

# Why Fraud Still Matters

Robb Hagberg – Senior Director Fraud Risk

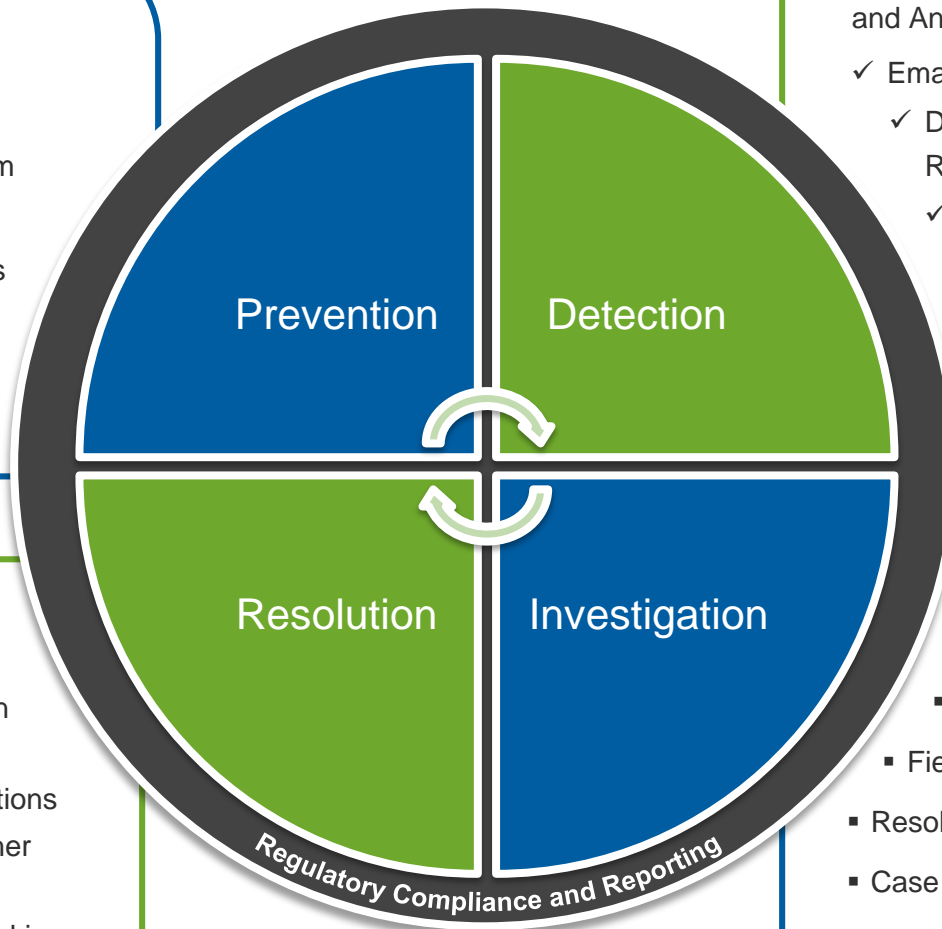
August 3, 2017

- Freddie Mac's fight against fraud
- Statistics
- Where we are today
- Forward-facing factors
- Cases/Examples
- Back to the Basics
- Resources

# What We Do

- Internal and External Training
- Fraud Awareness Activities
- Exclusionary List Distribution
- Task Force and Industry Forum Participation
- Internal and External Websites
- Servicing and Credit Policy Input, including Seller/ Servicer Guide Updates

