



# Mortgage Fraud

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# Objectives

- To introduce HUD-OIG, and help you better understand some of the most common frauds and fraud schemes applicable to HUD/FHA.





## SECTION I

# OIG Mission



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# Mission

As the **Office of Inspector General (OIG)** for the U.S. Department of Housing and Urban Development (HUD), we remain an independent and objective organization, conducting and supervising audits, evaluations, and investigations relating to the Department's programs and operations. We promote economy, efficiency, and effectiveness in these programs and operations as we also prevent and detect fraud, abuse, and mismanagement. We are committed to keeping HUD's Secretary, Congress and our stakeholders fully informed about problems, deficiencies and progress of corrective actions.



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# History

- In 1972, Charles Haynes became the first HUD Inspector General, 6 years before the passage of the Inspector General (IG) Act of 1978 (PL 95-452, amended in PL 11-259).
- The Inspector General Act of 1978, as amended, establishes the responsibilities and duties of an IG. The IG Act has been amended to increase the number of agencies with statutory IGs.
- HUD OIG was one of the original 12 Inspector Generals authorized under the IG Act of 1978.
- The current Inspector General is David A. Montoya, who was sworn in on December 1, 2011.



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# The Office of Investigation

The **Office of Investigation** plans and conducts investigations that vary in purpose and scope. HUD OIG investigation sanctions are criminal, civil or administrative in nature. The focus of HUD OIG investigations may include the integrity of programs, personnel in agencies at Federal, State, and local levels of government; program, procurement, grant fraud schemes, mortgage fraud, financial fraud, and whistleblower retaliation. As well as other matters involving alleged violations of law, rules, regulations, and policies.



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# Office of Investigations Regional Offices

- Boston, MA
- New York, NY
- Philadelphia, PA
- **Atlanta, GA**
- Baltimore, MD
- Denver, CO
- Chicago, IL
- Fort Worth, TX
- Kansas City, MO
- Los Angeles, CA



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# HUD-OIG INVESTIGATIVE RESULTS

## FY 2015 Nationwide

- \$436,460,945 Court ordered restitution and judgements
- 232 Arrests
- 308 Indictments
- 355 Convictions, Pleas, and Pretrial Diversion
- 440 Administrative Sanctions





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# OIG Partnerships

- Federal Bureau of Investigation
- U.S. Postal Inspection Service
- U.S. Bankruptcy Trustees
- U.S. Attorney's Office & Main Justice
- U.S. Secret Service
- Internal Revenue Service-CI
- U.S. Marshals Service
- Other Federal, State and Local Agencies and regulators



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# OIG Investigations include:

- Mortgage Fraud
- Bankruptcy Fraud
- Equity Skimming
- Landlord/Tenant Assisted Housing Fraud
- Bribery/Kickbacks
- Embezzlement or theft of Government Funds
- Grant Fraud
- Public Corruption-(Bid Rigging, double billing, false statements)



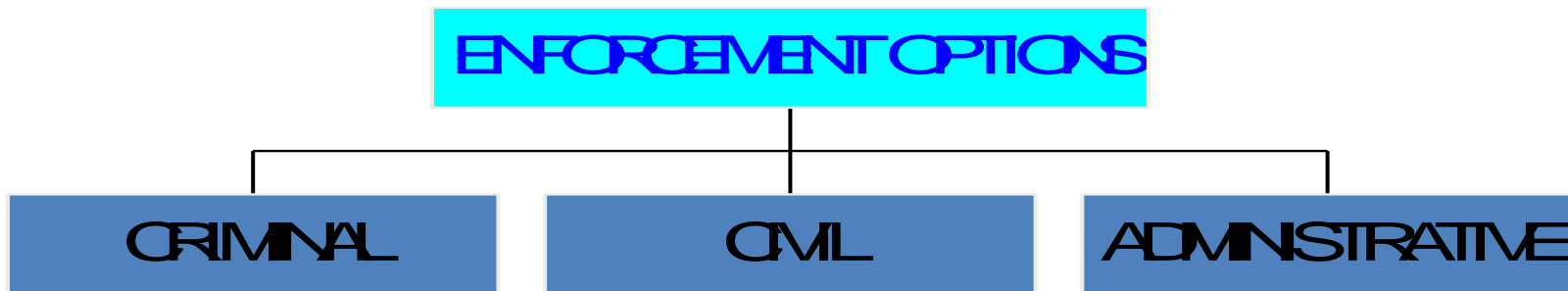
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# OIG Investigations include:

