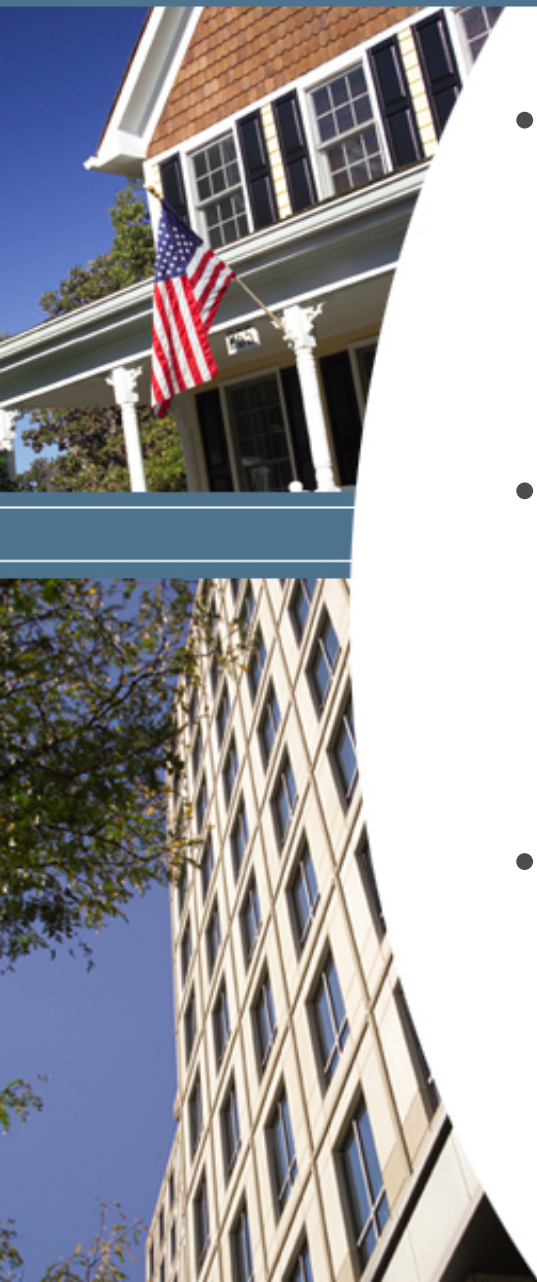




## THINK LIKE A CRIMINAL

MBA National Fraud Issues Conference, Chicago, IL  
April 27, 2010

Ann Fulmer, Interthinx  
Amy Heinz, Fannie Mae  
Chris Swecker, FBI  
Jenny Brawley, Freddie Mac  
Rose Wolfe, Wells Fargo



