



Fraud Schemes And Modification Scams

Penny A. Paplanus, CMB
Managing Director
Cognitive Options Group, LLC

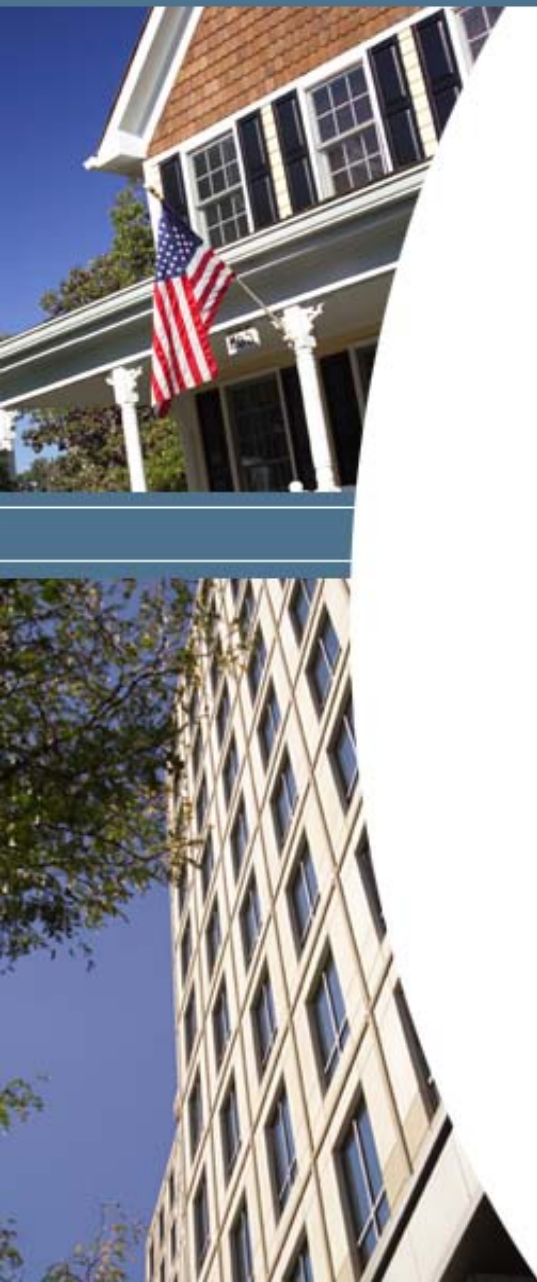
Schemes and Scams



CognitiveOptionsGroup_{LLC}

Ideas in Action

What is Fraud?



The FBI defines mortgage fraud as "any material misstatement, misrepresentation or omission relied upon by an underwriter or lender to fund, purchase or insure a loan."

Efforts from the Fed

- **Support for Foreclosure Rescue and Loan Modification Scam Efforts**

"I believe that, if implemented appropriately, the FinCEN-led Foreclosure Rescue Scam & Loan Modification effort will help both law enforcement combat fraud and consumers avoid scams. I appreciate the Obama Administration's efforts, and I urge every law enforcement agency, including the Department of Justice, to coordinate with FinCEN as we attempt to safeguard our financial system from fraud and prosecute those who break the law."

Senator Christopher Dodd

Chair, Senate Committee on Banking, Housing, and Urban Affairs

Senate Floor Debate

April 22, 2009



Trends

In February 2009, FinCEN released an updated mortgage fraud analysis showing that SARs filed on suspected mortgage fraud increased 44 percent in the 12 months ending in June 2008 compared with the prior year.

The report, **Filing Trends in Mortgage Loan Fraud**, indicated that the continued rate of growth in mortgage fraud SAR filings underscores the increased vigilance and awareness of financial institutions, particularly as they continue to try to mitigate possible credit losses. One of the trends FinCEN identified in this analysis was the increase in mortgage fraud detection in connection with mortgage purchasers sending home loans back to originators for repurchase.



