

What is Mortgage Fraud Anyway?

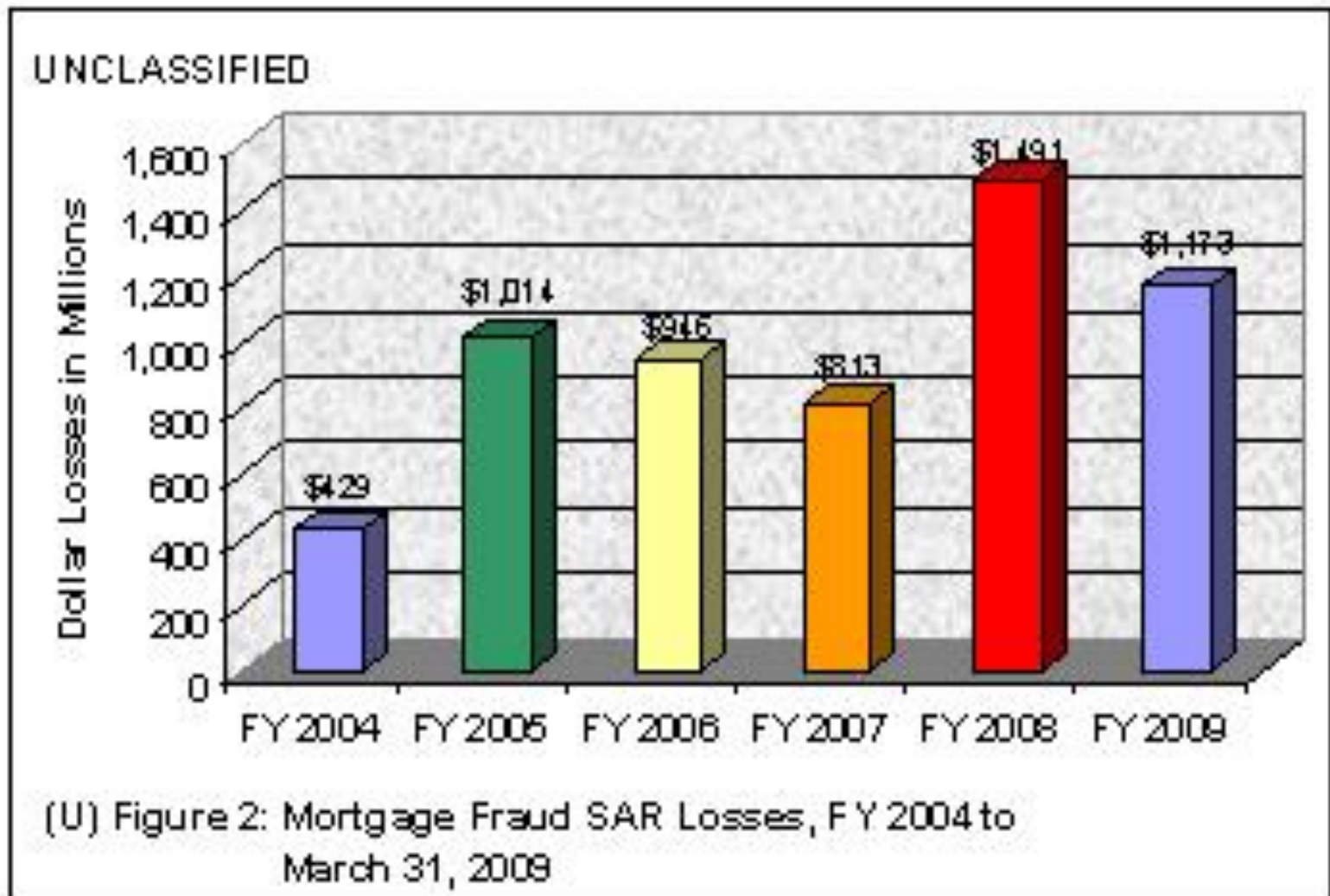


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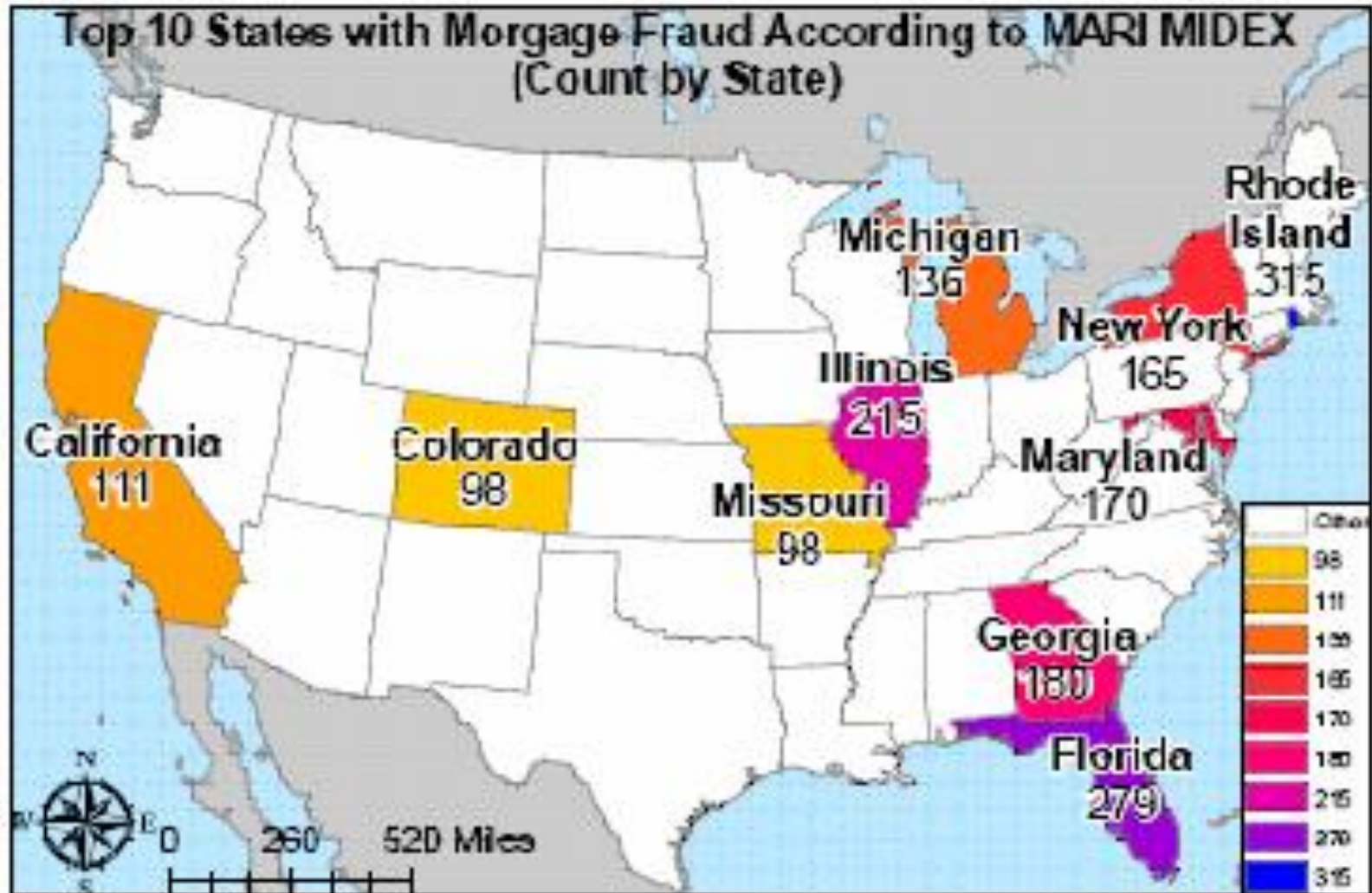
MORTGAGE FRAUD IN PERSPECTIVE

- ▶ FY 2008 (first 3 quarters) Losses to Bank Robbery, Burglary, and Larceny – \$41 Million
 - (\$9,086 per robbery)
- ▶ FY 2008 Losses reported to the FBI due to Mortgage Fraud– >\$1.4 billion (an increase of 83.4 percent from FY2007).
- ▶ 1st half of FY 2009 Losses reported due to Mortgage Fraud exceed the same period in FY2008 by \$208 million.

