

# Catching Fraudsters

New methodologies and approaches have emerged to enable lenders to prevent fraud more effectively.

As fraudsters come up with new ways to commit crime, mortgage lenders must also come up with new ways to thwart their efforts. David Green, president of The StoneHill Group, says, "The most pressing technology that lenders need is to introduce automated fraud detection in their process. We need to present information in a format that they can easily use. I was at a presentation, which talked about the integration of all the various tools into a useable product through a joint agreement between MERS and Interthinx. MERS has a lot of real-time data. We did a lot of MERS integration. Similarly, we've evolved into making ourselves a technology company that provides data back to clients. We will be a user of MERS/Interthinx technology to provide quality control."

By Anthony Garritano



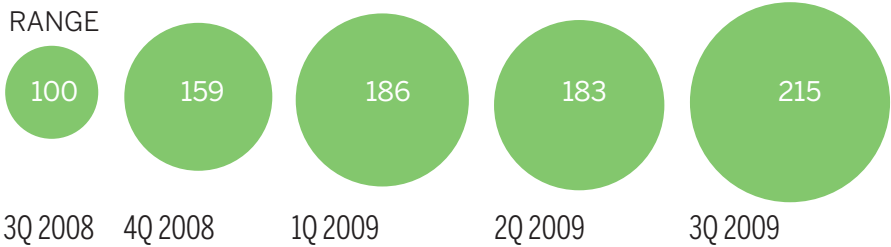
StoneHill Group was founded in 1996 to provide management consulting and project management to the mortgage banking industry. Through the years the company has expanded its services based on the needs and demands of clients. Today the company offers quality control, staffing and outsourcing services.

Going forward, Mr. Green thinks there is more the mortgage industry can do to prevent fraud. "We need to integrate all the providers to one useable tool. ComplianceEase, for example, is working with other outside groups to provide their data. I see more integrations and more aggregators coming about. Right now the use of these fraud tools is not mandatory. Identity verification and the use of the 4506-T and other tools will become mandatory. Investors are already starting to do it, I'm just waiting for the agencies to follow.

"We recommend that our clients immediately utilize fraud detection tools in the origination process. We do that so lenders can internally measure their risk. Agencies don't require verbal verification of employment, but we recommend that lenders do that. We'll make those recommendations because they make for a more risk-averse process. Overall, we've seen a flight to quality. Lenders are doing it because their investors are asking for it."

According to the 3Q 2009 Mortgage Fraud Risk Report by Interthinx, there is an increased geographic concentration of mortgage fraud risk, which is the most striking change over the last year. The national fraud index actually declined from 149 in the third quarter of 2008 to 145. This small decrease masks much larger changes that occurred at the state level. In the same quarter, the Mortgage Fraud Risk Index for the 50 states and the District of Columbia ranged from 101 in Connecticut to 201 in Nevada – a spread of 100 points. The range for the third quarter of 2009, just one year later, is

## MORTGAGE FRAUD CONTINUES TO GET WORSE



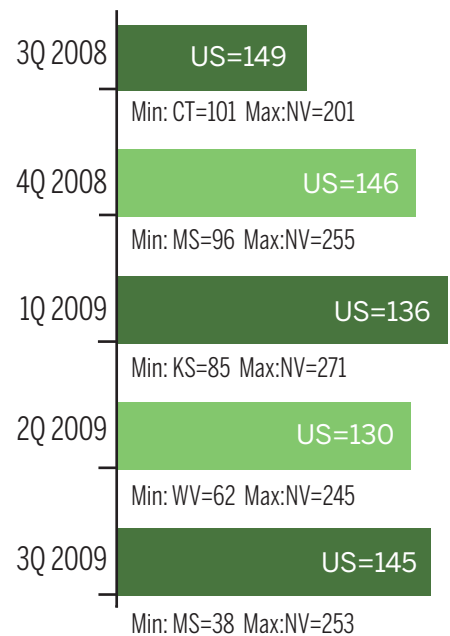
from 38 in Mississippi to 251 in Nevada – a spread of 213 points. This means that the riskiest states are now much more risky than a year ago, and that the least risky states are much less risky than a year ago.

So, how can lenders be more risk averse? "The law enforcement agencies have recognized the power of data aggregation," answered Ann Fulmer, vice president of industry relations for Interthinx. "The fact that the data comes in post-closing is unfortunate. The MERS database is an outgrowth of the MBA's effort to establish a national fraud database. To get power over this problem we need to start pooling our data.

"There's a new bill that passed the house to measure how TARP money is spent, for example. Why not do that in mortgage? When you get large pools of data you can start to be predictive. What we've done with MERS is create an industry utility. In our second-quarter report, we learned that fraud flourishes in uncertain markets. One of the ways to get around that is to be more aggressive when it comes to data collection."

