

# Mortgage Fraud and its Impact Within Local Communities

Protecting Homeowners  
Empowering Victims



**BJA**  
Bureau of Justice Assistance  
U.S. Department of Justice



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**OVC**

# U.S Department of Housing and Urban Development – Office of Inspector General



# Session Speaker



**Michael H. Stolworthy**

Director, Fraud Prevention and Program Integrity  
U.S. Department of Housing and Urban Development  
Office of Inspector General



# Session Objectives

- Provide history and background of the Federal Housing Administration Mortgage Insurance Program
- Discuss the role of the Office of Inspector General
- Detail the impact of mortgage fraud on borrowers and communities

# Inspector General Act

- Enacted in October 1978
- Created Inspectors General in 12 of the largest Federal agencies
- Currently authorizes IGs in more than 50 agencies

# HUD-OIG MISSION

- Prevent and detect fraud, waste, and abuse
- Promote integrity, efficiency and effectiveness in HUD programs and operations
- Seek administrative sanctions, civil, and/or criminal prosecution
- Independent and objective reporting to the Secretary and Congress

# What is the Federal Housing Administration (FHA)?

- The FHA is a wholly-owned government corporation created by Congress in 1934.
- The FHA was consolidated into HUD in 1965.
- FHA provides mortgage insurance on loans made by FHA-approved lenders.
- It is the largest mortgage insurer in the world.

# Ups and Downs of FHA

- In the early 90s, FHA had about 15% of the home purchase mortgage market.
- Through the 90s FHA lost business to the sub-prime.
- By 2006 FHA market share was a marginal 3% -- and dropping.
- People asked if we still needed the FHA.



# The Perfect Storm



# Mortgage Crisis

- FHA was left as the only game in town.
- Market conditions, new products, and a Congressionally-mandated expanded role caused a resurgence in FHA's market share.
- Mortgage limits raised to \$729,750.
- Now about 35% market share
- In some markets, FHA loans constitute about 70% of the new loan market.

# FHA's Resurgence

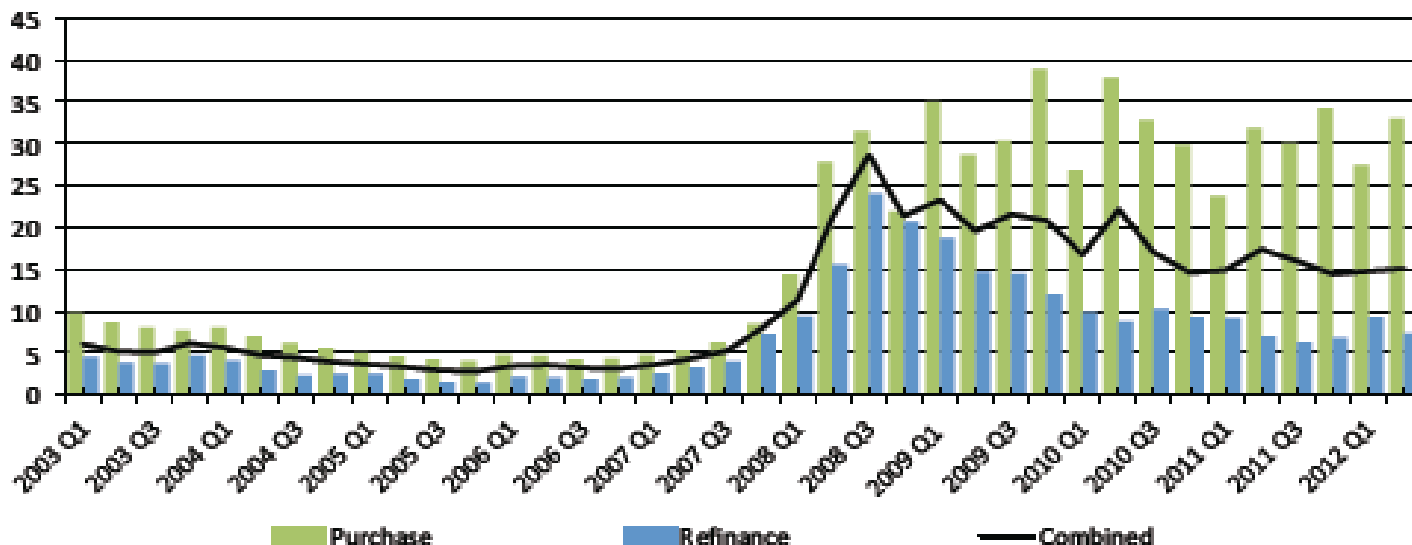
- Today, FHA insures 7.636 Million Mortgages
  - Totaling \$1.1 Trillion
- More than 75% of first-time homebuyers
- Nearly 1/3 minority households
- Nearly 1/4 of all refinances