- **Jimmy Moolah:** Real estate entrepreneur



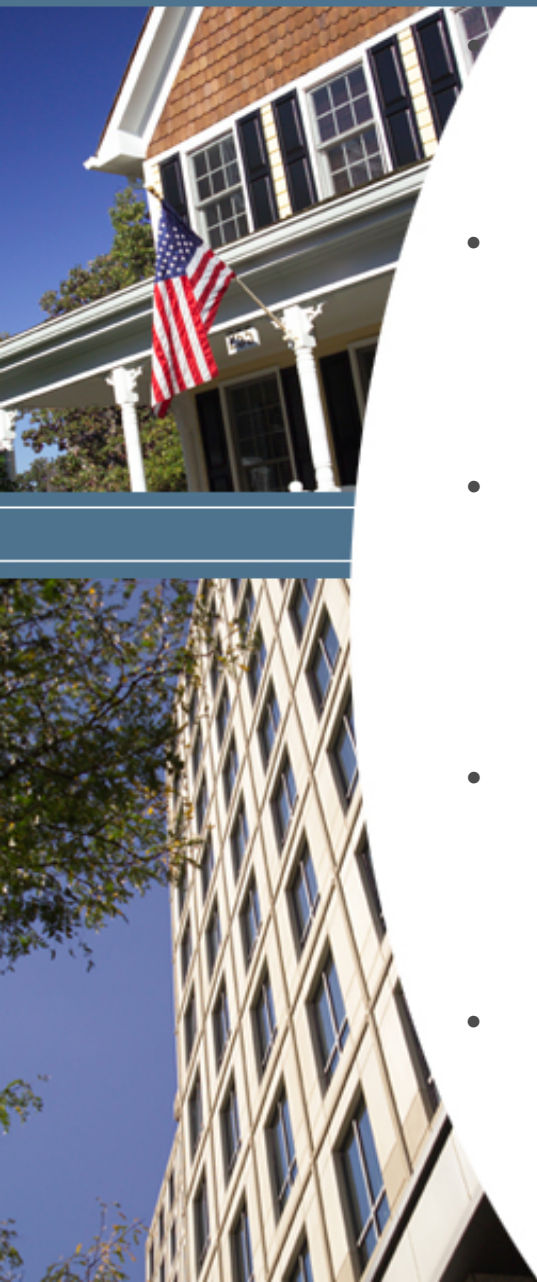
- **Tami Jaded:** Loan officer at Closumqwik Mortgage



- **Annie Oakley:** Moola investment club member



# Scenario



Jimmy Moolah lives in a college town, runs an investment club, and has made a very good living in real estate. He is friends with Tami Jaded, several employees of local REO management companies, and he has professional relationships with several real estate brokerages.

- Tami Jaded is a loan officer at Closumqwik Mortgage. She often has lunch with Jimmy, and casually chats about what's going on in the office, including the latest underwriting guidelines, and Closumqwik's heavy reliance on an automated underwriting system with review by seasoned underwriters, except for the "cleanest" approval decisions which are given to junior "validator" underwriters.
- **The plan:** Jimmy tells Tami he wants to put vacant REO properties into the hands of owner-occupants to help stabilize neighborhoods and the US economy, and to help underwater borrowers by arranging short sales. He tells her that he wants to buy and flip these properties using relaxed title seasoning requirements, and the First Time Homebuyer tax credit. He wants to give her all his business, and wants his clients to meet AUS standards to ensure things go smoothly.
- **The intel:** Tami, proud to provide quality customer service, explains that FICOs should be above 700, assets should exceed 6 months' reserves, that they should put down enough money to end up with an LTV of at least 5% less than the maximum, and that they should provide all supporting documents up front because so that the junior underwriters "can just check things off their checklists."
- **The problem:** Annie Oakley is one of Moola's club members. She's 25 years old, makes \$19,000/year and has \$1,200 in the bank. She has no credit apart from student loans and a couple of trade lines, which she's often late in paying. Jimmy needs her as an end buyer and he doesn't want to use any of his own money for the initial purchase.

# THINK LIKE A CRIMINAL



The following slides were populated with real-time contributions by the audience, exploring how Jimmy Moolah might build a business that takes advantage of the system, and exploring what controls might best safeguard against Jimmy's illegal profits.

# THINK LIKE A CRIMINAL

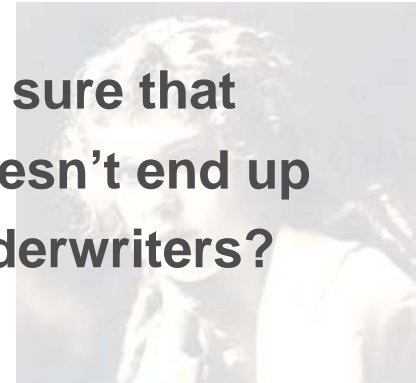


How can Jimmy acquire his inventory of properties for sale?

- Scan public records for defaulted taxes, NOD's
- "Incent" Tami to give him list of Foreclosures, REOs
- Advertise seminars to help struggling borrowers
- Transfer title from homeowner into a land trust so that Jimmy gains control
- File false satisfaction of mortgages
- Make bulk REO offer to GSE on a zip code area
- Use straw buyers, identity theft to purchase distressed real estate



How can Jimmy make sure that Annie Oakley's file doesn't end up with the seasoned underwriters?