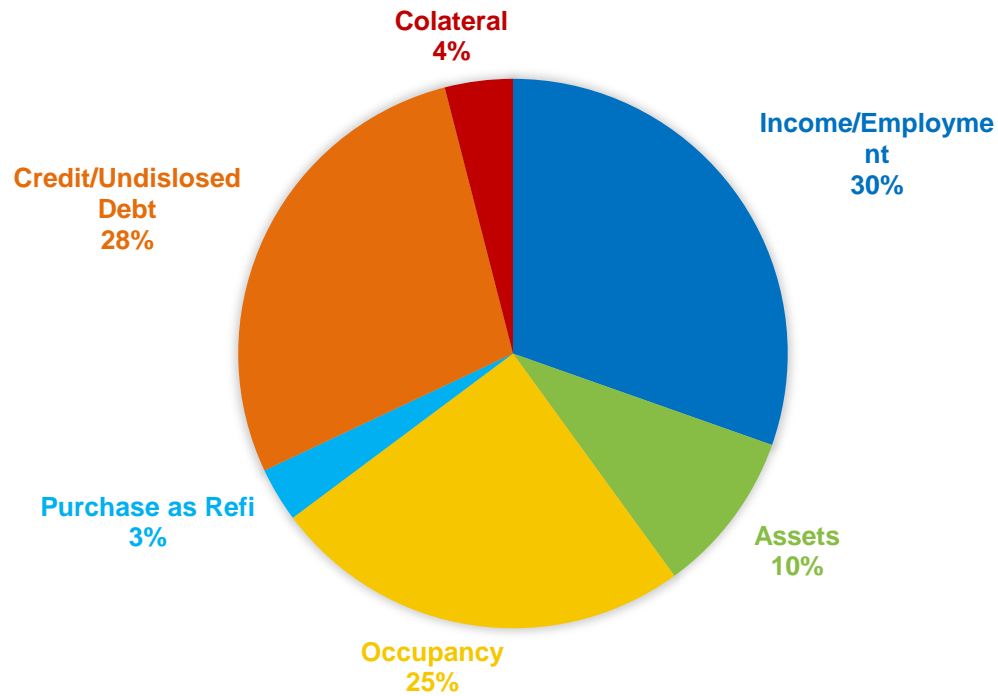
- Law Enforcement/ Regulatory Referrals
- Civil and Criminal Investigation Assistance
- Adverse Action Recommendations
- Repurchase Referrals and Other Remedies
- Fraud Loss and Recovery Tracking
- Root Cause Analysis
- Placement on Exclusionary List



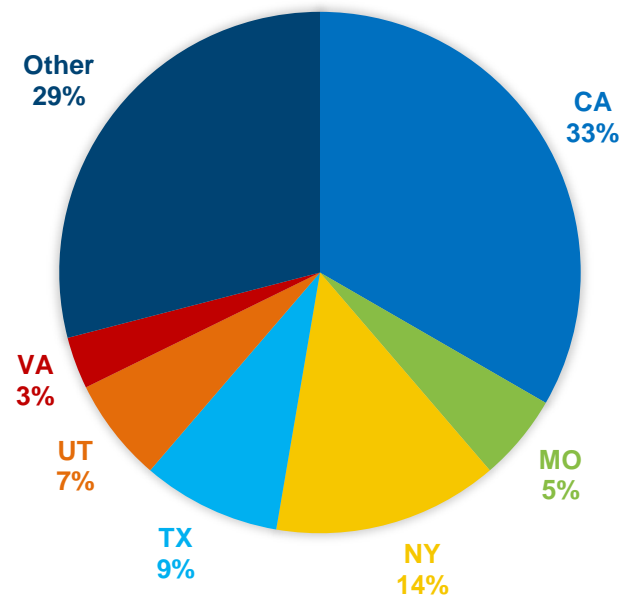
- Internal and External Tip Receipt and Analysis:
  - ✓ Email and Hotline
  - ✓ Data Mining and Internal Reports
  - ✓ Seller/Servicer Self-reported Fraud
  - ✓ Industry Publications and Alerts
  - ✓ Public Records

- Exposure Determination
- Case Documentation Review
- Fieldwork and Interviews
- Resolution Recommendations
- Case Summary Report