# Negative Trends

- 284,196 claims paid in FY 2012
  - 102,236 Conveyances
- 100,000 REO Sales
- 9.6% of FHA Loans are seriously delinquent (739,000 loans)

## FHA Supports Mortgage Lending During Crisis

### FHA As Share Of Quarterly Mortgage Originations By Type (Percent)



Sources: MBA and HUD.

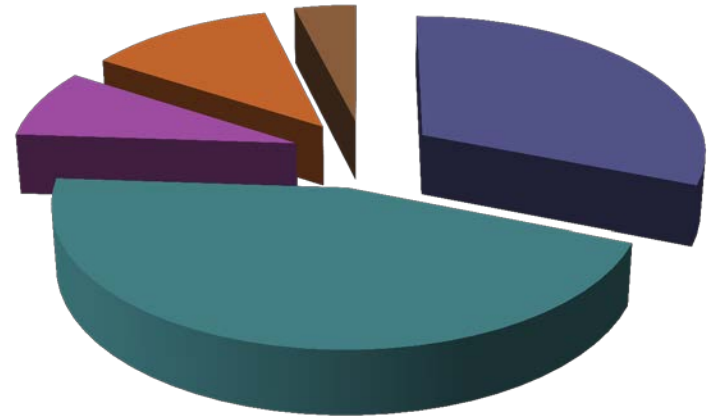
See Note 8, Sources and Methodology.



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# FHA's Impact on HUD-OIG

- Realignment of investigative priorities:
  - Single Family investigations are an investigative priority
  - Established nationwide mortgage fraud initiatives
  - Special Agents participate in numerous task forces and working groups



# Financial Fraud Enforcement Task Force (FFETF)



- Created by President Obama in November 2009
- HUD-OIG is co-chair of Mortgage Fraud Working Group

# Mortgage Fraud Summits



Miami, FL



Phoenix, AZ



# National Mortgage Fraud Team

- FBI/HUD-OIG/USSS/FinCEN
- Establish Multi-Agency Regional Task Forces and Working Groups
- Bring HUD FHA data, FBI Intel data, and FinCEN data together
- Identify trends and provide analysis
- Create target packages
- Provide field support

# SMART

## Suspicious Mortgage Activity Review Targeting

- Combine FinCEN BSA Data
  - Mortgage Fraud SARs
- HUD-OIG Data
  - SFDW
- Analyze FHA-Related Mortgage Fraud SARs



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# Trends

- False statements
- Rescue schemes
- Flopping



# Forward Mortgage Crimes Continue



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NEWS



**United States Attorney Benjamin B. Wagner  
Eastern District Of California**

**Six Indicted In Solano County Mortgage Fraud Scheme Involving  
Losses Of Over \$1 Million**

**FOR IMMEDIATE RELEASE**

CONTACT: Lauren Horwood

October 27, 2011

PHONE: (916) 554-2706

[www.usdoj.gov/usao/cae](http://www.usdoj.gov/usao/cae)

[usaca.edcapress@usdoj.gov](mailto:usaca.edcapress@usdoj.gov)

SACRAMENTO, Calif. — United States Attorney Benjamin B. Wagner announced that today a federal grand jury returned a seven-count indictment charging the following defendants with mail fraud in connection with a mortgage fraud scheme: Temika Reed, 31, of Bay Point; Buena Marshall, 65, of Sacramento; Jake Weathers, 35, of Sacramento; Deborah Loudermilk, 53, of Suisun City; Reginald Dodson Sr., 40, of Tracy; and Kadesta Harris, 57, of Suisun City.



