Task Force

- **Education Campaign**
  - Raise awareness of the Problem to Inform, Prevent, and Deter fraudulent transactions
- **Encourage Action**
  - Law Enforcement
  - Government Agencies



## Defining Fraud

- Any Intentional Misrepresentation in a Real Estate Transaction Intended to
  - (1) Cheat Someone Out of Money or Property,
  - (2) Obtain Housing Under False Pretenses, or
  - (3) Secure Better Credit Terms
- Mortgage Fraud typically involves more than one kind of fraud: Social Security Fraud, wire fraud, mail fraud, identity theft, appraisal fraud, fraudulent liens, etc.





## Two Basic Types of Fraud

- **Fraud For Housing:** Typically committed by individual borrowers in an attempt to acquire and/or maintain ownership of a home.
- **Fraud for Profit:** Motive is to strip the equity from a property, falsely inflate property values or issue loans based on properties that do not exist. This is our Main Concern.



## Fraud's Effect On Our Community

- Mortgage Fraud often leads to foreclosure of the property involved resulting in **vacant houses** in neighborhoods and **lowered property values**.
- Foreclosed and vacant properties have an adverse effect on neighborhoods because abandoned properties invite **vandalism, squatters** and, in the worst cases, **crime**.
- Lowered property values lead to **lost tax revenue**





## Fraud's Effect on Individuals

- In the worst cases, investors are defrauded out of their life savings and their good credit leaving them vulnerable to lose their home.



## Fraud In California

### The Worst Its Ever Been

- **California ranks 2<sup>nd</sup> in the nation for frequency of mortgage fraud.**

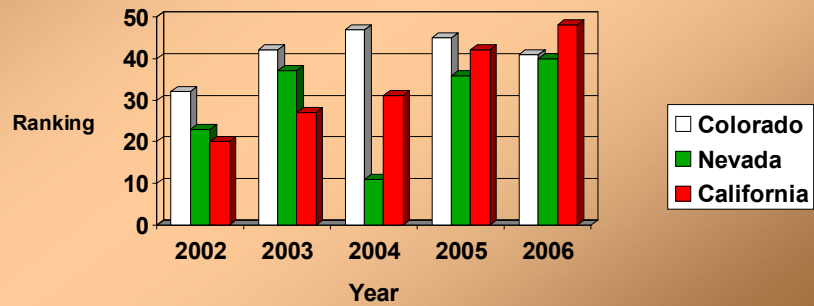
\* Source, Mortgage Asset Research Institute



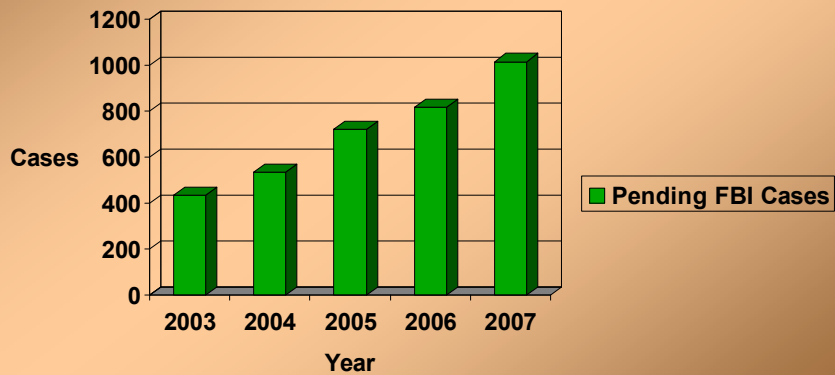


## Statistically Speaking...

California has the most fraud per capita:



## Pending F.B.I. Mortgage Fraud Cases



\*\* Source: Federal Bureau of Investigation special agent Bill Stern.





## Real Estate Fraud Leads to Increased Foreclosures

- It is widely estimated that **75%** of all foreclosures are the result of Fraud.
- **1 in every 88** homes in California is in Foreclosure.



## How Fraudulent Transactions Lead To Foreclosure

- Artificially inflated prices through fraudulent appraisals = artificially increased property taxes
- Inflated appraisal = bigger loan for the Property.
- BUT, the Property cannot actually support such a large loan, and when mortgage rates adjust, they cannot refinance, which often lead to foreclosures.





## Murrieta Has A Disproportionately Large Number of Foreclosures

- **1 in every 43 homes in Riverside County is in Foreclosure.**
- According to [www.Foreclosure.com](http://www.Foreclosure.com), as of January 4, 2008, Riverside County has **4,009** homes listed under foreclosure.
- **455+** of which are in Murrieta.
- **Murrieta has almost 12% of the foreclosures but less than 5% of the population** in Riverside County.



## City's Revenue Suffers

- **Foreclosures lower property values.**
- **Lower property values reduce the city's revenue.**
- **City services may be impacted affecting ALL citizens.**





## Overview of Schemes - Fraud for Profit -

- **Illegal Property Flipping** – Property values are artificially inflated through false appraisals unsupported by the condition of the property. Often renovations are faked or stated to support the inflated appraisal. Property is then transferred or refinanced several times for a higher price.



