



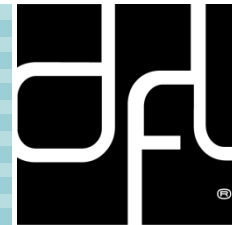
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Preventing Mortgage Fraud

Take a Closer Look

Presented by: Hali Plachecki, MGIC Customer Trainer



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FOR IMMEDIATE RELEASE

Twelve charged with mortgage fraud

ATLANTA – Twelve defendants were sentenced to more than four years and resulting in the loss of more than \$2.5 million in home equity lines of credit and false information. Many of the defendants were charged with mortgage fraud resulting in claims being paid to MGIC.

“These defendants allegedly used their own benefit from the mortgage system for their own benefit, to the detriment of the soundness of the real estate market and the advantage of our mortgage-backed securities investors.”

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Monday, October 5, 2020

Two Defendants Sentenced to More than 18 Months in Prison for Mortgage Fraud

Peter M. McCoy, Jr., announced today that two defendants, both of Greenville, were sentenced to more than 18 months in prison for mortgage fraud. The defendants were charged with mortgage fraud resulting in claims being paid to MGIC. Mrs. Roush was sentenced to more than 18 months in prison and a half year in probation.

“These defendants allegedly used their own benefit from the mortgage system for their own benefit, to the detriment of the soundness of the real estate market and the advantage of our mortgage-backed securities investors.”

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Thursday, April 22, 2021

Nevada Man Sentenced to 18 Months in Prison for Defrauding Banks in \$9 Million Shotgun Mortgage Fraud Scheme

NEWARK, N.J. – A Henderson, Nevada, man was sentenced today to 18 months in prison for his role in a scheme to use bogus information and simultaneous loan applications at multiple banks – known as “shotgunning” – to attempt to obtain home equity lines of credit (HELOCs). Acting U.S. Attorney Rachael A. Honig announced.

Joseph A. Gonzalez, 46, previously pleaded guilty before U.S. District Judge John Michael Vazquez to Count One of an indictment charging him with one count of conspiracy to commit bank fraud. Judge Vazquez imposed the sentence today by videoconference. Gonzalez is the sixth person to plead guilty as part of the scheme.

According to documents filed in the case and statements made in court:

Fraud Topics

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- What is it and its effects
- Numbers & geography
- Fraud types/schemes
- Industry alerts
- Resources



The FBI Defines “Mortgage Fraud” as...

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- A **crime** characterized by some type of material misstatement, misrepresentation or omission in relation to a mortgage loan, which is then relied upon by a lender
- A **lie** that influences a bank’s decision to approve a loan, accept a reduced payoff amount or agree to certain repayment terms is mortgage fraud



Fraud for Housing (property)

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- Primary motivation – own a home
- Borrower intends to:
 - Occupy home and repay; or
 - Help family as front buyer by “co-signing”
- Borrower misrepresents self to own property
- Usually involves one loan