FBI Weighs In

Partnering with Other Agencies to Fight Mortgage Fraud

"As is true across our criminal programs, our partnerships with other federal, state and local law enforcement agencies greatly enhance our effectiveness. Building upon our successful task force model, we have established Mortgage Fraud Task Forces across the country. These task forces are concentrated in areas at high risk for mortgage fraud. Partners vary across the country, but typically include Housing and Urban Development Office of Inspector General (HUD-OIG), the U.S. Postal Inspection Service (USPIS), the Internal Revenue Service (IRS), the Financial Crimes Enforcement Network (FinCEN), the Federal Deposit Insurance Corporation, and State and local law enforcement agencies. This multi-agency approach means additional resources for identifying perpetrators of fraud and additional prospective options for bringing them to justice. The option of pursuing federal or state charges is particularly beneficial in high-volume markets."

Robert Mueller
Director, Federal Bureau of Investigation
Testimony before the Senate Judiciary Committee
September 16, 2009



CognitiveOptionsGroup^{LLC}

Ideas in Action

Mortgage Loan Fraud SAR Subjects - Relation to Reporting Institution

January – June 2009

Borrower	25,960
Broker	7,601
Customer	4,812
Appraiser	3,426
Employee	467
Agent	213
Attorney	152
Director	96
Officer	82
Accountant	29
Other	13,162



“Other” Relations to Reporting Institution

January – June 2009

Real estate professional (Loan officer, mortgage broker, realtor, or employee of any)	5944
Borrower or family member, or business owned by either	1763
Seller	1440
Closing agent (Title agent, escrow company, attorney, etc.)	735
Verifier of loan documentation (Notary, employer, tax preparer, landlord, etc.)	640
Developer, construction company, property management company, or real estate investor	476
Appraiser or employee	227
Loan modification scammers	77
Real estate professional (Loan officer, mortgage broker, realtor, or employee of any)	5944
Borrower or family member, or business owned by either	1763
Seller	1440



Income is it Real?



The liar loan is gone.....
full documentation is back.....along with that.....income fraud is here.....again!



Novelty W-2, Paystubs & Verifications

You Can Buy Anything on the Internet

➤ “Novelty” products is just a code word for “fraudulent documentation for sale”

- Drivers Licenses
- Social Security Cards
- Diplomas
- Paystubs
- W-2 or 1099 Statements
- Employment Written and Verbal Verifications



It's Old..It's New..It's Back..

PRINT PAYROLL STUBS W2 and 1099 Tax Forms CREATE INSTANT PROOF OF INCOME OR EMPLOYMENT USING THIS COMPUTER PROGRAM!

DEVELOPED BY A HARVARD UNIVERSITY PROFESSOR !

DESIGNED WITH THE SMALL BUSINESS OWNER IN MIND!

THIS USER FRIENDLY - EASY TO USE PAYROLL PROGRAM WILL HELP EVERY BUSINESS OWNER CREATE PROFESSIONAL PAYROLL STUBS QUICKLY!

VERIFY EMPLOYMENT AND PROVIDE PROOF OF INCOME BY CREATING PAYSTUB, W-2's AND 1099 DOCUMENTATION!

WWW.QUICKSTUBS.COM NOR ITS AFFILIATES ARE RESPONSIBLE FOR ANY MISUSE ASSOCIATED WITH THIS PROGRAM! ONCE THE BUYER HAS DOWNLOADED THIS SOFTWARE PROGRAM AND FILLED OUT THE FORMS WITH THE INFORMATION THEY CHOSE TO USE, THEY ARE RESPONSIBLE FOR WHAT IS WRITTEN. ALSO, THE BUYER IS RESPONSIBLE TO WHOMEVER THEY DECIDE TO DISTRIBUTE TOO! THIS COMPUTER PROGRAM IS INTENDED AS A PAYROLL SOLUTION AND/OR NOVELTY ITEM! THIS SYSTEM WAS NOT INTENDED NOR DESIGNED TO DEFRAUD ANYONE OR ANY BUSINESS! SHAME ON ANYONE WHO USES THIS PRODUCT FOR SUCH PURPOSES! KNOW THE LAWS IN YOUR COUNTRY/JURISDICTION PRIOR TO USE!

