

Welcome to
Mortgage Market,
Compliance, & Fraud

Presented by



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**MORTGAGE
MARKET**



Mortgage Market Update

- FHA Modernization Act
- Fixed Rate Interest Only
- Option ARM Loans
- 40 & 50 Year Loans
- Immigration Bill
- Jumbo Limits



Mortgage Licensing

2000 ~ 14 States

2006 ~ 49 States except

- Alaska

National Licensing System AARMR



COMPLIANCE



RESPA

Real Estate Settlement Procedures Act

- Section 8 - Kickbacks
- Section 9 - Settlement Service Providers



Builder-Mortgage Companies

- Not Required
- Incentives
- Texas Builder's License Law



Builder-Mortgage Companies

- KB Homes Mortgage Co.
- Pulte Mortgage Co.
- Precedent binding arbitration clause can be nullified in Texas



FRAUD



Fannie Mae

- Accounting Violations
- Embellishing Earnings
- Overvaluing Assets
- Underreporting Credit Losses
- Misusing Tax Credits



Fannie Mae

- Former Fannie Mae CEO Raines & CFO Howard
- Direct evidence they were aware of accounting problems or intentions of deceiving investors
- \$11 billion in accounting errors
- NO criminal charges



Mortgage Application Sharing

- Mortgage Inquiry Data, Inc.
- Bait and Switch
- Equifax, Experian, & TransUnion
- Opt-Out Hotline
(888) 567-8688



Presence Mortgage Fraud

- More than \$1 billion in 2005
- In 2004 \$429 million



Two Types of Mortgage Fraud

- Fraud for Property
- Fraud for Profit



Common Fraud Schemes

- Backward Applications
- Air Loans
- Foreclosure Schemes
- Silent Seconds
- Nominee Loans
- Property Flips
- Equity Skimming
- Identity Theft



Common Fraud Schemes

- Charged fees to arrange mortgages never obtained
- Solicited job applicants with salaries of \$100,000 using personal identification for fraudulent mortgages



XYZ Corp Offers

- Asset Rental
- Employment Verification



Consequences of Fraud Schemes

- Federal law allows for investigation of fraud up to ten years
- Government is seizing assets



Suspicious Activities Reports

- 21,994 SARs filed in 2005
- Up from 17,127 in 2004



Top Ten List for Mortgage Fraud in 2005

- | | |
|---------------|-------------|
| 1. California | 6. Missouri |
| 2. Nevada | 7. Illinois |
| 3. Utah | 8. Maryland |
| 4. Arizona | 9. Georgia |
| 5. Colorado | 10. Florida |



One Day of Headlines

- Wells Fargo Nonprime Lending Programs
- Elderly
- Manufactured Housing
- Wells Fargo's Special Origination Software
- Hispanics Targeted



Ameritrust Mortgage

- Largest sub-prime lender
- \$325 million settlement
- Owes \$295 million to estimated 200,000 borrowers, plus \$30 million for legal and investigative costs



Ameritrust Mortgage

- Inadequate Disclosure of Prepayment Penalties
- Discount Points
- Unsolicited Refinancing Offers
- Inflated Appraisals
- Inaccurate Income and Employment



Ameritrust Mortgage

- Fraudulent Property Values
- Forged Income and Asset Statements
- Deceived Borrowers About Rates, Fees, and Penalties



Ameritrust Settlement

- Provide Same Interest Rates & Discount Points
- Not Pay Incentives on Prepayment Penalties
- Provide Full Disclosure Regarding Interest Rates



Ameritrust Settlement

- Automated System to Select Appraisers & Prohibit Influencing Appraisals
- Not Encourage Misstatement of Income Sources Or Level
- Provide Accurate Good Faith Estimates



Ameriquest Settlement

- Not Engage In Refinancing Solicitations During First 24 Months of a Loan
- Use Independent Loan Closers
- Adopt Policies to Protect Whistle-Blowers
- Appointment of Independent Monitor to Oversee Ameriquest's Compliance



National Anti-Predatory Lending Law

- National Predatory Lending Bill
- Modeled After 1999 North Carolina Law



Foreclosure Fraud

As of March 2006...

