Glossary

Legislation

Financial Services Modernization Act of 1999:

Also named the Gramm-Leach-Bliley Act after its Congressional sponsors. Financial regulations contained in the Bank Holding Company Act of 1956 and the Glass-Steagall Act of 1933 were repealed, which enabled the consolidation of insurance companies, brokerage firms, investment dealers and commercial banks and the expansion of their financial activities. The insurance, banking and securities investment arms of the firms were under separate regulatory jurisdiction with the Federal Reserve as the umbrella regulator.

Rep. John Dingell (D-MI), argued that it would it create institutions that would 'be too big to fail' and require a federal bailout

Commodities Futures Modernization Act of 2000:

The legislation grew out of Bill Clinton's Presidential Working Group on Financial Markets recommendations regarding derivatives and the efforts of the CFTC to regulate financial products, such as over-the-counter derivatives and swaps. The legislation was introduced on December 14 2000 by Rep. Thomas Ewing and signed into law on December 21. The act established that over-the-counter derivatives and swaps were neither "futures" nor "securities" and would not be subject to the CFTC or the SEC.

Emergency Economic Stabilization Act of 2008:

Enacted in an effort to stabilize the financial markets. The legislation was initially rejected on Sept. 29, but came into law on October 30 with amendments that increased the bailout by $150 billion. The Treasury Department was authorized to buy up to $700 billion of troubled assets from financial institutions through the Troubled Asset Relief Program. FDIC deposit insurance was increased from $100,000 to $250,000.

Housing and Economic Recovery Act 2008:

Enacted July 30 in an early effort to prevent foreclosures. The legislation merged the responsibilities of the Federal Housing Finance Board and Office of Federal Housing Enterprise Oversight to create the Federal Housing Finance Agency, which enabled the government conservatorship of Freddie Mac and Fannie Mae. It authorized the Federal Housing Administration to spend $300 billion by extending 30 year fixed rate mortgages to subprime borrowers.

American Recovery and Reinvestment Act of 2009:

Enacted on February 17 2009 to stimulate the economy, the legislation authorized $787 billion to be spent on tax cuts, benefits, entitlement programs and federal contracts, grants and loans for infrastructure projects, health and education.

Wall Street Reform and Consumer Protection Act of 2010:

Enacted July 21 2010, the legislation overhauled the regulatory structure of the financial industry, created new regulations for hedge and private equity funds and established the Volker rule, which prohibits banks and bank holding companies from trading financial products such as bonds, securities and derivatives for personal profit. The Financial Stability Oversight Council, chaired by the Secretary of Treasury and composed of the heads of the Fed, OCC, SEC, CFTC, FDIC, FHFA, NCUA, was created to coordinate and strengthen regulation of the financial industry. The Bureau of Consumer Financial Protection was, also, established within the Dept. of the Treasury.

Housing and Community Development Act of 1992:

Enacted on Oct. 28, the legislation contained a number of provisions to support federal housing initiatives, reduce the risk of lead based paint poisoning, deregulate financial institutions and create a regulatory structure for the Government Sponsored Entities. The maximum amount of a government insured mortgage was revised and a quick procedure for insuring loans and mortgages used to purchase troubled assets from the Resolution Trust Corporation was established. The Act, also, established a pilot program to test federal credit enhancement for mortgage loans through a system of risk-sharing agreements with housing finance agencies. The Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac) were required to make independent assessments of alternative risk-sharing credit methods for mortgage loans.

Sarbanes-Oxley Act of 2002:

Enacted on July 30, the legislation created a number of reforms regarding corporate accounting and reporting. It created the Public Company Accounting Oversight Board to provide regulatory supervision of auditing firms and auditing professionals. The legislation was passed following the corporate accounting scandals of Enron and WorldCom where cooked books were given a clean bill of health by auditors.

Federal Housing Enterprises Financial Safety and Soundness Act of 1992:

Enacted on Oct. 28 as Title XIII of the Housing and Community Development Act, the legislation created the Office of Federal Housing Enterprise Oversight to monitor the Government Sponsored Entities Freddie Mac and Fannie Mae to ensure they are properly capitalized and operating safely. The HUD Secretary was given regulatory

authority over the enterprises. The Federal Home Loan Bank system was amended to allow mortgage lenders to provide loans to individuals in certain income brackets without collateral from an insured mortgage.

