

# Mortgage Compliance Advisors

Reviewing Red Flags of Fraud

November 18, 2010

Presenter: Brady W. Meadows



# Instructions

- Because of the large number of registrants, the lines will be muted.
- To ask a question, click the plus sign next to “Questions” on the GoToWebinar box and type your question.
- Panelists will address questions at the end of the presentation. If your question is not addressed, we will email the answer to you.
- You should have received a reminder email with a link to the slides. You can also find all our webinars on our website under the [News & Resources](#) tab.



# Our Panelists

*We are fortunate to have with us today a panel of experienced mortgage professionals. They will be taking the time to answer your questions and provide insight from hands-on application.*

- **Brady W. Meadows** *Business Development & Compliance Manager*
- **Bob Warnock** *MCA CEO*
- **Craig Christensen** *MCA COO*
- **John Norman** *Esq.*



# Agenda

- Mortgage Loan Fraud Defined
- Fraud Statistics
- Types of Fraud
- Red Flags of Fraud
- Identity Theft
- Federal Trade Commission's Red Flags Policy
- Resources
- Q & A



# Reviewing Last Month's Webinar

- Last month's webinar was on Managing the Year of Change
  - You can download the [slides](#) on our website
- Because of the upcoming Red Flags Rule enforcement deadline, we wanted to revisit the topic in more detail and help prepare your company for its release.



# What is Mortgage Fraud?

- The FBI defines mortgage fraud as:
  - Any material misstatement, misrepresentation or omission relating to the property, or potential mortgage, relied upon by an underwriter or lender to fund, purchase or insure a loan.
  - A lending institution is deliberately deceived by another party into lending on a mortgage it would have otherwise not funded, had it known all the facts.



# FBI Mortgage Fraud Statistics

- FBI mortgage fraud investigations in 2009 increased 400% since 2005.
- 63% of all pending FBI investigations are over \$1 million.
- 80% of mortgage fraud involves collusion by industry insiders.



# FBI Mortgage Fraud Statistics (cont.)

Estimated Annual Losses	\$4 - 6 billion
Total Mortgage Fraud Suspicious Activity Reports (SARs) in Fiscal Year 2009	67,190 with more than \$1.5 billion in losses
SAR Reports so far in Fiscal Year 2010 (through 2/28/10)	29,780
Total FBI Mortgage Fraud Task Forces/Working Groups	77
Pending FBI Mortgage Fraud Investigations (through 2/28/10)	2,989 with 68% involving losses of more than \$1 million
Cases opened in Fiscal Year 2009	1,571 compared to 136 in all of Fiscal Year 2004
Successes in Fiscal Year 2009	494 convictions

States with significant mortgage problems:

1. Rhode Island
2. Florida
3. Illinois
4. Georgia
5. Maryland
6. New York
7. Michigan
8. California
9. Missouri
10. Colorado

[http://www.fbi.gov/hq/mortgage\\_fraud.htm](http://www.fbi.gov/hq/mortgage_fraud.htm)

