



Mortgage Bankers Association of Puerto Rico

2018 Mortgage Fraud Prevention Seminar

Agenda

- The Federal Housing Finance Agency (FHFA) and the financial crisis
- The FHFA Office of Inspector General (FHFA-OIG) mission
- What is mortgage fraud
- Fraud for house vs. fraud for profit
- RED FLAGS
- Mortgage fraud trends
- FHFA-OIG's plan of action
- How to contact FHFA-OIG (Hotline)

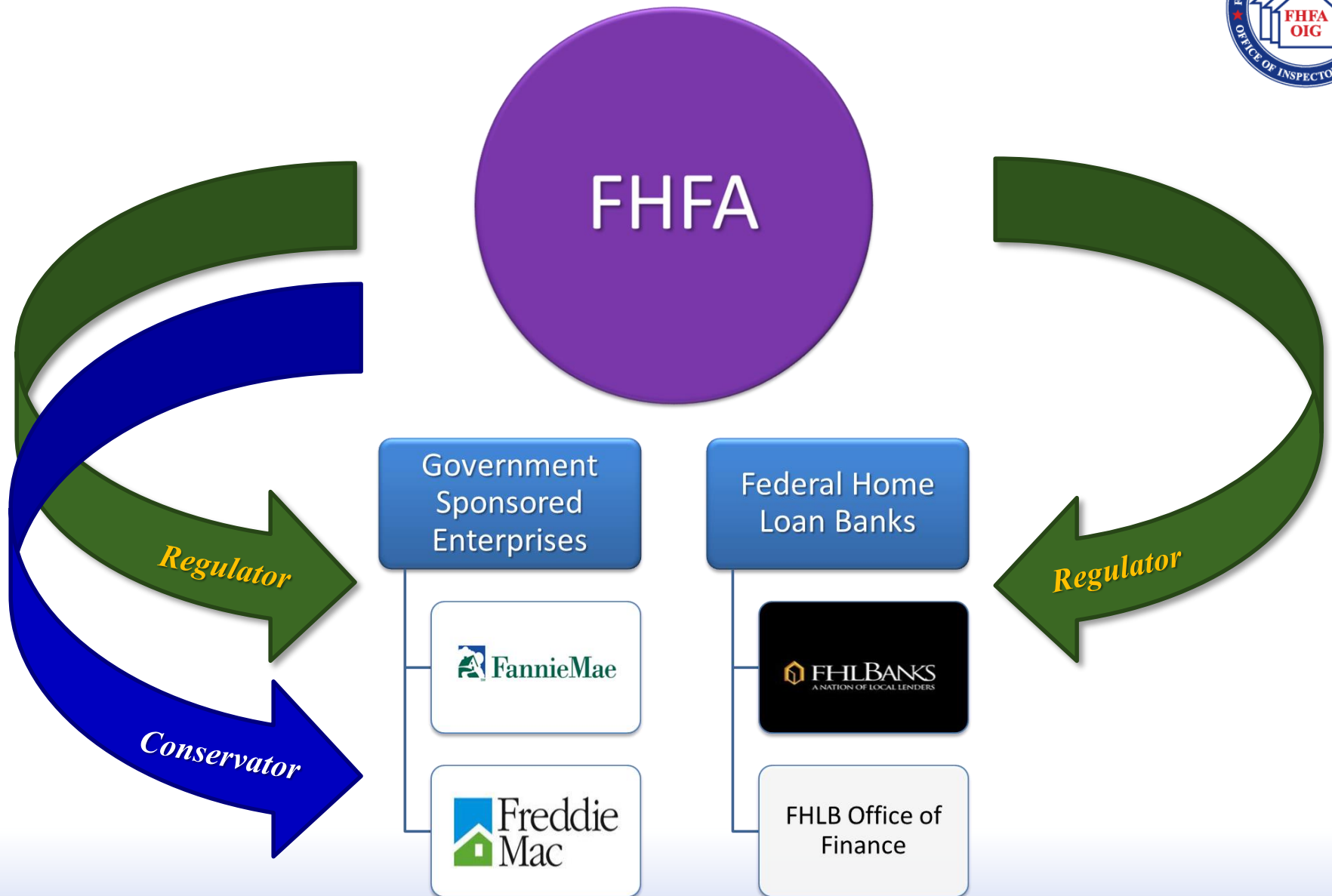


FHFA and the Financial Crisis

Housing and Economic Recovery Act of 2008 (HERA)

- Created FHFA as the regulator over Fannie Mae, Freddie Mac, and Federal Home Loan Banks
- Created conservatorship framework





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 Office Descriptions

Audits & Evaluations

- *Conservatorship operations*
- *Supervision*
- *Counterparties and third parties*
- *Information technology security*

Investigations

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



Mortgage Fraud

- Mortgage fraud means a material misstatement, misrepresentation, or omission relied upon by a financial institution
- Fraud = an intentional deception for personal gain
- Who commits mortgage fraud:
 - Can include developers, lenders, borrowers, appraisers, title companies, lawyers, etc.