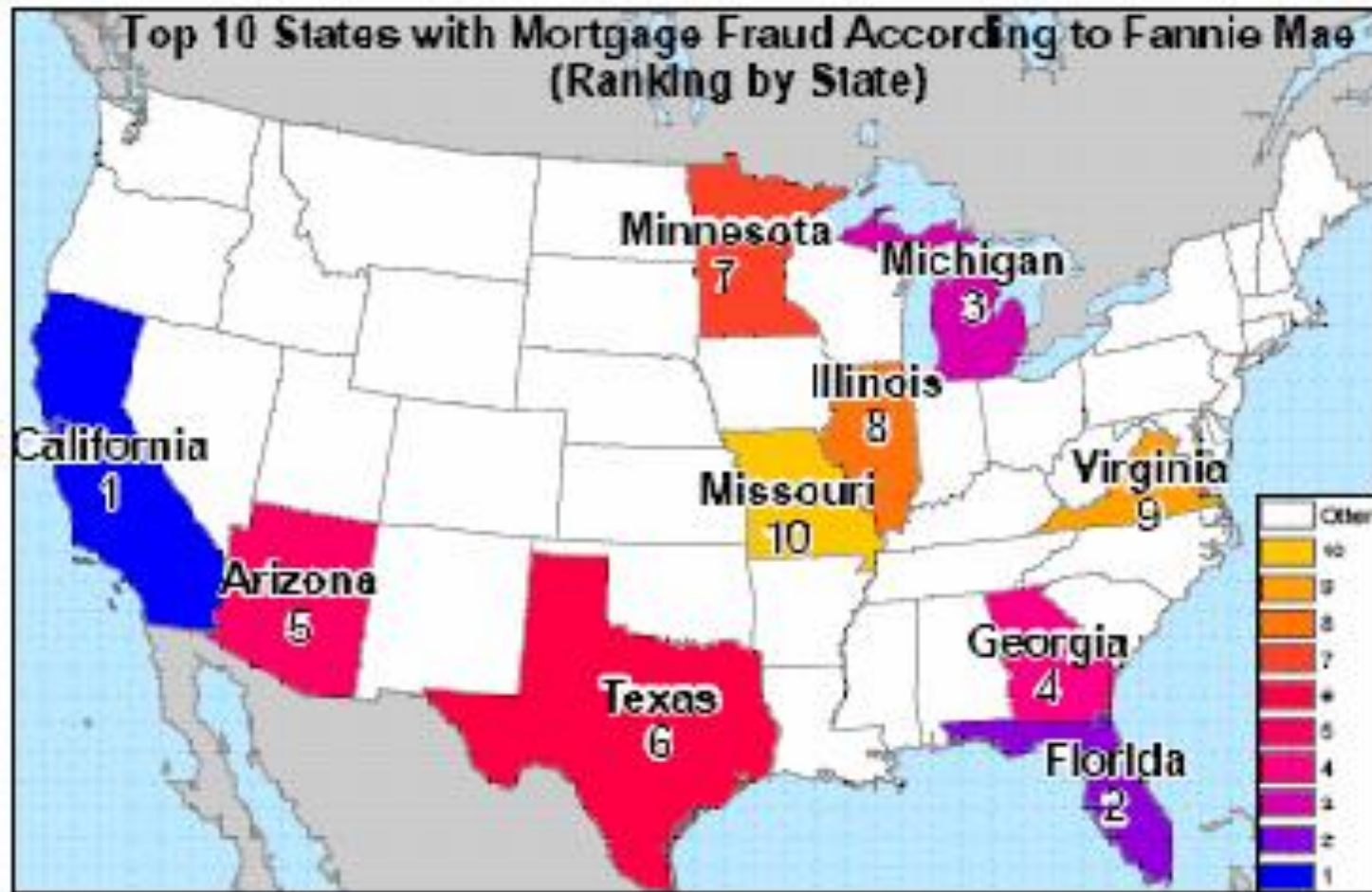
Reporting of Mortgage Fraud Activity by Financial Institutions (FBI Statistics)



Top 10 States with Mortgage Fraud (MARI)



Top 10 States with Mortgage Fraud (Fannie Mae)



What is mortgage fraud?

