

National Fraud Issues Conference 2008
Opening General Session-
“Industry Update and Outlook on the Fight Against Fraud”
Thursday, March 13, 2008
8:30 a.m. – 10:00 a.m.

David Kittle: Opening Remarks

We hear the word “fraud” thrown around a lot these days— insurance fraud, identify fraud and fraud against borrowers, i.e. predatory lending. But we’re all congregated here in the Windy City for the next two days for one reason, and one reason only, the growing incidence of mortgage fraud against us— against our industry.

And with these growing numbers and the escalating complexity of mortgage fraud, protecting our industry from being victimized is more important now than ever before. This means moving beyond learning about schemes and red flags and looking at the real issues that cut across departments and industries. And while we may not be able to tackle the problem alone, we as an industry can and MUST do our part, together, to combat mortgage fraud against lenders and bring it down without mercy.

I'm proud that we are all assembling here in Chicago as one brigade over the next two days, here at MBA's National Fraud Issues Conference. With discussion focused on this issue, including measures that we are already taking to mitigate its breadth and depth, it's my hope that we can put a large dent into a problem that scuffs our industry. After all, mortgage fraud against lenders is bad for everyone. It's bad for you, me, our industry, our borrowers and the communities that we invest in.

The latest numbers being released today by MARI (Pronounced MAH--REE) show that fraud against lenders is indeed rising. In fact, MARI's Merle D. Sharick, CMB, will be joining us during this session to discuss the results of their study. I know we're all eagerly awaiting that report.

The increasing prevalence of fraud against lenders is also evident through increasing estimates of industry losses and through SARs – Suspicious Activity Reports – filings with the government.

In 2003, The Financial Crimes Enforcement Network (FinCEN), a

division of the U.S. Department of the Treasury, received 9500 SAR filings related to mortgage fraud. By 2005, that number had more than doubled, to over 25,000 filings.

Not only are the pure numbers of fraud growing rapidly, but the complexity and deviousness of the schemes continues to evolve. It is becoming increasingly organized and consisting of a conspiracy of sorts between such people as the buyer, builder, appraiser and/or broker. In fact, earlier this month, the FBI said 25 people were charged in one of the biggest mortgage fraud schemes ever prosecuted, right here in the Chicago area.

The agency said the suspects were named in three separate indictments. Charges included felony counts of mail fraud, wire fraud, money laundering and conspiracy. The investigation, which began in 2004 as a joint effort between the FBI and the Postal Inspection Service, came after the arrest of 47 known and suspected members of a Chicago-based street gang.

The indictments allege that more than 150 properties, half of which are in foreclosure, were involved in fraudulent transactions, with potential losses of more than \$25 million. Quite a bit of cash to say the least...

So, despite the challenges inherent in addressing such a broad and complex problem, MBA has been fighting mortgage for years. And MBA continues to be at the forefront of efforts to help lenders detect, investigate and prevent mortgage fraud.

In fact MBA released a paper in October entitled, *Mortgage Fraud: Strengthening Federal and State Mortgage Fraud Prevention Efforts*, which took a comprehensive look at the policy discussion surrounding fraud against lenders. The paper separates the issues of mortgage fraud and predatory lending—two very different issues—and provides policymakers with a much needed roadmap for effectively combating the growing incidence of mortgage fraud. In the paper, MBA also discourages adding or modifying the already comprehensive list of federal fraud statutes, and instead, recommends that Congress

increase resources available to law enforcement to help facilitate the coordination of federal and state law enforcement of financial crimes.

All of this is precisely why MBA's 2008 Advocacy Agenda again includes a request for additional resources to fight fraud against lenders— \$31.25 million over a five-year period in dedicated funding for the FBI and the Department of Justice. And as you know, John Arterberry from the Department of Justice is here with us today so we all need to remind him just how much this money will help boost our efforts. *((David—you may want to give John thumbs up or something of that nature.))*

MBA believes this funding would provide 30 new FBI field investigators, two new prosecutors at the Department of Justice to coordinate prosecution efforts of mortgage fraud cases and \$750,000 to support the operations of Interagency Task Forces in targeted areas with high concentrations of mortgage fraud.

MBA is also involved in collaborative efforts with law enforcement.

As you may remember, last year at this conference MBA and the FBI

signed a memorandum of agreement to work together to promote the FBI's Mortgage Fraud Warning Notice. This Notice makes clear that mortgage fraud is a serious federal offense with significant consequences for those who commit it. Use of the Notice is voluntary, but MBA has strongly encouraged lenders to integrate it into any aspect of the lending process that could be susceptible to fraudulent activity.

Also, in July, MBA's Residential Board of Governors approved a resolution of its Mortgage Fraud Task Force committing MBA to work with member companies to create a national mortgage fraud database and a national valuation registry. To that end, MBA has partnered with an industry group of several of the largest residential mortgage lenders, as well as Fannie Mae and Freddie Mac, to explore the creation of a comprehensive industry-wide fraud database utility to track parties, properties and schemes involved in mortgage fraud. We hope to release the RFP within the next month.

In the coming year, MBA also plans to undertake projects that will assist member firms in combating various forms of misrepresentation

and develop techniques to assist in the monitoring and evaluation of third parties. As this year's MARI (Pronounced MAH--REE)) report illustrates, "the need for lenders to know their borrowers, vendors, and employees is greater than ever."

Though the past year has presented a number of challenges in battling mortgage fraud against lenders, I want you to know that we at MBA are doing everything in our means to provide leadership and guidance. As MBA continues these efforts, I truly believe that we will make significant progress in our ability to identify and catch fraudsters.

But this all leads me to another very important point—YOU, our industry cohorts who are on the front lines each and every day, combating this foul issue that scuffs our industry. I want to thank you for your dedication and perseverance as it's your participation that will help us put a stop to these deviant fraudsters. And while we need your help each and every day, always know that we at MBA are here to support you in this vital crusade. After all, our industry— and our livelihoods— depend on it.

Thank you.

Introduction of John D. Arterberry

John Arterberry has served in the Criminal Division of the United States Department of Justice since 1981 and currently holds the position of Executive Deputy Chief in the Criminal Division's Fraud Section. He has investigated and prosecuted complex white-collar crime cases in venues throughout the U.S. He also has supervised bank, securities and corporate fraud casework and has negotiated organizational deferred prosecution agreements stemming from corporate fraud investigations.

John chairs two of the Department's national enforcement coordinating bodies, the Interagency Bank Fraud Enforcement Working Group and the Securities and Commodities Fraud Working Group.

Prior to joining the Department of Justice, John served as a trial attorney in the Enforcement Division of the United States Securities and Exchange Commission in Washington.

Please welcome, John Arterberry.

Introduction of Merle Sharick, CMB

Finally, I'd like to introduce Merle Sharick, CMB, Vice President and National Manager of Mortgage/Real Estate Business Development

for the Mortgage Asset Research Institute, better known as MARI (Pronounced MAH--REE)).

Merle is primarily responsible for promoting MARI products designed to improve pre-employment background screening processes and efficiencies in the mortgage industry, as well as risk management through broker credentialing, licensing verifications, and fraud prevention,

Prior to joining MARI (Pronounced MAH--REE)), Merle was a risk management, affordable housing, and business development executive in the private mortgage insurance industry for 21 years.

He has been an active participant in The Housing Roundtable and is a past board member of the National Association of Review Appraisers and Mortgage Underwriters.