## LOAN LEVEL MISREPS YTD 2017



## ACTIVE CASES BY STATE



- Expansion of Credit
  - » Credit Policy Changes – How are they being used?
  - » Risk Tolerances
  - » Reliance on Automation
  
- Counterparties
  - » First-time Homebuyers
  - » Players in the industry
  - » Financial Stress to Counterparties
  - » Fraud Controls with Counterparties
  
- Environment
  - » Purchase Market vs. Refinance Market
  - » Property Value Recovery
  - » Rising Interest Rates

- Investment Income Misrep/Reverse Occupancy
- Investment Clubs/Purchase as Refinance
- Collateral (Fraud vs. Competence)/Independence
- Mass Loan Level Misrep/Affinity Schemes
- Identity Theft to Industry Professionals

- How it works:
  - » Borrower qualifies for investment purchase using projected cashflow reflected on form 998
  - » Borrower does not qualify without the rental income
  - » Borrower makes significant down payment from substantial bank account (at least 6 figures)
  - » Borrower moves into property at closing in lieu of renting
  - » **Note : Also been noted in industry as “reverse occupancy”**



- At least 99 investment purchases originated by broker
- Borrowers have been shown to be using property as primary residence in at least 1/3 of cases
- Borrower interviews indicate:
  - » Borrowers intended to purchase primary residence
  - » Borrowers were not intending to rent property/entire property
  - » Without rental income, borrower ratios move into unacceptable range (>100%)
  - » Source of funds is a mix of gift funds and loans from overseas (AML risk?)
- These cases have been noted across the country

- Red Flags
- Borrowers are living with family/friends rent-free purchasing rental property
- Borrower has no previous landlord experience
- Bank statement balances are not commensurate to borrower incomes
- Bank statements show no deposit/withdrawal activity
- Although these loans may meet the technical aspects of our Guide, facts in documents in aggregate may not make sense.

## **Change 1** - Scheme is being coupled with purchase as refinance:

- Borrower acquires property using hard money loan
- Borrower immediately refinances property as investment and qualifies on investment income
- Often unclear how hard money lender became involved

## **Change 2** – Source of borrower funds are changing:

- Formerly, borrowers would park funds in account to season
- New twist is borrower brings money into account incrementally on a daily basis

- How it works:
  - » Borrowers acquire property with hard money loan
  - » Borrowers quickly close refinance of hard money loan
  - » Refinance is based on appraised value vs. acquisition price
  - » Although these loans are originated as a refinance, investigation shows these loans are actually a purchase transaction

Analysis of prior sale or transfer history of the subject property and comparable sales The appraiser has researched the 36-month sales/listing histories for the subject and comparables. Any sales found have been noted in the report. Subjects previous sales: \$36,500 ON 09/09/15, Warranty Deed, 15094324. Recorded 2015. [REDACTED], \$14,900 ON 08/06/15, Warranty Deed, 15078527. Recorded 2015. [REDACTED] \$9,400 ON 05/11/15, Warranty Deed, 15045076. Recorded 2015. BANK [REDACTED] Bank sale, \$11,560 ON 03/05/15, Trustee Deed, 15025273. Recorded 2015. [REDACTED] Foreclosure.

Based on a complete visual inspection of the interior and exterior areas of the property, and appraiser's certification, my (our) opinion of the market value is \$52,000, as of 10/12/2015, which is the date of valuation.

- Properties were offered to borrowers as no money down purchases
- Borrowers were promised a discount when purchased in bulk
- Borrowers were promised property management services
- Timing and staging would indicate these to be purchase as refinance
- Review of the appraisal shows value unsupported based on a lack of exposure to the open market, lack of rationale offered for value increases and apparent failure by lender to ensure appraisal independence
- More than 100 investment mortgages originated by this loan officer

- Red Flags:
  - » Borrowers may be out of state
  - » Borrowers may be renters/first time home buyers
  - » Refinance of investment property
  - » Refinances appear to repay hard money loans
  - » Properties are flip/rehabs where increases in value between transactions may not be supported
  - » No history of subject property being listed on the MLS
  - » Borrowers may be purchasing/financing in bulk

- Obtaining reliable collateral value has become a greater challenge
- Competency/sloppy work
- Is it fraud?
- Independence
  - » Affiliated AMCs
  - » Limited panels
  - » Loan officer influence on assignment
  
- Technical compliance with AIR, Dodd-Frank, etc. does not guarantee compliance with intent of guidance.