- ▶ *THE MATERIAL MISSTATEMENT, MISREPRESENTATION, OR OMISSION RELIED UPON BY AN UNDERWRITER OR LENDER TO FUND, PURCHASE, OR INSURE A LOAN.*

Mortgage Fraud “boils down to...”



Boils down to
misrepresentation in
the loan application
process

- Exaggerated appraisals
- False information on loan applications (i.e. borrower salary)
- Fake supporting loan documentation (W-2's)
- Fraudulent invoices on Settlement Statement
- Misrepresenting anything on purpose!!!


Types of Mortgage Fraud

- ▶ Fraud for Housing/Property (20% of losses due to fraud)
- ▶ Fraud for Profit (80% of losses due to fraud)

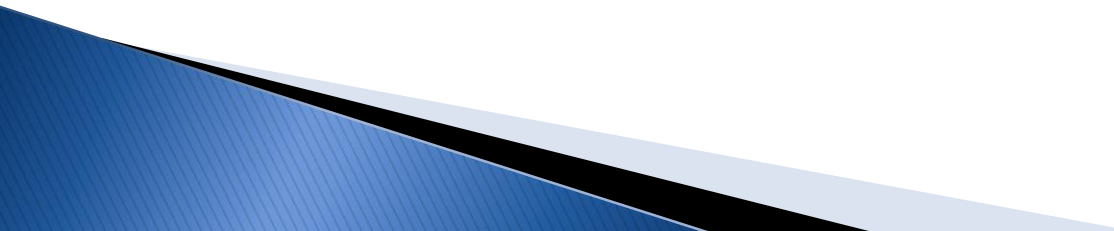
Fraud for Housing

- ▶ Perpetrator is borrower
- ▶ Involves single loan
- ▶ Few misrepresentations
 - Income and property value may be altered
 - Down payment may be borrowed
 - Debt may be undisclosed
- ▶ Borrower seeks housing and/or cash from loan
- ▶ Borrower intends to repay

Fraud for Profit

- ▶ Industry professional often involved
 - 80% of reported losses involve collaboration/collusion by industry insiders.
 - ▶ Multiple loan transactions and/or institutions
 - ▶ Multiple misrepresentations
 - ▶ Participants frequently paid for participation
 - ▶ Borrowers sometime unaware of scheme
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Where and what are typical misrepresentations?

- ▶ Contracts for sale of property
 - Sales price
 - Parties to the contract
 - Description of the property
 - Terms
 - Signatures
 - The existence of a contract
- 

Misrepresentations, cont'd

- ▶ Loan applications (Forms 1003) and supporting documents (obtain from both mortgage broker and lender, and compare)
 - Income
 - Tax returns
 - W-2's
 - 1099's
 - Assets
 - Verifications of deposit
 - Liabilities & Expenses
 - Verifications of rent/mortgage
 - Employment
 - Verification of employment
 - Owner occupancy

Misrepresentations, cont'd

- ▶ Loan applications (Forms 1003) and supporting documents, cont'd
 - Residency
 - Social Security Number
 - Marital status
 - Insurance representations
 - Source of information
 - How information obtained
 - False signatures
 - CPA letters (for self-employed borrowers)

Misrepresentations, cont'd

▶ Closing documents:

- Compare title company closing file with lender file, buyer documents, and seller documents for multiple HUD-1's:
 - If straw buyer, may be different for lender and seller v. buyer and title company
- Compare HUD-1's with disbursement ledger
- False sales price
- Assignments of proceeds
- Management fees, usually with invoices
- False signatures
- False verification by closing agent

Misrepresentations, cont'd

▶ Appraisals

- Square footage of subject property
- Condition of subject property
- Comparable sales
 - Location of comparable sales
 - Value
- Inspection by appraiser
- Value of residence
- Person appraising the property
- Credentials of appraiser



