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It Just Keeps Happening Over and Over Again...

It started this past week after a long dry spell between our seeing any fraudulent transactions in deals we were looking at. Suddenly, we were staring at 4 different ones in just a few of days. We actually saw a fifth one but I have been told by a higher authority not to write about it until the “hammer falls” on the culprits.

In order for the appropriate authorities to not get mad at me for exposing the people involved so they don't take flight, or sue me for slander, the summaries will be somewhat vague:

1. The first obvious fraud was almost expected as it was a Quitclaim Deed for a property in Miami-Dade County. The deed was somewhat akin to a rocket volley going off at a fourth of July celebration. The beneficiary of an estate called us and wanted to sell but explained he wasn't on title as he had thought, and even stranger to him, unknown people were living in the property. Yet he still wanted us to buy it!

It didn't take minutes to see the fraudulent deed in the public records. Two years ago the seller (caller's mother) deeded the property to a buyer who had re-sold the property to the current owners. However, his mother was physically and mentally incapable of signing anything at the time and she lived in another state under constant nursing care. Even her signature in the public record was obviously a fake and the notary on the document had carefully “twisted” his/her seal so you couldn't read his/her name or ID number or his/her signature.

So here we are again, an obvious forgery on a quitclaim deed and a deal that was deadlier than a road-kill opossum. So that deal is now in the hands of the White Collar Crime Division and we are off to the next one. But what would have happened if the deal had gone through because the caller hadn't checked or a careless closing agent didn't care enough to contact the former seller – who is now deceased? It would have been a fraud claim against the title policy and would have made a lot of trouble for everyone involved – except the investor seller who got away with the money. The lesson here is, “If there is a Quitclaim Deed in the chain of title, BE CAREFUL!

2. The second interesting event started when I was requested to review the details of a short sale where it should have been a standard “A to C” transaction but an investor got in the middle. A conventional lender was funding the end-buyer “C” and the investor was “hidden in the transaction” inside a land trust and used a second/third lien on the closing statement to get paid his spread. I warned the parties to the transaction that this was the typical bank fraud that so many California investors are being prosecuted for. I am making this one very short so as not to get into the mix of the parties involved. The deal closed, the investor took out a huge chunk of change, the end-buyers were happy, the realtors got paid, the seller was out of the property via a short sale so all were happy.

However, think what the buyer's lender would think if he knew his funds had been used to pay for the investor's purchase and what the seller's lender would think if he knew he negotiated in good faith to reduce the mortgage principal and all the while the investor was making a killing from the mortgage principal reduction?

Some gurus around the country are actually teaching very similar methods of defrauding lenders "legally" in short sales. Somehow the words defrauding and legally don't seem to go together. Greed tends to twist minds in strange ways. You can do short sales and take out spreads, just know that they can be done legally or with prison time attached.

3. Just yesterday a very nice man called and went into great detail of how he was in foreclosure – actually he had received his eviction notice the week before. He was hoping we could find a buyer for his property because the lender had gotten the deed via the auction but was willing to sell it as a "short pay" to him for \$75,000 – from an original judgment amount of over \$300,000. Great discount but why not do a loan modification early in the game? The situation grew greatly complicated when I heard the rest of the story of how an investor "rescued" him by taking over his mortgage payments "subject to", while deeding the property away from the homeowner. The homeowner agreed to make "mortgage" payments to the investor for two years (24 Months) at which time the investor would sell the home back to the original homeowner. The investor stopped making the mortgage payments and re-sold the property to another investor who also never made any mortgage payments but collected "mortgage" payments from the former homeowner.

At this stage the original homeowner was not on title, but the lender knew that and made him the "short pay" for \$75,000 offer because of the title fraud. To make things even worse the Attorney General's Office said they would pursue criminal charges against the investors but the former homeowner had to file a civil suit to recover any money or to keep his property! All this and in the face of his having to take care of his very ill mother, who is living with him because they can't afford to keep her in a medical facility. What was the point of the investor taking the property in the first place? It appears the investor only wanted to collect a few rent/mortgage payments and not pay the mortgage. These are the types of investors who our industry is negatively associated with, no wonder some homeowners call investors %\$#@^!

4. In the final case, two realtors, not from our area, pleaded guilty to charges of "flopping". What they did was rig short sales to mislead the loss mitigation reps who made the final approval decisions. They did this in various ways that investors have frankly been taught for years on how to "influence the BPOs". They compounded the problem by taking the profits themselves and withholding higher offers for the short sales from the loss mit reps – essentially defrauding the lenders of income – bank fraud.

I know that there are tons of you reading this and saying, “I have done it for years and it’s legal”. You may be in for a surprise in the near future. Short sales are becoming more popular because of the REOs being withdrawn from the market – short-term. This leads to more bidders on the same deals so be careful out there and watch to see if your short sale offer is greater than the sale price - make your report to the appropriate authorities if it happens. Just because you make a profit and walk away to do another deal doesn’t mean you are doing it legally.

I could write full “Insights” about each of these cases, but practically speaking if you don’t get it now, naming names won’t help you. If you are thinking about doing anything even near what I mentioned above, think of the long-term ramifications and hurtfulness to the homeowners and the possible cost to you and your loved ones. As always, contact an attorney for legal advice.

To your limitless success,

Dave Dinkel

P.S. Many of you have been asking me about the new 97 page e-book I have just finished called “Discover the Secrets of Crushing the REO Market”. It is the insider answers to 61 most Frequently Asked Questions about how to survive and thrive in the current REO market.

I will be giving it out to the attendees at the Saturday, November 13, all day event along with tons of other stuff that is designed specifically to focus the attendees on doing deals. **Call for more information to reserve and pay for your seat before we sell out or the price changes – 954-318-6042.**