# Incompetence vs. Fraud



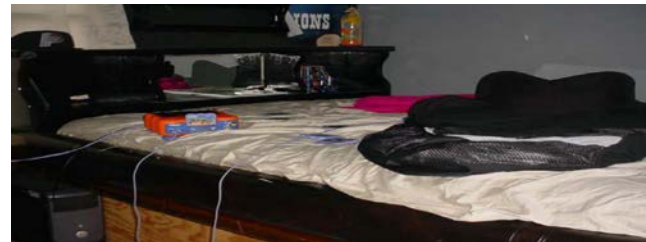
House #17702 – appraised Dec 24



House #4231 – appraised December 3



# Incompetence vs. Fraud



# SF Origination Fraud – Appraisal/Value Issues



Does the property generally conform to the neighborhood (functional utility, style, condition, use, construction, etc.)?  Yes  No If No, describe. *The subject design blends well with its surroundings. Neighborhood appeal, character and conformity all appear reasonable. Employment, population, purchasing power and activity of the real estate market all appear reasonable. No inharmonious land uses, off-site improvements or topography were noted.*

- Same broker, multiple loans
- Employers are fiction
- Income documents are fabricated
- Prior years' taxes re-verify as accurate
- VOEs used to support are false – increase rationales are false
- Borrower contributions are predicated on false gift letters
- Participants often tied by some form of affinity

# Mass Loan Level Misrepresentation – Case Overview



- Fifteen purchase loans from the same broker
- Eight borrowers had employment status changes the year of closing which yielded significantly higher income
- Pay stubs to support the new income do not match tax returns
- Employment was supported by yellow page ads and facebook
- Borrowers would not qualify without higher income
- Six borrowers shared three employers
- Eight borrowers used gift funds. Some gift donors used multiple times. Two of the gift donors lived in the same household
- Without gift funds, borrowers had insufficient assets to close

- Inspection of the employment addresses revealed:
  - » Addresses that did not exist
  - » Other businesses at the locations during represented tenure of employment
  - » Land that was owned by the city of San Francisco and no business
  
- Gift Funds were false
  - » Borrowers did not know gift donors
  - » Two of the gift donors were sisters who worked as processors for the originating broker
  - » True sources of funds remain unknown

- Appraisers
- Title Companies
- Loan Officers
  
- Do we really know who we're doing business with?

- [www.freddiemac.com/singlefamily/preventfraud/resources.html](http://www.freddiemac.com/singlefamily/preventfraud/resources.html)
  - » Fraud Mitigation Best Practices
  - » Mortgage Screening Process
  - » Mortgage Fraud Prevention Toolkit
  - » mortgage fraud-related articles
- [www.loanscamalert.org](http://www.loanscamalert.org)
- [www.fincen.gov/news\\_room/rp/mortgagefraud\\_suspectedMorgageFraud.html](http://www.fincen.gov/news_room/rp/mortgagefraud_suspectedMorgageFraud.html)
- [www.stopfraud.gov](http://www.stopfraud.gov)
- [www.fbi.gov/about-us/investigate/white\\_collar/mortgage-fraud/mortgage\\_fraud](http://www.fbi.gov/about-us/investigate/white_collar/mortgage-fraud/mortgage_fraud)



# Questions?

Robb Hagberg

(703) 903-3785

[robert\\_hagberg@freddiemac.com](mailto:robert_hagberg@freddiemac.com)