

**MBA Fraud Issues Conference  
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**John L. Gray  
Fraud Prevention**

## **Georgia (First State to make Mortgage Fraud a Felony)**

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Main Edition**

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**“My favorite prison sentence of the week: Phillip E. Hill, a white-collar criminal, was sentenced by a federal judge to 28 years in prison and ordered to pay more than \$41 million in restitution for running a massive mortgage scheme that generated \$112 million in fraudulent loans. His take from the scheme, involving inflated sales prices to straw borrowers who paid him kickback, was \$14 million”.**

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**HEADLINE: Mortgage broker sentenced to pay \$37 million in restitution**

**A mortgage broker indicted in a scheme to take out help-wanted ads promising applicants six-figure salaries then using the applicant's information for fraudulent mortgage loans was ordered Friday to pay \$37 million in restitution.**

**A federal judge sentenced Gerald P. Small III, 43, of Broomfield, Colorado, to serve eight years and five months in federal prison, the Justice Department said. His five associates who also were indicted in the case must pay millions of dollars more in restitution.**

**October 25, 2006 Wednesday****FINAL Edition**

A San Ramon man was sentenced Tuesday to more than five years in prison for generating millions in fraudulent loans.

Laurence Seidenfeld, 63, must serve 67 months in federal prison and an additional year behind bars because of a previous fraud conviction, U.S. District Judge Sandra Brown Armstrong said during a hearing in Oakland.

Armstrong also ordered Seidenfeld to pay \$281,992 in restitution.

Seidenfeld was convicted of conspiracy, bank fraud and income-tax evasion. He previously served a day in prison in a separate federal bank-fraud case in which he altered and submitted false credit reports to obtain loans for people with bad credit, records show.

Seidenfeld and his company, CHL Mortgage Group Inc. of San Ramon, fraudulently obtained mortgage loans on property without the owner's consent, FBI agent Christine Hemje wrote in an affidavit filed in U.S. District Court in Oakland.

The mortgage loans were then sold multiple times to warehouse banks, lenders and investors without their knowledge, authorities said. More than \$20 million in fraudulent loans was generated, according to the FBI, although the precise figure is being calculated.

## **Investment Straw Buys (A little bit of several old frauds)**

- “Get Rich Schemes” where Borrowers Think They are Joining an Investment Group or Club
- They are Promised They will be Paid at Closing (normally \$5,000 to as High as \$15,000 a Loan)
- The Facilitator will Manage the Properties and Make the Mortgage Payments
- The Straw-buyer is told that they will be paid Dividends or the Sale of Property will occur at a Later date will Make Everyone Rich

## “Puffing” (The new “flip”)

- Puffing-Seller List Property for Real Value \$100,000
- Purchaser/Borrower says I want to Purchase Home but will Purchase it for \$150,000 and wants the \$50,000 difference (\$150,000 Inflated Value-\$100,000 Real Value) need an appraiser to inflate value to \$150,000
- Similar to “Flip” but only One Loan, This Type of Fraud is Useful to Perpetrators in Slow Market

## **Types of Mortgage Fraud**

**Institutional Fraud - cases in which Brokers/TPO (third party originators), Branches/Loan Officers or organized groups of individuals (realtors/title agents/sellers, etc) commit fraud**

**Spot Loans- Individual loans that contain material misrepresentation that have no apparent pattern or trend (inflated income, undisclosed debt, relative straw-buy, inflated value etc.)**

**Financial Fraud - air loans and double sold notes/loans and others**

**Loan Level Frauds – puffing, flips, straw-buys, builder bail-outs and others**

## **Financial Frauds- Devastating**

- 1. “Air Loans”**
- 2. Double Sold Notes**
- 3. Non Remittance of Payoff Funds**
- 4. Theft of Escrows**
- 5. Alteration of Public Records**
- 6. Title Scams**

## **Loan Level Frauds**

- 1. Flips**
- 2. Builder Bail-outs**
- 3. Foreclosure Bail-outs**
- 4. Straw-buy Investment**
- 5. Churning**
- 6. Stated Income**

## **What is New and Different Today**

- 1. Perpetrators of major mortgage fraud cases appear to have more violent criminal histories**
- 2. Perpetrators/Subjects continue to run out their fraud schemes for longer periods of time**
- 3. Concerted effort to hide the mortgage fraud (payments are made for longer periods so that the fraud can go undetected)**
- 4. Perpetrators commit fraud on the front-end and in some cases come again on the back-end (origination fraud and then short-sale or work-out type frauds)**

## **Data-mining, Data-mining, Data-mining, Data-mining**

### **Examples:**

**All loans FICO 680 and higher by broker/Correspondent by borrower name by address by loan amount by EPD (went into default first 13 months) gives you Flipping**

**All loans with the same social security # with different names in your portfolio gives you ID Theft**

**All properties in your portfolio by Broker/Correspondent in which the mailing address is the same for a group of borrowers and all of the loans go into default at the same time gives you Straw-buy Investment cases**

## **Detection of Air Loans and Double Sold**

- 1. Check the party making the payments (perpetrator, broker/correspondent, or CEO/President of originating Company usually makes the payments)**
- 2. Check MERS and Title Records for correct 1<sup>st</sup> or 2<sup>nd</sup> lien position (especially Double-Sold cases)**
- 3. Check [www.zillow.com](http://www.zillow.com) or [www.earth.google.com](http://www.earth.google.com) for satellite pictures to prove existence of subject property (especially “Air Loans”)**
- 4. Run data-mining report for all properties in your own portfolio for property addresses in which you have more than 1 first lien on the same property. (Double-Sold)**

## **Closing Comments**

- 1. We had to change the entire Fraud Prevention Training Program back to reviewing files for full documents type misrepresentations: fake w2's, bank statements, VOD's, VOE's etc. (adapt to the changes in the market)**
- 2. Data-mining for the development of cases by recognizing patterns/trends is crucial to a successful fraud program.**
- 3. Pre-funding Fraud Prevention tools/reviews are very beneficial in today's market**
- 4. The first step and most important step to any fraud effort is to "know who you are doing business with".**