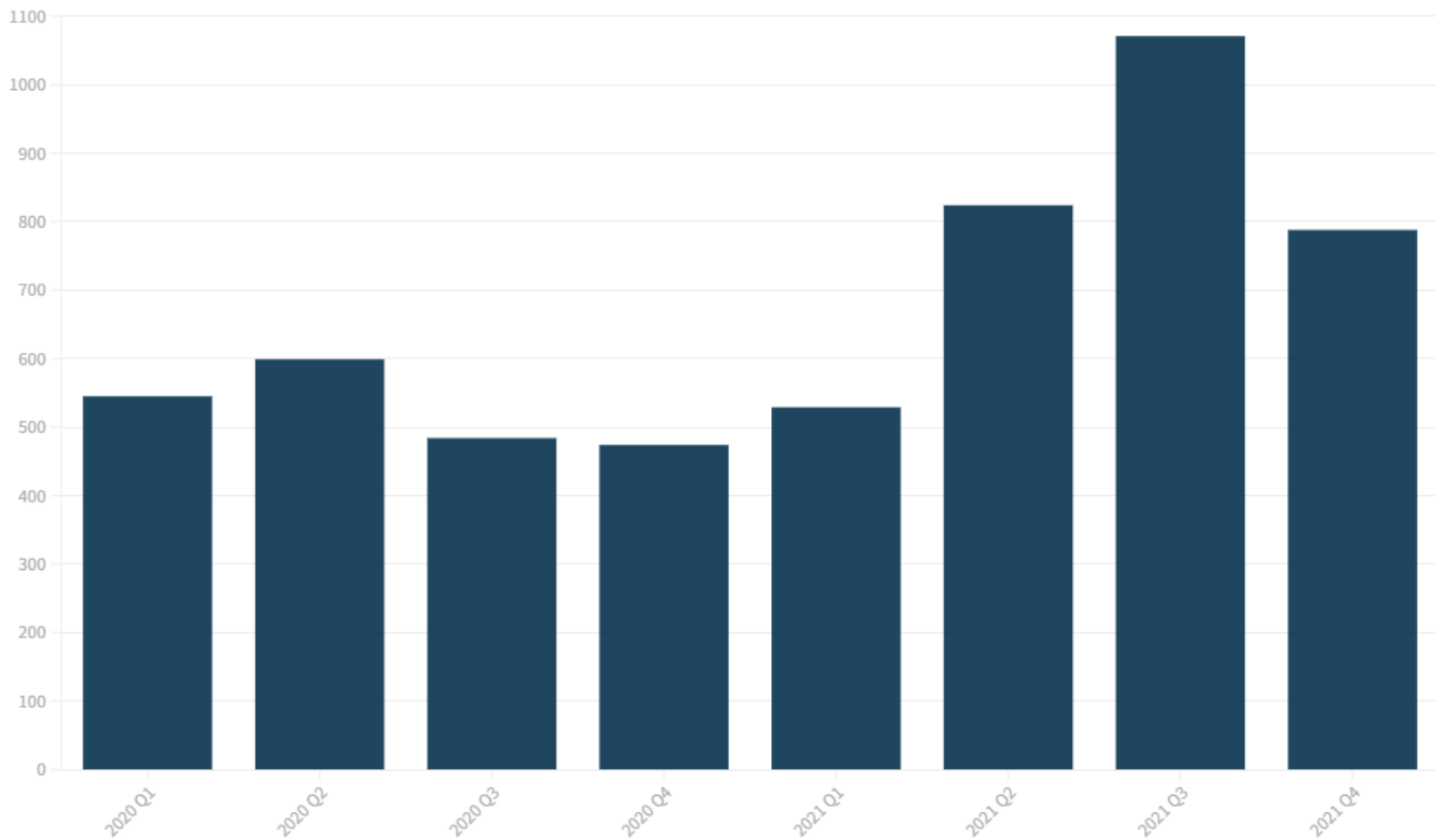
Fraud for Profit



- Primary motivator - financial gain
- Multiple:
 - Misrepresentations
 - Participants (borrower, loan originator, appraiser, attorney, closing agent, real estate agent)
 - Loans and properties involving significant amounts of money
- Participants are often paid