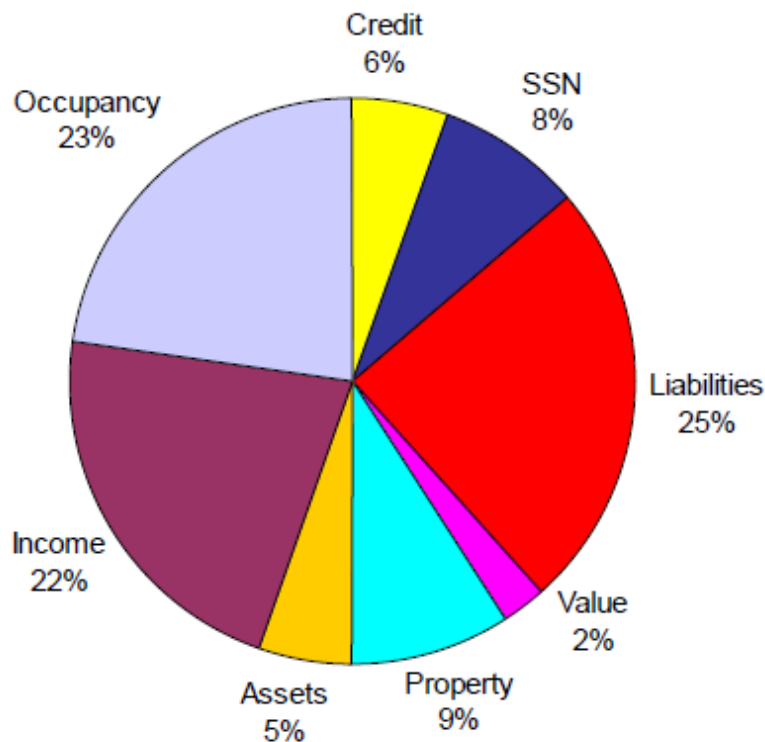


# Fannie Mae Fraud Findings Statistics

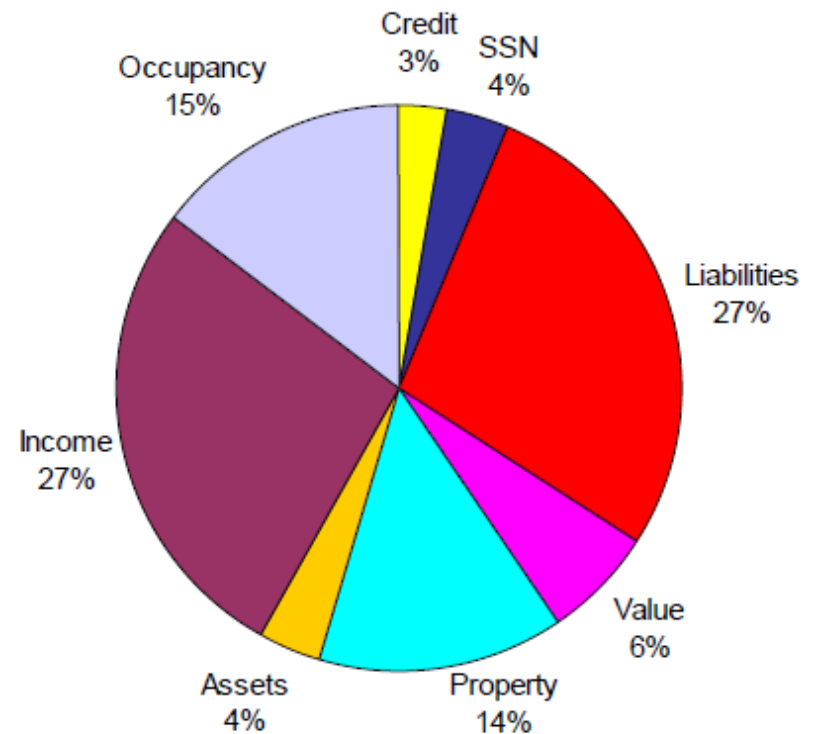
## Distribution of Misrepresentation Findings by Type

The following pie charts depict the distribution of significant misrepresentation findings by type.

### 2009 Originations



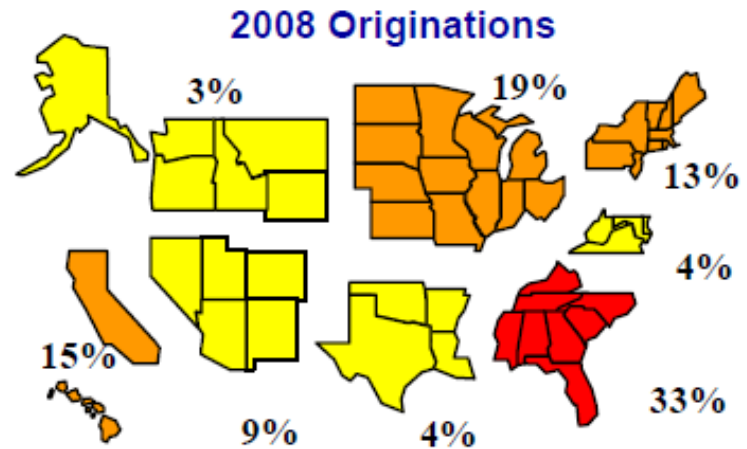
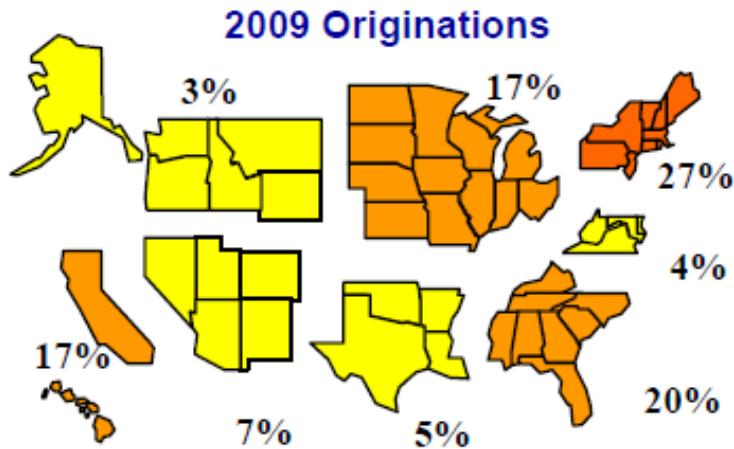
### 2008 Originations