ALL SALES ARE FINAL!



CognitiveOptionsGroup LLC

Ideas in Action

<http://www.prooffofemployment.com/> or
<http://www.fakepaycheckstubs.com>

Appraisal...Value There or ??



CognitiveOptionsGroup LLC

Ideas in Action

Appraisal

MAJOR CONCERN - HIGHEST Potential for loss

- **Incidence of faulty values increases when someone other than the mortgage lender orders the appraisal**
- **Opinion of Value - not a scientific equation**
- **Pressure on appraiser to meet Sales Price**
- **More rules.....more regulations**



Appraisal Statistics

2009:

3.9% of appraisal issues reported to MARI involved properties flipped within 30 days.

4.7% were properties flipped within 12 months.

2008:

1.4% of appraisal issues reported to MARI involved properties flipped within 30 days.

5.0% were properties flipped within 12 months.

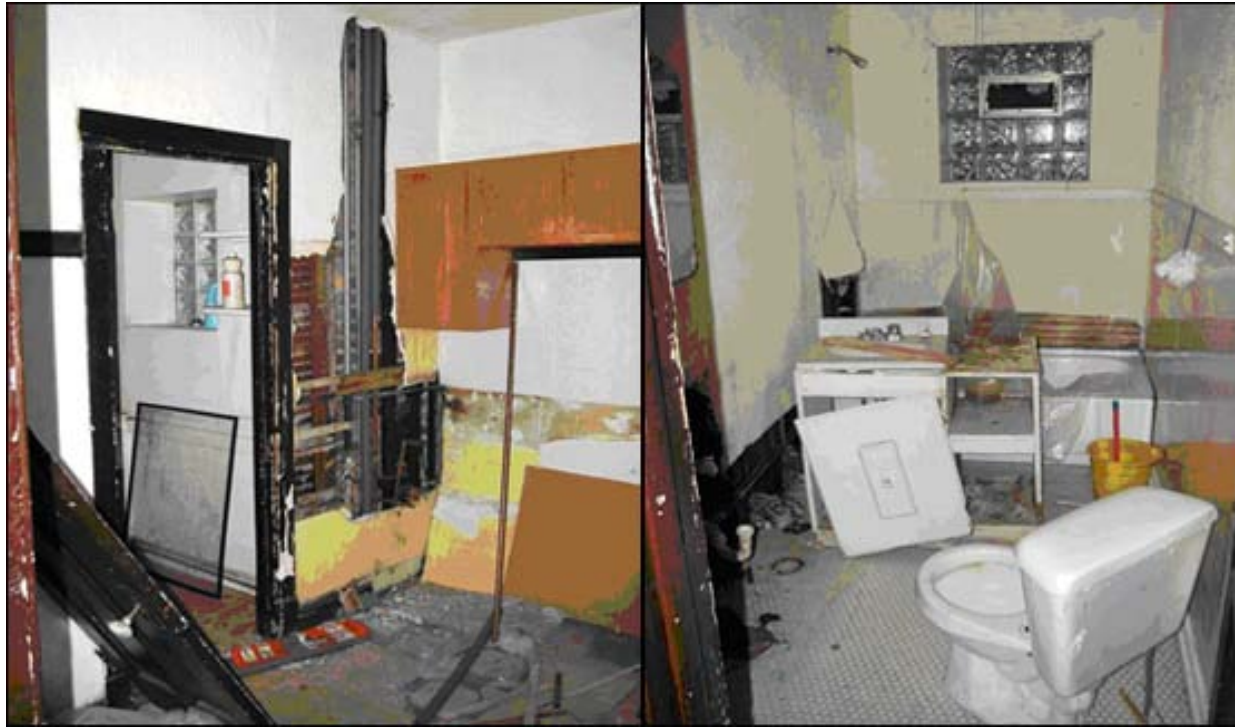
2007:

2.5% of appraisal issues reported to MARI involved properties flipped within 30 days.

