

Preventing Mortgage Fraud

Take a Closer Look



MGIC

Mortgage application fraud risk index



Up 6.1% in Q2 2025

compared to Q2 2024

1 in 116

Mortgage applications

estimated to have indications of fraud in Q2 2025

1 in 106

Purchase applications

estimated to have indications of fraud in Q2 2025

1 in 142

Refinance applications

estimated to have indications of fraud in Q2 2025

Cotality 2025 Fraud Report

<https://www.cotality.com/resources/reports/2025-annual-fraud-report>

Affinity

Air loan

Builder bailout

Buy and bail

Double sale

Foreclosure rescue

Property flip or flop

Synthetic identity

Short sale

Straw buyer

Reverse occupancy

Fraud schemes

[Fannie Mae - Fraud Prevention](#)

Lender due diligence

Occupancy

 Fannie Mae

 QUALITY INSIDER



Getting It Right – Reverification of Occupancy

Minimize risk and originate high-quality loans by implementing effective processes and procedures during loan origination and quality control (QC). A strong QC environment can help lenders detect red flags and uncover discrepancies during the reverification of occupancy. When lenders discover discrepancies, they should validate the data used to determine the borrower's eligibility was accurate. The validation can spark insights related to potential gaps across their internal control environment.

Ask yourself:

- Are you aware of the associated risks on loans with inaccurate occupancy status?
- Do you have established processes to spot occupancy red flags during origination and underwriting?
- Do you train every person in the manufacturing process on evolving trends in potential occupancy fraud for housing and for profit?
- Is your QC team well-versed on how to investigate occupancy red flags?

Occupancy type – why it matters

The Fannie Mae *Selling Guide* B2-1.1-01, Occupancy Types, describes three types of occupancy and each poses a different level of risk:

- **Principal residence** – The subject property will be occupied by the borrower as their primary residence. This occupancy type represents the least amount of risk, as borrowers are less likely to default on a mortgage loan for the home that they occupy.
- **Second home** – The subject property will be occupied by the borrower for some portion of the year, such as a summer or vacation home. This occupancy type represents a higher risk than a principal residence.
- **Investment** – An investment property is owned but not occupied by the borrower and is rented out to others. This occupancy type represents the highest level of risk.

As a result of the varying levels of risk, there are different eligibility rules based on the occupancy type. Lower-risk transactions often allow for higher loan-to-value ratios and lower interest rates for the borrower. This cost differential could potentially incentivize the borrower to misrepresent an investment property as a primary residence so they can borrow more at a lower cost. Occupancy risk is one of the variables that secondary market investors, such as Fannie Mae, consider when pricing loans. For example, when a primary residence is discovered to be an investment property, the higher risk profile can result in financial losses for the stakeholders.

Reverse occupancy is a type of occupancy misrepresentation in which the borrower purchases a home as an investment property and claims rental income to qualify for the mortgage loan. Instead of renting the home out, the borrower moves in and occupies it as a primary residence, thereby not receiving the rental income that was used to qualify for the mortgage.

A strong QC environment can help lenders detect red flags and uncover discrepancies during the reverification of occupancy.

[Fannie Mae - Quality Insider - Occupancy](#)

Lender due diligence

Rental

Income



AUGUST 25, 2025

Solving Rental Income Challenges

As a mortgage lender, you've likely experienced the frustration of dealing with loan defects and the financial risk they bring. The miscalculation of rental income and rental loss continues to be a top issue in random loan quality reviews, and recently, the lack of proper documentation has become a significant defect driver. To avoid common pitfalls and ensure your loans are processed smoothly, it's crucial to understand the requirements and take the following steps when using rental income to qualify borrowers:

1. Determine if the rental income is eligible to use as an income source and if it is limited to offsetting the mortgage payment.
2. Determine what documentation is required to calculate the income correctly.
3. Calculate the income using the methodology described in *Selling Guide B3-3.1-08*, Rental Income.

To avoid common pitfalls and ensure your loans are processed smoothly, it's crucial to understand the *Selling Guide* requirements when using rental income to qualify borrowers.

[Fannie Mae Quality Insider - Rental Income](#)

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QUALITY INSIDER

SEPTEMBER 30, 2025

Findings

Reviewing findings from a random sample of loans can help you discover potential future issues. Since findings do not create eligibility defects, monitoring findings allows you to take proactive steps to mitigate risk, improve loan quality, and maintain customer trust.

Below are the top ten findings identified in our random sample of loans acquired during the first quarter of 2025 (January 2025 to March 2025).

Top 10 findings Q1 2025: random sample

1. Subject physical features reported inaccurately – condition/quality of construction
2. Inadequate comparable adjustments
3. Failure to adjust comparables
4. Comparable sales physical features reported inaccurately – condition/quality of construction
5. Omission of debts - documentation missing
6. Asset documentation incomplete/ineligible
7. Subject view of location reported inaccurately
8. Income not documented - base
9. Insufficient assets to close
10. Higher eligible income not used at origination



This quarter, five of 10 findings were related to information in appraisals. Discrepancies were often cited between appraisal data and our data. Share appraisal findings with appraisal management companies or appraisers to help them better understand our appraisal reviews.

Finding:

A loan manufacturing error that does not impact the eligibility of the loan. However, the same error could result in a significant defect in different loan scenarios.

[Understand Top Defects to Help Strengthen Loan Quality | Fannie Mae](#)

Freddie Mac



True Lies: The Lies Caught Up With Her

Liars will go to great lengths to deny wrongdoing. So what do you do when someone vehemently claims innocence, yet your suspicions remain?

[LEARN MORE](#) →

FRAUDCAST

PODCAST



Fraudcast Episode 2: Investigating Suspicious IRS Transcripts

Even with trusted sources like tax returns, what you see isn't always what you get.

→



Fraud Prevention and Best Practices

Be aware of these types of scams and schemes.

→

[Freddie Mac - Fraud Prevention](#)

Fraud prevention resources

Consumer Financial Protection Bureau – [Fraud and scams](#)

Federal Bureau of Investigation – [Be Crime Smart](#)

Federal Trade Commission – [Loans and Mortgages](#)

Fannie Mae – [Mortgage Fraud Prevention](#)

Freddie Mac – [Fraud Prevention](#)

Department of Housing and Urban Development – [Prevent Loan Scams](#)

For existing mortgages – [Contact your mortgage services provider](#)

Reporting mortgage fraud



Federal Bureau of Investigation (FBI)

1-800-CALLFBI

[FBI Tip Form](#)



Federal Trade Commission (FTC)

(877) FTC-HELP



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1-800-232-6643



Federal Housing Finance Agency (FHFA)

1-800-793-7724

Freddie Mac

Freddie Mac

1-800-4FRAUD8

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teaming up
with us!**

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www.mgic.com/contact

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www.mgic.com/training