**Property appraised
for \$250,000**





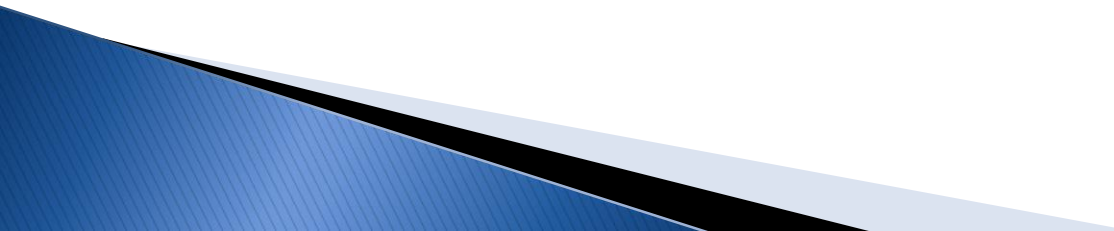
These are photos from condos involved in a mortgage fraud. The appraisal described “recently renovated condominiums” to include Brazilian hardwood, granite countertops, and a value of \$275,000.

Examples of Mortgage Fraud Schemes

1. Straw Buyer/Nominee Loans

- A person who assumes the role of the buyer in a mortgage transaction because the actual buyer/perpetrator either cannot qualify for the loan or wishes to conceal his/her identity.
- Straw buyer has no intention of making a mortgage payment
- Nominee is usually paid for his services (\$1000 –\$2,500, or \$10,000 –\$30,000).

2. Silent Second

- Property buyer borrows down payment from seller through issuance of an undisclosed second mortgage.
 - Primary lender believes the borrower has invested his own money in the down payment.
 - The second mortgage may not be recorded to further conceal its status from the primary lender.
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3. Property “Flips”

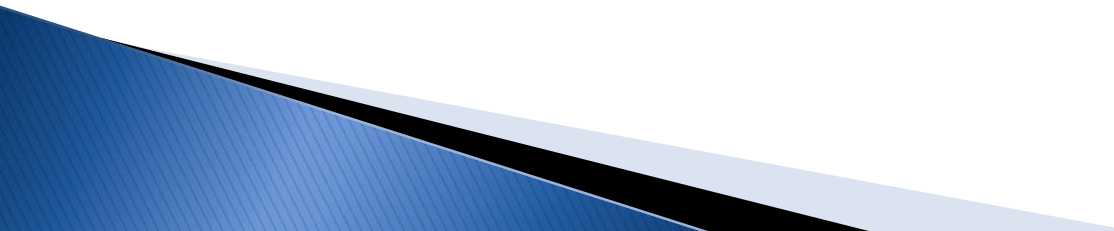
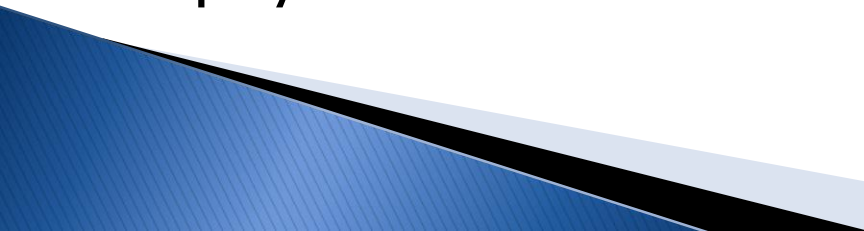
- Property ownership is repeatedly transferred between two related parties at consecutively higher prices.
 - Fraudulently inflates appraised value of the property far beyond its true value.
 - Property is then used as collateral for loans based on its inflated fraudulent value.
 - Upon default, the collateral is insufficient to cover the outstanding debt.
 - Flips typically involve fraudulent appraisers and straw buyers.
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Figure 16: Illegal Property Flipping Scheme



