THE WALL STREET JOURNAL.

Mortgage Scams in a Weak Housing Market

By AMY HOAK | November 13, 2011

Fraudsters will always finds ways to scam lenders and homeowners. And in recent years, they've shifted their tactics to profit from the market's downturn.

Today, there's less identity fraud and misrepresentation of income or employment to obtain a mortgage, mainly because of stricter validation criteria, says David Johnson, vice president of fraud and consortium solutions for CoreLogic, a provider of financial, property and consumer information. But other types of fraud are replacing those scams. Here are three:

1 Foreclosure Rescue

Schemes that prey on struggling homeowners heading toward foreclosure are "the cash cow right now," says Yolanda McGill, senior counsel for the Fair Housing and Fair Lending Project of the Lawyers' Committee for Civil Rights Under Law.

Some fraudsters are peddling services such as preparing documents for a loan modification. Others claim to be an attorney or say they are working with an attorney. Often, these offers sound legitimate, echoing some of the same language used by government programs and lenders to gain a homeowner's trust.

They offer a service, take the homeowner's money, then disappear, Ms. McGill says.

The Mortgage Assistance Relief Services Rule, in effect since January, prohibits firms that offer mortgage modification or mortgage relief assistance from accepting upfront fees, Ms. McGill says. So homeowners should never pay before services are rendered. There's an exception for attorneys, causing some scammers to pose as representatives of law offices, she says.

Other scammers try to get homeowners to sign a quit-claim deed, which transfers ownership of the home to the scammer, who promises the homeowner a situation where he or she will be able to remain in the home, Ms. McGill says. In a newer scam, those who have already lost their homes are being approached to pay money to get the home back, she adds.

2 Short-Sale Fraud

A short sale can be a lifeline for a distressed homeowner heading for foreclosure. That's because in a short sale, the lender accepts a mortgage payoff that's lower than what the homeowner owes. But fraudsters have found ways to make a profit off these deals.

One of the most common forms of short-sale fraud happens when a seller or someone representing a seller doesn't submit the best offer to the lender. A middleman buys the property at the lower price, then turns around and resells the property to a legitimate buyer at a higher price—often on the same day—according to a recent Federal Bureau of Investigation report on mortgage fraud. The middleman pockets the difference, sometimes sharing it with an accomplice.

Some fraudsters are real-estate agents marketing themselves as "short-sale specialists." Title companies and settlement agents may be in on the scam, too, says Robert Hagberg, lead fraud investigator at Freddie Mac.

Sometimes fraudsters will try to manipulate the price lower by encouraging the homeowner to make the house look worse than it is, referred to in the industry as "reverse staging."

3 False Payoffs

Another scam is when the title or closing agent doesn't remit payoffs as he should, Mr. Hagberg says. An example: "You refinance your mortgage, the refinance closes, you go on your way and make payments to the mortgage company, but your title company hasn't remitted payoffs to the old company."

Fraudsters take funds for their own use, and it can be 30 to 60 days before evidence of the scam is found in the public record.