Fraud Tip Volumes Decreased this Quarter

Fraud tips received Q1 2020 – Q4 2021



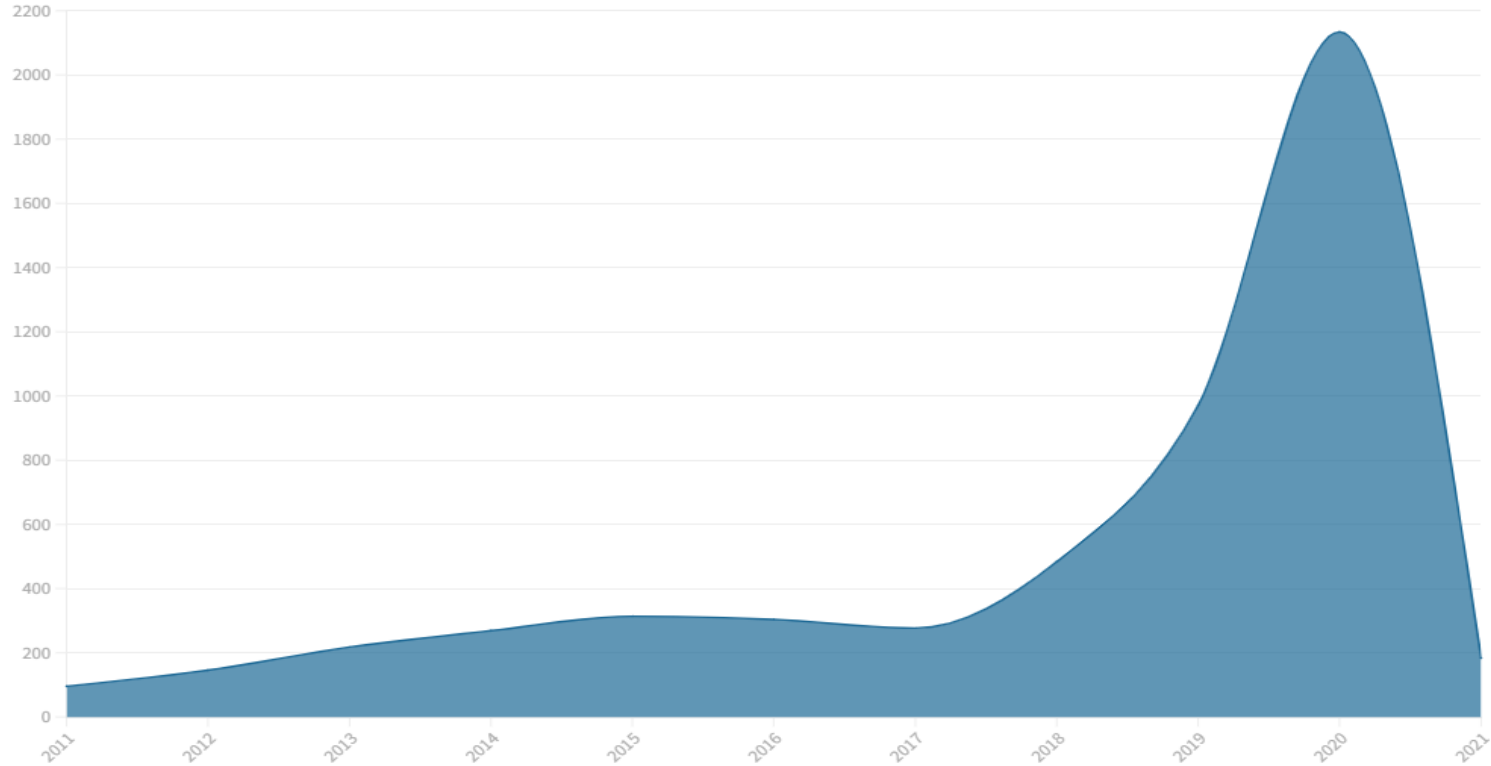
Source: Fannie Mae Q4 2021

Fraud Over the Years

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Loans with Findings Identified by Origination Year

Loans with mortgage fraud investigative findings 2011 – Q4 2021

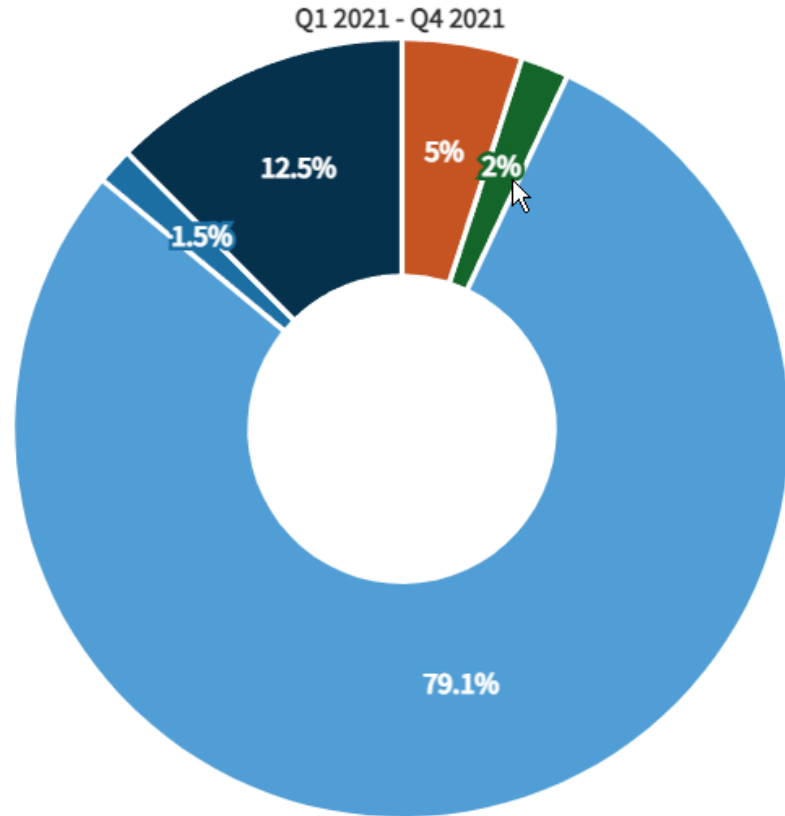
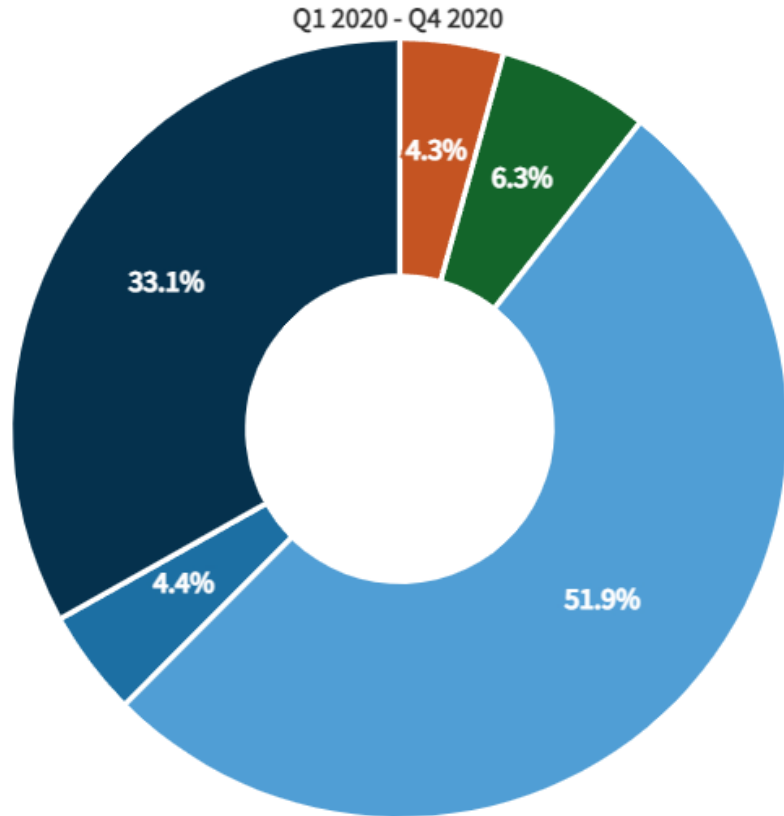