5.8% were properties flipped within 12 months.



Appraisal Fraud



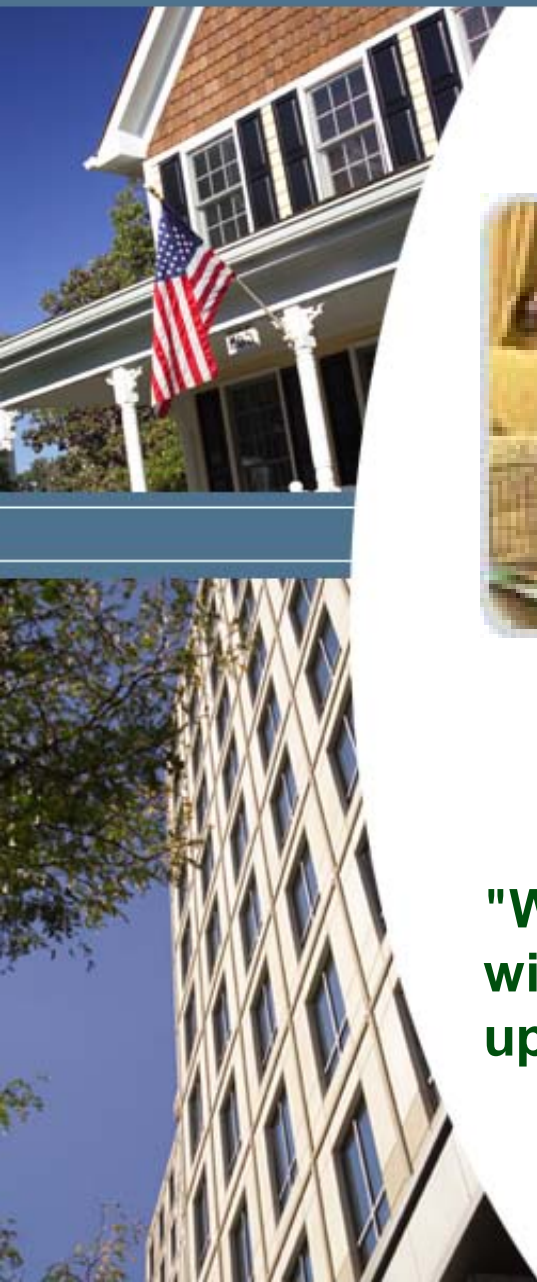
The above photos are from condos that were involved in a mortgage fraud. The appraisal described “recently renovated condominiums” to include Brazilian hardwood, granite countertops, and a value of \$275,000.



CognitiveOptionsGroup^{LLC}

Ideas in Action

The Hot New Thing.....



"We stop foreclosures every day. Our team of professionals can stop yours this week!"

"We guarantee to stop your foreclosure."



"We have special relationships within many banks that can speed up case approvals."