Reigle-Neal Interstate Banking and Branching Efficiency Act of 1994:

Enacted on Sept. 28, the legislation amended the Bank Holding Company Act of 1956 and the Federal Deposit Insurance Act to enable banks to make interstate acquisitions of other financial institutions and establish out-of-state branches. It established the regulatory protocol to govern the interstate activities of state and national banks and exempted national banks from state laws.

New Community Reinvestment Act of 1995:

The Community Reinvestment Act was originally passed in 1977 in response to national pressure concerning the discriminatory lending practices of financial institutions. The 1977 Act required federal regulatory agencies to ensure that the financial institutions in their jurisdiction were meeting the credit needs of the community in a safe and sound manner by adding CRA compliance into their examinations. In 1995, the regulatory and examination procedures governing CRA compliance of financial institutions were changed, due to criticism from the financial industry.

Secure and Fair Enforcement for Mortgage Licensing Act of 2008:

Enacted on July 30, the legislation gave states one year to legally require the licensure of mortgage loan originators and their registration with the Nationwide Mortgage and Licensing System and Registry.

The Depository Institutions Deregulation and Monetary Control Act of 1980:

Signed into law March 31 by President Jimmy Carter, the Act raised deposit insurance from $40,000 to $100,000 and phased out the interest rate limit on checking accounts.

The Garn-St. Germain Depository Institutions Act of 1982:

Enacted on October 15, the legislation was passed due to dwindling earnings in the Savings & Loan industry caused by the interest rate paid out on checking and savings accounts. Title III of the legislation, the Thrift Institutions Restructuring Act, gave increased investment power to thrifts and authorized thrifts to invest up to 55% of their assets on commercial and real estate loans. The Act, also, focused on improving the housing industry by authorizing alternative mortgage loans with adjustable interest rate.

Competitive Equality Banking Act of 1987:

Passed on August 10 after years in the House bank committee, the legislation authorized funds to recapitalize the Federal Savings and Loan Insurance Corporation. The legislation included forbearance provisions for troubled thrifts that limited the ability of FSLIC regulators to take action against them.

Financial Institutions Reform Recovery and Enforcement Act of 1989:

Enacted on August 8, the legislation authorized $160 billion to bailout the S&L industry and instituted the largest regulatory reform of the financial industry since the Great Depression. The Federal Home Loan Bank Board was abolished and its responsibilities were distributed to a number of bureaucratic bodies whose coordinated approval was needed for final decisions on regulatory action. The Office of Thrift Supervision (OTS) was created to regulate the surviving S&Ls. The Resolution Trust Corporation (RTC) was created to deal with failed thrifts and was responsible for their sale, merger, or closing, and the disposal of their assets. Civil penalties for fraud were limited to $1,000,000.

Regulatory Agencies

U.S. Congress House Committee on Financial Services:

The House Committee has total oversight authority for the financial industry including banking, securities, insurance and housing. The regulatory agencies under its supervision are the Treasury Department, the Securities and Exchange Commission, the National Credit Union Administrator, the Department of Housing and Urban Development, the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency, the Federal Housing Financial Administration, the Export-Import bank and the Federal Reserve.

U.S. Senate Committee on Finance:

The committee's oversight jurisdiction includes taxation and other revenue measures, the bonded debt of the US, customs, trade agreements, tariff and import quotas, deposit of public moneys and the health programs under the Social Security Administration.

U.S. Senate Committee on Banking, Finance and Urban Affairs:

Established in 1913, the Committee has oversight authority over the financial industry, including banks, insurance companies, financial markets, securities markets, housing, urban development and mass transit. The committee, also, informs international trade, finance and economic policy.