Source: Fannie Mae
Q4 2021

Fannie Mae Identified Tips Comprise the Majority of Recent Fraud Tips

Fraud tips received (rolling 12-month comparison)

Consumer External Other FNM Internal Law Enforcement Lender Self Report



Values shown in the chart indicate the percentage share of tips received.

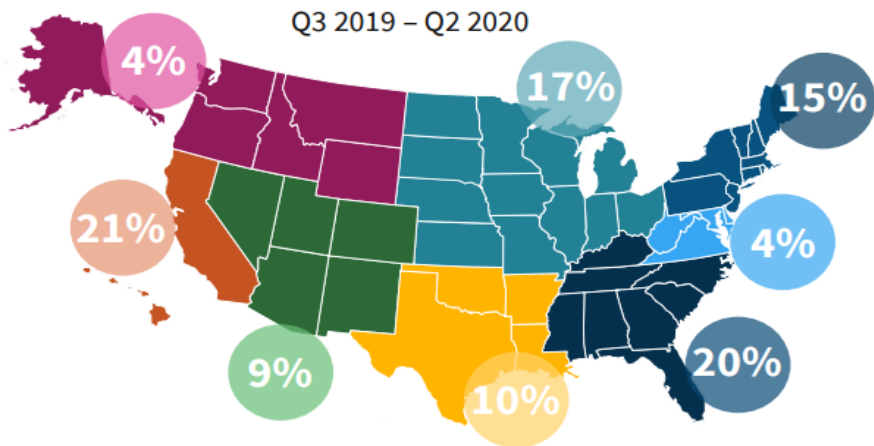
Source: Fannie Mae Q4 2021

Fraud by Region



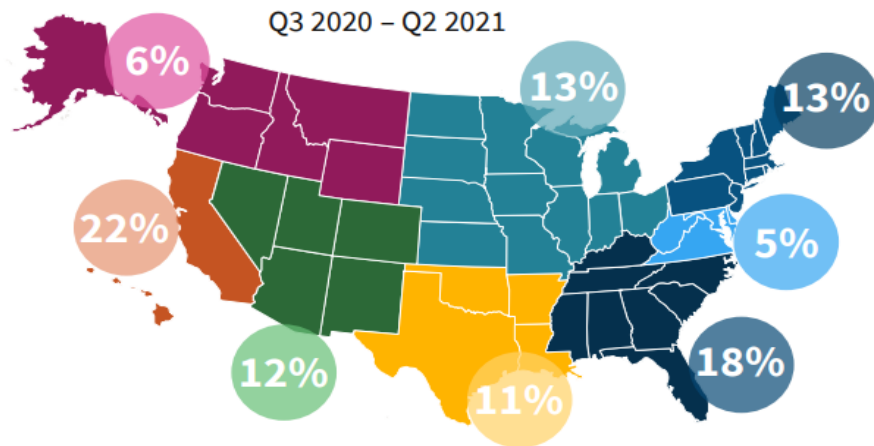
Percentage of Mortgage Fraud Investigative Findings by Region

