

# Reducing Mortgage Fraud Losses through Proper Servicing

October 1, 2007



# What is Serving about?

- Efficiency
- Volume
- Speed
- Refined processes
- Categorization of Loans (i.e. “bucketing”)
  - Current vs. Delinquent

# Current vs. Delinquent

- Not all delinquencies are created equal
- Loans originated through fraud require special handling.
  - Fraud Losses need to be tracked separately from credit loss.
  - A significant percentage of all EPDs can be traced back to fraud
  - Historically, approximately, 25% of all foreclosures can be traced back to fraud

# Going Beyond Delinquency

- Creating a third bucket
  - Current
  - Delinquent
  - The “Special Handling” Bucket
    - Flags loans for special handling
    - Refer to Quality Assurance and Counsel
    - Requires handling by only key servicing personnel with the proper experience and “need to know”

# What Requires Special Handling?

- Servicing Red Flag Examples:
  - Cancellation of Hazard Insurance
  - Change of mailing address on owner occupied properties
  - Collection calls
    - “I don’t live in the subject property”
    - “Someone else is supposed to be making the payments”
    - “They told me they would take the property out of my name in 6 months”
  - Requests to “correct” the SSN at year-end

# What Types of Evidence Does Servicing Have?

- All Collection Notes
- Servicing Status and Due For Dates
- Party that is making the mortgage payments
- Title results from foreclosure attorney
- Copies of any MI claims made & MI Investigations
- Investor Accounting Method: Schedule v. Actual, etc.
- Property valuations ordered by Servicing
- Occupancy verifications

# Example of Proactive Servicing

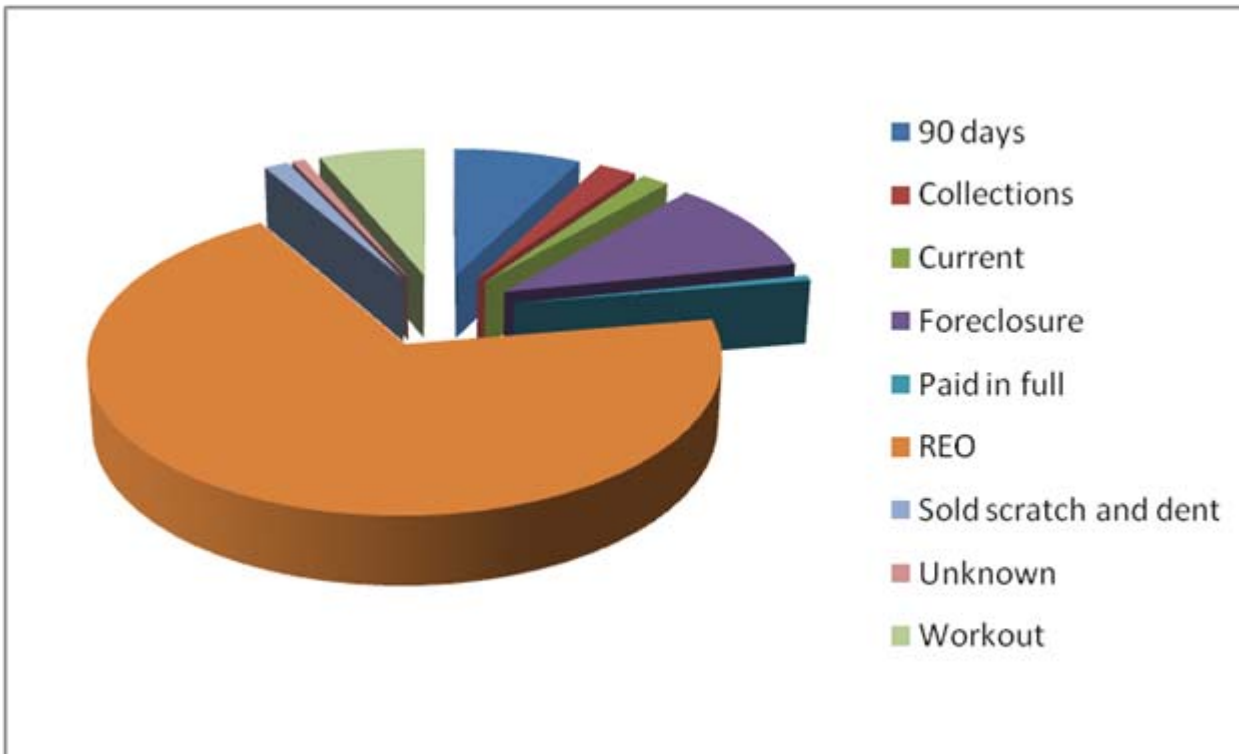
- Michigan Fraud Scheme
  - Detroit, Dearborn, Pontiac
    - Uncovered by Hazard Department when carrier canceled policy due to substandard property conditions
    - Servicing referred situation to QA
    - QA target audit revealed loans with multiple misrepresentations
    - Scheme was investigated by the FBI

# Special Handling Bucket = Greater Recovery

- Prompt Identification of potentially fraudulent loans allow for the correct type of loss mitigation, safeguarding evidence and swifter recovery:
  - Title claims
  - E&O Claims
  - Bond Recoveries
  - Payoffs

# PBIS Claims Statistics

- Recovery Breakdown by Servicing Status:



# Effects of Improper Handling

- Waiving lender rights
  - Non-dischargability issues with bankruptcy filings
  - Deeds in lieu of foreclosure without borrower affidavits
  - Statute of limitations concerns
- Perpetuation of the fraud scheme
  - Short sales to fraudsters
- Losing the evidence trail
  - Without timely resolution, parties disappear
- Reduced earnings due to increased losses

# Special Bankruptcy Considerations

- Remember: Borrowers typically see themselves as victims
- Review all bankruptcy schedules and compare against information presented on the loan application and contained in the file
- Bankruptcy Fraud or Mortgage Fraud?
  - Bankruptcy Fraud: Overstated liabilities and/or understated income
  - Mortgage Fraud: Overstated income and/or understated liabilities

# Other Servicing Considerations

- Controlling access to customer information
  - Are files locked or left out in the open for possible misuse?
  - Is Servicing speaking only to the borrower or other authorized individual?
- Resource for Damage Estimate Information
  - Corporate advances, winterization on REO properties, REO sales breakdowns, investor accounting method, foreclosure sales costs, occupancy inspections, BPO's, etc.

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