



## Freddie Mac Warns of Short Sale Fraud

By: Carrie Bay

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Short sales are being used more frequently by homeowners, lenders, and investors to avert a foreclosure, and industry data released by [RealtyTrac this week](#) shows that these pre-foreclosure transactions are being pushed through at a faster pace.

[Freddie Mac](#) says its short sales have risen from about 4 percent of completed workouts in 2000 to nearly 14 percent in 2010. The GSE warns that with the increase in short sale transactions comes an increase in fraud.

Short sale fraud has become the top priority for Freddie Mac's fraud investigation unit, according to Shelley Poland, single-family chief credit officer. She says the GSE is working with agents and others in the field to identify real estate professionals who rig sales and hide higher offers from Freddie Mac and the seller in order to turn around and flip the property for a profit.

"[W]e have allies in this fight," Poland said in a [blog post](#). "There are many conscientious real estate professionals who want to do the right thing. We often receive calls in our servicing, quality control, fraud investigation, outreach, and HomeSteps divisions from real estate agents who know they've seen something inappropriate and won't look the other way."

She stressed that real estate fraud turns a shortsighted profit at the cost of the public's long-term confidence in homeownership and the housing industry.

"We strongly believe responsible Realtors are America's natural first line of defense against such scams," Poland said.

Freddie Mac has begun reaching out to Realtor associations in target markets to educate them about the latest trends in short sale fraud, the red flags to watch for, and what actions they can take to stop it, Poland said.

In addition to flipping schemes, the GSE is seeing trends in which agents manipulate the short sale price and obtain a low broker price opinion (BPO) by inflating repair estimates or making the house look more distressed than it really is, something called reverse staging.

Freddie Mac prohibits the buyer, buyer's agent, buyer's attorney, or a third-party short sale negotiator to be the contact point for the agents preparing the BPO.

The company says fraudsters are falsifying title and loan documents to obtain mortgages to buy short sale properties that can be flipped, and manipulating the HUD-1 settlement statement to skim net proceeds from the sale.

As a result of the uptick in short sale issues, Freddie Mac now requires all of the parties involved to sign an affidavit attesting that it is a true arms-length transaction, Poland said.

"These affidavits not only deter individual participation but also give us a stronger legal path to enforce our rights," she said.

Known perpetrators are added to the GSE's "Exclusionary List" – firms and individuals barred from conducting business with Freddie Mac – and face prosecution from law enforcement agencies.

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