

ASSISTING VICTIMS OF MORTGAGE FRAUD



For Audio:
Dial toll free 1-877-668-4490
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The webinar will begin in a few moments

Charles Sczuroski, Senior Trainer, National Crime Prevention Council
 September 20, 2012





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- I will relay your question verbally to the presenter.
- There will be an audio question/answer session at the end of the presentation.



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Introduction of Today's Speaker

Chuck Sczuroski, Senior Trainer
National Crime Prevention Council



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4

Goal

- ▶ To provide an overview of mortgage fraud and discuss ways to assist victims with recovery. Also highlight resources that NCPC has available for the field.



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5

Objectives

- ▶ Talk about the current state of the mortgage fraud industry
- ▶ Highlight research conducted by NCPC
- ▶ Common mortgage fraud scams and practices
- ▶ How to assist victims
- ▶ NCPC resources for the field



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6

NCPC's Mission

To be the nation's leader in helping people keep themselves, their families, and their communities safe from crime.



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National Crime Prevention Council

- ▶ Leading nonprofit crime prevention organization
- ▶ McGruff the Crime Dog® – 30 years old
- ▶ Crime Prevention Coalition of America and National Crime Prevention Association
 - National Crime Prevention Specialist Certification
- ▶ Latest campaigns/initiatives
 - Intellectual Property Theft
 - Circle of Respect - www.circleofrespect.org
 - Celebrate Safe Communities - www.celebratesafecommunities.org
 - Preventing Senior Fraud
 - Bullying/Cyberbullying



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Facts and Figures



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Mortgage Fraud Fact

- ▶ The Mortgage Asset Research Institute calls mortgage fraud "one of the fastest growing financial crimes in the history of the United States."
Source: Understanding Mortgage Fraud," Mortgage Asset Research Institute, available at www.mar
- ▶ Prosecutors consider mortgage fraud to be "among the most economically destructive crimes prosecuted by their offices."
Source: www.CourtInnovation.org solutions.com/mortgage-fraud.asp



Mortgage Fraud Fact – continued

- ▶ Mortgage fraud continued at elevated levels in 2010
- ▶ Mortgage fraud has expanded to include other areas such as construction, finance, appraisal, brokerage, sales, and law
(FBI's 2010 Mortgage Fraud Report Year in Review, www.fbi.gov)
- ▶ Estimated that 10 billion-plus is loss annually
(Source: Corelogic)



Worst States for Mortgage Fraud Activity according to Mortgage Daily, June 26, 2012

- ▶ Florida
- ▶ California
- ▶ Minnesota
- ▶ Ohio
- ▶ North Carolina

Source: www.mortgagenewsdaily.com



Worst States for Mortgage Fraud Suspicious Activity Reports according to FinCEN, June 26, 2012

- ▶ California
- ▶ Nevada
- ▶ Florida

▶ Source: *Financial Crimes Enforcement Network*, www.fincen.gov



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13

NCCPC Mortgage Fraud July 2010 Survey



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14

NCCPC Mortgage Fraud Survey

- ▶ Only **51%** of respondents said they worked with a licensed real estate professional or lawyer. While only **38%** made any attempt (even asked) to validate a license when purchasing a home.
- ▶ Percent of those who researched thoroughly:
 - Mortgage company/lender 24%
 - Realtor 13%
 - Loan Officer 8%
 - Attorney/Lawyer 5%
 - Appraiser 4%
 - Home Inspector 4%
 - Title Company 3%



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15

NPC Mortgage Fraud Survey (continued)

- **One in five consumers (20%) felt they were being scammed during the home buying process.**
- About half of those "scammed" claim they were aware of scams and schemes prior to starting the process.



NPC Mortgage Fraud Survey (continued)

- Only **61%** say they always read contracts carefully, including the fine print, before signing
- 46% say they are cautious and suspicious
- 27% are both trusting and cautious
- 24% say they are trusting and friendly when it comes to the way they deal with people they don't know

NPC Mortgage Fraud Survey (continued)

- 24% agree that they quickly read through contracts so they can sign on the bottom line and be done with the process
- 20% agree that they will occasionally over look warning signs or concerns about sales facts if they think it will benefit them in the end
- 11% agree that they fall for sales messages that sound too good to be true

NPC Mortgage Fraud Survey (continued)

What is happening in the marketplace?