- Conflicts of Interest
- Antitrust Violations
- Material False Statements to HUD
  - a) Single Family Home Loan Fraud (FHA)
  - b) Housing Benefits Fraud-(includes unreported household tenants to include convicted felons, fugitives, sex offenders)
  - c) Grant Fraud from Non-profit Organizations receiving HUD grants
- Public Corruption-(Bid Rigging, double billing, false statements)



# OIG ENFORCEMENT ACTIONS





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# ADMINISTRATIVE ACTIONS

- Suspension from participation in HUD Programs
- Debarment from participation in HUD Programs
- Limited Denial of Participation in HUD Programs
- Civil Monetary Penalties
- Program Fraud Civil Remedy Act (31 USC 3801, 24 CFR Part 28)



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# Who do we investigate?

- Real Estate Agents
- Mortgage Brokers
- Loan Officers/Lenders
- Appraisers
- Title Companies
- HUD Grantees or Sub Grantees
- Home Buyers & Speculators/Investors
- Assisted Housing Landlords
- HUD Employees
- Housing Authority Employees
- Housing Authority Board Members





## SECTION II

# History of Federal Housing Administration (FHA)

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# History of FHA

**Congress created the Federal Housing Administration (FHA) in 1934. The FHA became a part of the Department of Housing and Urban Development's (HUD) Office of Housing in 1965.**

- When the FHA was created, the housing industry was flat on its back:
- Two million construction workers had lost their jobs.
- Terms were difficult to meet for homebuyers seeking mortgages.
- Mortgage loan terms were limited to 50 percent of the property's market value, with a repayment schedule spread over three to five years and ending with a balloon payment.
- America was primarily a nation of renters. Only four in 10 households owned homes.





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# FHA Insured Loans

- For Low to Mid Income Families
- For persons who may not qualify for Conventional loans
- 3% Down Payment
- Down Payment Assistance grants exist through various Cities, Counties, and Non-Profits





## SECTION III

# Mortgage Fraud

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# Types of Mortgage Fraud

- Loan Origination Fraud
- Reverse Mortgage Fraud (HECM)
- Short Sale/ Preforeclosure Sale Fraud
- Home Rehabilitation Fraud (203K)
- Good Neighbor Next Door Program Fraud
- Down Payment Assistance Fraud
- Equity Skimming/Foreclosure Rescue



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# Loan Origination Fraud

- False gift letters-Borrower not related to person on gift letter, gift giver does not exist, gift giver actually the seller.
- Credit repair-Seller paying off bad debt of borrower, adding borrowers to paid or their own personal credit cards to springboard the borrower's credit into an acceptable range.
- Creating false bank statements, bills of sale for vehicles for sourcing down payments, false W-2 and verifications of employment, creating false rental leases to conceal a borrower's property ownership and actual residence (straw buyers)
- Seller paying for rented credit of buyer to enhance credit score





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# Reverse Mortgage Fraud (HECM)

- Typically involves a relative taking advantage of an elderly mortgagor.
- Relative takes money intended for elderly mortgagee to live on for the duration of their life.
- Relative sometime makes withdrawal after mortgagor is deceased-Bank is victim



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# Short Sale Fraud

- Short Sale Specialists (Sometimes a realtor) negotiates a non-arms length transaction
- Negotiator has a second sale prearranged for a profit, but certifies to mortgagee no deals are in place for a resale.
- “Playing both side of the fence”-Conflict of Interest



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# Home Rehabilitation Fraud (203K)

- Contractor, Investor or Home Inspector falsifies rehab construction progress reports for construction draws
- Client is sometimes the victim if contractor walks with the construction draw, or work is sub code



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# Good Neighbor Next Door Fraud

- HUD Program for First Responders, Nurses, EMTs
- Purchase HUD REO Property at half value of appraisal
- Must reside in property for 3 years or repay portion of down payment
- Participants falsely certify to their annual occupancy and use property as a rental





