



## Digging out from a pile of mortgage-fraud cases

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### TARRANT COUNTY

\*The district attorney's office has identified more than \$42 million in mortgage scams. And it's even worse in other states.

FORT WORTH -- Three years ago, it was rare for a Tarrant County prosecutor to see a case alleging mortgage-loan fraud.

Now, the district attorney's office is covered up in them.

"We have been hit with a tsunami of mortgage fraud," said Joe Shannon, chief of the economic-crimes unit of the Tarrant County district attorney's office.

Investigators estimate that they have identified more than \$42 million in mortgage scams in Tarrant County. The district attorney's office now has an investigator who works full time on such cases. Last week alone, seven new cases were referred to the economic-crimes unit.

And the FBI doesn't even consider Texas to have a "significant mortgage-fraud problem." That designation goes to California, Florida, Michigan, Nevada and Utah, among other states.

According to the FBI, the number of mortgage-fraud suspicious-activity reports nationwide jumped from about 7,000 in 2003 to more than 62,000 last year.

"Unfortunately, the mortgage-lending industry is not short on greed," said David Lobingier, Tarrant County economic-crimes prosecutor. "Everyone along the line seems to want his or her hand in the pie."

Brian Collins, president of the Tarrant County Association of Mortgage Brokers and president of Cendera Funding, a licensed mortgage banker, agreed that there are some unscrupulous people in the mortgage business. Since 2007, the number of Texas loan officers has dropped by more than 50 percent, he said. Some got out of the business voluntarily; others had their licenses revoked for misconduct.

"They gave a lot of very, very good brokers a black eye," Collins said. "Most brokers are hardworking people who are trying to feed their families. They are good, strong, hardworking people who try to do their jobs right."

### Property and profit

Lobingier said there are two categories of mortgage fraud: for property and for profit.

Fraud for property usually involves loan applicants who lie about their income or conceal their debt to purchase a house they can't afford.

Last year, Lobingier prosecuted Stephen B. Jones, 44, who falsified documents to inflate his income so he could purchase a \$650,000 house. Jones, who was in training to be a mortgage broker, pulled other people's financial records, whited out their names and typed in his own.

An astute underwriter discovered the scam. A jury later convicted Jones of making a false statement to obtain property and sentenced him to 45 years in prison.

Although the case was notable, Lobingier said most cases involve fraud for profit, which includes illegal property flipping and mortgage-related identity theft.

Fraud for profit often involves a group of people who gain illicit proceeds from sales: an appraiser who gives a bogus appraisal, a loan officer who falsifies a document, an underwriter who overlooks a questionable loan.

"The prevailing percentage of all fraud involves more than one company," Collins said. "When you have a ring going on, you usually have an appraiser, a title company and a Realtor on the hook. That is the rampant thing that has happened."

Because most people in the industry are paid by commission, they might approve questionable loans during a bad market to maintain their income level, Lobingier said. They also might be receiving kickbacks.

"They let it go because they need to make their money," Lobingier said. "The prevailing attitude in the business was: 'So what? Real estate is going up and the loans are insured.' "

Lobingier said he recently received an anonymous letter from a homeowner in a subdivision asking the district attorney's office to investigate why there are so many foreclosures and vacant houses in the subdivision. Lobingier said an investigation uncovered a large mortgage-fraud ring.

"That was the tip of the iceberg," Lobingier said, declining to give details because the case is ongoing. "That case grew, and others started coming in."

#### Liars' loans

Some authorities say the mortgage crisis can be traced back to around 2002 when "stated-income loans" -- given by lenders without verifying the borrower's income or employment history -- were becoming popular. They were eventually dubbed liars' loans.

Stated-income mortgages were intended for the self-employed borrower who had good assets and a good track record but difficulty documenting income. But, experts said, the loans were eventually extended to just about anyone. Because income wasn't verified and the loans were unregulated, they were ripe for fraud.

"Some unscrupulous brokers hurt the reputation of many quality brokerage firms by putting people into mortgages that they could not effectively handle," Collins said. "The strength of their credit was questionable. This was only a small part of a much larger issue. Large hedge funds created these loan instruments designed to approve 100 percent loans for people with a 580 credit score at the subprime market's peaks. An appreciating real estate market can hide a multitude of sins."

With home prices spiraling upward, the brokers thought that no one could lose: Even if a borrower couldn't make payments, the home could be sold at a profit, and the lender would get paid.

Lobingier recalled a case under investigation involving a woman who stated on her loan application that she made \$15,000 a month working in an office. The lender didn't verify the information. An investigator who called the "employer" learned that no one had ever heard of the applicant.

"The loaning of money without verifying income or other assets is like buying a car without test-driving it," Lobingier said.

To try to crack down, the Federal Reserve Board last year issued regulations that will require lenders to, among other things, verify that borrowers have sufficient income and assets to repay subprime loans. The new regulations will go into effect in October.

Authorities say mortgage fraud is not a victimless crime. Lenders end up with high foreclosure costs, and legitimate homeowners end up with reduced property values. Honest mortgage brokers have also paid the price. Big banks no longer lend money through brokers, Collins said. Many brokers are searching for other jobs.

"The broker in the past two years has been the whipping child," Collins said. "The industry has been decimated as a result of this."

Lobingier said the lure of easy money snared people who would otherwise be honest and law-abiding.

"Nothing makes our financial institutions more vulnerable than greed, especially when there is no one there to look over the shoulder of the participants," Lobingier said. "It's like having a basketball game and asking the players to call their own fouls."

#### Examples of mortgage-loan fraud

**Illegal property flipping with inflated values:** The most-common type of mortgage fraud. A flipper might purchase a property for \$100,000 and have it appraised for \$300,000 through a fraudulent appraisal or by doctoring documents. The flipper then sells the house to a "straw buyer," who could be a real person or one who is made up through stolen identities and forged documents. The straw buyer obtains a loan for \$300,000 and may split the \$200,000 profit with the flipper. The bank is left with a \$300,000 mortgage on a \$100,000 house.

**Silent second mortgage:** Borrowing the down payment from the seller in exchange for giving the seller a silent second mortgage, which is hidden from the lender.

**Stolen or "leased" identities:** Using stolen identities and credit histories on loan applications.

**Inflated appraisals:** This scam might involve an appraiser who agrees to inflate the price of a house for a kickback. In some cases, the appraisal might be fabricated, perhaps by another industry insider.

**Foreclosure schemes:** They target homeowners whose house is about to go into foreclosure. A crook might offer to make payments in exchange for the deed. The crook then mortgages the house and walks away with the money. The homeowner is left holding the bag.

Source: Tarrant County district attorney's office

#### Guarding against mortgage fraud

Get referrals from real estate and mortgage professionals.

Check licenses of industry professionals.

Be wary of strangers, unsolicited contacts and high-pressure sales techniques.

Find out recent comparable sales prices in the area and request documents, such as tax assessments, to verify the property's value.

Understand what you are signing and check the information to make sure that it is accurate and complete. Never sign any loan documentation that contains blanks, because it could leave you vulnerable to fraud. If you do not understand something, ask questions or seek an attorney's advice.

Make sure the name on your application matches the name on your identification.

Review the title history to see whether the property has been sold multiple times within a short time. It could mean that the property has been flipped and the value falsely inflated.

Beware of "no money down" loans, which are sometimes used to entice people to buy a home they can't afford.

Don't let anyone, including a real estate agent or mortgage broker, talk you into making a false statement on your loan application, including overstating your income or lying about where your down payment is coming from.

Source: FBI mortgage fraud Web page ( [www.fbi.gov](http://www.fbi.gov)) and other research

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