



Fraud Prevention

A 'How To' Primer

Residential
UNDERWRITING



Erik Stein, EVP & Director
Fraud Prevention & Investigation
Countrywide Financial Corporation



Toolkit

Pre-Funding

- Training
 - The single most critical point of failure in any fraud prevention program is an untrained underwriter and/or sales person
- Policy & Procedure
 - Robust policies and procedures form the backbone of a fraud prevention program
 - Must be 'backstopped' by an automated verification method
- Detection Efforts
 - Automated high capacity internal, or vendor purchased, tools to detect loan fraud which are properly 'tuned'
 - Serves as the 'backstop' for failures or collusion in the underwriting process
- Line of Business Referrals
 - Pre-funding reviews completed by underwriters or even preliminary reviews by account executives provide the opportunity to identify inconsistencies, red flags or other indices of fraud



Toolkit

Post-Funding

- QC Audits
 - Post-funding audits provide an ideal opportunity to identify potential fraud that was not identified during loan origination
- Investor Repurchase Requests
 - Serves as a secondary post-funding audit resource
- Law Enforcement Referrals
 - Law enforcement agencies will contact the lender when they are investigating fraud and other financial crimes to notify them when their company is involved (e.g. victim, co-conspirator, dupe, facilitator, etc.) in the underlying activity



Toolkit

Post-Funding

- Grand Jury Subpoenas
 - Typically are served during the investigation of criminal conduct providing a solid lead to internal investigators
- Automated Consumer Dispute Verifications (ACDV) Referrals
 - ACDVs alleging fraud provide a valuable source of fraud investigations
- Social Security Number Changes
 - May be indicative of SSN Fraud or Identity Theft



Toolkit

Funding Independent

■ Hotline

- “Organizations that did not have reporting mechanisms (anonymous fraud hotlines) suffered median losses that were over twice as high as organizations where anonymous reporting mechanisms had been established”
(Association of Certified Fraud Examiners 2004 Report to the Nation)
- Ideal location for the ‘single point of contact’ for Identity Theft complaints

■ Third-Party Due Diligence

- Regular re-evaluation of a lender’s business partners (e.g. brokers, appraisers, settlement agents, etc.) is essential to ensure that early signs of problems (e.g. increasing delinquency rates, high levels of investor repurchase requests, above average rates of portfolio fraud) are managed quickly to reduce exposure

■ Media Searches

- Regular web searches should be conducted to identify indictments or convictions for loan fraud related activities



Toolkit

Funding Independent

- **Fraud Reduction Working Group**
 - Regular meetings of all those involved in fraud prevention, detection and mitigation including the production lines, compliance, legal, HR, IT, privacy, investigations, QC, loss mitigation, etc.
- **Product Development**
 - Ensures that new products are evaluated for fraud risk and mitigants are wrapped into product development
- **Industry Contacts**
 - Networking with outside organizations such as IAFCI (International Association of Financial Crimes Investigators), ACFE (Association of Certified Fraud Examiners) and others to ensure you are keeping up with the latest trends across the industry, sharing best practices and working together to improve the training, technology and tools available
- **Task Forces**
 - Provide an ideal opportunity, and vehicle, to foster change in the industry from a regulatory, legal and practical standpoint



Consequence Management

'Making Crime Cost'

- Internal “Do Not Use” List
 - Professionals who have committed crimes against the lender or whose work product is questionable or unacceptable should not be authorized to perform service on any loan originated or serviced by the lender
- Mortgage Asset Research Institute (MARI)
 - Mortgage industry database of derogatory experiences and financial sanctions against real estate professionals
- Licensing Bureau Complaints
 - Professionals who require licenses (e.g. appraisers, brokers, etc.) and commit criminal acts in the course of their profession should be subject to license suspension or revocation
- Civil Litigation
 - Appropriate remedies to business partners whose employees or agents were party to actions, including fraud, resulting in losses to lenders



Consequence Management

'Making Crime Cost'

■ Police Report

- Filing a police report should consistently be done any time a crime has been committed by, through or within the lender ensuring, at least, an opportunity for prosecution

■ SAR

- Regulated industries are obligated to file Suspicious Activity Reports under the Bank Secrecy Act for federal criminal violations meeting statutory requirements

■ Disciplinary Action

- Employees committing criminal conduct in the course of their employment related to their position at a lender should be considered for appropriate disciplinary action, including potential termination