

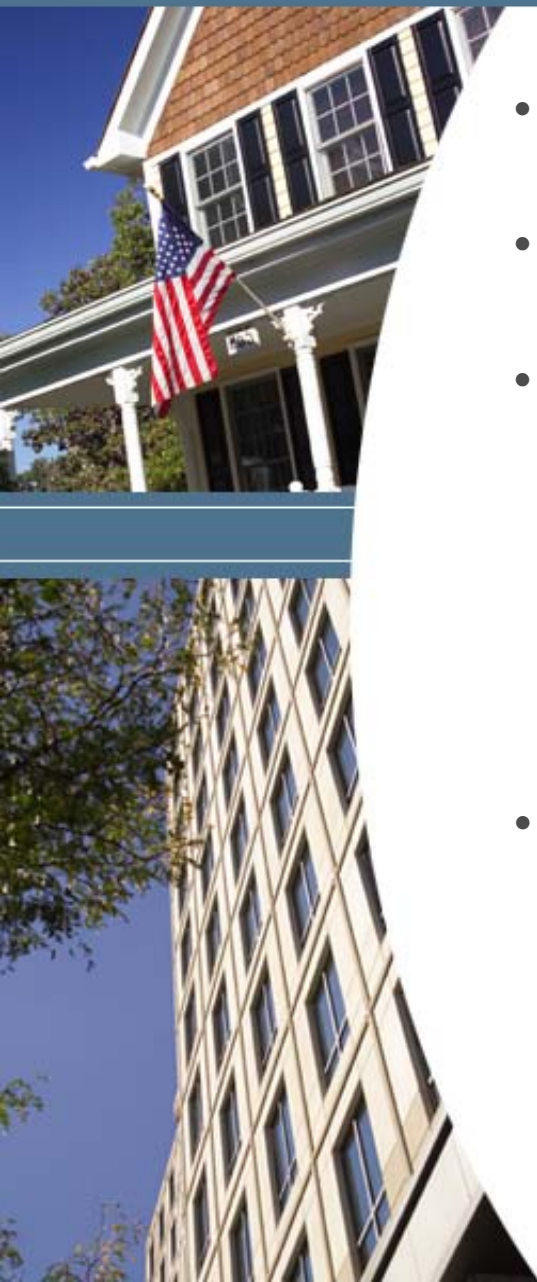


## **Building a Fraud Detection Program from the Bottom Up**

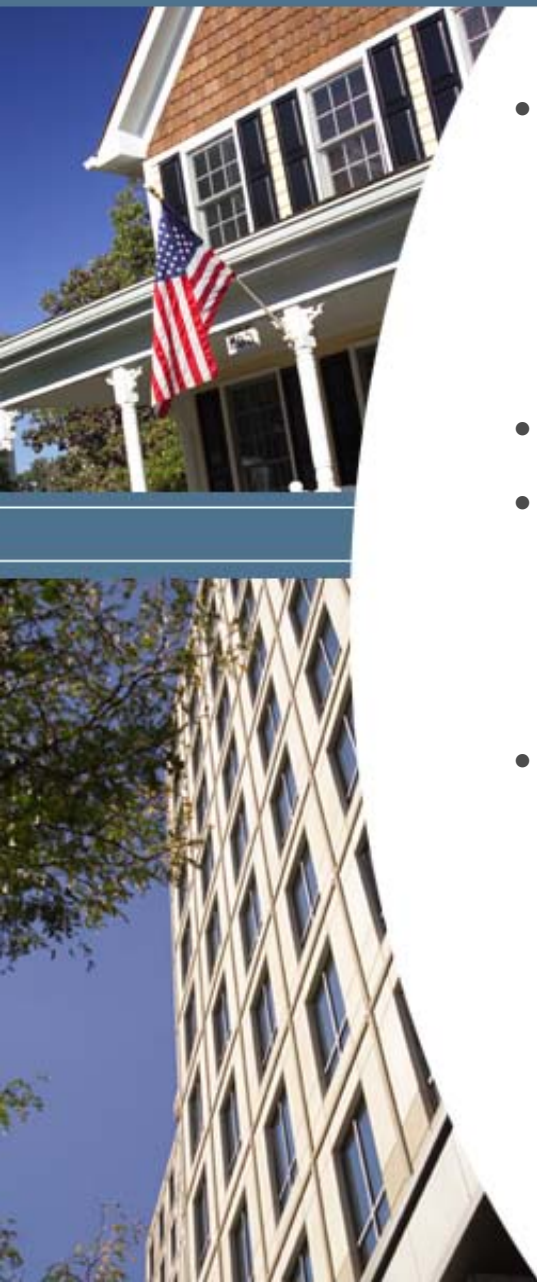
Fraud Issues Conference 2010

Presented by - Kurt Lofrano

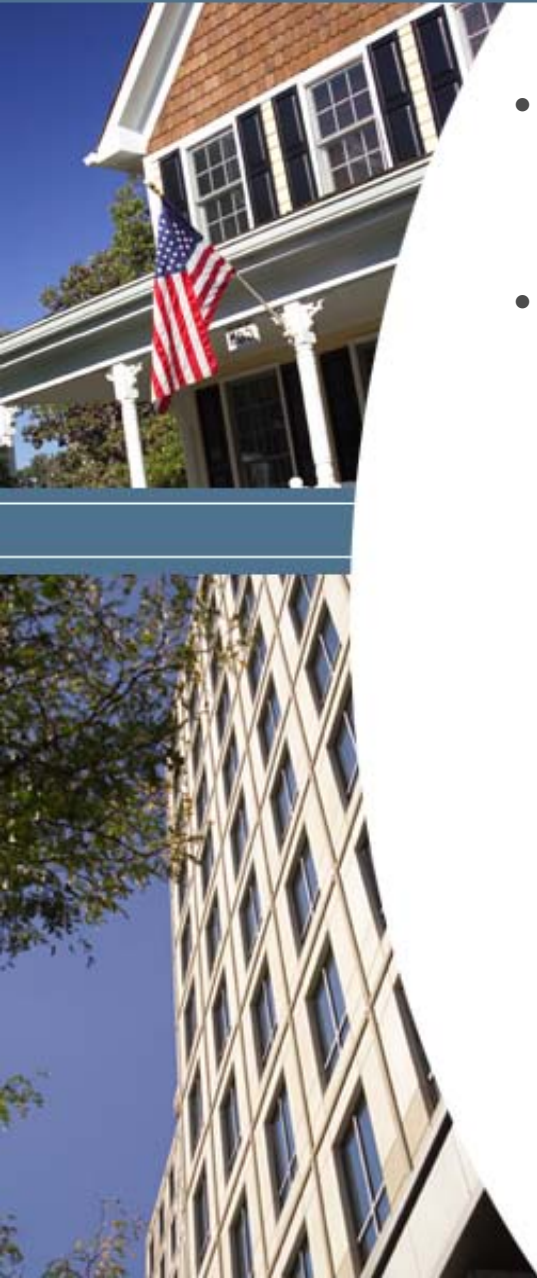
Wells Fargo Home Mortgage



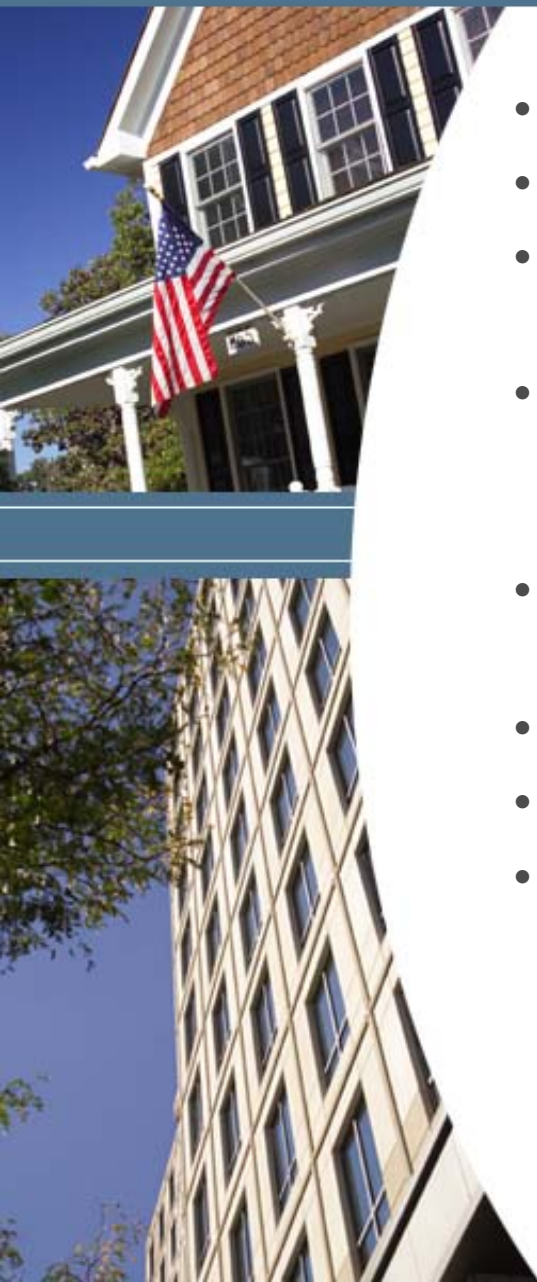
- Formalize fraud organization structure
  - » Appropriateness to organization size
- Visibility and accountability into executive management
  - » Regular meetings and reporting structure
- Inclusive to all areas of the organization
  - » Fraud department
  - » Credit risk
  - » Servicing
  - » Operations/underwriting – all business lines
  - » Sales
  - » Third party management
- Agreed upon metrics
  - » Prefund
  - » Post fund
  - » Investigation results