- > 19% said promises were not in written form
- > 16% said promises were made verbally
- > 12% were offered "government approved" or "official government" loan modification programs
- > 11% were asked to wire money or write a check before contracts were signed



NPC Mortgage Fraud Survey (continued)

- 9% were asked to pay a fee in advance to work with their lender to modify/ refinance/reinstate their mortgage
- 7% were required to allow their lender to have direct access to their bank account or credit card for payment purposes
- 7% were guaranteed by someone that they could stop a foreclosure or modify a loan
- 10% claim that undue pressures/tactics were used to make them "act immediately" on an offer



Understanding Mortgage Fraud



Common Ingredients

- ▶ Inflated income or assets
- ▶ Identity theft
- ▶ Altered documents
- ▶ Multiple loans
- ▶ Inflated deposits and soft second mortgages
- ▶ Inflated appraisal
- ▶ Flipping

Inflated Income or Assets

A borrower who overstates his income or borrows the down payment without revealing the obligation to repay it.



Identity Theft

Involves, for example, a false Social Security number stolen from a person with good credit to verify that the person has authority to sell the home or borrow money.



Altered Documents

Documents including W-2 forms, bank statements, title commitments, leases, tax returns, or employment verification forms.



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25

Multiple Loans

Multiple loans obtained during what is known as the "gap period" when new deeds and missed loan payments aren't publicly available for inspection. During the gap, borrowers can close two or three loans with different lenders who, because of the gap, are ignorant of the other transactions on the very same property.

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26

Inflated Deposits / Second Loans

Involves a buyer who gives a false purchase agreement to the lender, showing a false money deposit and an inflated purchase price.

A buyer and seller who inflate the purchase price and offer seller financing in lieu of a down payment so that the buyer can obtain a larger loan than would be permitted by the lender's underwriting standards.

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27

Inflated Appraisal

An appraiser inflates the value of a property to generate a loan that exceeds the home's true market value. Inflated appraisals frequently play a role in flipping schemes.



Flipping

- ▶ A newly purchased property is immediately re-sold for an unjustifiably high price.
- ▶ Typically, the buyer and seller have a hidden relationship.
- ▶ Flips often rely on the assistance of a complicit appraiser, who issues an inflated appraisal, or a false title insurance commitment.

Predatory Lending



Predatory Lending

Predatory lending describes unfair, deceptive, or fraudulent practices of some lenders during the loan origination process.

The FDIC broadly defines predatory lending as *"imposing unfair and abusive loan terms on borrowers."*



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31

Predatory Lending (continued)

Lenders may be accused of tricking a borrower into believing that an interest rate is lower than it actually is, or that the borrower's ability to pay is greater than it actually is.

The lender, or others as agents of the lender, may well profit from repossession or foreclosure upon the collateral.



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32

Predatory Lending (continued)

Predatory lending should not be confused with **predatory mortgage serving.**



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Negative Equity Loans



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34

Negative Equity Loans

These loans can occur when the value of the asset stays fixed but the loan balance increases because loan payments are less than the interest, a situation known as [negative amortization](#).



35

Balloon Loan Payments



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36

Balloon Payments

- ▶ A short-term mortgage with small monthly installments and a large lump sum due at the end of the loan term.
- ▶ An example would be a 30 year loan due in 15 years
- ▶ It amortizes like a 30 year fixed, but is due 15 years earlier



Stated Income Loans



Stated Income Loan

- ▶ A **stated income loan** application is done by the borrower
- ▶ No proof of income is needed
- ▶ When the broker files the loan, they have to go by whatever income is stated
- ▶ This opened the doors for borrowers to be approved for loans that they otherwise would not qualify for, or afford



Stated Income Loan (continued)

Several commentators have challenged the notion of "predatory borrowing," accusing those making this argument as being apologists for the lack of lending standards and other excesses during the credit bubble.



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40

Mortgage Fraud

- ▶ The Federal [Truth in Lending Act](#) requires certain disclosures of [APR](#) and [loan](#) terms.
- ▶ Also, in [1994](#) section 32 of the Truth in Lending Act, entitled the Home Ownership and Equity Protection Act of 1994, was created.
- ▶ This law is devoted to identifying certain high-cost, potentially predatory [mortgage loans](#) and reining in their terms.



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41

Fueling Mortgage Fraud

Some of the most used factors fueling mortgage fraud are:

- The diversion of law enforcement resources from white collar crime to the fight against terrorism
- The loosening of lending standards

Source: *Understanding Mortgage Fraud*, Mortgage Asset Research Institute, www.marisolutions.com/mortgage-fraud.asp



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42

Fueling Mortgage Fraud *(continued)*

Some of the most used factors fueling mortgage fraud are:

- The increased use of the Internet and other technologies that make the loan application process "faceless"
- The issuance of sub-prime mortgages, essentially loans to riskier borrowers



Help is on the Way *(continued)*

The Fraud Enforcement and Recovery Act, passed by Congress and signed by President Barack Obama in May 2009, allocates \$490 million over two years to increase the number of Justice Department prosecutors and investigators handling mortgage fraud cases.

It enlarged the department's criminal, civil and tax divisions; and enlarges the FBI mortgage-fraud task forces.