<https://www.efanniemae.com/utility/legal/pdf/fraudstats/fraudupdate0410.pdf>



# Fannie Mae Fraud Findings Statistics



1.	112	Brooklyn, NY
2.	113	East Elmhurst, NY
3.	362	Anniston, AL
4.	606	Chicago, IL
5.	117	Brentwood, NY
6.	114	Jamaica, NY
7.	925	Moreno Valley, CA
8.	958	Sacramento, CA
9.	921	San Diego, CA
10.	330	Pompano Beach, FL

1.	606	Chicago, IL
2.	331	Miami, FL
3.	330	Pompano Beach, FL
4.	482	Detroit, MI
5.	328	Orlando, FL
6.	850	Phoenix, AZ
7.	303	Atlanta, GA
8.	334	West Palm Beach, FL
9.	891	Las Vegas, NV
10.	300	Decatur, GA

<https://www.efanniemae.com/utility/legal/pdf/fraudstats/fraudupdate0410.pdf>



# Common Mortgage Fraud Schemes



# Fraud for Property

- Fraud for property (aka “fraud for housing”) occurs when a borrower wants to purchase a property they cannot afford.
- Borrowers may act independently or be aided by dishonest mortgage industry professionals to submit false information about the borrower.



# Characteristics of Fraud for House/Property

- Borrowers intend to make all payments
- Participants are rarely compensated
- Documents are falsified
  - Tax Returns
  - Paystubs and W2's
  - Asset information
  - Employment Verifications
  - Occupancy intentions
  - Identity falsified
- Losses are smaller than other mortgage fraud

*This type carries lower financial risk to lenders, as the fraud is typically a one-time occurrence on a loan the borrower intends to repay.*



# Buy and Bail

- Borrower qualifies for loan on new residence by falsely claiming the existing residence will be a 2<sup>nd</sup> home, sold or rented out.
- Once they close, they walk away from previous loan without making any future payments.
- They get a more desirable property with equal or lower payments than that of their current property.
- Scheme may be difficult to detect.



# Penalties for Mortgage Fraud

- 1 – 10 years in jail
- Fines up to hundreds of thousands of dollars

## Example from IRS Mortgage Fraud Report

- The individual had obtained a \$250,000 loan by:
  - Making false statements of personal income
  - Omitting mentions of financial problems and non-payment of taxes
  - Altering asset documentation
  - Supplying personal tax returns for years tax returns were not filed



# Sentenced for Mortgage Fraud

- Prison sentence:
  - 12 months and one day in federal prison
  - Followed by 5 years of supervised release
  - Ordered to pay \$264,000 in restitution
- Convicted on charges of:
  - Wire fraud
  - Money laundering
  - Failure to file a federal income tax return



**Was it worth it?**



# Fraud for Profit

- The motivation for fraud for profit is purely **money**
- Involves industry professionals
- Can involve multiple loan transactions with several financial institutions
- Schemes can be complex
- Losses are significant



# Characteristics of Fraud for Profit

- Perpetrators do not plan on making payments.
- Multiple participants are involved and compensated.
- There are multiple exhibits of misrepresentation in the file.
  - Income and asset misrepresentation
  - Property value misrepresentation
  - Undisclosed or falsified transaction histories
  - Occupancy misrepresentation
- Entire file may be fraudulent - no borrower or property

*This type of fraud causes a much larger loss to the lender or investor, as the fraud is not limited to one type or occurrence.*



# Common Fraud for Profit Schemes

- **Chunking**

A fraudster promises to show investors how to get rich buying investment. Multiple loan applications are submitted to various lenders without disclosing the intent to purchase other properties. Sometimes the fraudster promises to handle the transactions, including leasing the properties. He takes a cut of the profit and never leases the property.