Mortgage Fraud

Three C's of Lending

- **CREDIT:** How is your past credit; have you used credit before; what is your payment history for bills; etc.
- **COLLATERAL:** Assets (i.e. real estate, personal property, investments, savings, etc.)
- **CAPACITY:** (or ability to repay): What is your current salary; what debts do you currently have obligations on; what are your living expenses or how many dependents are you responsible for



Fraud Follows Opportunity



Source: Freddie Mac



Mortgage Fraud

■ FRAUD FOR HOUSE

- One loan
- Minimal loss (repayment intent)
- Usually value relatively accurate
- Primarily the borrower (intends responsibility)
- Participant rarely paid (kickbacks)
- Misrepresentations (income/assets/occupancy)

■ FRAUD FOR PROFIT

- Multiple loans
- Significant losses (early defaults)
- Value often inflated (appraisal fraud)
- Industry insider fraud (often involves straws)
- Participants compensated (kickbacks)
- Misrepresentations (same)



Mortgage Fraud

- 18 USC 20 – Financial Institution Defined includes:
 - An insured depository institution of the Federal Deposit Insurance Corporation (FDIC)
 - A federal home loan bank (FHLB) or a member
 - A small business investment company
 - A mortgage lending business or any person or entity that makes in whole or in part a federally related mortgage loan as defined in section 3 of the Real Estate Settlement Procedures Act of 1974



RED FLAGS

- Review for inconsistencies **Trust but Verify!**
 - Fannie Mae:
 - <https://www.fanniemae.com/content/tool/com-mon-red-flags.pdf>
 - **Sales Contract:**
 - Non-arm's length transaction: seller is real estate broker, relative, employer, etc.
 - Real estate commission is excessive



RED FLAGS

– Credit Report:

- Liabilities shown on credit report that are not on mortgage application
- Employment discrepancies
- Invalid Social Security number or variance from that on other documents



RED FLAGS

– Employment and Income Documentation:

- Applicant's job title is generic, e.g., “manager,” “vice president”
- Employer unable to be contacted
- Applicant reports substantial income but has no cash in bank
- Income appears to be out of line with type of employment



RED FLAGS

– Asset Documentation:

- Applicant's salary does not support savings on deposit
- Bank statements do not reflect deposits consistent with income
- Reasonableness test: assets appear to be out of line with type of employment, applicant age, education, and/or lifestyle



RED FLAGS

— Owner Occupancy:

- Applicant intends to lease current residence
- Significant or unrealistic commute distance

■ **TRUST BUT VERIFY!**



What FHFA-OIG is seeing

TRENDS IN MORTGAGE FRAUD



Foreclosure Rescue Scams

- Borrowers in default approached by “foreclosure specialists” who promise to help avoid foreclosure
- Borrowers often pay for services that are never delivered and ultimately lose their home (up front fees)
- File bankruptcy
- Fractional deed or borrower surrender title to the “specialists” but continue as a renter
- Set up equity skimming scheme



Foreclosure Rescue Scams

- David Griffin case:



Foreclosure Rescue Scams

- David Griffin case:
 - Targeted victims by searching the Hillsborough County records to determine homeowners facing foreclosure
 - Approached victims telling them that he had a “special system” to save their homes from foreclosure by negotiating with the lender
 - Convinced victim homeowners to quitclaim deed their houses over to one of Griffin’s two companies
 - Victims then signed a rental contract where Griffin collected rent while he was “saving” their homes



Foreclosure Rescue Scams

- David Griffin Case:
 - Griffin never negotiated with banks to save the victims' homes as promised
 - The foreclosure process kept moving ahead
 - In order to keep collecting rents, Griffin filed Chapter 7 “skeletal” bankruptcy petitions in the victims' names without their knowledge or consent; automatic stay in effect; no filing fees were paid
 - Took the Chapter 7 bankruptcy petition receipt to Hillsborough County, imminent foreclosure sale was immediately halted



Foreclosure Rescue Scams

- David Griffin Case:
 - Griffin indicted for bankruptcy fraud, mail fraud, aggravated ID theft and repeatedly lying under oath to the U.S. Trustee during his Rule 2004 Examination and lying to the Bankruptcy Trustee at his Section 341 hearing
 - Pled guilty
 - At sentencing, judge called Griffin a liar and a “walking fraud;” repeatedly asked “You realize you are lying to a Federal Judge?” Guidelines (10-16 months) – Griffin sentenced to three years



Property Flipping

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



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
- Typical perpetrators are real estate agents



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



FHFA-OIG's Plan of Action



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

Write: Federal Housing Finance Agency
Office of Inspector General
400 7th Street, SW
Washington, DC 20219



How to Contact FHFA-OIG



Special Agent in Charge Edwin S. Bonano

(813) 363-0658

Tampa, FL Field Office

Southeast Region

Federal Housing Finance Agency

Office of Inspector General



Questions and Answers

