SCR-21 — Commercial Mortgage Double-Closing & Appraisal Inflation Guide

A Complete Handbook and Web Resource for Commercial Lenders, Underwriters, and Institutional Investors

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Institutional Defense: Detecting Simultaneous Paper Flips, Fabricated Purchase Contracts, and Inflated Commercial Appraisals

Executive Summary: The $100M+ Bank Fraud Syndicate

In commercial real estate financing, lenders rely on certified appraisals, historical operating statements, and verifiable borrower equity to underwrite multimillion-dollar loans. However, an aggressive class of white-collar syndicates systematically defrauds commercial banks, private debt funds, and government-sponsored enterprises (Fannie Mae and Freddie Mac) through a sophisticated deception known as the Simultaneous Double-Closing & Appraisal Inflation Scheme.

The operation relies on two parallel, simultaneous transactions:

1. **The Authentic Acquisition (A-to-B Transaction):** The syndicate contracts to purchase an office park or apartment complex from an arms-length seller at true fair market value (e.g., $42 million).
2. **The Fabricated Flip (B-to-C Transaction):** On the exact same day, the syndicate stages a sham transfer to a co-conspirator or affiliated shell LLC for an artificially inflated price (e.g., $70 million), supported by fabricated purchase-and-sale agreements and doctored rent rolls.
3. **The Inflated Loan Extraction:** The syndicate conceals the original $42 million contract from the lender, presenting only the bogus $70 million contract. Believing the buyer is investing substantial equity, the commercial mortgage lender issues a $45 million loan. The borrowed loan proceeds completely fund the authentic $42 million purchase, and the syndicate walks away from the closing table with millions in cash "surplus"—with zero dollars of their own capital at risk.

Recent landmark federal prosecutions—such as the Department of Justice conviction of Aron Puretz, Eli Puretz, Moshe Silber, and Fredrick Schulman in an $119 million commercial mortgage conspiracy involving prominent

properties like the Troy Technology Park in Troy, Michigan, and Williamsburg of Cincinnati in Ohio—demonstrate the multi-agency law enforcement priority targeting this scheme.

This handbook details the mechanics of commercial double-closings, the role of complicit settlement agents, red flags in commercial underwriting, and institutional defensive protocols.

Section 1: Anatomy of the Commercial Double-Closing Syndicate

The conspiracy unmasked in the federal Troy Technology Park prosecution illustrates the four-stage execution playbook:

1. **The Contract Manufacture & Appraisal Manipulation:**
    - The conspirators locate an underperforming commercial asset. In Troy, Michigan, the authentic purchase price was approximately $42 million.
    - The syndicate manufactures a fraudulent second contract displaying a sale price of $70 million.
    - To deceive commercial appraisers, the syndicate submits doctored rent rolls displaying phantom tenants, inflated lease rates, and forged letters of credit. Unwitting or collusive appraisers certify a commercial valuation matching the bogus $70 million contract.
2. **The "Dry" Equity Illusion (Short-Term Bridge Loans):**
    - Commercial underwriters require proof that the borrowing entity possesses the required 30% to 35% cash equity to close (e.g., $25 million).
    - The syndicate secures an undisclosed, short-term 48-hour bridge loan from a private lender or money-market entity. They deposit the cash into an escrow account just long enough to generate bank verification of deposit (VOD) statements, then immediately wire the funds back after loan approval.
3. **Complicit Title Companies & Double Escrows:**
    - The scheme requires a cooperative or negligent title closing agency.
    - The title company executes two simultaneous closings on the same morning:
        - **Closing 1 (A-to-B):** The real owner conveys the property to Shell LLC 1 for $42 million.
        - **Closing 2 (B-to-C):** Shell LLC 1 conveys the property to Shell LLC 2 for $70 million.
    - The title company conceals the A-to-B HUD/ALTA settlement statement from the commercial bank, presenting only the inflated B-to-C closing documents to justify the disbursement of the $45 million bank loan.
4. **The Post-Closing Collapse:**
    - The property’s actual net operating income (NOI) cannot support debt service on an artificially inflated $45 million mortgage.
    - Within 12 to 24 months, the property enters default, leaving the lender or Fannie Mae with a catastrophic foreclosure loss.