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# Down Payment Assistance Fraud

- Participant receives HUD funds for their down payment through an intermediary with a residency requirement
- Participant falsifies their program documents and intends to use the property as a rental or investment property



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# Equity Skimming/Foreclosure Rescue

- Property is researched and has equity, often times a vacant or distressed mortgagor
- Investor pays little/no money and quit claim deeds & property to themselves
- Investor assures mortgagor he will make mortgage payments along with tax, insurance escrow payments
- Investor rents property out to Section 8 tenant



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# Equity Skimming/Foreclosure Rescue

- Investor fails to make payments
- Investor files false bankruptcy to stall foreclosures
- Fractional interests/serial filings
- Eventual default/foreclosure and eviction of tenants, often waste of property
- FHA pays claim, takes property back to REO



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# Impact of Mortgage Fraud

- Defaults
- Foreclosures-(Your property value and tax dollars suffer)
- Legal Costs to FHA, Borrowers, Banks
- FHA insurance fund
- Creation of artificial real estate market





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Three recruiters, two loan officers, a seller, and an attorney assistant pled guilty to wire fraud, mail fraud, obstruction of justice, and aggravated identity theft for their roles in a multi-loan mortgage insurance fraud scheme involving both FHA and conventional loans. From August 2004 through October 2012, the conspirators participated in a scheme to defraud lenders by providing false information on loan documents to qualify borrowers. The investigation identified 52 fraudulent loans in the scheme, including five having FHA mortgage insurance. Losses to FHA are approximately \$1.6 million.



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A closing attorney was sentenced in U.S. District Court to 1 year and 1 day incarceration and 3 years supervised release and ordered to pay \$2 million in restitution, with \$625,220 payable to FHA, following his conviction of conspiracy to commit wire fraud and money laundering. From March 2011 through December 2012, the attorney and other conspirators recruited straw buyers and submitted falsified loan applications and supporting documents to lenders to obtain mortgage loans for properties located in northern New Jersey. The closing attorney used his position to facilitate some of these transactions. Several of the loans involved in this scheme have defaulted, exposing lenders and FHA to more than \$2 million in potential losses

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The owner and operator of a former FHA mortgage lender in Miami, FL, was sentenced in U.S. District Court to 135 months incarceration and 60 months supervised release and agreed to forfeit \$8 million following his conviction of conspiracy to commit wire fraud affecting a financial institution. From at least 2006 through September 2008, the owner and other conspirators specialized in approving FHA loans primarily for buyers of condominiums at complexes where he had an ownership interest. As part of the scheme, the conspirators provided false information on loan documents to qualify borrowers and in some cases, also paid inducements to borrowers to purchase the condominium units. Many of the loans defaulted, causing losses to FHA and financial institutions. To date, 25 individuals have been charged in this investigation, including the owner, 3 partner developers, and 20 former employees of the mortgage lender. Of those charged, 14 individuals have pled guilty, and 1 has signed a plea agreement. Losses to FHA exceeded \$64 million



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A former mortgage broker and owner of a mortgage company was sentenced in U.S. District Court to 24 months incarceration and ordered to pay \$997,712 in restitution related to his conviction of making false statements. From January 2010 through April 2015, the mortgage broker assisted distressed homeowners with obtaining extensions and renewals of their mortgage loans while charging illegal fees for his loan modification services. The mortgage broker also received mortgage payments from the borrowers but did not forward the payments to the lenders.





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The attorney for a HUD direct endorsement-approved mortgage company was sentenced to 60 months probation and ordered to pay \$1.3 million in restitution to HUD following his conviction of making a false statement to HUD. The attorney created and submitted an affidavit to the Mortgagee Review Board falsely representing that the owner of the mortgage company did not have an interest in a construction entity that received direct payments at the closings of FHA-insured purchases originated by the mortgage company. The affidavit was submitted in response to a notice of violation, issued to the mortgage company by the Mortgagee Review Board. The investigation further determined that the owner was also the full shareholder, director, president, chief executive officer, and secretary of the construction entity, who received more than \$12 million in payments during FHA-insured closings originated by the lender.





## Section IV

# Reporting Mortgage Fraud

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# Points of Contact

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# *Any Questions?*

