



*Expertise for Mortgage Warehouse Lenders
Consulting. Technology. Information.*


Strategies for Successful Fraud Mitigation

Thursday, July 19th, 2007
11:00am EST

Speakers Today

Stanley M. Street
President
Street Resource Group

Ann Fulmer
VP Business Relations
Interthinx



1 in every 200 mortgage loans contains material misrepresentations that result in financial fraud or repurchase loss.

BasePoint Analytics

Perpetrators

Borrower

Originator

Closing Agent

Warehouse Staff

Prevention

People

Process

Technology

Industry

The Fraud Matrix

Fraud for Housing

Fraud for Profit

**Individual Borrower or Organization
or Warehouse Staff**

Collusion - Misrepresentation – Forgery
Credit - Collateral - Identity

People

Process

Technology

Industry



Perpetrators / Schemes

Borrowers

- Piggybacking (Credit Enhancement)
“Authorized Users” Fraud
- Affinity Fraud
- Virtual Fraud www.secondlife.com
- Foreclosure Rescue
- Downpayment Assistance through Secondary Financing
Providers – HUD DAP

Originators

- Affiliated Relationships
- Forged Bailee Letters
- Double Funding (Warehouse vs Wholesale)

Closing Agents

- Concealed Payments
- Multiple Settlement Statements
- Conversion of Funds to Personal Use
- Multiple Conveyance
- Bogus Down Payment Sources / Seller 2nds
- Sales Contract Manipulation
- Borrower Identity Validity

- Affiliated Relationships
- Validation and Verification

Warehouse Staff Fraud

- No Segregation of Duties
- No Exception Oversight
- Lack of Proper Auditing
- No Periodic Background/Credit Checks



Solutions / Strategies

Have Experienced and Knowledgeable Staff

- **Perform Fraud Awareness Training**
 - Common Borrower and Originator Fraud Schemes
 - Recognizing Red Flags
 - Geographic Hot Spots
- **Require Mortgage Technical Education**
 - Appraisal Techniques
 - Analyzing Credit Reports
 - Proper Closing Procedures
- **Promote Techniques for Internet Data Mining**

Anticipating, Modeling and Preventing Risk Events are More Effective than After-the-fact Inspection and Damage Control

- Establish Formal Policies and Procedures for Originator and Loan Review
- Incorporate Recourse Agreements with Originators and Closing Agents
- Verify Originator, Closing Agent and Appraiser Licensing
- Integrate External Database Validation and Research Tools
- Monitor for Changes in Volume and Product and Behaviour
- Enforce Disciplined Underwriting/Review
- Utilize Risk-Based Quality Control

Use Fraud Detection Technology Wisely and Know its Limitations

Of the top 15 red flags only 25% are caught by automated tools

90% respondents reported they used at least one technological tool on about 50% of their loans at a cost of \$100 per loan, however fraud was reduced by less than 25%

Automated Tools =
More False Positives =
More Human Review =
Added Cost and Time =

Results Possibly Being Ignored

Use Operational Technology to Streamline the Process

- **Integrate Identity, Credit, and Property Fraud Databases**
- **Utilize Comprehensive Operational Control Systems**
- **Monitor Collateral Movement and Document Exceptions**
- **Incorporate Automated Prefunding Review and Validation**
- **Establish Fraud Metrics based on Quantitative Analysis**

Rely on Expert Industry Resources

- **Fraud Information Websites**
- **Professional Associations**
- **Governmental Agencies**
- **Technology Vendors**
- **Legal Counsel**
- **Warehouse Information Networksm**

Rely on Expert Industry Resources

Fraud Information Websites

- www.mortgagefraudblog.com
- www.flippingfrenzy.com
- www.priestongroup.com
 - Daily Mortgage Fraud Newsletter
- www.mortgagedaily.com
- www.nationalmortgagenews.com
 - Weekly Fraud and Compliance Report
- www.mortgagenewswatch.com

Rely on Expert Industry Resources

Professional Associations

- **Mortgage Bankers Association**
- **State Associations**
- **National Training Information Center**
- **American Land Title Association (ALTA)**
- **Appraisal Foundation**

Rely on Expert Industry Resources

Governmental Agencies

- Financial Crimes Enforcement Network (www.fincen.gov)
- National Information Center (www.ffiec.gov)
- Federal Bureau of Investigation (www.fbi.gov)
- Internal Revenue Service (www.irs.gov)

Rely on Expert Industry Resources Technology

- Interthinx
- CoreLogic
- Data Verify
- Mari
- www.bankersonline.com

Rely on Expert Industry Resources

Warehouse Information Network

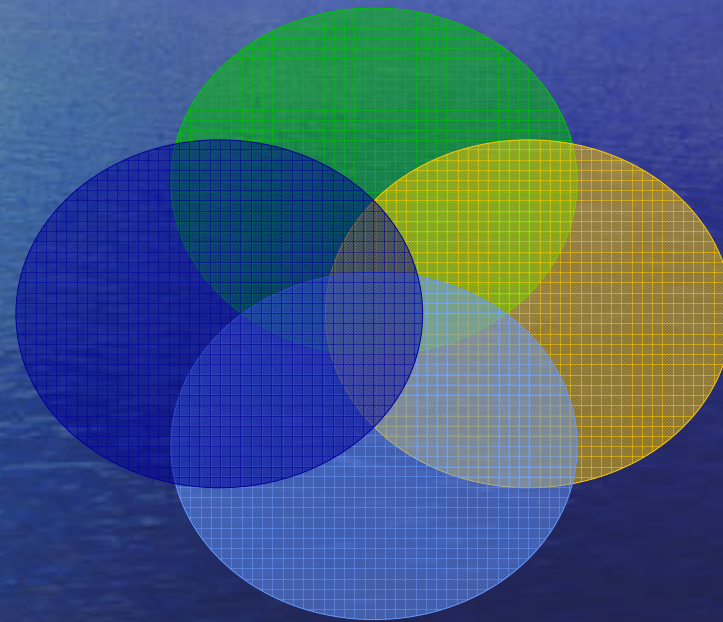
- **Loan Registry Alert Service**
- **Closing Agent Registry**
- **Warehouse Lender Forums**
- **Industry Advocacy**
- **Fraud Insurance Solutions**
- **Development of Standards and Best Practices**

People

Process

Technology

Industry Resources





The tide going out
leaves the rocks on the shore.

Anon



*Thank You
for your time today!*

Summary of Topics

- Have experienced and knowledgeable staff
- Anticipating, modeling and preventing risk events are more effective than after-the-fact inspection and damage control
- Use fraud detection technology wisely and know its limitations
- Use operational technology to streamline the process
- Rely on expert industry resources



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For more information, please contact:

Stanley M. Street
sstreet@streetresource.com

(770) 390-3000

