

Mortgage Fraud News: August 2009

Latest Suspicious Activity Reports (SARs) Reveal Hottest Mortgage Fraud Markets

Did you know that mortgage fraud filings for properties in Minnesota grew by 435% between 2007 and 2008?

This article provides information about the fastest growing areas for mortgage fraud according to the Financial Crimes Enforcement Network (FinCEN's [SAR Activity Review - By The Numbers Issue 12](#) released July 7, 2009), and provides insight into the nature of localized activity from Fannie Mae's own reviews in some of those areas.

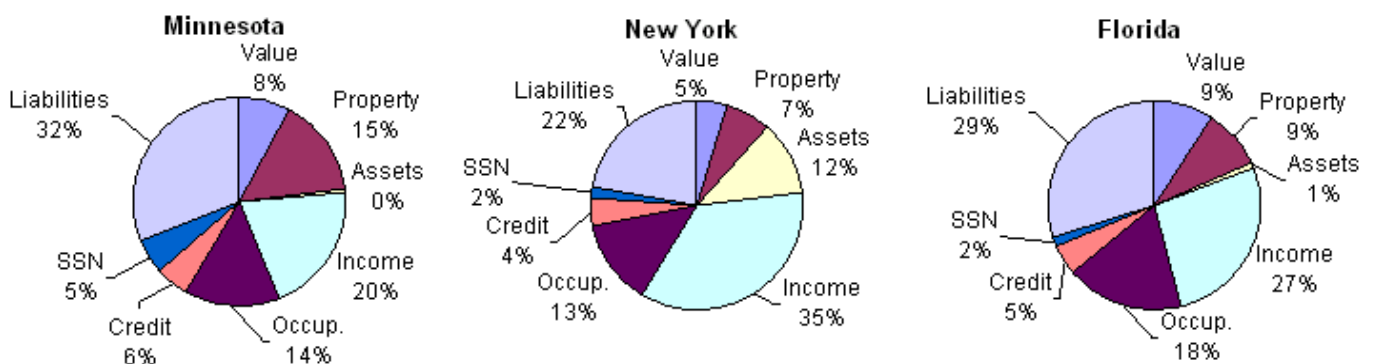
FinCEN is an important player in the fight against mortgage fraud because they aggregate information about suspected fraud occurrences from many sources (including Fannie Mae) in order to "enhance U.S. national security, deter and detect criminal activity, and safeguard financial systems from abuse". The FBI mines FinCEN's rich data to develop many of its successful mortgage fraud investigations.

Keeping in mind that SAR statistics reflect when incidents were discovered rather than when they occurred (a potential lag of months or even years) Fannie Mae took a closer look at some interesting trends recently discovered in Minnesota and in two additional FinCEN "hot" areas. (Note that FinCEN statistics aggregate both conforming and non conforming loan information, whereas Fannie Mae's information pertains just to the conforming loans that Fannie Mae has purchased.)

Mortgage Fraud SARs - Percent Increase 2007 - 2008 (Minimum 100 Mortgage Fraud SARs in 2008)				
RANK	State	2007	2008	Pct Increase
1	MN	481	2,574	435%
2	DC	205	893	336%
3	NV	513	1,384	170%
4	MO	1,481	3,818	158%
5	NY	965	2,227	131%
6	FL	3,431	7,073	106%
7	IA	179	361	102%
8	UT	290	576	99%
9	NH	57	113	98%
10	GA	613	1,130	84%

Source: FinCEN SAR Activity Review By The Numbers Issue 12

Recent Fannie Mae Fraud Findings in Three Growth States for Mortgage Fraud:



SOURCE: Fannie Mae loans originated in 2007-2008, as of reviews completed through July 31, 2009.

Minnesota – Primarily Fraud-for-House

A very high percentage of Fannie Mae's misrepresentation findings in Minnesota for 2007-2008 have been related to fraud-for-house scenarios. Undisclosed liabilities represent the largest share of the findings (32%), with a secondary concentration (23%) related to property value and appraisal fraud. Fannie Mae has recently

identified several schemes associated with specific loan originators, but this activity has been relatively small compared to other “hot” fraud markets.

In order to address property- and appraisal-related fraud, Fannie Mae recommends especially close scrutiny of all appraisal red flags – especially involving choice of “comparable” properties.

New York -- Small Number of Large Fraud-for-Profit Cases

A high percentage of Fannie Mae’s fraudulent loans in New York for 2007-2008 have been related to a relatively small number of large fraud-for-profit scenarios. One of these involves illegal property flipping in New York City, primarily in Queens. Creating applications for straw buyers for this scheme involved fabricated income and asset documentation, frequently “recycling” the same documents for use by multiple borrowers with different loan applications. These fraudulent documents were prepared by industry insiders, and coalesced around networks of mortgage brokers and title attorneys. (Note that income and asset findings together account for almost half of Fannie Mae’s New York findings.) One additional unifying thread of interest in this case is the systematic sourcing of recent immigrants as straw buyers.

To detect fabricated income and asset documentation, Fannie Mae recommends particularly close scrutiny of all documentation discrepancies – especially instances in which fonts do not match, in which the information on the documents does not appear logical relative to other facts in the loan file, or where similar-looking documents appear in multiple loan files. Independent re-verification will generally help to determine authenticity.

Florida -- Large Number of Large Fraud-for-Profit Cases

A high percentage of Fannie Mae’s fraudulent loans in Florida for 2007-2008 have been related to fraud-for-profit scenarios, especially those involving condominium projects and concealed sales incentives or kickbacks to buyers. Many of these have been found to be associated with other types of fraudulent activities, such as appraisal and occupancy misrepresentation and undisclosed liabilities (especially undisclosed mortgages). This is reflected in the fact that undisclosed liabilities and occupancy misrepresentation together account for almost half (47%) of Florida’s findings.

When reviewing transactions for excessive and/or concealed sales incentives or kickbacks, Fannie Mae recommends a detailed review of all disbursements and recipients on the final HUD-1 (including all supplemental disbursement logs and attachments), as well as all sales contracts, and marketing materials (online as well as hard-copy).

For more information about red flag indicators of mortgage fraud, refer to Fannie Mae’s [Common Red Flags](#) job aid posted on eFannieMae’s Mortgage Fraud Resources page.

Fannie Mae partners with a wide variety of industry groups, with law enforcement, and with our customers in mortgage fraud education and prevention efforts. If you have any questions or suggestions about this information, please contact Fannie Mae’s [Mortgage Fraud Program](#) or your Customer Account Manager.