This house was used in a mortgage fraud scheme





## Fraud For Profit Schemes, cont.

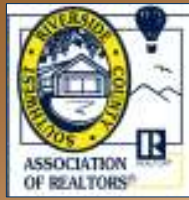
- **Churning:** Borrowers continuously refinance or sell, each time within 45-60 days so no payment becomes due. Borrowers will use funds from a subsequent closing to make 1-2 payments on earlier loans to delay closer investigation.
- **Foreclosure Schemes:** The perpetrator misleads the homeowner into believing that they can save their homes in exchange for a transfer of the deed and payment of fees. The fraudster profits by re-mortgaging the property or pocketing the fees paid by the homeowner.



## Fraud For Profit Scheming cont.

- **Straw Buyers** –Identity of the borrower is concealed through the use of someone else's name or credit. Here someone may allow their **credit to be rented** in return for a payment of money taken out of the loan proceeds.
- **Fictitious/Stolen Identity** – A fictitious or stolen identity will be used on a loan application. Perpetrator keeps the money and ruins the victim's credit.
- **Elder Fraud** – this includes fraudulent reverse mortgages





## **Ponzi Scheme – Local Case Study**

- Stonewood Financial, Murrieta, CA.



## **We're Now Facing A New Wave of Fraud**

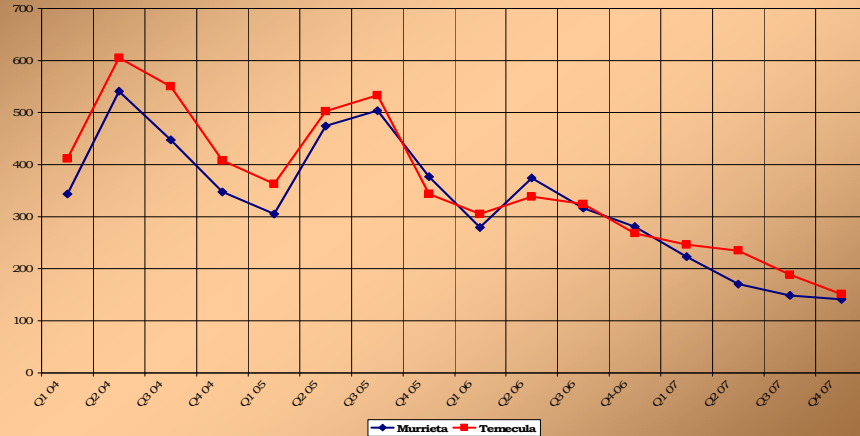
Preying upon those who are facing foreclosure.

- Foreclosure scams always increase when the housing market begins to decline, such as the market we are experiencing right now.





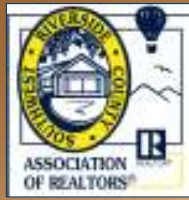
### Murrieta / Temecula Homes Sales by Quarter 2004 - 2007



## Foreclosure Scams What Are They?

- **Foreclosure Rescue** – any program that induces homeowners to part with the title to their home based on claims that doing so will save the home from foreclosure.
- In the classic scam, the operator obtains the foreclosure info from the county register of deeds or county clerk and then approaches the homeowner with the opportunity to “save” their home by entering into a lease option contract.





## Foreclosure Rescue Scams cont.

- As part of the “rescue” the homeowner will be required to deed the property to the new borrower who is “investing” in a rental property.
- The borrower’s loan removes all the equity in the house.
- The scam leaves the distressed homeowner as merely a renter in a home they no longer own, unaware the new borrower is not making payments.
- When new borrower defaults on the loan, the homeowner is evicted and has lost the house and all the equity in it.



## Foreclosure Scams

- **Equity Stripping** – in some cases the operator immediately refinances the property as soon as the title is transferred, stripping out any equity that the homeowners had.
- The fraudster may simply strip the equity and move on, quitclaiming his interest in the property back to the homeowner and leaving them with two mortgages to pay.





## Foreclosure Scams Spotting the Signs

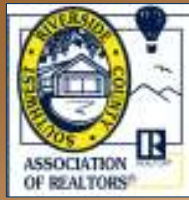
- Someone who says there are only **one or two options** to stop foreclosure. There are usually about ½ dozen.
- Anyone who tells you **not** to contact your lender.
- Someone who claims to be able to **eliminate your mortgage**.
- Anyone who offers to **loan you the money** to pay off the foreclosing lender at a high rate of interest.
- An “**investor**” who offers to buy your house at significantly less than market value.
- Anyone who offers to **help you collect the excess proceeds from a foreclosure sale**. You can collect the proceeds yourself –its not difficult.



## Mortgage Fraud Harms Everyone

- **Fraudulent Real Estate Transactions Harm the entire community.**
  - **Property taxes go up as a result of inflated prices**
  - **Foreclosed homes sit empty, bring property values down and invite crimes of opportunity.**





## **Partnering with REALTORS®**

- REALTORS® can provide education programs geared toward raising awareness with:
  - Senior Citizens
  - New Homebuyers
  - Individuals Facing Foreclosure



## **Partnering with REALTORS®**

- The City can assist in deterring and punishing fraud.
- Provide avenues for citizens to turn to when they suspect they are victims of fraud.





**Help Us**  
**Help Murrieta**  
**-Reduce Crime**  
**-Stop Mortgage/  
Foreclosure Fraud**  
**-Maintain Property Values**

**Thank you for your time.**