Closed fraud tips with findings Q3 2019 – Q2 2021 (rolling 12-month comparison)



Top Ten States

- | | |
|---------------|-------------------|
| 1. California | 6. Michigan |
| 2. Florida | 7. Georgia |
| 3. Texas | 8. Nevada |
| 4. New York | 9. North Carolina |
| 5. Illinois | 10. Arizona |



Top Ten States

- | | |
|---------------|----------------|
| 1. California | 6. Arizona |
| 2. Texas | 7. Georgia |
| 3. Florida | 8. New Jersey |
| 4. New York | 9. Illinois |
| 5. Colorado | 10. Washington |

Loans with Findings Identified by Origination Year

Percentage based on loans with mortgage fraud investigative findings 2005 – 2021

Origination Year	Assets	Credit	Income	Liabilities	Occupancy	Property	SSN	Title	Value
2005	4%	24%	12%	25%	12%	11%	6%	1%	6%
2006	2%	26%	17%	27%	13%	7%	3%	0%	5%
2007	3%	24%	16%	24%	14%	9%	3%	0%	7%
2008	7%	20%	17%	20%	12%	11%	3%	0%	9%
2009	15%	16%	15%	14%	15%	9%	6%	1%	10%
2010	15%	14%	21%	11%	18%	4%	9%	3%	4%
2011	16%	15%	10%	16%	10%	10%	3%	11%	11%
2012	12%	13%	9%	6%	15%	12%	2%	9%	24%
2013	10%	14%	12%	4%	21%	12%	1%	2%	23%
2014	10%	13%	18%	5%	40%	6%	1%	2%	6%
2015	7%	9%	25%	7%	28%	17%	1%	0%	6%
2016	12%	6%	26%	29%	11%	9%	1%	2%	5%
2017	13%	5%	43%	17%	18%	0%	1%	1%	1%
2018	11%	6%	37%	23%	21%	1%	1%	1%	1%
2019	6%	4%	48%	25%	14%	0%	0%	0%	3%
2020	4%	2%	61%	22%	11%	0%	0%	0%	0%
2021	0%	0%	0%	25%	75%	0%	0%	0%	0%

Red shading indicates $\geq 20\%$ distribution per year.

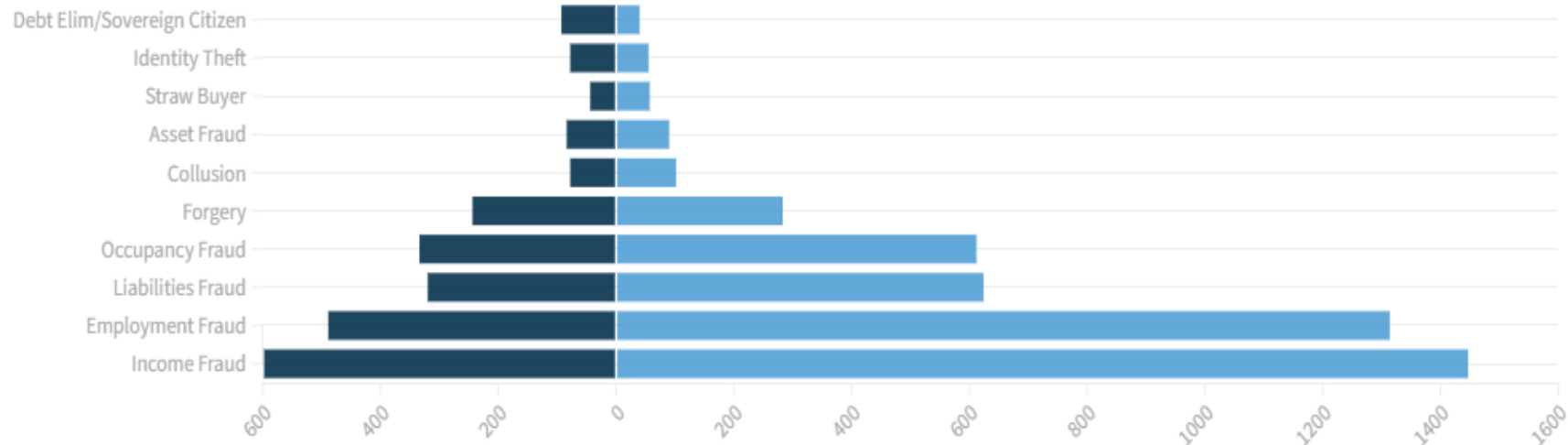
A loan may fall into one or more category.