The Securities and Exchange Commission (SEC):

The SEC is responsible for enforcing federal laws in the securities industry, the stock and options exchanges and the electronic securities markets. The agency is composed of five presidentially appointed commissioners that serve five-year terms and is organized into 11 regional offices. The SEC divides its work into five main departments: corporate finance, trading and markets, investment management, enforcement, and risk, strategy and financial innovation. The trading and markets division oversees the self-regulatory agencies FINRA and MSRB. The SEC can bring civil suit or administrative proceeding against violators but they do not have the authority to bring criminal charges against offenders.

The Federal Deposit Insurance Corporation (FDIC):

Created in 1933 by the Glass-Steagall Act, the FDIC is responsible for the supervision of the banking industry and backing deposits at commercial banks and, after 1989, S&L institutions. It, also, manages failed banks. The FDIC provided insurance and supervision to a steady 13,000-14,000 from 1934 to 1988 when the number dropped dramatically; in 2011 the estimated number of FDIC insured institutions fell to approximately 7,723 institutions. In 1980, deposit insurance was increased to $100,000; in 2008 it was again increased to $250,000.

The Financial Industry Regulatory Authority (FINRA):

FINRA is the largest independent self-regulatory organization in the U.S. The SEC has delegated much of their rulemaking and regulatory enforcement authority to FINRA. It oversees approximately 4,460 brokerage firms and 629,520 securities representatives and is responsible for the registration and education of securities industry participants. It is responsible for examining security firms and enforcing regulations and federal law; its enforcement authority includes fines or suspensions or expulsion from FINRA.

Municipal Securities Rulemaking Board (MSRB):

The MSRB is a self-regulatory agency devoted to protecting state and local issuers of securities and investors and to promote a fair and efficient municipal market. The MSRB has rulemaking authority for the municipal securities market and regulatory authority for the securities firms and banks involved in the municipal securities market.

Commodity Futures Trading Commission (CFTC):

The CFTC regulates the futures and option markets; it replaced the Commodity Exchange Authority in 1974. Originally the agency's sole focus was future contracts for agricultural commodities, but its jurisdiction evolved with financial innovations to include currency and securities. In 1998, the CFTC attempted to regulate Over-The-Counter derivatives trades but the agency's rulemaking authority was limited

to swaps and hybrid financial instruments. The commission is composed of five presidentially appointed Commissioners.

Federal Reserve System (the Fed):

The Federal Reserve, established in 1913, is the Central Bank of the US and the heart and soul of the banking system. It is responsible for carrying out US monetary policy, supervising and regulating banks, maintaining stability in financial markets and containing systemic risk, and providing financial services to depository institutions both US and foreign. The Federal Reserve is responsible for the oversight of approximately 900 state member bank and 5,000 bank holding companies. It is composed of a seven member Board of Governors appointed by the President and confirmed by the Senate that is the governing body of the 12 regional Federal Reserve banks.

Office of the Comptroller of the Currency (OCC):

The OCC, established in 1863 as an independent body in the Treasury Dept., is responsible for supervising national banks that are not members of the Federal Reserve. Its primary responsibilities are to approve or deny applications for bank charters, new branches, capitol changes or changes to the corporate or banking structure, in addition to examining national banks and federal thrifts. Can take supervisory actions against national banks and federal thrifts that include removing officers and directors, negotiate agreements to change banking practices, issue cease and desist orders and civil fines. Issues rules and regulations and legal interpretations and corporate decisions regarding banking practices. The Comptroller is appointed by the president and confirmed by the Senate for a five-year term and, also, serves as a director for the Federal Deposit Insurance Corporation (FDIC).

National Credit Union Administrator (NCUA):

In 1970, the NCUA was formed to charter and supervise the federal credit unions that were created by the Federal Credit Union Act of 1934 to make credit available through a national system of nonprofit cooperative credit unions. In 1979, the NCUA expanded from a single administrator to a three-member board. The National Credit Union Share Insurance Fund was formed as a sub-sect to the NCUA to insure credit union deposits.

Office of Thrift Supervision (OTS):

The OTS was created as part of the bailout of the S&L industry. The new agency took on the abolished Federal Home Loan Bank Board's responsibilities to charter, supervise and regulate S&L institutions. The OTS was housed within the Treasury Dept. but was abolished on October 19 2011. Its responsibilities were divided and

distributed to the OCC, the FDIC, the Fed, and the Consumer Financial Protection Bureau.

