



# Office of Investigations

## Combatting Mortgage Fraud

# Agenda

- Creation of the Federal Housing Finance Agency (FHFA)
- FHFA Office of Inspector General (FHFA-OIG)
- FHFA-OIG Office of Investigations
- Trends in mortgage fraud
- FHFA-OIG's efforts to combat mortgage fraud and how you can help
- Questions

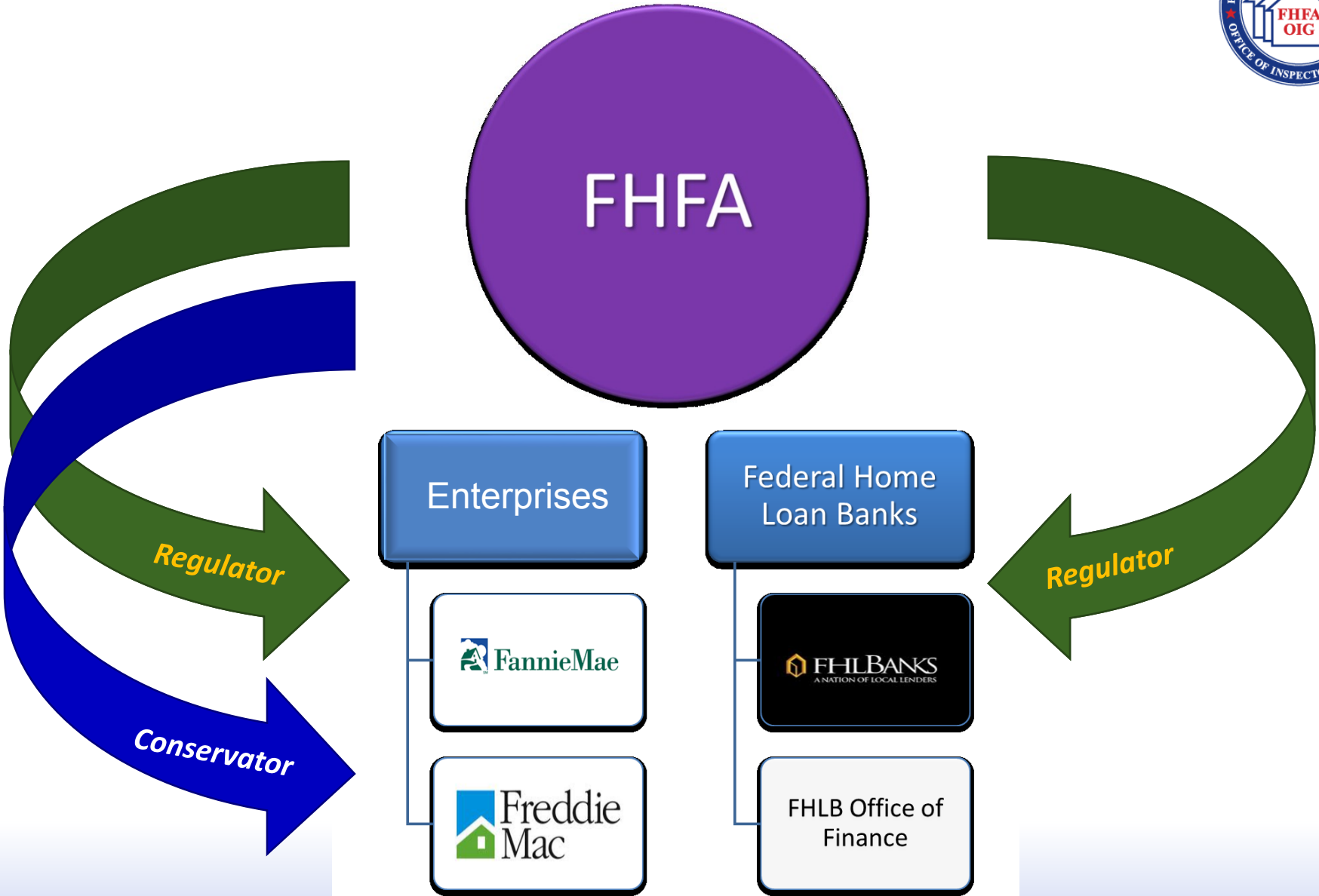


# FHFA and the Financial Crisis

## HERA—Housing and Economic Recovery Act of 2008

- Created FHFA as the regulator over Fannie Mae, Freddie Mac, and the 11 Federal Home Loan Banks (FHLBs), which have trillions of dollars in mortgages and securities
- Created a framework that subsequently allowed Fannie Mae and Freddie Mac to be placed under the conservatorship of FHFA
- Laid the path for U.S. Treasury to fund Fannie Mae and Freddie Mac through Senior Preferred Stock Purchase Agreements to maintain their solvency (\$187.5 billion to date)





Federal Housing Finance Agency  
**OFFICE OF INSPECTOR GENERAL**



# What are Offices of Inspector General?

The Inspector General Act of 1978, as amended:

- Conduct audits and investigations relating to the programs and operations of Federal agencies
- Promote economy, efficiency, and effectiveness in programs and operations through report recommendations
- Prevent and detect fraud and abuse in programs and operations
- Keep agency head and the Congress fully and currently informed about problems and deficiencies



# What are Offices of Inspector General?

## The Federal Inspector General Community:

- 72 Offices of Inspector General
- Council of Inspectors General on Integrity and Efficiency (CIGIE)- addresses issues common to all OIGs
- Federal Law Enforcement Training Center (FLETC)- law enforcement training in Glynco, GA
- CIGIE standards- quality standards for investigations and evaluations
- GAO standards- quality standards for audits



# FHFA-OIG Mission

- Promote the economy, efficiency, and effectiveness of FHFA's programs and operations
- Prevent and detect fraud, waste, and abuse in the programs and operations of FHFA
- Seek administrative sanctions, civil recoveries, and/or criminal prosecutions of those responsible for fraud, waste, and abuse in connection with FHFA's programs and operations



# FHFA-OIG Organizational Structure

- Office of Investigations
- Office of Audits
- Office of Evaluations
- Office of Compliance
- Office of Risk Analysis
- Office of Administration
- Office of Facilities and Internal Controls
- Executive Office



# FHFA-OIG Office Areas of Focus

## Audits & Evaluations

- *Conservatorship operations*
- *Enterprise supervision*
- *Nonbank sellers*
- *IT security*
- *Available at [www.fhfaoig.gov](http://www.fhfaoig.gov)*

## Investigations

- *Non-public*
- *Across the fraud spectrum*
- *Work with other law enforcement agencies*
- *Outreach*
- *Hotline*



Federal Housing Finance Agency  
**OFFICE OF INVESTIGATIONS**



# Investigative Focus

- Federal Housing Finance Agency
  - Internal
- Fannie Mae and Freddie Mac
  - Mortgage fraud
  - Securities fraud
  - Other- Hotline generated

(cont.)



## Investigative Focus (cont.)

- Federal Home Loan Banks
  - Member bank fraud on advances
  - Securities
  - Community program fraud
  - Other- Hotline generated



## Potential Federal Statutes

- 18 USC, Section 371, (conspiracy to commit an offense or defraud the U.S.)
  - 18 USC, Section 1001 (false statements)
  - 18 USC, Section 1005 (false entries)
  - 18 USC, Section 1014 (false statements on a loan or credit report)
  - 18 USC, Section 1028 (unlawful use of identification)
  - 18 USC, Section 1029 (fraud and related activity with access devices)
- (cont.)



## Potential Federal Statutes (cont.)

- 18 USC, Section 1030 (computer fraud)
- 18 USC, Section 1341 (mail fraud)
- 18 USC, Section 1343 (wire fraud)
- 18 USC, Section 1344 (bank fraud)
- 18 USC, Section 1951-1961 (racketeer influenced & corrupt organizations)
- 18 USC, Section 1956 (laundering of monetary instruments)



What FHFA-OIG is seeing

# TRENDS IN MORTGAGE FRAUD



# Builder Bailout Scams

- Developers with unsold homes offer huge incentives that are not accurately disclosed on the HUD-1
- May involve straw buyers and undisclosed fees to brokers or real estate agents
- False appraisal hides the undisclosed incentives
- In default, the loss is high because of false appraisal



# Property Flipping

- Property is purchased, falsely appraised at a higher value, then quickly sold
- Initial purchase is usually on paper with a hidden middle sale and an inflated mortgage
- Typically involves false appraisals, reported improvements that didn't occur, and fraudulent origination documents



# Foreclosure Rescue Scams

- Offer help to homeowners facing foreclosure for an upfront fee, but provide no benefit
- Also include bailout or leaseback schemes in which the property is conveyed to the scammer and rented back to the borrower, who believes he/she will be able to buy the property back and the rescuer will make the mortgage payments



# REO and Short Sale Scams

- REO maintenance and management fraud
- Fraudulent appraisals or artificially devaluing the property by removing appliances, adding smells, taking ugly pictures, etc.
- Non-arms length transactions
- Immediately reselling the property at a significantly higher price



# Silent Seconds

- Primary lender believes borrower has invested personal funds for the downpayment
- Downpayment actually comes from an undisclosed second mortgage
- Second mortgage often not recorded or recorded much later to ensure that lender isn't aware of its existence



# Cash Back/Kickback Scams

- May involve the seller, buyer/investor, real estate professional, and/or appraiser
- They agree to obtain a loan for an inflated price, pocketing the difference between the inflated price and true asking price
- Often utilizes a straw buyer



# Equity Skimming

- Uses false income document and credit reports to obtain a mortgage in a straw buyer's name
- After closing, straw buyer signs the property over to the fraudster in a quit claim deed, which relinquishes all rights to the property and provides no guarantee to title
- Fraudster rents the property out, pocketing the rent money without making any mortgage payments until foreclosure takes place a few months later