Fraud Tip Characteristics

Characteristics in Tips with Mortgage Fraud Investigative Findings

Closed fraud tips with findings (rolling 12-month comparison)

■ Q1 2020 - Q4 2020 ■ Q1 2021 - Q4 2021

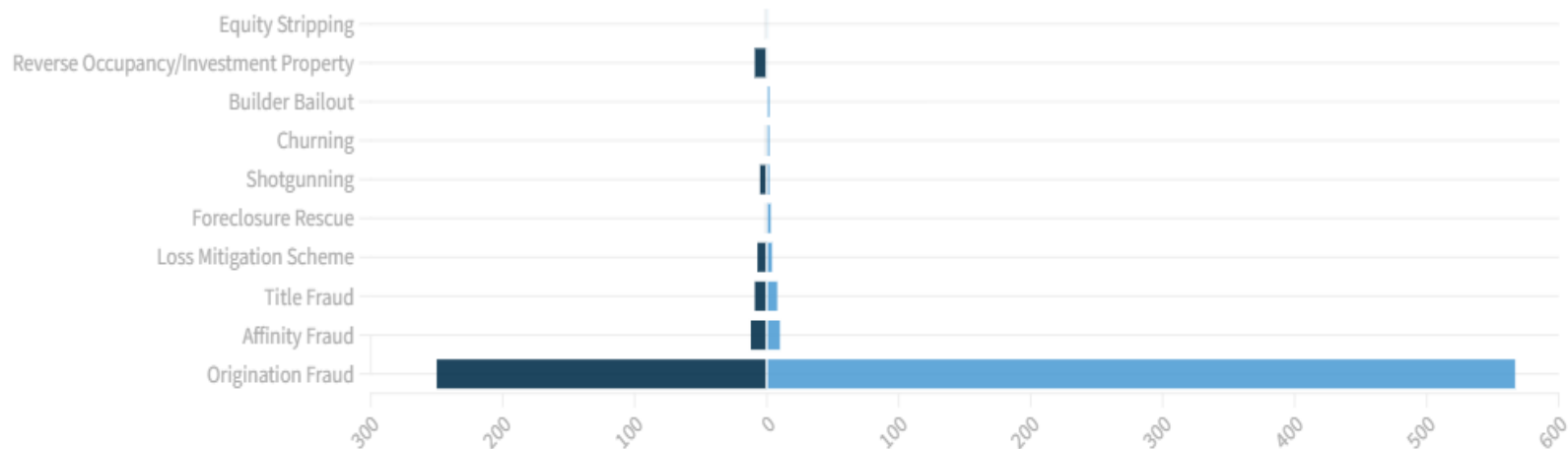


Fraud Tip Schemes

Schemes in Tips with Mortgage Fraud Investigative Findings

Closed fraud tips with findings (rolling 12-month comparison)

■ Q1 2020 - Q4 2020 ■ Q1 2021 - Q4 2021



Fraud Schemes

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- Straw Buyer
- Affinity Fraud
- Reverse Occupancy



Straw Buyers

- Used to disguise true buyer or nature of transaction
- Allow someone else to use their credit to obtain mortgage
- May be paid for their involvement and the loan is part of a bigger scheme
- The lender qualifies straw buyer:
 - mortgage loan closes in straw buyer's name
 - straw buyer does not intend to occupy property or repay the mortgage loan
- Mortgage payments are made by other entity

Straw Buyers

Red Flags

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- First-time homebuyer with substantial increase in housing expense
- Income, savings and/or credit history are inconsistent with applicant's overall profile
- Use of gift funds for down payment and/or closing costs, minimum borrower contribution
- No real estate agent is involved (non arms-length transaction)
- Names have been added/deleted from sales contract

Affinity Fraud



- Perpetrators rely on common bond and exploit the trust and friendship that exists in a particular group of individuals
- Borrowers frequently preyed upon are of like ethnic, religious, professional or age-related groups