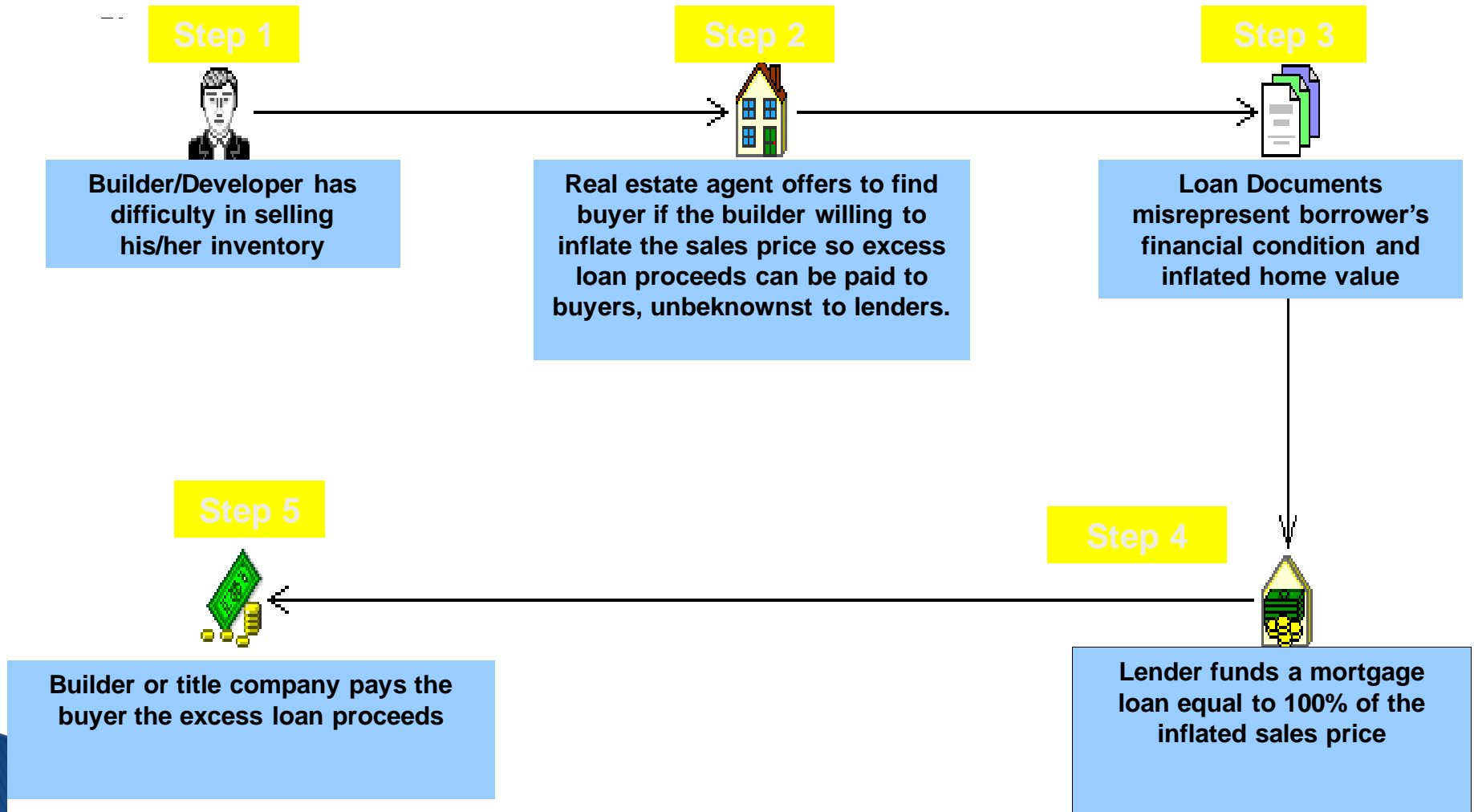
4. Money out at closing to the buyer

- ▶ Sale may be to a straw or buyer unaware of the situation
 - ▶ Appraised value is fraudulently inflated
 - ▶ A third party in cahoots with a party to the transaction submits paperwork to the loan closer showing he is entitled to be paid (e.g., as a management fee)
 - ▶ Payment is shown on the HUD-1 as a fee or charge to be paid at closing
 - ▶ The title company disbursement ledger reflects the payment out of the loan proceeds
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5. Builder Bailout

