Scammers Remain a Step Ahead of Mortgage Regs

ROUNDTABLE

SINCE THE ECONOMIC DOWNTURN MORTGAGE fraud has been a prevalent issue plaguing the housing industry for several years.

It seems that every single time new regulations are issued to try to mitigate mortgage fraud, scammers always seem to be one step ahead of financial institutions and are already preparing their next scheme.

At the 2013 Mortgage Bankers Association's National Fraud Issues Conference in Hollywood, Fla., National Mortgage News hosted a roundtable that included top executives from risk mitigation firms who monitor various types of fraudulent activity such as loan modification scams, appraisal fraud, foreclosure rescue schemes, short sale fraud and bankruptcy fraud, as well as technology firms that provide software to lenders and servicers in order to prevent fraud from occurring within their businesses.

Moderating the discussion was Mark Fogarty, editorial director of the mortgage group at SourceMedia, and Evan Nemeroff, fraud reporter for National Mortgage News. They were joined by Tim Anderson, director of compliance services for DocMagic; Lisa Binkley, senior vice president of business development and mortgage solutions for Platinum Data Solutions; Darius Bozorgi, president of Veros; Becky Walzak, president of rjbWalzak Consulting; Connie Wilson, executive vice president of Interthinx; Andrew Liput, president of Secure Settlements; and Ed Gerding, senior fraud and risk strategist for CoreLogic.

In this segment of the discussion, the panelists explained the latest trends happening in mortgage fraud and what lenders and servicers can do to detect illegal loan applications they receive from a borrower.

Some highlights that were revealed by the panelists are that despite the growth of technology happening in the mortgage industry, the human element is still necessary to catch a fraudulent scam. Furthermore, this requires underwriters, loan officers and closing agents to be trained properly to notice inaccurate information that is submitted by a borrower in a loan application.

FOGARTY: Obviously, people want to know what is the trend in fraud? Is it up or down? Is it stable? With the new entire universe of compliance and regulations—has that had any affect in helping currently or will it in the future?

WALZAK: There's an impression out there—if you look at the straight numbers—it looks like fraud is decreasing. I think that's misleading. We stopped doing no-documentation loans, but fraud didn't begin with no-documentation loans. Fraud was always there and people were just finding ways to do it again. And if we just don't seem to learn that we can't do this kind of lending and these kind of activities, then it's going to go back up.

BINKLEY: One of the things coming forth today, according to Fannie Mae's second-quarter report for their fraud reviews in post-closing loans, employment income is going up, short sale fraud is through the roof continuing, and we're seeing a significant increase in asset misrepresentation. So regardless of all the industry regulation and all the paperwork that we are requiring borrowers to come to the table with, I really don't think that we are making that big of an impact on reducing the fraud in the sector.

ANDERSON: Unless there's a way to truly automate it. One of the outcomes of the big robo-signing, $25 billion lawsuit was a large lender now has to come out with another piece of paper that signs and closes saying I really am the noteholder of record. If you're going to commit fraud, you're going to commit fraud. If you don't have a way to systematically automate this and authenticate it through databases, it's really not the paper and it's just going to get worse.

BOZORGI: Tim hit it on the head about automation. You do have to change the process as fraud isn't going to go away. You're going to see different flavors of it, depending on what's going on at the given time. When you look at things like the UMDP program and even when you talk about appraisals or appraisal fraud with UCDP. For the first time now, appraisals and fully electronic standardized formats are being transmitted all the way through the process from the appraisers desktop all the way through to the investor. And Fannie and Freddie, for the first time now, passed the mandate for that program in excess of 10 million appraisals submitted into that system is unbelievable. They are now seeing stuff they've never saw before they actually acquired a loan, like where an appraiser who does a loan for B of A one week uses 123 Main St. as a comp and it's a three-bedroom, two baths and 2,500 square feet and two weeks later does another appraisal for Wells in which the same property is listed as a comp, but suddenly it's a four-bedroom, three baths, 3,500 square feet. They never knew that before because these loans were bought sight on scene. But it's that automation that Tim refers to, that standardization that is allowing people to see things they didn't see before.