# Deed Theft

- Typically involves vacant or foreclosed properties
- Fraudsters conspire to have legal title wrongfully transferred away from real owner
- They then sell or rent the property, keeping all proceeds, security deposits, rent, and/or earnest money, even though they never acquired the title legally
- Common tactic with Sovereign Citizen movement

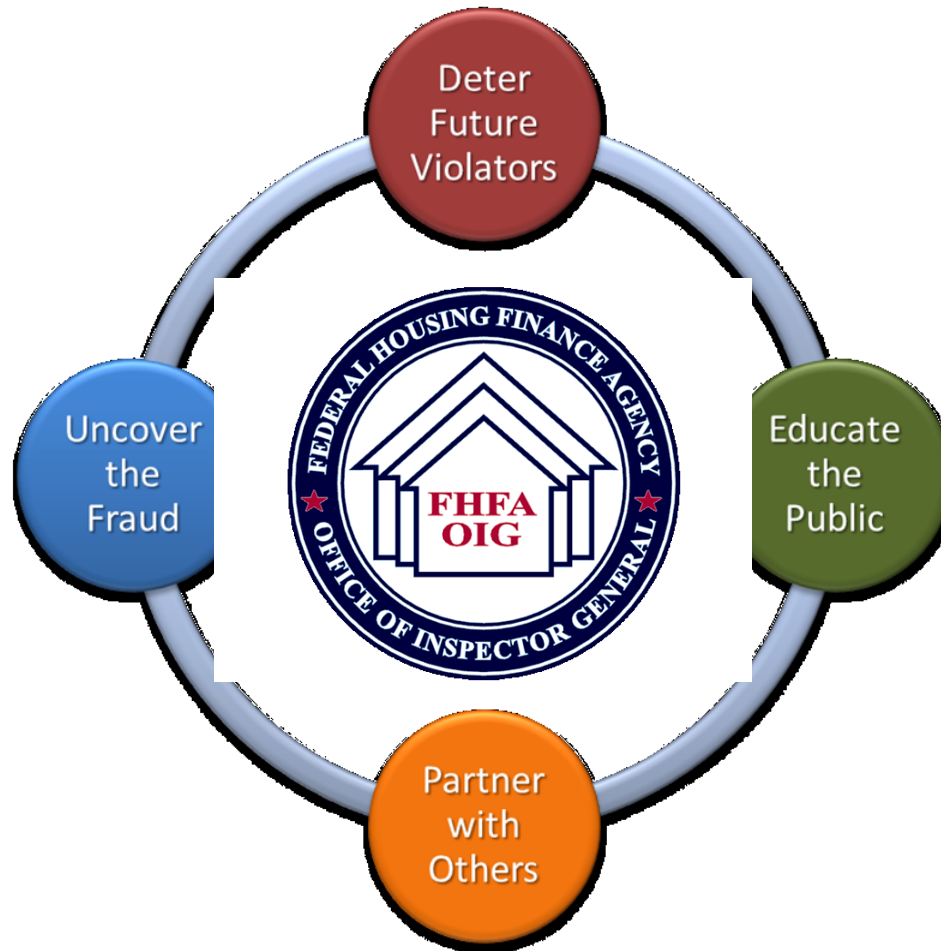


## Fighting Mortgage Fraud

# FHFA-OIG'S EFFORTS AND HOW YOU CAN HELP



# FHFA-OIG's Plan of Attack



# Investigative Tools

- Access to public databases
- Regulatory agency data
- Law enforcement partnerships (federal, state, and local)
- Regulatory professional partnerships (federal, state, and local)
- State, county, and local public records
- Federal, state, and local court records
- National Criminal Information Center records
- Tracking devices



(cont.)

## Investigative Tools (cont.)

- Mail covers
- OIG subpoenas
- Grand Jury subpoenas
- Surveillance
- Interviews
- Undercover activity
- Hotline complaints
- Anonymous tips from public (cont.)



## Investigative Tools (cont.)

- Search/seizure warrants
- Proffers conducted via the U.S. Attorney's Office
- Suspicious Activity Reports
- Forensic auditors
- Forensic IT personnel
- Social media (i.e. Facebook, Twitter, internet blogs, etc.)
- Confidential informants
- Other source referrals



# Working Together



- Private sector must play a central role – private companies are on front lines
- Look for patterns
- Educate employees
- Report fraud
- Communicate



# How to Contact FHFA-OIG

To report suspected fraud, waste, or abuse in FHFA programs or operations, please contact FHFA-OIG:

**Call:** OIG Hotline at 1-800-793-7724

**Fax:** (202) 318-0238

**Visit:** [www.fhfaoig.gov/ReportFraud](http://www.fhfaoig.gov/ReportFraud)

**Write:** Federal Housing Finance Agency  
Office of Inspector General  
400 7th Street, SW  
Washington, DC 20024





# Thank You

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