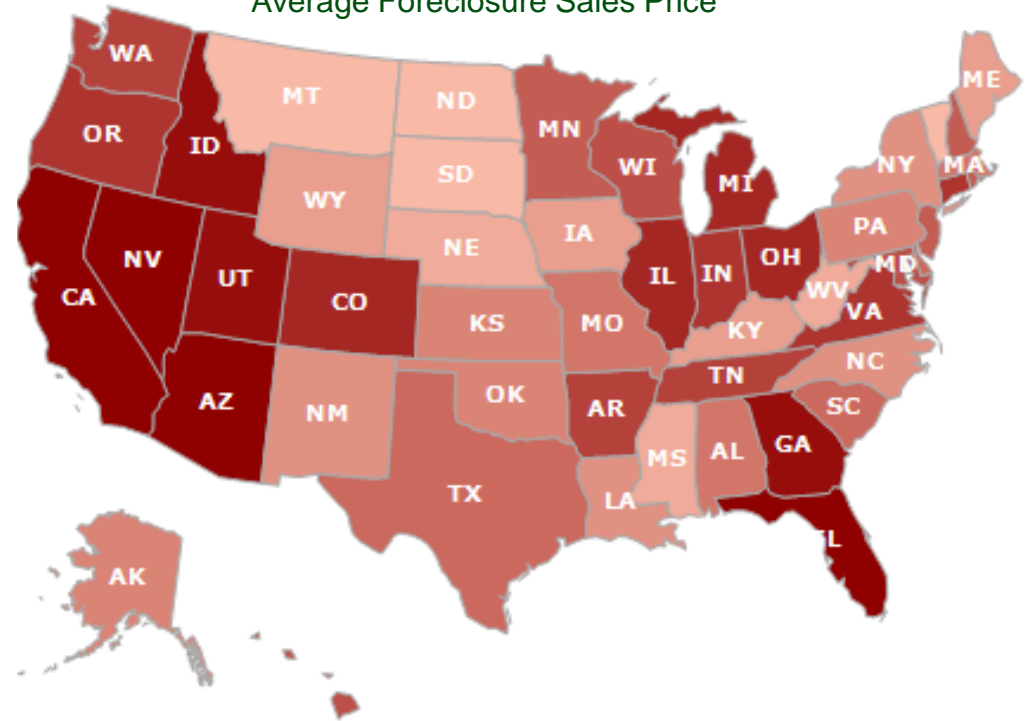
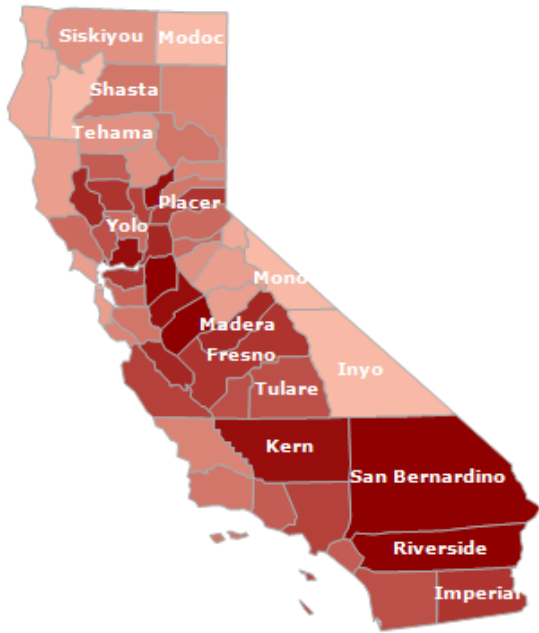
CognitiveOptionsGroup LLC

Ideas in Action

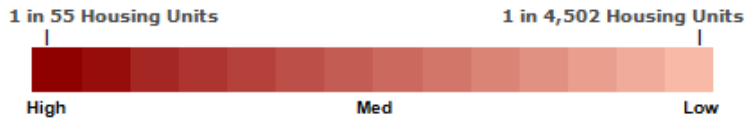
Foreclosure are on the rise

National Real Estate Trends

1,821,809 Foreclosure Homes | \$176,982
Average Foreclosure Sales Price



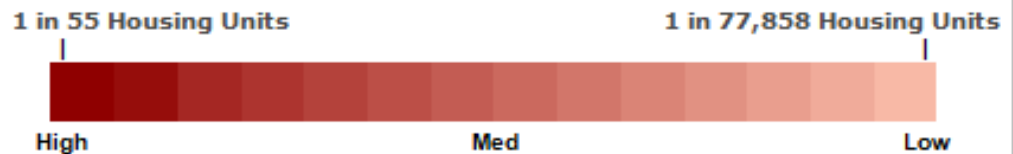
Foreclosure Actions to Housing Units



California Real Estate Trends

444,254 Foreclosure Homes | \$224,950
Average Foreclosure Sales Price

Foreclosure Actions to Housing Units



Foreclosure and Modification Scams

The scam artists use simple messages and broad promises, like: "Stop Foreclosure Now!" or "We can save your home!"

