



Mortgage Fraud and Other Financial Crimes

Jacqueline Dreyer
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FinCen - March 2009: 156,000 mortgage fraud subjects were reported between July 2003 and June 2008.

SARs filed by money services businesses, securities brokers/dealers, insurance companies and casinos were cross referenced to the 156,000 resulting in 2,360 with multiple hits

Common “other” and/or related frauds: check fraud; suspicious foreign wire transfers – esp. to Nigeria, China and Mexico; suspicious domestic wires to multiple mortgage lenders in a single day suggesting the subjects were maintaining loans for straw borrowers; suspected structuring and money laundering



Other Connections to Mortgage Fraud:

Outside of the FinCen report, mortgage fraud investigations find that fraudsters often use a property obtained through mortgage fraud as a “home base” to perpetrate additional frauds such as:

- Drug houses: meth labs, marijuana farms
- False Credit card manufacture
- False identity manufacture
- Prostitution rings

Carrying out fraud in a residence you own results in less likelihood of being caught by a landlord or maintenance crew.



Case Study #1:

Entity: Nationally chartered bank

Location: Southwest United States

Alleged Primary Fraud: Money laundering for a Mexican drug cartel.

Specifics: Fraudsters formed a Limited Liability Company and obtained a commercial loan from the bank to finance the acquisition of condominiums. A blanket lien was filed by the bank referencing the units which were located in three different subdivisions.

Falsified rent rolls were provided by the CPA who was part of the fraud ring. There was also alleged appraisal fraud.



Case Study #1 (cont):

As if the commercial loan fraud wasn't enough.....

The Fraudsters had an industry insider in the form of a mortgage broker who “originated” close to 400 loans on the subject condominiums - - - all containing mortgage fraud.

Misrepresentations included:

- Appraisal fraud
- Identity theft and straw borrowers
- Employment fraud
- Income fraud
- Undisclosed property flips
- Falsified bank statements



Case Study #2:

Entity: State member bank

Location: Mid-Atlantic

Alleged Primary Fraud: Mortgage fraud – use of straw borrower.

Specifics: Examination of credits uncovered 2 loans totaling close to \$1 million. The loan was originated under a stated-income loan program and maintained in the bank's portfolio. LTV's were less than 70% on both loans. The borrower was self employed and allegedly 23 years old making more than \$20,000 per month. Collection efforts revealed that the loans were really for the borrower's father.



Case Study #2 (cont):

SAR filed? Not until required by examiners. Procedures were not in place to link information discovered in the collection process to the proper BSA/AML unit within the Bank.

Current Status: Loans have gone into foreclosure and are OREO and listed for sale. It appears that the father was under investigation for tax and immigration related issues. Mortgage fraud was one more offense. The father is rumored to be in federal prison.

Expected Loss: None. Appraisals were found to be accurate and the bank will not realize a loss. However, the properties include large acreage and may not readily sell in the current market.



Case Study #3:

Entity: Multiple entities including subsidiaries of nationally chartered banks and stand alone mortgage banking companies.

Location: Northeast

Alleged Primary Fraud: Rolling through a stop-sign.

Specifics: Police officers stopped a Cadillac Escalade after it rolled through a stop-sign. Review of the registration showed that the vehicle was registered not to the driver but to a woman residing in another state. Police contacted the registered owner who was surprised to learn that she “owned” a Cadillac. Suspicion warranted further search of the vehicle where false identities were located in the glove box.



Case Study #3 (cont):

And to think it started with a moving traffic violation.....

An investigation was launched and numerous agencies were brought to assist including the FBI and the state banking department. It was uncovered that the fraudsters were manufacturing false credit cards in a property obtained using proceeds from a mortgage fraud. Additionally, the fraudsters were linked to a mortgage fraud scheme involving approximately 100+ loans. Misrepresentations included: appraisal fraud, straw borrowers, employment fraud, income fraud, undisclosed property flips. The closing attorney for the “sellers” ran the fraudulent proceeds through his escrow account and paid each member of the group his/her “share”.



The link between mortgage fraud and other financial crimes is very real.

Comments by FinCen Director James Freis, Jr. at the 2009 Mortgage Banker's Association National Fraud Issues Conference:

"...FinCen's work in the mortgage fraud area illustrates that while fraud and money laundering are often viewed as separate criminal enterprises, acts of fraud and acts of money laundering are interconnected: the financial gain of the fraudulent activity ultimately needs to be integrated into the financial system....I want to emphasize that financial institutions can benefit by leveraging their fraud resources with their AML efforts and starting to take advantage of the significant efficiencies that I see being available through this leverage."



Current Trends in Mortgage Fraud:

Falsification of loan documents: As credit quality tightens, borrowers and other industry insiders have gone back to creating falsified paystubs, falsified W-2 forms, falsified tax returns, and falsified bank statements. \$150 for a fax/copier/scanner/printer is hardly a large investment for fraudsters.

Seller disguised down payment assistance: With LTV requirements below 100% , borrowers are increasingly in need of funds for down payment. Sellers are meeting this challenge (usually through coaching) by inflating the sales price of the home with complicity by the appraiser in the selection of comparables. This assistance is usually disguised within the HUD-1 Settlement Statement as a grant program, marketing fee, or other payoff from seller's funds to a non-lien holder.



Current Trends in Mortgage Fraud:

Foreclosure Rescue Schemes: An area of ever increasing legislative focus. Borrowers are promised that they will not lose their home by “rescuers”. This fraud can take various forms but they have the same end result: The fraudsters strip the equity out of the home and the borrowers are left with nothing.

One of the best resources for particulars on foreclosure rescue schemes:

<http://www.freddiemac.com/singlefamily/news/newsletter/2007/06/fraud.html>



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jacqueline.dreyer@rich.frb.org

804/697-2703

