

“Flips, Frauds and Foreclosures”

A Real Estate CE course by:

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Introduction: What is the state of real estate lending in the US today?

- **Interest only mortgages**
- **Foreclosure rates**
- **Fraud**
- **Sub-prime resetting**
- **Predatory lenders**
- **“Target hitting” appraisers**
- **New schemes**
- **New laws**

Main Street versus Wall St.

Main Street is where: _____

Wall Street is where: _____

The loan process:

- ✓ **Contract**
- ✓ **Application**
- ✓ **Verification of income, employment**
- ✓ **Appraisal**
- ✓ **Underwriting**
- ✓ **Approval**
- ✓ **Settlement with a legitimate HUD 1**
- ✓ **Fund dispersal**

The non-legit loan process:

- **Contract—can be one or more, can be ‘fixed’, can be fraudulent**
- **Application—can be coached, can be false**
- **Verification—can also be lied about**
- **Appraisal—drive by? Target hitting?**
- **Underwriters—can or cannot be ‘in on it’**
- **Approval**
- **Settlement –with one or more HUDs (e.g. the ‘real one’ and the other one)**
- **Fund dispersal, which can include kickbacks and cash under the table**

- **Fraud: A deception deliberately practiced in order to secure unfair or unlawful gain. (Dictionary definition)**

Signs of Fraud

Straw Parties

Air Loans

Stolen Identities

Misstated income, credit, down payment

Kickback or cash back at closing

Excessive fees or fees for non-existent services or products

Misrepresentation of the physical condition of the property

Misrepresentation of occupancy of the property

Target hitting or fraudulent appraisals

Down payments alleged to have been made, but they were not

False financial statements, especially on “low-doc” or “no-doc” loans

- **Equity Stripping**

What can/should an agent do?

In the appendix, you have a brochure from realtor.org that you can either print and use, or you can order from NAR, nicely done in color for you. The brochure is titled: **Understanding Today's Mortgages**



Shopping for a Mortgage? Do Your Homework First

This should be part of your buyer packet to all buyers.

Agent's responsibility as a buyer agent

Agent's fiduciary duties:

Obedience

Loyalty

Disclosure

Confidentialty

Accounting

Reasonable care & diligence

Agent's additional duties include an obligation to comply with RESPA.

Biggest violations: Accepting fees or kickbacks which you may not legally accept.

To accept a payment, the broker or agent must provide goods, facilities and services that are actual, necessary, and distinct from what they already provide.

Any fee must be commensurate with the value of the service

Any fee cannot be transactionally based

Agents must disclose affiliated relationships

Agents may not require borrowers to use a certain lender, title company, etc.

We've seen the fraud. Fraud leads to Flips and Foreclosures.

Flips

Legitimate flips

Illegitimate flips

Flip: Buying a home at a low price, fixing it up (or not) and reselling it at a profit.

Appraisers must research and report

- **Listings of the subject property within the past twelve month**
- **Sales of the subject property within the past three years**
- **Sales of the comparables within the past year**

Flipping was fueled by:

- ❖ **Double digit inflation**
- ❖ **Media attention**

Foreclosure

- **Reaching epidemic proportions in some areas**
- **Fueled by predatory lending**
- **Is expected to increase through 2010 at least**
- **Creates more inventory in some already saturated markets**

Causes of foreclosure:

- 1)
- 2)
- 3)
- 4)
- 5)

Foreclosure and the Agent

Challenges:

- “Upside down” sellers
- Lenders who want a CMA
 - “As is”
 - “As improved”
 - “Quick sale”

Market influences:

- ❖ Supply and demand
- ❖ Investors
- ❖ Interest rates
- ❖ Consumer confidence

Developing a discount adjustment for:

- Condition
- Quick sale
- Both

Case Study

Agents are needed to:

- Price property
- List property
- Secure property (“Cash for Keys”)
- Get winterizations, trash outs down
- Sell the property

Next 2-4 years

Challenge---or Opportunity?