Help is on the Way *(continued)*

To assist victims to begin the steps to recovery

- ▶ **REPORT IT:** www.stopfraud.gov
www.preventloanscams.org
 1-800-CALLFBI



Help is on the Way (continued)

To assist victims to begin the steps to recovery

- ▶ HUD Approved Housing Counseling Agencies

Call:
1-800-347-3735 HUD Office of Inspector General

Website:
<http://www.hud.gov/offices/hsg/sfh/hcc/hcs.cfm>



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46

Help is on the Way (continued)

To assist victims to begin the steps to recovery

- ▶ HOPE Now Alliance
Call: 1-888-995-HOPE for free counseling services
Website: www.preventloanscams.org
Email hotline@hudoig.gov
- ▶ NeighborWorks America
Website: www.nw.org



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47

NCPC Mortgage Fraud Work

- ▶ TV Public Service Announcements
- ▶ Radio Public Service Announcements
- ▶ Audio Podcasts
- ▶ Webinars
- ▶ 1-day Virtual Conference
- ▶ Online Video (News Segment)
- ▶ Mortgage Fraud Toolkit for Victim Service Advocates



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48

MORTGAGE FRAUD TOOLKIT

WHO IS THE AUDIENCE?

- ▶ Victim Service Providers
- ▶ Attorneys
- ▶ Law Enforcement Agencies
- ▶ Victim Service Advocates



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49

MORTGAGE FRAUD TOOLKIT

WHAT WILL THE KIT INCLUDE?

- ▶ Useful tips, fliers, and information to share with mortgage fraud victims
- ▶ List of credible organizations to refer mortgage fraud victims
- ▶ Step-by-step guide to assist mortgage fraud victims through recovery process
- ▶ Podcast interviews and webinars from experts in the field
- ▶ PPT presentation for VSP and other allied professionals to use during meetings, trainings, and/or conferences relating to mortgage fraud



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50

RADIO PSA SCRIPTS

Two PSAs on Mortgage Fraud available in October 2012



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51

Podcast Interviews Available at www.ncpc.org

- ▶ Mortgage Fraud Scams
Charles Sczuroski, NCPC senior trainer
- ▶ Financial Crimes Enforcement Network
James Fries, past director
- ▶ Foreclosure Scams
Charles Sczuroski, NCPC senior trainer



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NCPC/OVC Webinar Series

- ▶ Monthly
- ▶ 3rd Thursday
- ▶ 2:00 – 3:00 ET

- ▶ 10/18 – Financial Fraud Enforcement Task Force
- ▶ 11/15 – Lawyers Committee for Civil Rights under Law
- ▶ 12/13 – National Fair Housing Alliance
- ▶ 1/16 – Virtual Mortgage Fraud Conference



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NCPC Training

- ▶ **Three day Crime Prevention Through Environmental Design (CPTED) Abandoned Properties and Foreclosed Homes training**
- ▶ (CPTED) is based on the principle that proper design and effective use of buildings and public spaces in neighborhoods can lead to a reduction in the fear and incidence of crime, and an improvement in the quality of life for citizens. Learn how to assess conditions in your neighborhood and apply practical access control (doors, fences), surveillance (lighting, windows, landscaping), territorial reinforcement (signs, sidewalks, ordinances), and maintenance (code enforcement, community clean ups) to improve your community, your neighborhood, and/or your home.



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NCPC Training *continued*

▶ **CPTED Abandoned Properties and Foreclosed Homes training objectives**

1. Understand how to evaluate neighborhood activities and how they may contribute to or inhibit crime
2. Define CPTED, recognize the fundamental principles of CPTED, and articulate strategies that support each principle
3. Assess the physical environment of sites or neighborhoods using a formal CPTED survey
4. Identify several common indicators of possible mortgage fraud
5. Discuss additional causes of the housing crises



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55

NCPC Training *continued*

▶ **CPTED Abandoned Properties and Foreclosed Homes training objectives continued**

6. Develop a three-pronged approach to dealing with abandoned and foreclosed properties
7. Discuss foreclosure scams
8. Review CPTED principles and concepts
9. Review best practice examples of various CPTED-based strategies
10. Travel into the community to see areas affected by vacant property
11. Develop a CPTED-based action plan to address the problem
12. Identify available resources to support your efforts



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56

One-Day Virtual Mortgage Fraud Conference

Save the Date

January 16, 2013



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57

QUESTIONS AND ANSWERS



Next Webinar



- ▶ Date: October 18
- ▶ Time: 2:00 – 3:00 pm ET
- ▶ Topic: Financial Fraud Enforcement Task Force (FFETF), www.stopfraud.gov
- ▶ FFETF is an AG priority
- ▶ AG chairs the FFETF
- ▶ Started by the President through an executive order
- ▶ Visit www.stopfraud.gov for more information on about the task force's work to combat fraud

For more information

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