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Fraud booms with mortgage market

By Edward Iwata, USA TODAY

As the U.S. housing market hits record highs, mortgage fraud appears to be rising from California to Florida, according to mortgage industry researchers and federal law enforcement agencies.

"Criminals are opportunists," says William Matthews, co-author of a recent report on mortgage fraud by the Mortgage Asset Research Institute. "If you've got a booming market, they're going to get away with more fraud."

While it's unknown how many fraudulent transactions take place in the \$3 trillion mortgage market, the institute found that 26 states had serious mortgage fraud problems. Fraud is costing the industry at least tens of millions of dollars a year, Matthews estimates.

According to an FBI report in May on financial crimes, "Mortgage fraud is pervasive and growing."

Lenders last year reported to the FBI 17,000 suspected incidents of mortgage fraud, and the FBI's cases have grown from 534 in 2004 to 642 in the first half of 2005. At the IRS, criminal investigations of mortgage fraud from 2001 to 2004 have nearly doubled to 194 cases.

Recent cases:

- The co-founders of a company called the Dorean Group ran a nationwide Internet scam that defrauded banks, lenders and homeowners, according to a 46-count indictment announced two weeks ago by the U.S. Attorney's office in San Francisco and the FBI.

According to court papers, the men — Dale Heineman and Kurt F. Johnson advertised on websites for homeowners in deep debt. They filed quitclaim deeds in county recorder offices that signed over to them the titles on hundreds of homeowners' properties, the filings allege. Then the men told homeowners to refinance their properties, and the new loan proceeds would be split among the defendants and homeowners, according to court papers.

The charges in the indictment concern 17 properties valued at \$5 million in nine states. The FBI is continuing to investigate more than 480 properties in 35 states, with a potential value of \$88 million in loans, that may have been affected by the alleged scheme.

Heineman and Johnson were previously arrested on related charges by Utah state prosecutors and are being held in the Salt Lake County Metro Jail. They could not be reached for comment Tuesday.

- In Kansas City, Mo., 17 people — posing as mortgage brokers, home buyers and sellers, appraisers and title-company employees — ran "a massive scheme of fraudulent real estate transactions," according to a lawsuit filed by ABN Amro Mortgage Group in federal court in June.

In a suspected "flipping" scam involving hundreds of houses, the defendants bought foreclosed homes at cheap prices, artificially inflated their values through false appraisals, then quickly resold them, the lawsuit says. They illegally profited from commissions and fees, the lawsuit says. ABN Amro, which underwrote and bought nearly 1,000 loans from the defendants, alleges that it was defrauded of millions of dollars.

•In August, 37-year-old attorney Chalana McFarland of Atlanta was sentenced to 30 years in federal prison after a jury convicted her of heading a vast mortgage fraud ring that skimmed \$20 million from inflated mortgages on 100 Atlanta homes, according to a Justice Department press release.

McFarland worked with 20 co-conspirators employed as real estate agents, mortgage brokers and loan processors. The ring used fake identities, fraudulent documents, shell companies and "straw" borrowers to buy suburban houses, then quickly resold the homes at artificially inflated prices, according to the Justice Department press release. The co-conspirators have pleaded guilty to fraud charges or have been sentenced to prison for several months to five years.

Mortgage fraud is hard to detect because 80% of the cases involve industry insiders, the FBI report says. The scams are tough to spot in hot markets such as California, where huge increases in home prices can hide illegal profits, says Rachel Dollar, an attorney and editor of Mortgage Fraud Blog

"By the time the properties go into default and the lender forecloses on it," she says, "the properties have appreciated so quickly that lenders don't lose money."


Federal and state authorities hope to thwart fraud by staging undercover investigations, wiretaps and stings. The mortgage industry is using computer software to hunt for unusual lending and financing that might be fraud. In Georgia, lawmakers recently adopted a law that makes mortgage fraud a criminal act.

"For a long time, mortgage fraud wasn't really discussed much," Dollar says. "But now the industry recognizes that lenders are victims, and something needs to be done."

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