- **Straw Buyer**

A person used to buy property in order to conceal the actual owner. The straw buyer does not intend to occupy the property or make payments and often deeds the property to the other individual immediately after closing. The straw buyer is usually compensated for use of his identity.



# Common Fraud for Profit Schemes cont.

- Foreclosure Rescue

The homeowner is deceived into signing over title to the property with the belief that he will be able to remain in the house as a renter and eventually buy it back over time. The terms are impossible to live up to, and the homeowner loses his home and any equity he may have had. OR, The homeowners think they are signing documents to bring the mortgage current, but instead actually surrender their ownership. They usually don't even know they've been scammed until they are evicted.

- Property Flipping

Illegal property flipping occurs when a property is refinanced or resold immediately after purchase for an artificially inflated value.



# Perpetrators of Fraud for Profit

Anyone standing to make a profit is a potential perpetrator of fraud.

- Offenders of fraud include:
  - Borrower
  - Seller
  - Builder
  - Title representative
  - Real estate agent
  - Originator
  - Appraiser
  - Underwriter
  - Loan Officer



# Red Flags you can watch for to protect yourself

- Commute is significantly unrealistic
- New house is too small to accommodate all occupants
- Borrower information is incomplete or inconsistent
- Social Security number is inconsistent
- Credit patterns are inconsistent



## Red Flags to watch for (cont.)

- Large employer, but pay stubs are not pre-printed
- YTD earnings don't compute or match W2
- Occupant shown to be tenant or unknown
- Significant appreciation in short time period
- Large positive adjustments made to comparable properties



# Fighting Mortgage Fraud

- Know the people with whom you are doing business
- Understand and train staff on common mortgage schemes
- Learn to recognize red flags and inconsistencies in file
- Ensure documentation is accurate and valid
- Use third party resources to verify key information
- Report suspicious activity



# Resources on Red Flags of Fraud

- Two useful resources for information on red flags of fraud are:
  - [www.efanniemae.com](http://www.efanniemae.com)
    - Mortgage Fraud Program/ Resources to Help You Combat Mortgage Fraud
  - [www.freddiemac.com/dgtg](http://www.freddiemac.com/dgtg)
    - Fraud Prevention Best Practices



# Reporting Fraud

- If you suspect fraud, or have been the unfortunate victim of fraudulent activity, you can report to the following agencies:
  - *FBI:*
    - <http://www.fbi.gov/contact/fo/fo.htm>
  - *HUD:*
    - <http://portal.hud.gov/portal/page/portal/HUD/localoffices>
  - *Fannie Mae:*
    - <https://www.efanniemae.com/utility/legal/antifraud.jsp>



# Repurchase Demands

## Remember...

- Most of your agreements with lenders, investors, and agencies state that you will deliver loans without material defect or fraud. If you do, then the loan is subject to repurchase.





Ask yourself if the loan transaction makes sense.

**Do not ignore your intuition!**



# Identity Theft



- A recent survey conducted by Javelin Strategy and Research Company found that identity theft cases are **up 22%** and have hit a 5-year high.
- 1 in every 10 U.S. consumers has already been victimized by ID theft.
- The Better Business Bureau estimated that identity theft affected an estimated **11.1 million Americans**, costing them nearly \$54 billion dollars.



# Identity Theft Can Ruin Lives

- CHICAGO (*MarketWatch.com*) -- Identity theft and fraud have ruined Dave Crouse's life in fewer than six months.
  - \$900,000 in merchandise, gambling, and telephone-services charges were siphoned out of his debit card.
  - Attempts to salvage his finances have cost him nearly \$100,000.
  - His credit score, once 780, has been decimated.
  - His identity is still being used in attempts to open credit cards and bank accounts.



# Not All ID Theft is the Same

For Crime	For Citizenship
For Medical Insurance	For Credit



# Synthetic Name Fraud

- **Synthetic Name fraud**
  - Using one's own name and date of birth with another person's SSN.
- The Federal Trade Commission and Law Enforcement report that this is the fastest growing type of credit fraud and identity theft.
- Thieves find a valid SSN and use this number but still use their own name, DOB, and address.