Office of Federal Housing Enterprise Oversight (OFHEO):

Established in 1992 in the Dept. of Housing and Urban Development, the OFHEO was the primary regulatory agency for the Government Sponsored Entities Freddie Mac and Fannie Mae and was responsible for ensuring they were financially stable and adequately capitalized. The OFHEO was abolished in 2008 and its duties were transferred to the newly formed Federal Housing Finance Agency.

Federal Housing Finance Board (FHFB):

The FHFB was created in 1989 as part of the regulatory reform that followed the S&L debacle. The FHFB took over the responsibility of supervising the 12 regional Home Loan Banks that ensured the financial stability of local lenders from the abolished Home Loan Bank Board. It was composed of a five-member board; four members were presidential appointees and one was the HUD secretary. The FHFB was abolished in 2008 and its responsibilities were transferred to the FHFA.

The Federal Housing Finance Agency (FHFA):

The Federal Housing Finance Regulatory Reform Act of 2008, which abolished the OFHEO and the FHFB, created the FHFA. The FHFA was given the regulatory responsibilities of both the OFHEO and expanded legal and regulatory authority, which enabled the government take-over of Freddie Mac and Fannie Mae.

Consumer Financial Protection Bureau (CFPB):

The CFPB was created as in independent agency in the Treasury Dept. as part of the reforms in the 2010 Dodd-Frank Act. The CFPB serves as a consumer watchdog for financial products by supervising banks, credit unions and financial companies. It is, also, tasked with increasing the financial literacy of consumers through outreach and education. It is authorized to enforce Federal consumer financial protection laws and laws that prevent discrimination in consumer financing.

Federal Trade Commission (FTC):

The FTC was created in 1914 as part of anti-trust legislation to prevent deceptive practices in commerce. Its joint mission is to protect consumers through the prevention of fraud and deception in the marketplace and prevent anticompetitive mergers and business practices that threaten a competitive marketplace. The FTC has broad jurisdiction, which includes nonbank financial companies, units of bank holding companies and mortgage lenders and brokers. The FTC has the authority to create rules to address industry-wide practices and can investigate specific businesses or an entire industry.

Federal Financial Institutions Examination Council (FFIEC):

The FFIEC is an inter-agency body that was formed within the US government in 1979 to establish uniform standards for financial institutions. It is composed of the designees from the federal regulatory agencies responsible for the financial sector. The NCUA, FDIC, the Fed, the OCC and, until recently, the OTS are represented on the Board of Directors; the OTS was replaced by the Consumer Financial Protection Bureau. The FFIEC establishes the principals and standards for federal examinations of financial institutions.

The Federal Home Loan Bank Board (FHLBB):

The FHLBB was created in 1932 to increase access to home ownership. It was responsible for supervising the Savings and Loan industry and was the parent organization for the 12 regional Federal Home Loan Banks, the FSLIC and the Federal Home Loan Mortgage Corporation. The FHLBB was abolished in 1989 in the reforms that followed the S&L debacle and its responsibilities were transferred to a variety of different agencies including the OTC, RTC, FHFB and FDIC.

Federal Home Loan Banks:

The 12 regional Home Loan Banks were established with the FHLBB in 1932 to support federally chartered thrifts by providing low cost loans and financial services to support the consumer lending practices of S&Ls. Each Home Loan Bank is structured as a cooperative that is owned by their member financial institutions, which make them extremely vulnerable to industry pressure. In 1989, the FHFB took over responsible for the oversight of the Federal Home Loan Banks from the FHLBB.

The Federal Savings and Loan Insurance Corporation (FSLIC):

The National Housing Act of 1934 established the FSLIC to promote confidence in federally chartered S&Ls. The FSLIC was responsible for providing insurance for deposits in S&Ls and experienced insolvency numerous times during the S&L debacle. The FSLIC was abolished in the 1989 reforms of the S&L industry and its remaining assets were transferred to the Savings Association Insurance Fund in the FDIC. The responsibilities of the FSLIC were split between the RTC, the OTS and the FDIC.