Section 2: The 5 Red Flags in Commercial Mortgage Underwriting

Commercial underwriters and loan review committees must watch for these critical warning signs:

Red Flag	Fraud Indicator	Standard Legitimate Transaction
1. Rapid Value Step-Up	Property value increases by 30% to 70% within days or months with no physical improvements.	Property valuation backed by historical cap rates and verifiable capital improvements.
2. Unseasoned Ownership	Seller on the final settlement statement acquired title on the exact day of loan closing.	Title held by the seller for a minimum of 12 to 24 months (proven seasoning).
3. Related-Party Intermediaries	Common corporate managers, registered agents, or shared addresses between Buyer and Seller LLCs.	Completely independent, arms-length corporate entities.
4. Unverified Down Payment Sourcing	Large cash deposits appearing in bank statements within 72 hours of closing from private LLCs.	Seasoned equity reserves traced through audited corporate financial accounts for 90+ days.
5. Round-Trip Wire Instructions	Escrow instructions directing loan surplus funds back to the borrower or affiliated management entities.	Loan proceeds disbursed strictly to pay off verified prior institutional mortgages.

Section 3: The 6-Point Institutional Due Diligence Protocol

Commercial lenders, debt funds, and title underwriters must enforce these defensive measures:

1. Enforce a Strict 12-Month Chain-of-Title Seasoning Rule

- Mandate a full 24-month title search showing all historical deed conveyances, recorded purchase prices, and prior mortgage payoffs.
- If a property was acquired within the past 12 months, **underwrite the loan based on the lower of the historical purchase price or the current appraisal**, unless substantial, verified capital expenditures are proven with physical permits and invoices.

2. Direct On-Site Physical Tenant Audits

- Never rely on electronic rent rolls or PDF lease agreements provided by the borrower.
- Send independent field examiners to physically walk every commercial tenant suite. Verify that tenants occupy the space, count active employees, and confirm operating retail or office activity.

3. Independent Tenant Estoppel Certificate Verification

- Mandate that all major tenants sign an official **Tenant Estoppel Certificate**.
- Contact the corporate headquarters of each commercial tenant independently (via phone or certified mail) to verify that the lease terms, monthly base rent, security deposits, and expiration dates match the documents submitted to underwriting.

4. Forensic Audit of Sourced Equity Funds

- Require 90 days of certified, uninterrupted bank statements showing the borrower's cash equity reserves.
- Interrogate any sudden cash influxes occurring within 30 days of closing to ensure funds were not borrowed through unrecorded short-term promissory notes.

5. Dual-Settlement Statement Audits for Title Agencies

- Title underwriters must require closing agents to execute an official **Title Closing Affidavit** certifying that:
    - There are no unrecorded simultaneous transfers or assignments occurring.
    - The settlement statement delivered to the lender represents the sole, true transaction consideration.
    - No undisclosed secondary purchase-and-sale contracts exist.

6. Independent Appraisal Reviews

- Mandate an independent Desk Review or Field Review of every commercial appraisal conducted by an MAI-designated appraiser with zero relationship to the loan originator or borrower.

Section 4: Emergency Response & Enforcement Protocol

If a commercial lender uncovers an inflated double-closing scheme:

1. **Issue an Immediate Acceleration Demand:** Declare an immediate non-monetary and monetary event of default under the loan agreement based on fraudulent misrepresentation in the loan application.
2. **File an Emergency Action for a Court-Appointed Receiver:** Petition the federal or state court for an immediate order appointing a commercial **Receiver** to seize control of property bank accounts, collect rent directly from tenants, and preserve the physical asset.
3. **Audit Title Company Liability:** Issue a formal demand against the title insurance underwriter under the Closing Protection Letter (CPL) for closing officer negligence or active fraud.
4. **Refer to Federal Law Enforcement:**
    - Submit formal referrals to the **FBI Financial Crimes Section** and **U.S. Attorney's Office**.
    - If government-sponsored enterprise (GSE) loans are involved, file complaints directly with the **Federal Housing Finance Agency Office of Inspector General (FHFA-OIG)** (fhfaoig.gov/reportfraud) and **HUD-OIG**.

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