Foreclosure rates up 72% nationwide

- Nationally, 323,102 filings in Quarter 1 2006
- Texas reported first quarter filings of 40,236
- Florida - 29,636
- California - 29,537
- Georgia - 24,419
- Colorado - 13, 267
- Adjustable-Rate Mortgages



Foreclosure Rescuers

"We'll save your credit!"

"We'll pay the closing costs!"

"We'll buy your house as-is!"

"Just sign the house over to us!"



Flipping

- Flipping is Not Illegal
- *Fraudulent* Flipping is Illegal
- Paying Appraisers to Grossly Appraise Properties
- Rigging Down-Payments
- Falsifying Documents
- "Back Dating" Lease Agreements



Servicing Fraud

- Entering On-time Payments as Late
- Force-Placed Insurance
- Falsely Reporting a Default
- Paying Property Taxes Late
- Paying on the Wrong Property



Servicing Fraud

- Refusing Payments
- Adding Unearned Legal Fees
- Not Applying Payments
- Refusing Other Lenders in Refinance



Servicing Fraud Example

~ Texas City, Texas ~
Woman awarded \$11.5 million
from Ocwen Federal Bank



RED FLAGS



Red Flags

- Cashier's Checks at Closing
- Bait and Switch Advertising
- Loan Originator Invites You to Participate
- Asked to Raise Price in MLS
- False Owner-Occupancy



Red Flags

- Contract Price Much Higher than Listed Price
- Rushed Real Estate Closings
- Contract Kiting
- Silent Seconds with Increased Purchase Price
- Identity Discrepancies



Red Flags

- False Down Payment/Deposit
- Pressuring Appraiser to Inflate Values
- Lender Insists on Their Appraiser Every Time
- Undisclosed Cash Back Offers at Close
- Neither Buyer Nor Buyer's Agent Has Seen the Property



Prevention by Agents

Responsibility of the Real Estate Professional:

- Know the Law
- Act in Accordance with the Law
- Abort Deals that are Fraudulent



Prevention by Agents

Common thread in all real estate fraud is that the lender is not informed of the TRUE nature of the transaction



Prevention by Agents

- Advice to Buyers:
 - ✓ Bring Original Loan Disclosures to Closing
 - ✓ Compare Application, GFE, etc. to Closing Documents
- Get Educated About Mortgages



Prevention by Agents

- Social Security Numbers for Mississippi range between 425 - 428



Prevention by Agents

- Website for SDN List
<http://urlx.org/ustreas.gov/c2130>
- Appreciation Hides Fraud
→ Decline in Values Reveals It
- Accomplices are Subject to Prosecution



MISSISSIPPI 2006



Mississippi 2006

Meridian Mortgage:

- Suspended 3 Years
- \$10,000 Fine

Freedom Lending:

- ELEVEN People Arrested for Mail Fraud

Premier Mortgage:

- 3 Appraisers
- 15 Madison County Properties



Mississippi 2006

5 People Sentenced:

- Greenwood Lawyer
- Real Estate Agent
- 3 Mortgage Brokers - \$2.8M

20 Count Indictment:

- 35 Loans Totaling \$2.2M



Mississippi 2006

US v Lucas:

- Hattiesburg and Laurel, MS
- Bank and Wire Fraud
- Money Laundering
- 4 - Lucas Development & Investment
 plus 5 Affiliates
- 4 - Nominal Buyers
- 1 - Lawyer
- 2 - Appraisers



Mississippi 2006

US v Lucas:

- 11 TOTAL INDICTMENTS
- 65 LOANS TOTALLING \$3.3M



Mississippi 2006

US v Lucas: Update

- Only member of fraud ring DENIED bail
- "Inherently dangerous to community"
- Admitted coke addict already kicked out of 2 rehab centers



AWARENESS



Awareness

- Our industry is full of talented and ethical professionals who would not commit fraud
- We can stop fraud one transaction at a time with education and awareness



Awareness

How to Report Fraud

- Local FBI Offices
- Licensing Boards
- Share Your Knowledge on Preventing and Detecting Fraud



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*Thank You
For Your
Participation Today!*



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**For Comments or Questions:
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