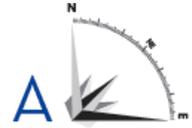




Topic: Hard Money Lenders

Date: September 18, 2017



Alliant National has recently experienced significant claims arising out of transactions financed by Hard Money Lenders. A Hard Money Lender is a lender that is not regulated by state or federal law. (Seller financed loans are not considered hard money loans.) Hard Money Lenders do not typically vet Borrowers in the same manner as institutional lenders. This creates an opportunity for fraudsters to steal identities, and commit forgery. While not all transactions involving Hard Money Lenders are fraudulent, you need to be vigilant, especially if any of the red flags below are in your transaction.

Red Flags

- (1) The property to be mortgaged is free and clear**
Fraudsters want to maximize the amount of money they steal at closing. Often times, fraudsters will target property that is free and clear of mortgages. The fewer liens there are to pay, the more profit the fraudster makes at closing.
- (2) No direct contact with the Borrower**
If you have not had direct contact with the Borrower, for example, all communications with the Borrower are conducted through third parties to the transaction (such as a mortgage broker or the Hard Money Lender) or via email, this is a red flag. You should independently verify the Borrower's contact information and contact them directly to confirm the transaction.
- (3) The property is a rental, may be vacant, or the real Owners may live in another state or country**
Fraudsters are always looking for the path of least resistance. Our claims experience demonstrates that Owners who live out of state or in other countries are often targeted by fraudsters.
- (4) Documents are notarized outside of your office, the closing is a Mail-Away**
Mail-Aways prevent you from cross-referencing the person in front of you with a government issued ID. False IDs have been used in the claims that we have experienced. You should select the notary public who acknowledges all signatures outside of your office, and compare signatures obtained to prior signatures in the public record if possible.
- (5) A Power of Attorney is used**
Fraudsters often use Powers of Attorney to ensure that you have no contact with the Borrower. Contact the Borrower directly to verify the need for a Power of Attorney, select the notary public who acknowledges the document, and compare signatures obtained to prior signatures in the public record if possible.



- (6) High pressure tactics**
Fraudsters will use high pressure tactics to force you to overlook red flags. The closing may be presented to you as a “rush,” or may have been transferred to your title agency from another company.
- (7) Signatures do not match**
The Borrower’s signature does not match other signatures in the public records.
- (8) Addresses do not match**
The fraudster does not want any documentation sent to the real Owner until they are long gone. At times, the identification provided to you will have an address that is different than what is on the property appraiser’s website; or the address may not match other documents that are in your file or available in the public records. The fraudsters may provide a good excuse – they’ve recently moved. If the addresses in your file or the lender’s documents do not match up, contact Alliant National Underwriting.
- (9) Identification provided looks good, but something may be off**
Fraudsters have gotten savvy and the identification may look very authentic. Look up state or federal samples of the identification produced. At times a small watermark or minor design may be missing. Scrutinize the identification, and contact the entity that issued it to verify validity. If in doubt, always ask for a second form of identification that has the Borrower’s name on it. Most fraudsters don’t bother getting something like a credit card or a Costco card under the assumed name.
- (10) The property was recently conveyed from a lender that has foreclosed (less than a year)**
Like absentee land owners, institutional banks may not keep track of their inventory as closely as an owner that lives in the house. Fraudsters often record fake deeds to themselves from a bank. If you see a recent conveyance from a lender, call the lender or foreclosure counsel to confirm that the conveyance was valid.
- (11) Hefty fees and third party disbursements**
At times hefty fees are part of a Hard Money Lender’s transaction. Hefty fees combined with high dollar disbursements to third parties may be designed to skim equity from the property.
- (12) A property appraisal is not conducted, or the appraisal seems too high**
Overly inflated appraisals helped perpetuate the real estate boom of the early 2000s. Equally important is the lack of an appraisal to help establish a realistic value of the property, the loan to value ratio, and ultimately, the amount of insurance. If the value of the property is significantly less than the amount being lent, this may be a red flag.
- (13) The Borrowers have excellent credit**
Hard Money Lenders typically lend based on loan to value ratios. They also charge hefty fees and high interest rates. Borrowers with good credit and sufficient assets



should easily qualify for an institutional loan. If a Borrower with excellent credit has applied for a hard money loan, this is a red flag.

(14) Paperwork is sloppy

At times, the documents provided to you by the Hard Money Lender to confirm the identity of the Borrower are sloppy, not properly filled out, and may have important information missing.

(15) The Hard Money Lender may be a new client for your title agency

Fraudsters will capitalize on a title agent's desire to gain their trust in exchange for repeat business. If you have never worked with this Hard Money Lender before, use caution and scrutinize the transaction.

While one red flag may not signal you have a fraudulent transaction pending, a combination of these red flags may indicate the transaction is not legitimate. Our Underwriting and Claims Teams are here to help you. Please contact us to discuss any concerns you may have about your transaction.

Did you know?

Alliant National has a Crime Watch Program. You may be eligible to receive a \$1,000 reward if you help prevent a fraudulent transaction. Please visit www.alliantnational.com/claims/crimewatch.aspx for more information.

Alliant National has also set up a hotline to report fraud. If you are aware of a scheme or fraudulent activity, help us prevent fraud by emailing your story to: fraudhotline@alliantnational.com.