Affinity Fraud

Red Flags

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- Parties to the transaction have a common bond
- Common surnames for multiple parties to transaction
- Borrower's excessive assets do not align with profession
- Down payment is large gift from group member(s)
- Borrower works for group member
- Common tactics:
 - Use of straw buyers
 - Falsified gifts
 - Altered employment/asset documentation

Reverse Occupancy



- Rent
- borrow
- Inst
- hom
- Borr
- inco



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True Lies: Reigning in Reverse Occupancy

Reverse Occupancy Red Flags

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- Borrower is first-time homebuyer
- Borrower has little or no established credit
- Borrower has low income
- Significant liquid assets, for large down payment
- Borrower presents “rent free” letters - no current housing obligation
- Hazard insurance is for owner-occupied property

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Combat Fraud

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Combat Fraud

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WHAT CAN I DO?



DU Potential Red Flag Messages

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Based on credit data received - borrower has frozen their account with one of the credit repositories

- What should you do?
 - Verify Borrower's identity
 - Review loan application and file documentation for disclosed liabilities/derogatory credit

DU Potential Red Flag Messages...continued

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Desktop Underwriter Potential Red Flag Messages

Based on information provided on prior submission, it appears the subject property address and/or Doc File ID have been modified

- What should you do?
 - Confirm current submission data
 - Confirm previous submission data
 - Ensure no other loans were delivered with same casefile ID

DU Potential Red Flag Messages...continued

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Excessive resubmissions

- What should you do?
 - Confirm loan application accuracy
 - Review appraisal/appraised value
 - Ensure accuracy/integrity of borrower's asset and income data

Fraud Alert – Freddie Mac

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Freddie Mac
Single-Family



**True Lies: Forged CPA Letters in 10
Loans**

Fraud Alert – Freddie Mac...continued

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Freddie Mac
Single-Family

- Loans originated by same loan officer
- Loan files contained letters from same CPA
- CPA letters appeared authentic, but overly veracious
- CPA confirmed letters were not from him

True Lies: Forged CPA Letters in 10
Loans

Fraud Alert – Freddie Mac...continued

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Freddie Mac
Single-Family

- Be attentive when reviewing documentation
- Question when:
 - Too much information (“TMI”) is provided
 - Something looks familiar

True Lies: Forged CPA Letters in 10
Loans

Fraud Alert – Freddie Mac

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 Freddie Mac
Single-Family



**True Lies: No One Benefits from
Falsified Benefits**

Fraud Alert – Freddie Mac...continued

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- Borrower interviews confirmed letters were not real or had incorrect information
- Letters appeared to be on official letterhead, but issuing entities confirmed they were not real/not accurate
- Further review of letters revealed:
 - Incorrect reference/account numbers
 - Invalid explanations
 - Outdated logos

True Lies. No One Benefits from
Falsified Benefits

Fraud Alert – Freddie Mac...continued

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- Closely review benefits letters
 - Ensure letters are real
 - Information is valid
- Contact the issuing entity
 - Verify recipient is registered
 - Verify monthly amount

True Lies: No One Benefits from
Falsified Benefits

Fraud Alert – Fannie Mae

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Fannie Mae®

Borrower Income Concerns on Southern California TPO Loans

Fannie Mae's Mortgage Fraud Investigations unit alerts the industry to potential and active mortgage fraud scenarios.

This alert addresses loans originated by third-party originators (TPOs) primarily in Southern California.

We have observed misrepresented incomes in a compilation of loans that were originated by TPOs based in Southern California over the past several months.



Fraud Alert – Fannie Mae...continued

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Specific hallmarks:

- Employment in nail salons, small retail, transportation/delivery or repair service businesses
- Generic titles – “manager”
- Income doesn’t appear reasonable
- Employer revenue doesn’t support income
- Verifications provided from private email (Gmail)
- Large, multiple gifts for down payment
- Gift letters noticeably altered

The 4 Cs

Credit

- Borrowers' willingness to repay a loan

Capital

- Borrowers' investment in the property from savings & other sources

Collateral

- Property's value & marketability to provide adequate security for the loan based on an appraisal

Capacity

- Borrowers' ability to repay based on the amount & stability of income

Credit Report Red Flags

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- Fraud Alert
 - Cautionary flag placed on a consumer's credit file
 - Notifies creditors to cautiously ensure consumer's identity prior to lending
 - Alerts can appear as general or specific
 - Diligently review and address alerts

Credit Report Red Flags

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- Fraud Detection Services
 - Tools used by credit reporting agencies
 - Searches for fraudulent or incorrect information related to borrower
 - Discrepancies appear on credit report
 - SSN issued within past 24 months
 - Borrower associated with a decedent