Resolution Trust Corporation (RTC):

The RTC was created in 1989 to handle the failed S&Ls that had drained the budget of the FSLIC. The RTC was responsible for the sale, merger, or closing of bankrupt thrifts, the disposal of their assets, and the reimbursement of the thrifts depositors. The Resolution Funding Corporation, a Government Sponsored Enterprise that was established by Congress alongside the RTC, financed the agency. The RTC was

abolished in 1995; its responsibilities were transferred to the Savings Association Insurance Fund in the FDIC.

Financial Products and Agencies:

The Financial Industry:

The financial industry is a blanket term that refers to a broad range of organizations that manage money. The financial industry encompasses commercial banks, investment banks, savings and loan institutions, credit unions, insurance companies, government sponsored enterprises, securities and investment firms and real estate companies.

Financial Holding Companies:

Financial holding companies are nonbank financial institutions that offer consumers a broad array of financial services—from insurance policies to securities investments. The agencies were a product of the deregulation of the financial sector by the Financial Services Modernization Act of 1999, which enabled Bank Holding Companies to declare itself a Financial Holding Company and increase the scope of its financial investments.

Bank Holding Company:

A Bank Holding Company is broadly defined as any company that has control over a bank. They are required to register with the Federal Reserve and, if a company has more than 300 shareholders, it must also report to the SEC. Many investment banks switched their status to a Bank Holding Company in the wake of the global financial crisis because of regulatory loopholes that enable Bank Holding Companies to quickly raise capital.

Investment Banks:

Investment banks are financial institutions that help individuals, corporations and governments raise capital by underwriting securities or acting as an agent in issuing securities. Investment bank activity is divided into two main categories: "supply side", the pension funds, mutual funds, hedge funds and investors that purchase financial products, and the "sell side", the trading, selling and promotion of securities. Investment banks are regulated by the SEC and FINRA.

Thrifts aka Savings and Loans:

Thrifts are financial institutions that are primarily involved in handling consumer deposits and originating home mortgage loans. The Garn-St. Germain Act expanded the investment powers of thrifts to include commercial, real estate, personal and other loans.

Hedge Funds:

Hedge Funds are the professionally managed investment partnerships of fewer than 100 wealthy investors. Advanced investment products and strategies are used to generate high-returns and offset the risks the investors carry in their other portfolios. Investment activities involve the use of leverage, short selling, swaps and derivatives.

Mutual Funds:

Mutual funds are investment vehicles that pool the funds of a large group of investors to provide them with access to a professionally managed and diverse portfolios composed of securities, bonds and equities. Money managers choose the investments of the mutual funds according to the Mutual Funds' predetermined goals and objectives.

Pension Funds:

A fund established by an employer to facilitate the investment of their employees' retirement funds. The pension fund is meant to create long-term stable growth.

Bonds:

Bonds are a form of a loan, or debt securities, where the issuer of the bond agrees to pay the buyer the principal amount in addition to interest. They are issued by public authorities, credit institutions or companies in the primary market. There are many forms of bonds, such as asset-backed securities, fixed rate bonds, zero-coupon bonds or government and municipal bonds. The bond market is divided into the primary market where new bonds are issued and the secondary market where bonds are bought and sold.

Securities:

Securities describe a broad array of financial instruments that represent financial value. They are divided into three major categories: debt securities, such as banknotes, bonds and debentures; equity securities, such as common stocks; and derivatives contracts, such as forwards, futures options and swaps.

Derivatives:

Derivatives are financial instruments that are contracts between two parties that specify the conditions under which the parties are to be paid. They are priced according to their underlying assets, which are typically stocks, bonds, commodities, currencies or interest rates. The most common forms of derivatives are forward contracts, options and swaps that are used to protect investors from risk, "hedging",

or enable investors to acquire risk, "speculating" or betting. The derivatives market is divided between exchange-traded derivatives, which are regulated by the CFTC, and over the counter derivatives, which remain unregulated.

Structured Investment Vehicles (SIVs):

SIVs are financial innovations that attempt to profit from the credit spread between short-term loans and longer-term securities such as asset-backed securities. The strategy behind SIVs was to raise capital by issuing short-term securities and use the money to buy longer-term securities at a higher interest rate. SIVs collapsed with the subprime market.