# Synthetic Name Fraud

- Credit thieves have re-named stolen SSN's by calling them Credit Profile (or Privacy) Numbers (**CPN**).
- The SSA's Enumeration at Birth creates a large pool of dormant SSN's issued to children for credit thieves to draw from.
- Unsuspecting children may not have need for their SSN until they apply for a job, credit, or college and find that a credit thief has stolen their identity.



# SSN Validation



## RESULTS:

Social Security Number:  
Date of this report: **November 15, 2010**  
State of Issuance: **Utah**  
Approx. Date of Issuance: **1986**  
Issuance Status: **According to the Social Security Administration, this SSN has been issued.**  
SSA Death Masterfile: **No record as of 10-01-2010**  
**STATUS: THIS SSN HAS BEEN VALIDATED!**

[Print this result](#)

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# CPN Numbers

- CPN's are available several different places, including Craigslist.com

[houston craigslist](#) > [services offered](#) > [financial services](#)

[email this posting to a friend](#)

## Need a 720 Credit score? Get a CPN and start fresh! \$100 (Scamfree pay after I send the number! )

Date: 2010-10-29, 2:01PM CDT

Reply to: [serv-7asve-2032347704@craigslist.org](mailto:serv-7asve-2032347704@craigslist.org) [Emos when replying to ads?]

please flag with care: [?]

[miscategorized](#)

[prohibited](#)

[spam/overpost](#)

[best of craigslist](#)

PAY AFTER I SEND YOU THE NUMBER!  
IT WILL PASS SAFE SCAN, SKIP TRACE ETC!

PAY AFTER I SEND YOU THE NUMBER! \\\

I dont offer tradelines!

A cpn number can be used in place of your ssn# when applying for credit as long as you fully disclose it is a cpn number. All cpn numbers are privately issued numbers. This number does not replace your current ssn# and should never be used for government purposes.

Credit bureaus and creditors don't want you to know that you can obtain a new credit file legally. According to the 1974 privacy Act you are not obligated to give your ssn# to private industry, cpn numbers are to be used for credit purposes only and not for fraudulent intentions.

This will not relinquish you from any previous debt. You are still legally responsible for your own debt. All a cpn number is doing for you is giving you a second chance.



# CPN Number

- Also available on the internet:

**CPN Headquarters**  
Take control of your financial future.

Home Services Buy Now Legal Contact Us

**Purchase Your CPN Today**

**100% VERIFICATION GUARANTEED**  
**MONEY BACK GUARANTEE**

**Get a new credit file started now.**  
All payments are made securely through GoogleCheckout and have a 3 day money back guarantee. Please click on the appropriate link below to obtain your CPN information. All CPN Platinum Bundles must have an application submitted after payment.

[DISCLAIMER](#)

**Two CPN Packages Available:**

**CPN PLATINUM PACKAGE**  
You will receive a client application and contract authorizing CPN Headquarters to order and set up your 9 Digit SSN Validated CPN Number. Turn around time to complete your SSN Validated CPN Number is 1-2 business days. Filing for a new CPN Number is a manual process and not automated therefore, it can take up to 4 business days in some instances. Thank you for your business, We are here to help you regain your financial future.  
[Click Here to Purchase CPN PLATINUM](#)

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# Fighting ID Theft

- As a mortgage company, you will want to verify your borrowers directly with the Social Security Administration using a borrower signed consent form.
  - This will verify the borrower's name, DOB, address, and Social Security number.
- If you are doing this on your credit reports, make sure it's checking against all of these items and not just verifying that it's a valid SSN.



# FTC's Red Flag Policy

- The Red Flags Rule became effective January 1, 2008.
  - Enforcement date has been pushed back to **December 31, 2010.**
- A policy to help combat and prevent theft of customers' private and personal information.
- In response, the FTC, the Federal bank regulatory agencies, and the NCUA have issued the Red Flags Rule.



## FTC's Red Flag Policy (cont.)

- Financial institutions and creditors will be required to develop and implement written identity theft prevention programs.
- Policies must be approved by Senior Management and have a **specific employee** who is responsible for the policy.



# What is a Red Flag?

- A Red Flag is “a pattern, practice, or specific activity that indicates the possible existence of identity theft.”
- The Red Flags Rule includes 26 illustrative examples of possible Red Flags that financial institutions and creditors should consider when implementing a written program.



