

MBA's 97th ANNUAL
CONVENTION & EXPO
OCTOBER 24-27 ATLANTA

Insulating Yourself Against Insider Fraud

A Panel Discussion

2010

Panelists:

- Brenda Clem, Fifth Third Mortgage
- Kurt Lofrano, Wells Fargo Home Mortgage
- Joe Dahleen, Brightgreen Home Loans, Inc.
- Paul Anselmo, SigniaDocs, Inc.

Moderator:

- Janet Ford, Equifax /The Work Number

Mortgage fraud is significant and still prevalent: “*fraud for necessity*”

- \$14 billion fraudulent mortgages were originated in 2009
- Losses from mortgage fraud rose to \$2.79 billion in 2009 (up 88% from 2008)
- First-half 2010 losses are already at \$1.96 billion

source: FBI 2009 Mortgage Fraud Report “*Year in Review*”

- Mortgage fraud perpetrators are industry insiders
 - “... including mortgage brokers, lenders, appraisers, underwriters, accountants, real estate agents, settlement attorneys, land developers, investors, builders, and bank and trust account reps”
- Distressed housing market and federal program incentives are creating opportunities for fraud
 - HAMP, Home Price Decline Protection Program, etc.

Findings from mortgage fraud cases reviewed 2008 - 2009

- 59% Application fraud (general “lying on application”)
- 25% Tax return and financial statement fraud
- 33% Appraisal fraud
- 14% Verification of deposit fraud
- 9% Verification of employment fraud

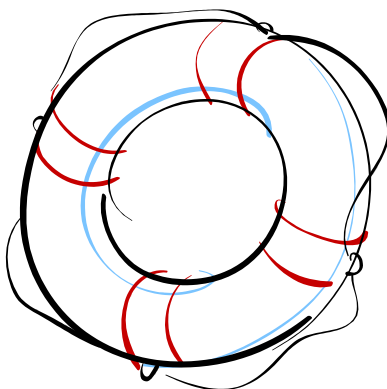
(source: MARI 2009 Twelfth Periodic Mortgage Fraud Case Report)

Thereby, investors are looking for surety in the manufacturing process ...

- Findings from a downstream (repurchase) perspective:

“Top deficiencies for loans sampled indicate the origination process still requires some reinforcement”

(Freddie Mac, Q1 2010)



... how can 3rd party tools and information help?

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Brenda B. Clem, CMB

Fifth Third Bank

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Loan amount \$200,000

Cost to originate (\$2,500)

Lender closing fees \$1,000

Service Release Premium \$3,000

Repurchase demand (\$200,000 + SRP \$3,000 + interest
to date \$2,250/90 days) = \$205,250

(\$5,250)

Mitigate Excessive Risk Taking

- Ensure mortgage financing remains available and affordable for borrowers
- GSE's have developed Uniform Data Standards
- Loan Quality Initiative-February 26, 2010
- Mortgage risk is a Life-of-Loan event
- Require data checks in all origination channels
- Quality control results-significant findings spiked 2009

- Fraud training
- Ideal time to evaluate processes and systems to ensure you are operating in an efficient and effective manner
- 80/20 rule - when 20% of the file is properly scrutinized (appraisal, debt, income) 80% of the problems can be avoided

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Kurt Lofrano

Wells Fargo Home Mortgage

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- Pre 2009 controls
 - Limited prefund fraud controls
 - Extensive stated income
 - Limited appraisal ordering and contact requirements
 - AUS checklist “underwriting”

- 2009 and beyond
 - Full doc loans
 - Underwriters must “underwrite” again
 - Underwriters focus on decisioning skills, not analyzing loan docs
 - Independently validate data
 - Income, assets, credit & debt, identity, transaction structure, property value
 - Origination fraud now more difficult to commit and detect
 - Possibility of insider fraud increasing

- Internal control and gap assessment process
- Investor and regulator partnership
 - Operational audits
 - Calibration of QA results
 - Performance monitoring and expectations
- Loan file assessment
 - Focus on 2009 and later originations
 - Review all EPDs
 - Review all repurchases, MI rescissions, investor audits, etc.

- Root cause and gap analysis of issues identified
- Segment execution errors and control gaps
- Performance monitoring down to employee level
- Scorecard development and monitoring

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Joe Dahleen

Brightgreen Home Loans, Inc.

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Brightgreen

Home Loans Inc.[®]
Home Loan Products Output

Best of Breed Services

Encompass e360 Banker
eFolder – Paperless Origination Office

Signia Docs
eDisclosures / eDocs / eNotes / eVault
Digital eSign Platform

Kroll Factual Data
Mortgage Credit and Factual ID
Fannie Mae LQI Soft Pull Credit

Rapid Reporting (EquiFax)
4506-T Income Check
SSA- 89 Direct Check

The Work Number (EquiFax)
Employment Check
Verbal Verification of Employment

Form Free.com
Instant Verification of Deposits

Interthinx - Fraud Guard
Risk Mitigation Decision Tool (Borrowers / Participants / Property)
Mortgage Electronic Registration System (MERS)
Income Estimation / Income Variances

**Brightgreen Appraisal Management Portal
powered by Solidifi**

Platinum Data – RealView Appraisal AUS

**All Loans Wrapped by the
Best in Class Service Providers · Top 10 Technology Companies**
Most Transparent Process in the Mortgage Industry



KROLL
Factual Data

Credit Report / Factual ID
Red Flags Reporting



FraudGUARD
Red Flags Reporting



BGHL Appraisal Service
Solidifi IQ™

E-Notes, e-Vaulting and e-Registry

Factual ID – True Alert Fraud Report
Credit Red Flags reporting and Clearing

Income Check – 4506T
Direct Check SSI Verification

Owned by Equifax
1) Employment Verification = Instant Verification
2) Verbal VOE = Research Verification
3) Final Prior to close Re-verification of employment

Verification of Assets/Bank Accounts

Risk Mitigation Decision Tool
(Borrowers / Participants / Property)
Mortgage Electronic Registration System (MERS)
Income Estimation / Income Variances

Brightgreen Appraisal Management Portal
HVCC Compliance and Reporting
Solidifi IQ a **dynamic rating** of an appraiser's report
quality, competency and professionalism demonstrated
by appraiser.

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Paul Anselmo
SigniaDocs, Inc.

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- Look for more LQI initiatives (Freddie/FHA) and additional regulatory compliance
- Tools are more available today than even just 2 years ago
- Choose your processes carefully;
 - Use best providers
 - Consider “timing of purchase” for your tools to keep costs in check
 - Avoid redundancy

- Real tangible benefits will be achieved
 - Today: risk of repurchase will be reduced
 - Tomorrow:
 - Better pricing will be achieved
 - Investors should be able to purchase quicker
 - Warehouse lenders/investors should favor process over net worth
- A lot of work still remains
 - Investors need to leverage and accept downstream processes by originators -- must issue guidelines and standards
 - Findings/results must travel with loan file
 - Data must replace documents and be locked down (tamperproof like eMortgage)

A Focus on the Future

- “Cost : benefit” has been proven (the math equation)
- Regulations are forcing the hand
- Tools are readily available – creating a source of truth
- Challenge is to thoughtfully implement tools/data into process before inventory ramps up
- Industry could benefit from a transparent means of viewing/auditing underwriting due diligence through the mortgage cycle



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Let's Answer
Your Questions!

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