Mortgage Backed Securities (MBSs):

MBSs are a form of asset-backed security whose underlying asset are mortgages or pools of mortgages. Banks and mortgage lenders sell their loans to Government organizations, GSEs or private financial institutions where they are assembled into groups and sold as MBSs to investors on the secondary market. The return of the investment in MBSs is dependent on the payment of the principal balance and interest rates on the mortgages.

Collateralized Mortgage Obligations (CMOs):

CMOs are a form of a Mortgage Backed Security that separates investors into three distinct tranches that determine the investor's level of risk and when they will receive payment.

Collateralized Debt Obligations (CDOs):

CDOs are asset-backed securities that, just like CMOs, separate investors into three tranches that offer varying degrees of risk and return. Many of the underlying assets of CDOs were subprime mortgage securities. Drexel Burnham Lambert, the investment bank that employed junk bond king Michael Milken, invented CDOs in 1987.

Swaps:

Swaps are a form of a derivative where two parties agree to swap the cash flows from each other's investments. Swap agreements define the way the cash flows are calculated and the dates when they are to be paid out. The most popular forms of swaps include interest rate swaps, currency swaps, commodity swaps, and credit default swaps.

Credit Default Swaps:

Credit default swaps are a derivative that was created to limit investors' exposure to risk; they are essentially insurance policies that are issued by banks and bought by investors. Buyers pay a premium to the seller and receive a payout if an event specified in the contract occurs, such as a default on the underlying assets of the CDS.

Credit Rating Agency:

Credit rating agencies are firms that provide an opinion on the creditworthiness of a financial product, and usually separate credit ratings between investment grade and non-investment grade. There are ten credit rating agencies that are registered with the SEC as Nationally Recognized Statistical Rating Organizations, such as Moody's, Standard & Poor, Kroll and Fitch.

Fraud Schemes:

Investment Fraud:

Investment fraud is also known as securities fraud. It is any activity that misleads or falsifies information investors use to make decisions.

The Ponzi Scheme:

The Ponzi scheme, named after Charles Ponzi, is an investment fraud that pays high returns to investors by disbursing the funds raised from new investors. It is dependent on funds from new investors to pay returns and collapses when new investors dry up. Some red flags of a Ponzi scam are consistently high returns with little to no risk, unregistered investments, unlicensed sellers, secretive or complex investment strategies and difficulty receiving payments.

The Pump and Dump or Market Manipulation Fraud:

The fraud is most prevalent in small over the counter stock trades. It involves promoting stocks by releasing a series of misleading statements about a company to attract new investors. Once the price of stock has increased, due to the surge in demand, the stock is sold the new investors are left with stocks whose value has plummeted.

The Roll Program or Prime Bank Note Fraud:

The roll program has many different names, including prime bank debentures, prime bank guarantees, high-yield trading, standby letters of credit, guaranteed bank notes, discounted US Treasury Securities and International Monetary Fund Backed Securities. Roll program perpetrators tell investors that they have access to a secret government sponsored trading program that enables them to offer a high

returns through access to bank guarantees that can be bought at a discount and sold a short time later for a profit.

Insider Trading:

Insider trading involves the buying or selling of a security by an individual who has 'insider' or nonpublic information about it.

Short and Distort:

The short and distort fraud scheme is the exact opposite of the pump and dump scheme. Investors short sell a stock, or sell it for less than its worth, and spread negative rumors about a company to drive down its stock prices. Investors are then able to buy a greater share of the stock for a lower price.

High-Yield Investment Program (HYIPs):

HYIPs are a form of a ponzi scheme where investors are promised high returns that are, in reality, payments made from the money of new investors. HYIPs are marketed by unlicensed individuals and are unregistered investments.

Corporate Fraud:

Corporate fraud is the fraudulent activity committed by corporations, such as creative accounting techniques that misrepresent the financial status of the organization.