- Builder offers excessive incentives to buyers, which are not disclosed to the lender.
- Builder may fraudulently inflate the value of the property which is then used as collateral for a loan based on its inflated fraudulent value/sale price.
 - Excess loan proceeds paid via false invoice on Seller side; or
 - Seller “kicks back” overage to Buyer after closing

Overview of Scheme



Results of builder–bailout schemes

- Artificially raises base values in new subdivision
 - Inflated data entered in MLS
 - Innocent prospective buyers may make purchase decision based on faulty data regarding previous sales in subdivision
- Tax rates increase
- Property values decrease
- Frequently leave empty, non–maintained houses in neighborhoods

6. Reverse Mortgage Fraud

- May combine **Property Flipping** with **Straw Buyer**
 - Acquire property at low cost
 - Falsify sale to straw buyer at inflated price
 - Record false first mortgage
 - Apply for reverse mortgage. Use fraudulent appraisal to show property value of \$90,000
 - New lender pays lump sum \$55,000 in loan proceeds
 - **Bad guy gets \$55,000 loan proceeds for \$15,000 property – \$40,000 profit**
- Straw buyer is usually paid for his services (\$1,000 – \$2,500)

7. Fraudulent Short Sale

- ▶ Perpetrator recruits a straw buyer to purchase a property.
- ▶ Perpetrator has straw buyer secure a mortgage for 100% of the property's value.

Perpetrator may have a straw buyer refinance the home and obtain \$30,000 for “repairs.”

- ▶ Perpetrator pockets the \$30,000. No repairs are made.
- ▶ No payments are made; the mortgage will default.

Fraudulent Short Sale, cont'd

- ▶ Straw buyer informs the lender that the home will foreclose and recommends the perpetrator as a potential buyer in a short sale.
- ▶ Perpetrator approaches lender prior to foreclosure and offers to pay less for the home than would be received in a competitive foreclosure sale.
- ▶ Lender agrees to the short sale not knowing that the mortgage payments were deliberately not made to create this short-sale situation.
- ▶ Perpetrator sells the property at actual value for a profit, or has the property artificially inflated to conduct an illegal property flip.

Emerging Schemes

- ▶ Reverse mortgage fraud schemes
- ▶ Foreclosure rescue schemes
- ▶ Manipulations of property records
 - False deeds of trust
- ▶ Credit enhancement schemes
 - Authorized users (AU) – “Piggybacking”
 - Joint users
 - False trade lines
 - Credit Privacy Numbers (CPNs), a/k/a
Secondary Privacy Numbers (SCNS)
 - False employment & income information
 - Pay stubs
 - W-2s
 - Verbal verification(s)
 - Verifications of Deposit

MORTGAGE FRAUD IS INVESTIGATED BY THE FBI



Mortgage Fraud is investigated by the Federal Bureau of Investigation and is punishable by up to 30 years in federal prison or \$1,000,000 fine, or both. It is illegal for a person to make any false statement regarding income, assets, debt, or matters of identification, or to willfully overvalue any land or property, in a loan and credit application for the purpose of influencing in any way the action of a financial institution.

Some of the applicable Federal criminal statutes which may be charged in connection with Mortgage Fraud include:

- 18 U.S.C. § 1001 - Statements or entries generally
- 18 U.S.C. § 1010 - HUD and Federal Housing Administration Transactions
- 18 U.S.C. § 1014 - Loan and credit applications generally
- 18 U.S.C. § 1028 - Fraud and related activity in connection with identification documents
- 18 U.S.C. § 1341 - Frauds and swindles by Mail
- 18 U.S.C. § 1342 - Fictitious name or address
- 18 U.S.C. § 1343 - Fraud by wire
- 18 U.S.C. § 1344 - Bank Fraud
- 42 U.S.C. § 408(a) - False Social Security Number

Unauthorized use of the FBI seal, name, and initials is subject to prosecution under Sections 701, 709, and 712 of Title 18 of the United States Code. This advisement may not be changed or altered without the specific written consent of the Federal Bureau of Investigation, and is not an endorsement of any product or service.

Questions?