LIPUT: The mortgage industry has always been sales driven, so I've noticed problems between sales and ops. It's always been there, it will never go away. Anything that is viewed as delaying the mortgage manufacturing process is viewed with skepticism. So until a lender has a problem, they don't generally think in terms of compliance. In addition the industry is also filled with a lot of smaller entities who either don't have the time, money or the education to implement all these technologies to go into place. And finally, while technology is great, there's always a human element to it. I've noticed some people we've worked with that even today, you have underwriters that can be trained, but when you have a huge volume of business, it's still a human being who has to look at it. Whether they are looking at it on a screen because it's paperless or they're looking at a paper file, if they're getting pushed by the sales people to run it through they're going to miss something. And the technology is not always going to capture it. So I think we the number one thing we need to focus on as an industry is better education, having trained people. It's not just trained to be a good underwriter, it's trained to know what to look for in fraud. I don't know many smaller companies—people who do 25, 100, or 200 loans a month—who conduct regular fraud training for their underwriters, processors and composers. With all of the technology, people need to be educated.

Becky Walzak (left): Impression of mortgage fraud drop is misleading.
Lisa Binkley: Industry has always been reactive, not proactive.

WALZAK: I totally agree with what you said about companies because I think we perpetuate this market volume driven organizations. There's a trade magazine article exalting this mortgage company and everything they've been able to do about how their underwriters are rewarded with bonuses if they meet certain timeframes for underwriting. If you have all the things that you are talking about with the appraisal and the underwriter doesn't look at it, it doesn't do anybody any good. So, we have to change that, but somehow the operations part of it has to be just as important as the sales volumes.

GERDING: I'm glad you brought that up, because really the sales side—the underwriters and processors—are the first line of defense and we are obviously keeping fraud in the forefront and that's what we do. My concern going into 2013, and what I am hearing from a lot of lenders, is that fraud is not their top concern, it was actually compliance. And I think the risk out there is over focusing on compliance and letting the fraud creep back in and then we've got that whole mess exacerbated again and we have to go after it to increase prevention efforts and enhance the tools that we use.

BINKLEY: One of the things that we as an industry have always been is so reactive. We have never as an industry been proactive and if we can learn anything from the fallout, fall down, stumble—whatever we want to call it—crash, it really is the fact that we as an industry need to set our standards. And we've not done that. Where we've only done it is in the appraisal world and we don't have it on the 1003. We have a form, yes, we have a form, but we have not really built out every single one of those data elements and labeled them, and titled them, and said what they stand for. And that goes back to Tim's point with regard to automation, we still need humans. That's really one of the most important things about the lending decision that we need is the human ability to make those decisions, but we need to act and have actionable information that is consistent across the entire industry and that's really where we're lacking.

WILSON: Education has sort of been my rust for the last 30 years on mortgage fraud. We are going from a refund market to a purchase market. Unfortunately, during the crash, we lost a lot of trained, knowledgeable underwriters and what we have now are data imputers, basically. And they're looking at documents and not being able to identify junior level red flags. They are relying on technology to make decisions for them and I'm a firm believer in technology. It's just a totally different world now, but the underlying root cause of the fraud is the fact that we have underwriters and processors who don't know, have not been trained, wouldn't be able to identify a fraudulent W-2 if it was sitting in front of them. Basic fraud training for underwriters is something that needs to be brought back in because we as an industry cannot afford to have people underwriting, processing, approving loans that don't understand mortgage fraud.

GERDING: Education and awareness is such a big deal. We know that fraud migrates, so we've tamed it down a little bit on the origination side so it's been moving over to the distressed sales. What happens is that as those volumes of folks who were in origination shrinks, some of them move over to the servicing side of the house. Well, guess what? That's a different fraud animal and they may not understand what those red flags are. ♦