Repurchase Agreement (Repos):

Repos are the short-term sale of securities with an agreement for seller to repurchase the assets at a later date for an increased price. Repos are not technical frauds but they have been involved in numerous accounting scandals, such as the Lehman 105 repo that hid millions from examiners. They are used to reduce the level of debt on the books before quarterly reports and examiners, but are considered legitimate financial transactions.

Rent-a-bank scheme:

The "Rent-a-Bank" scandal was a banking scheme that was uncovered in TX in the mid 1970s and is commonly used by bank holding companies to hide losses. An investigation into the failure of Citizens State Bank in TX revealed a network of investors that had bought and sold nearly 20 small banks in less than 4 years to swap shaky assets and avoid bank examiners. The process of transferring debt between friendly financial institutions is known as "swapping dead horses for dead cows".

Round Robin loan scheme:

Round robin loans are loans that are extended to second and third parties who, in return, provide money to the loan originator. The round robin is used to hide losses and uncollectible assets.

Mortgage Fraud:

Mortgage fraud is the falsification of mortgage documents or misstatements on mortgage loan applications.

Land Flip Schemes:

The land flip scheme is a form of flipping, which involves purchasing an asset and reselling it quickly for profit. The land flip takes place in the real estate market and is considered a fraud when a recently acquired piece of real estate is quickly resold with an artificially inflated value. The inflated value of real estate in land flips schemes are, also, used as collateral for loans from financial institutions.

Straw Buyers:

A straw buyer is an individual who makes a purchase on behalf of another person because the real buyer, for some reason, can't complete the transaction. In real estate schemes, straw buyers are used to obtain unnecessarily large loans and are left with the debt when the real purchaser disappears with the money.

Air Loans:

Air loans are most commonly found in mortgage fraud scheme. It involves a mortgage broker who invents a property and a borrower to earn profits on completed loan transactions.

Foreclosure Schemes:

Foreclosure schemes prey on desperate homeowners facing foreclosure and have many forms. The fractional interest transfer foreclosure scheme involves an agency convincing a homeowner to transfer to them a partial amount of interest in the home. The agency turns out to be in bankruptcy and the home is given a stay from foreclosure because of bankruptcy laws. The homeowner is charged excessive fees and, sometimes, mortgage payments by the agency, which claims to be working out their mortgage issues with the lender. In other variations, known as the lease-buy back, the homeowner is convinced to sign over the deed to their property and then lease it back with a future option to repurchase. The deed is transferred over to a bankrupt agency, which puts a stay on foreclosure, and the agency charges the homeowner rent and consulting fees claiming they are resolving the issues with the lender.

Equity Skimming:

Equity skimming is a form of foreclosure fraud that resembles the lease-buy back. Homeowners are convinced to sign over the deed to a corrupt agency or individual that then cashes in on the equity on the property and either sells it or allows it to go into foreclosure.

Double Sales:

Double sales are the sale of a mortgage note to more than one investor. Signs of double sales include mortgage payments that are made by someone other than the borrower and two mortgages on the same property.

Builder Bailout/Excessive Incentive/Cash-Back Scheme:

The builder bailout scheme is usually found in new condos or real estate development projects. The seller gives the buyer a large financial incentive, which can include an inflated appraisal of the property to facilitate an inflated loan that conceals the financial incentive.

Short Sale:

Short selling in real estate is an element of land flip schemes. Mortgage lenders are convinced by real estate agents to accept below market bids on underwater property and forgive the remaining amount of the mortgage. The property is then flipped and resold to another party at a higher price in a deal that was negotiated before the short sale.

Predatory Lending:

Predatory lending practices were prevalent in the subprime mortgage market and involved imposing unfair and abusive loan terms on borrowers, such as unjustified risk-based pricing, failure to clearly and accurately disclose terms and conditions of loans, and servicing agent and securitization abuses. Changes to a loan's servicing agent without notification to borrowers, is common, and oftentimes servicing agents fail to forward payments to the new agent leaving the borrower accountable.

Appraisal Fraud:

Appraisal fraud is a common element of mortgage and real estate fraud schemes. Homes are fraudulently given an above market value by an appraiser, which enables the owner to have access to a large amount of financing, either in mortgage, refinancing or home equity loan.