



Fight against fraud without getting beaten up

TOOLS AND HINTS TO PROTECT YOUR INCOME AGAINST FRAUDULENT
MORTGAGE ACTIVITY

Target Audience

- ▶ File reviewers and operation personnel – Front Line
 - ▶ Tools to help you uncover fraudulent documentation
 - ▶ Red flags and other
- ▶ Managers and Executives
 - ▶ Thought provoking exercises to take red flags found in ops and use them to identify underlying fraud schemes.
 - ▶ Tools and reference materials for fraud in the market.

Brain Training for Fraud

- ▶ **Occam's razor** - Suppose there exists two explanations for an occurrence. In this case the one that requires the least amount of assumptions is usually correct. Another way of saying it is that the more assumptions you have to make, the more unlikely an explanation
- ▶ **Murphy's Law** – Whatever can go wrong will go wrong. Another variant is, anything that can happen will happen.
- ▶ When combining these two you can use them to create a solid hypothesis from fraudulent red flags found in loan files.

Lateral Thinking Puzzles

- ▶ Aggravating riddles designed to have the reader come up with the most likely scenario using the smallest amount of assumptions that makes sense.
- ▶ Designed to break status quo,
- ▶ Different then critical thinking as not only trying to decipher if a statement is true .
- ▶ Uses creative reasoning to come up with viable options that satisfy criteria of the puzzle.

Puzzle #1 - Tubular Torture

A woman enters a large metal tube and is overcome with fear. She clenches her husband's hand tightly and is visibly shaken. Her husband gently rubs her shoulders but is otherwise unaffected. Within hours the woman's husband tells her that it's time to go and the torment ends. What happened to this woman?

- ▶ Answer
- ▶ The woman is afraid of flying and is getting on a flight.

Puzzle #2 : Trouble with Sons

A woman had two sons who were born on the same hour of the same day of the same year. But they were not twins. How could this be so?

- ▶ Answer
- ▶ They were two in a set of triplets.

Puzzle #3 : The Deadly Dish

Two men went into a restaurant. They both ordered the same dish from the menu. After they tasted it, one of the men went outside the restaurant and shot himself. Why?

- ▶ Answer
- ▶ The dish that the two men ordered was albatross. They had been stranded many years earlier on a desert island. When the man tasted albatross he realized that he had never tasted it before. This meant that the meat he had been given on the island was not albatross as he had been told. He correctly deduced that he had eaten the flesh of his son who had died when they first reached the island.

Fraud or Misrepresentation

▶ Fraud

- ▶ Mortgage fraud is a material misstatement, misrepresentation, or omission relied upon by an underwriter or lender to fund, purchase, or insure a loan. Mortgage loan fraud is divided into two categories:
 - ▶ Fraud for property/housing
 - ▶ entails **misrepresentations by the applicant** for the purpose of purchasing a property for a primary residence. This scheme usually involves a single loan. Although applicants may embellish income and conceal debt, their intent is to repay the loan.
 - ▶ Fraud for profit
 - ▶ however, often **involves multiple loans and elaborate schemes** perpetrated to gain illicit proceeds from property sales. Gross misrepresentations concerning appraisals and loan documents are common in fraud for profit schemes, and participants are frequently paid for their participation. Although there is no centralized reporting mechanism for mortgage fraud complaints or investigations, numerous regulatory, industry, and law enforcement agencies collaborate to share information used to assess the current fraud climate.

Source: FBI Financial Crimes Section, Financial Institution Fraud Unit, Mortgage Fraud: A Guide for Investigators, 2003.

Emerging Fraud Trends

Misrepresentation of Borrower Employment

Fannie Mae's Mortgage Fraud Program has identified several entities listed on loan applications as places of employment that appear to be fictitious. The following list contains 34 entities / businesses that were listed as the borrower's purported place(s) of employment but whose existence Fannie Mae could not confirm. This list is as of October 16, 2018, and is subject to change:

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Mortgage Fraud Headlines

Southland Man Accused Of Mortgage Fraud Pleads 'Not Guilty' – Fraudulent assignment of mortgages without trustee or lender authorization.

<https://patch.com/california/sanjuancapistrano/southland-man-accused-mortgage-fraud-pleads-not-guilty>

Allen Seymour, Oxford man in mortgage fraud case, gets 3-5 years for probation violation – Allen filed fake POA's to take people's property and sell them at a profit. Went to jail, got out, did it again, back in jail.

<https://www.telegram.com/news/20190814/allen-seymour-oxford-man-in-mortgage-fraud-case-gets-3-5-years-for-probation-violation>

Florida man sentenced in \$3.5M mortgage fraud scheme that targeted Orthodox Jewish community – Sells false mortgage note investments, gambles money, buys Maserati and Range Rover for all occasions and does this again while dealing with first offense.

<https://therealdeal.com/miami/2019/08/07/florida-man-sentenced-in-3-5m-mortgage-fraud-scheme-that-targeted-orthodox-jewish-community/>

Red Flags for Fraud

- Borrower's paystubs show bad math.
 - YTD doesn't match pay rate
 - Tax withheld is odd
- Borrower's address history does not match tax returns.
- Tax returns show mortgage interest when borrower rented previously.
- Company not registered with secretary of state.
- Google search doesn't come up with employer address, website, phone, or contact.
- Verification of employment shows increase in pay rate; however, there is a decrease in year-to-date income.
- Paystubs, W-2's are not properly oriented on the page. Lines don't matchup or data shifts from description to dollar amount.
- Verification of Employment or Verification of Deposit show the same handwriting for who sent verification and who completed it.
- White out or missing data on any form.