# Who must comply with the Red Flags Rule?

- Applies to “financial institutions and creditors with covered accounts.”
- A **financial institution** is defined as a:
  - State or national bank
  - State or federal savings and loan association
  - Mutual savings bank
  - State or federal credit union
  - Entity that holds a “transaction account” belonging to a consumer



# Transaction Account

- A **transaction account** is a deposit or other account from which the owner makes payments or transfers.
- Transaction accounts include:
  - Checking or savings accounts
  - Negotiable order of withdrawal accounts
  - Share draft accounts



# Who is a “Creditor”

- A **creditor** is any entity that:
  - Extends, renews, or continues credit
  - Arranges for extension, renewal, or continuation of credit
  - Is involved in the decision to extend, renew, or continue credit
- Creditors include:
  - Finance companies
  - Mortgage brokers
  - Automobile dealers
  - Utility companies
  - Telecommunications companies



# Covered Accounts

- A **covered account** can be used for personal, family, or household purposes, which may involve multiple payments or transactions.
- Covered accounts include:
  - Mortgage loans
  - Credit card accounts
  - Automobile loans
  - Margin accounts
  - Cell phone accounts
  - Utility accounts
  - Checking and savings accounts



# Your Unique Red Flag Policy

- The programs are not required to be identical from one institution to the next. Your program should be appropriate for the size and nature of your organization.
- A company at higher risk of identity theft will implement a more complex program.
- A company at lower risk of identity theft will implement a less complex program.



# What should your program include?



- Your program should have been in place by **January 1, 2008** and **must** be comprised of the following four elements:
  1. Procedures used to **identify** relevant red flags
  2. Procedures used to **detect** red flags
  3. Appropriate **responses** noted to prevent and mitigate detected identity theft
  4. Evidence to support steps have been taken to **keep your program current**

# Step 1: IDENTIFY

- The following categories of red flags may be common for your type of organization:
  - Red flags, notifications received from third party providers (credit reports, fraud detection service, etc.)
  - Inconsistencies and suspicious documents provided
  - Suspicious personal identifying information presented by borrower
  - Evidence of unusual or suspicious activity on covered accounts



# 26 Red Flags

Fraud Alert on Credit Report	Notice of Freeze on Credit Report	Address discrepancy on Credit Report
Unusual credit activity	Identification documents are suspicious	Photo on ID inconsistent
Information on ID inconsistent	Signature on ID inconsistent	Application suspicious
Information on ID inconsistent with other information in file	SSN and DOB range inconsistent	Identifying information with known fraud activity
Suspicious addresses	SSN associated with another person	Address or phone number associated with several applicants
Person unable to provide identifying information	Person unable to answer questions about identity	After change of address, creditor receives additional users request
Credit for cash advances and first payment not made	Drastic changes in credit payment patterns	Inactive account now showing unusual activity
Mail returned as undeliverable despite ongoing account activity	Customer is not receiving paper statements	Creditor notified of unauthorized transactions
Institution notified of unauthorized transactions	Creditor notified it has opened a fraudulent account	



## Step 2: DETECT

- Once you have identified the red flags, you will need to implement procedures used in your daily operations to allow for their detection.
  - Authenticate the identity of your customer.
    - Verify Name, DOB, Address, and SSN
      - Fraud Guard
      - Safe Check
      - Rapid Reporting
  - Verify data against publicly traded information.



## Step 3: RESPOND

- **Step 1** of your program identifies possible incidences of identity theft common to your organization.
- **Step 2** identifies the processes your organization will use on a routine basis to detect the red flag activities it has identified in Step 1.
- **Step 3** should provide for responses to the red flags detected that are commensurate with the degree of risk posed.



# Appropriate Responses

- Examples of **appropriate responses** provided by the FTC:
  - Monitoring a covered account for evidence of identity theft
  - Contacting the customer
  - Changing any passwords, security codes, or other security devices that permit access to a covered account
  - Reopening a covered account with a new number
  - Not opening a new covered account
  - Closing an existing covered account
  - Not attempting to collect on a covered account or not selling a covered account to a debt collector
  - Notifying law enforcement



## Step 4: KEEPING YOUR PROGRAM CURRENT

- Criminals will constantly be updating their tactics in response to efforts used to deter their actions.
- Step 4 should include implemented processes to keep your plan current with the evolution of identity theft risk.
- All employees should be trained annually on your Red Flags policy and procedures.