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# Metro and State Wayne County

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Home Metro Wayne County

FEBRUARY 21, 2013 AT 3:32 PM

## Half of Detroit property owners don't pay taxes

News analysis finds \$246.5M in taxes went unpaid last year

BY CHRISTINE MACDONALD AND MIKE WILKINSON THE DETROIT NEWS  
259 COMMENTS



Purchase Image

A lone taxpayer amid a block of scofflaws: Leola Wesley, 85, was the only resident of her block on the city's northeast side to pay property taxes last year. She lives with her son on the block of modest wood-frame houses that were built from the 1920s to the 1950s. (David Coates / The Detroit News)



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# ABC News Report



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# Common Loan Modification Scams

- Phony Counseling or Foreclosure Rescue Schemes
- Fake Government Modification Programs
- Forensic Loan Audits
- Mass Joinder Lawsuits
- Bait & Switch
- Rent to Own or Leaseback Schemes
- Short Sale Scams
- Bankruptcy to Avoid Foreclosure

# Mortgage Forensics

*FTC Consumer Alert*

Email

PDF Format

En Español

## **Forensic Mortgage Loan Audit Scams: A New Twist on Foreclosure Rescue Fraud**

Fraudulent foreclosure “rescue” professionals use half-truths and outright lies to sell services that promise relief to homeowners in distress. According to the Federal Trade Commission (FTC), the nation’s consumer protection agency, the latest foreclosure rescue scam to exploit financially strapped homeowners pitches forensic mortgage loan audits.

In exchange for an upfront fee of several hundred dollars, so-called forensic loan auditors, mortgage loan auditors, or foreclosure prevention auditors backed by forensic attorneys offer to review your mortgage loan documents to determine whether your lender complied with state and federal mortgage lending laws. The “auditors” say you can use the audit report to avoid foreclosure, accelerate the loan modification process, reduce your loan principal, or even cancel your loan.

Nothing could be further from the truth. According to the FTC and its law enforcement partners:

- there is no evidence that forensic loan audits will help you get a loan modification or any other foreclosure relief, even if they’re conducted by a licensed, legitimate and trained auditor, mortgage professional or lawyer.
- some federal laws allow you to sue your lender based on errors in your loan documents. But even if you sue and win, your lender is not required to modify your loan simply to make your payments more affordable.
- if you cancel your loan, you will have to return the borrowed money, which may result in you losing your home.

If you are in default on your mortgage or facing foreclosure, you may be targeted by a foreclosure rescue scam. The FTC wants you to know how to recognize the telltale signs and report them. If you are faced with foreclosure, the FTC says legitimate options are available to help you save your home.



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# Property Flipping/Flopping



# Flopping

- Short sales up 33% over last year
- FBI and Freddie Mac have warned that flopping may be on the rise
- HAFA

## Latest in mortgage fraud: Flopping

CNNMoney

84 comments

By Les Christie @CNNMoney October 23, 2012: 6:22 AM ET

Recommend 621 Tweet 311 Share 66 Email Print



Flopping is the latest in mortgage fraud, in which sellers actually want as low a price as possible. Then an accomplice can flip the home for a big gain.

NEW YORK (CNNMoney)

Why would anyone spread possum urine around a house, turn up the heat and close all the windows for a few days?

Because they're flopping, of course.

# REO Property Thefts



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<http://www.wmctv.com/story/14233885/the-investigators-dirty-deeds?autoStart=true&topVideoCatNo=default&clipId=6894683>

# For More Information



## **National Crime Prevention Council**

2001 Jefferson Davis Highway Suite 901

Arlington, VA 22202

202-466-6272

[www.ncpc.org](http://www.ncpc.org)

## **HUD-OIG**

451 7th Street, SW

Washington, DC 20410

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[www.hudoig.gov](http://www.hudoig.gov)





# Don't Forget...

## Take the time to visit the Exhibition Hall and Resource Center!