Capacity Red Flags

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- Annual, YTD, or past-year earnings rounded dollars
- Generic job title; “manager” or “vice president”
- Income inconsistent
 - with occupation
 - length of time at employer
 - education level
- Recent large pay increases
- Other loan file documentation conflicts

Assets

Red Flags

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- Web statement, URL (compare to paper documentation)
- Is the Account Holder's name and address consistent with other loan documents?
- Misalignments
- Excessive balance in checking vs. savings account

Assets

Red Flags

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- Bank statements: do beginning balances - debits + credits = ending balances?
- Deposits are inconsistent with reported income
- Earnest money and/or funds to close from accounts not verified
- Significant debit card and/or ATM activity outside borrower's general area

Appraisal Red Flags

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- Seller is a business
- Property transferred within past 12 months
- Purchase price substantially higher/lower than predominant market value
- Subject property obsolescence is minimized
- New construction/condo conversion and all comparable sales from subject development
- Map distorts distance of comparable sales
- Weather conditions in photos inconsistent with appraisal date

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Lender Due Diligence

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- Salary.com verifies income for area
- Other loan information supports
 - Bank statement deposits in-line
 - High income earners = direct deposit
 - Assets align with income level
 - Property location reasonable distance from employer
 - Credit history (or lack of) aligns with income level
 - Employer is listed on credit report

Lender Due Diligence...continued

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- Look for

- F
-

- Em

- Y
-

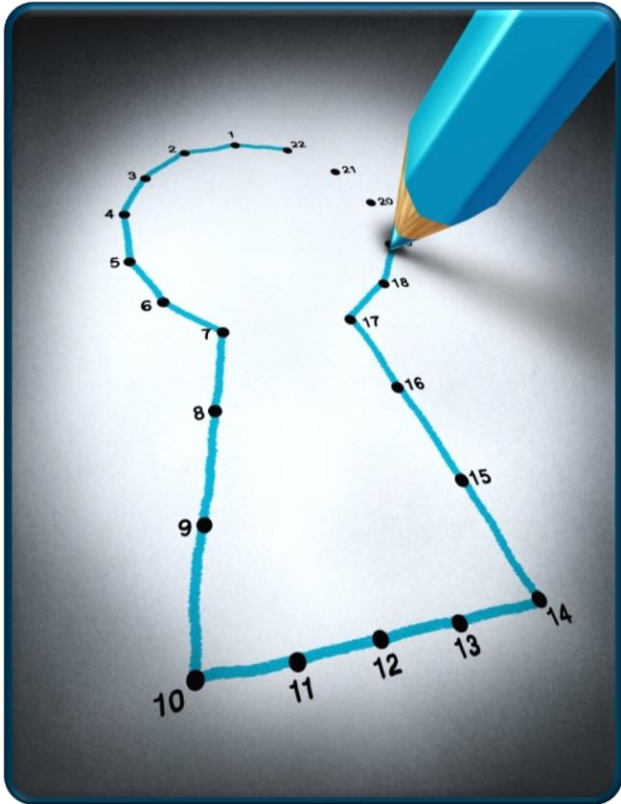
Business

If unable to reconcile employment and income:

- Obtain additional paystubs, W-2s, tax returns
- Execute Form 4506T/4506C

What can YOU do?

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- Maintain awareness
- Trust - but verify
- Explore red flags
- Maintain a policy of zero fraud tolerance

Ask yourself...



- Are there inconsistencies in the file?
- Do any documents appear altered?
- Does the transaction make sense?

Finding fraud after the loan closes, costs an additional 33% of the loan amount to investigate, process, etc.

Investigative Resources

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Public information:

searchsystems.net

Business information:

secstates.com

Salary benchmarks:

salary.com

Real estate databases:

realtor.com

Fee based:

Consumer information:

lexisnexis.com

Real estate data:

realquest.com

Employment/income:

the.worknumber.com

Remember...

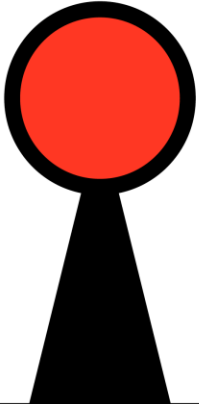
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- Fraud types & **red flags** highlighted in this presentation are not all-inclusive!
- Not all **red flags** or inconsistencies indicate fraud – follow up on **red flags** with your manager



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**Thank You For
Choosing
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- Tyas niofmrde Stay informed
- Uedceta Educate
- Eb wraae Be aware
- Reash Share

