How a loan becomes a scam

Fraudulent equity skimming exploded in recent years as banks relaxed their lending standards and promoted loans that didn't require the verification of income or assets. Banks profited by selling the loans in bulk to Wall Street. The flipping scheme works only with the collusion of several real-estate insiders.

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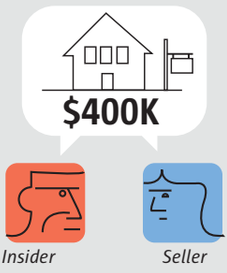

Insider finds a property and ties it up for 30 to 60 days with earnest money, promising to pay the **seller** $400,000.

2

During that time, **an insider finds a straw buyer** to purchase the property in a second, fraudulent transaction. The insider often presents it to the straw buyer as way to get rich and take advantage of housing-market conditions.

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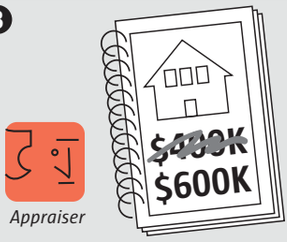

A complicit appraiser values the property at a far greater market price than the $400,000 the conspirators plan to pay the seller. The appraiser values the property at $600,000.

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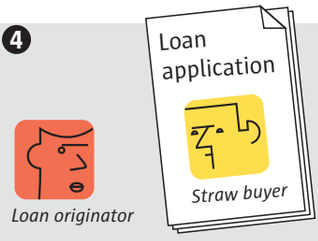

Using the appraiser's report, a **complicit loan originator submits a fraudulent application** on behalf of the straw buyer, inflating the buyer's income and falsifying employment to persuade a lender to approve a loan for $600,000.

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Lender fails to verify information in application.

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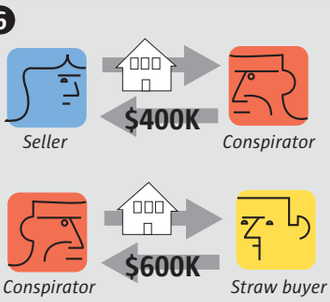

The conspirators' shell company buys the property from the original seller for $400,000, usually with money from the escrow agent's trust account. The same day, the conspirators "flip" the property to the straw buyer for $600,000, usually without the straw buyer even present.

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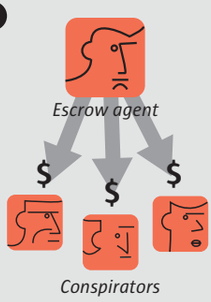

The escrow agent hides the illicit $200,000 in proceeds from the lender by preparing multiple sets of closing documents and finds creative ways to pay off the co-conspirators.

8

The straw buyer's loan goes into default soon after and eventually the home is foreclosed. The straw buyer's credit is ruined, and the lender is stuck with a property worth far less than the appraised value on which it relied.

CONSPIRATORS

Insider – Often portrays himself as a "real estate investor" or "developer" and scouts for properties to flip, recruits straw buyers and helps "corroborate" false information in mortgage loan applications. May also work as:

Appraiser – Evaluates the market value of properties. Lenders rely on their reports when deciding whether to issue a loan secured by the property in question.

Loan originator/mortgage broker – Generates loan applications and submits them to lenders for approval and funding. They receive commissions and fees for every loan funded.

Escrow agent – Oversees the closing of a home purchase and sale and disburses the proceeds to the appropriate parties.

OTHER PLAYERS

Straw buyer – Recruited to pose as a purchaser and borrower. Must have a good credit rating, but his assets, income and employment are fabricated to make him appear qualified for the loan. The straw buyer is often assured he will not be responsible for his mortgage loan and it will be paid by others.

Seller – May or may not know of the scheme. Conspirators target sellers whose property has been on market for a long time.

Lender – A number of institutions provide loans to residential borrowers, including state and federally chartered banks and wholesale mortgage lenders.

Source: Seattle Times research

Reporting by SANJAY BHATT, graphic by GABI CAMPANARIO