

OPENING STATEMENT OF
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HUD's GOVERNMENT INSURED MORTGAGES:
THE PROBLEM OF PROPERTY "FLIPPING"

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This morning, the Permanent Subcommittee on Investigations continues its examination of "property flipping." As we learned yesterday, flipping is a growing type of mortgage fraud that has devastated families and neighborhoods throughout the country.

In a typical flipping transaction, a con artist purchases a run-down house in a low-income neighborhood. The seller makes minor, cosmetic improvements to the property and then attempts to unload the house on an unsuspecting buyer at a grossly inflated price. These properties are usually resold at a tremendous markup – often 100% or more – within a few months or even days. "Flippers" usually target first-time, low-income home buyers who are eager to own a home of their own and are willing to trust sellers who promise them the American dream of homeownership.

Our investigation found that these unsophisticated buyers are generally unfamiliar with real estate transactions. They are essentially at the mercy of unscrupulous sellers who are often aided and abetted by unethical appraisers and lenders.

Once they have hooked the unsuspecting buyers, the sellers make the arrangements to secure an FHA-backed mortgage loan to finance the transaction. In some cases,

if a buyer's credit history or financial condition would scuttle the deal, fraudulent mortgage applications or phony gift letters are crafted to grease the transaction.

The combination of inflated property prices, expensive repairs, and adjustable rate mortgages often leave the buyers with mortgage payments and other costs that they simply cannot afford. Contrary to the explicit assurances of the sellers, the properties are frequently in such poor condition that the buyers must sink even more money into their homes just to render them habitable. The result is sadly predictable. The sellers escape with obscene profits, and the buyers default on their mortgages. The ultimate result is often foreclosures that leave the owners with no home, tarnished credit ratings, and broken promises.

Yesterday, we heard heart-wrenching testimony from three first-time homebuyers who were victimized by property flippers. They told tragic stories of high hopes that were dashed by unscrupulous sellers, appraisers, and real estate agents – all of whom were part of scams to sell them dilapidated, overvalued houses.

Our witnesses showed the Subcommittee pictures of what they had hoped would be their dream homes but which proved to be houses that were crumbling and unsafe. We saw raw sewage backed up through a toilet onto the bathroom floor, severe termite infestation, rotting wood exteriors through which rats entered the dwelling, a roof that was almost completely detached from the rest of the house, dangerous structural damage, and faulty electrical systems that repeatedly burned out, placing the occupants at risk of a fire. The ultimate tragedy is that our witnesses paid exorbitant prices for these atrocious homes and are now saddled with mortgages and repairs that they cannot afford.

I am outraged that hard-working Americans, such as those we heard from yesterday, have become targets of con men disguised as legitimate business people. I am particularly disturbed to learn, however, that all the fraudulent loans examined during the Subcommittee's investigation were insured by the federal government. Consequently, after the sellers walked away with handsome profits, and the federal government picked up the tab for the fraudulent loans.

I look forward to hearing from our witnesses this morning.