Abstract Red Flags:

- ▶ **Straw Buyers:** People used to get loans. This can be harder to identify but if you get the feeling the borrower can't afford, doesn't want, shouldn't have, or has a history not commensurate with application profile you may have an issue.
- ▶ **Air Loan:** Scheme where lender gives out loans to straw with no buyer or property. If you never heard of the lender, do a little investigating, if they are in a financial pinch this is a red flag. Address issues, no chain of title, feeling that borrower has no history in area or property.
- ▶ **Double Sale Characteristics:** Sale of mortgage to multiple investors. Mailing address issues, payments not made by borrower, not recorded in first lien, identical notes.
- ▶ **Ponzi:** Investment opportunities using inflated values. Look for REO history of property, borrower paid fees to a club, first time landlord and borrower's with little ownership history. Evidence of **Shot-Gunning**".
- ▶ **Reverse Mortgage Schemes:** Perp gets seniors to obtain reverse mortgages and then takes the loan proceeds. Speak with borrower as they will have a different opinion on the deal. They may think the home was free. Property may also be vacant.
- ▶ https://www.fanniemae.com/content/fact_sheet/mortgage-fraud-schemes-and-characteristics.pdf

Example of Paystub

[Company Logo]

Company Address
Company City, State, Zip
Company Telephone
Company Fax
Company EIN

Pay Date 5/25/2012

Jane Employee
555 Any Street
Any City, Any State 11111

Employee Number	Pay Period Start	Pay Period End	Fed Tax	State Tax
1002	5/6/2012	5/19/2012	S01	S01

	Gross Pay	Taxable Gross	Taxes	Other	Net Pay
Current	\$ 1,950.00	\$ 1,950.00	\$ 488.71	\$ 50.00	\$ 1,461.29
YTD	\$ 19,500.00	\$ 19,500.00	\$ 4,887.10	\$ 50.00	\$ 14,612.90

Type of Pay	Rate	Hours	Bi-Weekly Gross	Type of Deductions	Bi-Weekly	YTD
Regular	\$ -	0	\$ 1,950.00	Federal Withholding Medicare social security CA Withholding		
Total Gross			\$ 1,950.00	Total Deductions	\$ -	\$ -

Fun with Fraud

Make a paystub

Fake an Appraisal

Send emails as someone else.

Ethical hacking example.

- Inconsistent Formatting (Borders and Alignment).
- Even dollar amount for pay.
- Taxes are one tenth of total.
- Pay is one tenth of year-to-date.
- Net pay isn't calculated correctly.
- Deductions are not completed.

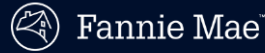
Additional Resources



Fraud Articles

<http://www.freddiemac.com/singlefamily/preventfraud/trends.html>

- Articles illustrating specific fraud schemes
- Info and best practices to identify fraud
- Case Studies



Fraud Prevention Site

<https://www.fanniemae.com/singlefamily/mortgage-fraud-prevention>

- External Resources like the FBI, FinCEN, US DOJ, and others
- Red Flag and Helpful Tools
- Anti-Fraud Partnership Training Series



STOPFRAUD.GOV
FINANCIAL FRAUD ENFORCEMENT TASK FORCE

Fraud Protection

<https://www.stopfraud.gov/protect-mortgage.html>

- Resources on identifying and protecting your institution against fraud
- Government Task Force against mortgage fraud
- Current fraud news and updates in the industry
- From the perspective of the consumer

Overview of Fraud Resources and Handouts (Upon Request)

- ▶ Deceptive Mortgage Ads,
<https://www.consumer.ftc.gov/articles/0087-deceptive-mortgage-ads>
 - ▶ An article that identifies how certain ads can be misleading to the consumer.
- ▶ Fannie Mae's Misrepresentation Data Report,
<https://www.fanniemae.com/singlefamily/mortgage-fraud-prevention>
 - ▶ Most recent report from Fannie Mae showing the occurrence of different types of misrepresentation. Through end of September 2016
- ▶ Fannie Mae's Common Red Flags Resource,
<https://www.fanniemae.com/content/tool/common-red-flags.pdf>
 - ▶ A comprehensive list of common red flags. This list is well organized and ready to be used to review loans for misrepresentation.
- ▶ Appraisal Review Handout
 - ▶ A road map for how to provide a comprehensive review of an appraisal to find misrepresentation and other errors.
- ▶ Mortgage Quality Review Aide
 - ▶ A very useful checklist tool to help you perform a quality review of a mortgage loan (upon request).

The Author

Joseph Prettnner serves as the quality control manager for The Servion Group, Inc. He joined the company in 2016 to define, create and lead a team of mortgage quality control (QC) specialists, enabling the company to provide QC services to credit unions and community banks nationwide.

Joseph has more than 7 years of specialized mortgage quality control and fraud review experience. His background has helped The Servion Group's internal quality control team become a premier QC provider in the market. Joseph's experience is deep and broad, spanning appraisal review, TRID review, underwriting guideline review, fraud escalation review, and more.

Prior to joining Servion, Joseph managed a quality control team and trained quality control review staff for TENA Companies, Inc. a Twin Cities-based quality control vendor. While with TENA, he was instrumental in training the entire audit staff on reviewing standardized GFE and TIL disclosures after 2008's major rule changes, as well as how to properly review appraisals for misrepresentation of value.

Joseph earned his bachelor's degree in secondary education from The College of Saint Scholastica in Duluth, Minnesota. He currently lives in Maplewood, Minnesota, with his wife and daughter.