- “Incent” Tami to control loan files
- Use straw buyer, investment club member profile with low risk
- Manipulate FICO
  - Use credit repair company to dispute negative credit, increase FICO
- Ensure income is high enough to reduce DTI
  - Jimmy could “hire” Annie; control employment verification
- Reduce LTV so that risk is minimized
  - Falsify down payment – Jimmy funds Annie's account or adds her to his accounts
  - Forge VOD
  - Inflate the property value





How can Jimmy create a profit margin?

- Same day flip
  - Manipulate “low-ball” short sale
  - “Incent” appraiser to inflate value for same day flip
- “Shotgun” multiple undisclosed mortgages on each property
- Put tenants in property, extract equity through 2<sup>nd</sup> mortgage, make only 3 payments but continue to collect rent

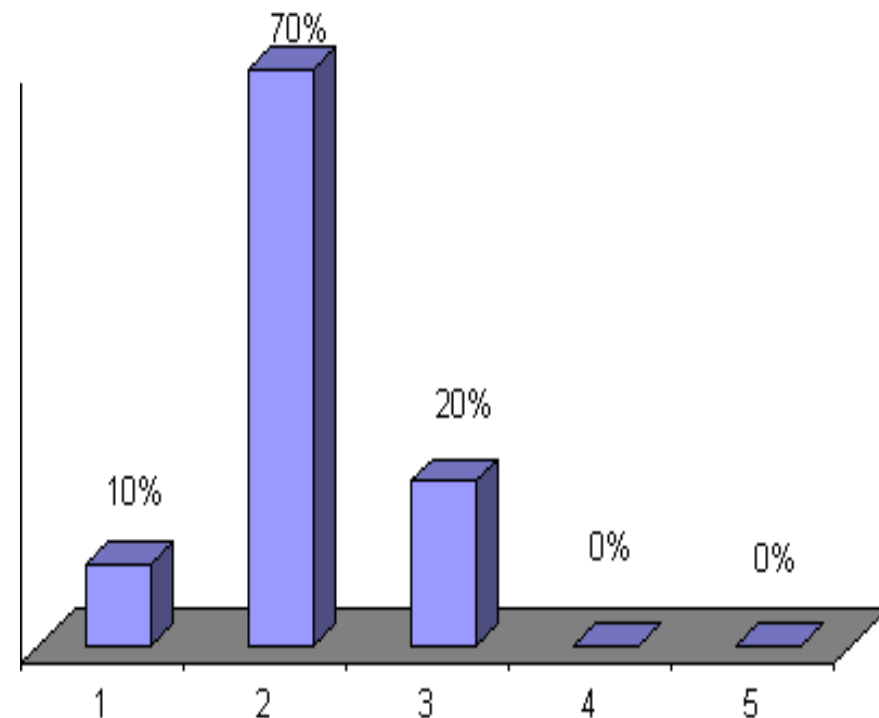


**Jimmy must pay his investors \$15,000. How does he extract these funds from the loan proceeds?**

- “Incent” appraiser to inflate the value; inflate sales price
- Bogus renovation costs
- File fictitious lien against property prior to sale
- Excessive fees and payouts (to bogus LLCs, contractors; “incent” RE agent to funnel payout through inflated commission)
- Falsify lien satisfaction prior to sale
- Reverse closing: close sale of property prior to purchase

## What can be done to best protect against Jimmy?

1. Obtain valuation review
2. Conduct pre-funding QC
3. Use 3<sup>rd</sup> party validations
4. Detailed closing instructions
5. Ensure seller on title



The audience voted on their opinion of the best safeguard; and it should be noted that none of these answers are incorrect. Several votes for option 2 suggested that that solution would include the other suggested controls.