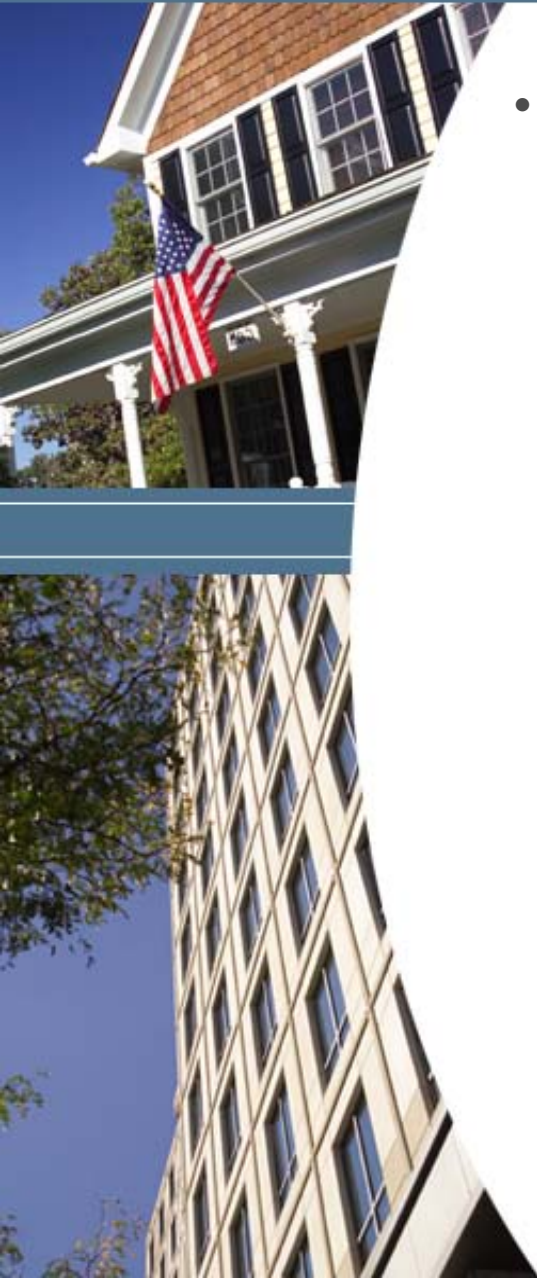
- Centralized database
  - » Build or buy
    - Most fraud tool vendors can support
  - » Integration into LOS and AUS
  - » Investigation results
- Tracking of all watch lists
- Monitoring of all prefund alerts
  - » Alert rates
  - » Cleared to fund
  - » Declined/cancelled
- Monitor and compare
  - » Business line
  - » Broker
  - » Geographic areas
  - » Sites
  - » Loan officers
  - » Underwriters



- Consolidated summary reporting
  - » Detailed trending
  - » High level summary for executive management
- Other key areas of reporting
  - » Fraud averted
  - » Fraud identified
  - » Cost of fraud
    - Current losses
    - Expected future losses
    - Reserve monitoring
  - » Prefund QC results
  - » Post fund QC results



- Evaluate effectiveness of controls
- Economics of fraud
- Set acceptable and unacceptable levels of fraud
  - » Continual monitoring
- Evaluation of all EPDs, audits and repurchases
  - » Assess controls for gaps and process execution
  - » Economic accountability to origination area
- Partnership with sales, underwriting, operations , servicing and risk management
- Incent proper behavior
- Disincentive for improper behavior
- Formal employee and underwriting fraud training programs



- Evaluation of broker's fraud controls
  - » Prefund tools
    - Alert rates
    - Evaluation/clearing processes
    - Funding rates
  - » QC results
    - Performing
    - Fraud findings
    - EPDs
  - » Organizational risk structure
  - » Loan performance