MERSCORP Inc. and Interthinx launched a national fraud prevention database that will, for the first time, allow lenders to seek, identify and share suspected fraudulent activity in loan applications from the point of origination. MERS FraudAlert, powered by Interthinx will help identify and prevent fraud through the sharing and reporting of key data among the more than 62 million loans currently registered on the MERS System. Lenders using MERS FraudAlert will submit loan

## STATES GET RISKIER



Source: Interthinx.

application data and incident reports with suspected or confirmed fraudulent activity to a centralized database. The system will then notify other lenders who have loans that may have connections to the data, alerting them to possible fraudulent transactions in their pipelines.

Technology combined with more government intervention seems to be the future of fraud detection. One way the government has sought to curb appraisal fraud is by introducing HVCC to eliminate the ability for lenders to influence appraisers. Interthinx believes HVCC has helped.

"In major markets HVCC has removed one of the channels for fraud," said Ms. Fulmer.

"Severing that link between a schemer and someone that can facilitate it is critical. There's such a glut of foreclosed properties, short sales are going to be huge. One of the things that the GSEs have done to speed up the loan mod or short sale is allowing BPOs. We see real estate brokers doing these BPOs as something that can really open mortgage up for fraud.

"The only way to rationally deal with this is to screen for fraud upfront. It astounds me that there is reluctance to screen before funding. When you default or get a repurchase, that's more costly as compared to screening for fraud early. An ounce of prevention is worth a pound of cure.

"In general, the government is still a little bit beyond the eight ball on fraud, so lenders have to step up. Government attention is on the law enforcement side, which is after the fact. There are a lot of big cases that won't come to trial because the lender went out of business, the files couldn't be found, etc. and the statute of limitations is running out. We can't prosecute our way out of this problem. It's up to the mortgage industry to do its job on the front end if we're going to make a significant impact."

In order for lenders to do a better job, they will depend more on their loan origination systems to either offer fraud alerts or to more seamlessly integrate to fraud prevention vendors like Interthinx and others.

"Once a week we have product steering committees," noted origination vendor Del Mar DataTrac president Rob Katz. "We have an interface to QuestSoft and we're working on an integration to Interthinx. DMD has no interest in becoming a fraud detection vendor. We want to be the database of record and have our clients click one button and have reports flow seamlessly back to them.

"As an LOS you need to put controls in place to protect the data. If the data being sent into a fraud detection tool isn't good it's garbage in, garbage out. From there the LOS has to integrate to experts on merging databases for fraud detection. To be an LOS company and do all that would be to take our eye off the ball. We want to make it easy for our clients to work with those experts, though."

"Centralizing reporting on all the moving parts of a loan is essential," added Sean Dugan, senior vice president sales and marketing at LOS PC



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**—David Green, StoneHill Group**

Lender. "This way you can find loans with conflicting data or duplicate Social Security numbers, for example. The other thing we do at PC Lender is not allow the user to change fees or other data elements without special rights. The user should only have the right to change certain fields. We also have integrations with Interthinx and ComplianceEase. We will run an integration with those providers, bring that data back into our system and offer hard stops if anything suspect comes back.

"If leads are not centralized that can also lead to problems. We take pictures of the data at different points in time and compare them to prior photos. If the information changes you can see that and report on it. You can run a query and look for certain discrepancies, as well. You can identify property type changes, income changes, credit changes, etc."

The American Association of Mortgage Regulators said they'll require lenders to report data and they'll scrub that data through ComplianceEase. Based on that data they'll choose who

to audit. In taking this step they're going to zero in on certain loans. Regulators will have more clarity. "So, instead of just having a ComplianceEase interface we'll incorporate real-time alerts," said Mr. Dugan. "We'll also add business rules that automatically check against HUD's blacklist beyond what ComplianceEase and Interthinx offer."

And lenders realize that they have to be more diligent in catching fraud. "For the industry as a whole I think fraud detection is a big piece of what we all need to be focusing on," said

Andrew Weissmalik, chief operating officer at 360 Mortgage. "A big part of the mortgage collapse was because of fraud. Stated-income and no-verification loans included misrepresentation. We need to make sure the borrowers and the credit we used to qualify them is genuine and correct.

"We take all the information that we receive from the borrower and the broker and we reverify it. We use everything from Google to The Work Number. When it comes to verifying income we use the pay stubs, but to verify that we pull their 4506-T. When it comes to appraisals I think appraisers have made leaps and bound improvements. If the loan goes into default all you can rely on is the collateral. We use AVMs from CoreLogic to verify the appraisal.

"There's a lot of marketing out there stating that you can make \$100,000 a year selling real estate without using your own credit. That is happening today. So, we have to verify everything," concluded Mr. Weissmalik. **MT**