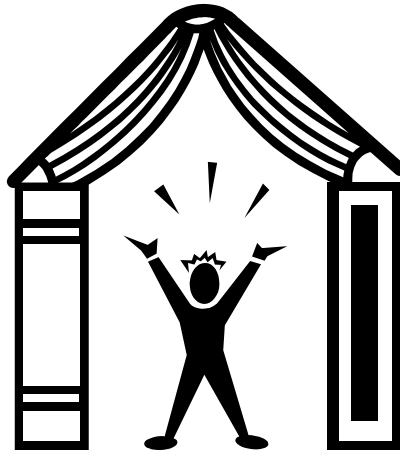
# Annual Review of your Red Flags Policy

- An annual review of your policy is required. At a minimum, the review should evaluate:
  - Effectiveness of the program
  - Arrangements with Service Providers with access to covered accounts
  - Significant incidents involving ID theft and company response
  - Recommendations for material changes in the policy



# Help Rebuild the Reputation of Our Industry

- Be diligent in your efforts to guard against mortgage loan fraud and in protecting the identity of your customers.
- This commitment from you can ensure you are doing your part in helping rebuild the reputation of our industry.



MCA offers a comprehensive Red Flag policy, and we can provide one for you quickly and easily.

Visit [MortgageComplianceAdvisors.com](https://MortgageComplianceAdvisors.com) to learn more.



# Contact Information

- We will be answering a few of your questions in just a moment. Questions not addressed at this time will be emailed directly to you, as well as answered in our next newsletter. You are also welcome to contact us at any time:

## Mortgage Compliance Advisors, LLC

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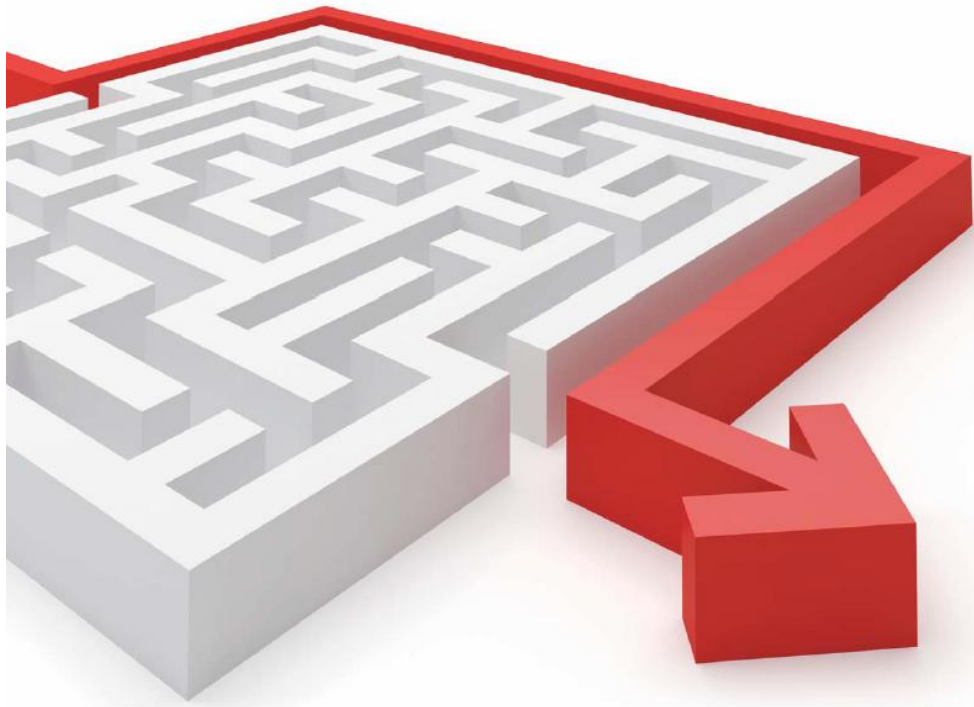


# Resources

- Federal Trade Commission:
  - <http://www.ftc.gov>
- Federal Bureau of Investigation:
  - <http://www.fbi.gov>
- The Mortgage Fraud Reporter
  - <http://www.mortgagefraud.org>
- Fannie Mae
  - <https://www.efanniemae.com>
- Freddie Mac
  - <https://www.freddiemac.com>
- NBC
  - <https://www2.nbc13.com>
- Better Business Bureau
  - <http://www.bbb.org>



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# Thank You!

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