Foreclosure rescue firms use a variety of tactics:

Some go through public foreclosure notices in newspapers and on the Internet or through public files at local government offices, and then send personalized letters to homeowners.

Others take a broader approach through ads on the Internet, on television, radio or in the newspaper, posters on telephone poles, median strips and at bus stops, or flyers or business cards at your front door.



Phony Counseling

The scammer offers to negotiate a deal with the lender to save your house in exchange for an upfront fee, often equal to one month's mortgage payment.

The client may be told not to contact the lender, lawyer, or credit counselor, and to let the scam artist handle all the details. Once the fee is paid, the scam artist takes off with the money.

Sometimes, the scam artist insists that client make all mortgage payments directly to him while he negotiates with the lender. In this variation, the scammer may collect several months of payments before disappearing.



Rent-to-Buy Scheme

The scammer offers homeowners a deal to let them stay in their homes as a renter and then buy it back over the next few years. Victims are sometimes told that surrendering the title will allow a borrower with better credit rating to get new financing – and prevent the loss of the home.

But the terms of the deal are so burdensome it becomes impossible to buy back the house. Victims lose their home, and the scam artist walks off with all or most of the home's equity.

When the scammer defaults on the new loan, the original homeowner is evicted.

Sometimes, the scam artist raises the rent over time to the point that the former homeowner can't afford it. After missing several rent payments, the renter – the former homeowner – is evicted, leaving the “rescuer” free to sell the house.

Bait and Switch

The scammer offers to arrange a new loan to make a victim's existing mortgage current.

When the homeowner signs the "new loan," the scammer includes documents that turn over the title of the house to the scam artist.

In some cases, the scammer uses the title to defraud a new lender by taking out a second loan on the property and pocketing the proceeds.

Victims of this scam often don't learn they've been cheated until they get an eviction notice.



Equity Skimming

In this fraud, the scam artist offers to find a buyer for a homeowner facing foreclosure, but only if he or she signs over the deed and moves out. The scam artist promises to pay a portion of the profit when the home sells.

Once the deed is transferred, the scam artist rents out the home and pockets the proceeds while the lender proceeds with the foreclosure.

Victims of this scam lose their home - but they're still responsible for the unpaid mortgage. Contrary to the scammer's promises, transferring a deed to another party doesn't end a homeowner's responsibility to pay back a mortgage.

Unauthorized Bankruptcy

In this version, the scam artist promises to negotiate with the victim's lender or to get refinancing on his or her behalf in exchange for an upfront fee.

Instead, the scammer pockets the fee and enters a bankruptcy filing in the victim's name -- sometimes without the victim's knowledge -- by forging a signature or concealing the true nature of the paperwork.

Though a bankruptcy filing often suspends a foreclosure, it doesn't end it permanently. Once in bankruptcy, the victim faces additional legal costs and bears the burden of a credit record that will make it difficult to buy or rent a new home for as long as 10 years.



Real Company.....Real Ad.....

Mortgage Modification – Law group licensed in NY & FL

Do you need to reduce your mortgage payment, but can't get the bank to listen? Whether you are behind on your mortgage, or simply want to lower your monthly payment, *Real Company* can help. We negotiate strongly with the bank to obtain a loan payment you can afford for a low one-time flat fee of \$1800 (all expenses included), or \$600 per month for three months. We aren't looking to simply buy you more time, we are working to achieve a long-term solution that will keep you in your home.

Call (800) 555-1212 for a free consultation to discuss your options.



Ideas in Action

The Rules.....

➤ **RULE 1:**

DOES THE INFORMATION MAKE SENSE?

➤ **RULE 2:**

NOT EVERY RED FLAG MEANS FRAUD

➤ **RULE 3:**

TAKE A LOOK TO BE SURE

