

## **A neighborhood crime that alarms can't prevent**

Exclusive: FBI reports of suspected mortgage fraud rose 60% in year

10:54 PM CST on Saturday, December 17, 2005

By TIM WYATT / The Dallas Morning News

Neighborhoods in North Texas are facing a quiet crime wave that yields millions in illegal profits for unscrupulous real estate insiders.

Mortgage fraud scams can leave homeowners with hyper-inflated home values and higher property taxes while houses are left empty and go to seed before defrauded banks foreclose.

The scams are not new but are experiencing a rebirth: In the past year, reports of suspected mortgage fraud to the FBI grew by 60 percent.

"If prostitution is the oldest crime, mortgage fraud has got to be the second-oldest – at least in Texas," said U.S. Attorney Richard Roper.

With a bravado that all but dares federal authorities to track paper trails back through a labyrinth of financial records, the schemes have created huge workloads for federal prosecutors and the FBI.

"This type of fraud has really been reaching epidemic proportions throughout the U.S.," said FBI Special Agent Lori Bailey.

Lenders are the main targets of the schemes – in the past year, losses were estimated at \$606 million nationally from federally insured loans. But mortgage industry experts say homeowners also pay the price for the schemes.

They pay partly through higher property taxes and neglected homes, but the losses go far beyond the neighborhoods hit by the schemes.

"In the long run it hurts everyone with increased costs through interest rates, fees, services," said Rachel Dollar, whose California law practice recovers money for lenders who have been robbed by mortgage schemes. "It's always going to come out of the consumer's pocket in some form."

Home loan fraud schemes differ slightly from case to case. A varying mix of loan officers, title company workers, appraisers, real estate agents and brokers joins forces to exploit weaknesses in the mortgage industry.

A review of federal cases in North Texas points to a common pattern by the schemers, who typically:

- Recruit a paid "straw buyer" who signs a loan application for a home with an inflated market appraisal – sometimes more than doubling the property's actual value.
- Submit those documents to a bank either directly or through a mortgage broker who finds a willing lender.
- Pay off the first mortgage, pass any equity on to the seller, and then split up the profits from the inflated loan.

The loan eventually goes into default, ruins the straw buyer's credit and leaves the defrauded banks and authorities to sort out whether a crime has been committed.

Because the mortgage industry isn't required by law to track or report home loan fraud, an FBI financial crime report in May noted that "the true level of mortgage fraud is largely unknown."

Industry estimates state that about 3 percent of residential home loans nationally involve some type of fraud. Loans are inflated for profit by real estate insiders, or fake financial data are used to secure a loan for someone whose credit history is lacking.

Suspicious Activity Reports filed by federally insured banks – about a third of the total – point to a dramatic growth in suspected mortgage fraud.

Back in 2001, banks reported roughly 4,200 instances in mortgage-related fraud may have occurred. In the last year, that number hit 21,994.

The Dallas-area FBI office received 297 suspicious-activity reports from local banks last year, a 60 percent increase over the previous year, Agent Bailey said.

And that number doesn't include reports from banks not federally insured or reports from other federal agencies such as the U.S. Department of Housing and Urban Development.

"These cases are very paper-intensive, and it takes some time to make a prosecutable case in each and every one of these instances," Agent Bailey said.

Although federal agencies and industry groups are beginning to cooperate more often to identify and report the schemes, there is little anyone can do to prevent the crime in the first place.

"There is definitely a lot of work being put in to slow it down," said Ms. Dollar, whose law firm monitors cases nationwide through an online blog, [mortgagefraudblog.com](http://mortgagefraudblog.com).

"But the truth is, if somebody sets out to defraud you, they're probably going to get away with it, to some level."

For federal prosecutors in North Texas, the resurrection of mortgage fraud sounds a lot like

Dallas' Interstate 30 condo scandal in the 1980s, in which fake market appraisals by real estate insiders caused heavy losses to local lenders.

"All crime – especially white-collar crime – is a house of cards that eventually falls, but I think they [criminals] feel like that by the time it collapses, everyone will lose interest in them," Mr. Roper said.

"The reality of it is, we're going to go back and look at every loan and land transfer. And they will be prosecuted."

For one convicted dealmaker, who testified in a recent federal trial against his former partners, the home loan industry turned out to be more vulnerable to insider fraud than ever imagined.

Dai Nguyen pleaded guilty to wire fraud committed while working in a mortgage fraud ring this fall. Mr. Nguyen told a jury that it wasn't unusual to "punch the price up by \$20,000 or \$30,000" on a single real estate deal but that a colleague told him getting a loan for \$200,000 more than the home's worth wasn't any harder.

When he doubted how a loan could be approved for double the worth of a house, the former truck driver testified that the mastermind behind the scheme assured him, "Don't worry; I've done it before."

Mr. Nguyen told jurors he agreed to participate in the scheme because the money was too good to pass up. The conspirators divided up more than \$1.2 million in excess loan proceeds on a dozen homes before lenders got wise and FBI agents shut the scheme down.

Convincing sellers that they shouldn't worry about inflated sales contracts and loans wasn't difficult, Mr. Nguyen said.

Happy to sell the homes so quickly, homeowners rarely questioned extra paperwork folded into the deals.

Mr. Nguyen testified that he convinced a police officer who was anxious about selling his Grand Prairie home at an inflated price with a simple request:

"I asked him to trust me."

## SIGNS OF FRAUD

Here's how the FBI suggests consumers watch for mortgage scams:

Get referrals for real estate and mortgage professionals. Check their licenses.

Check the property's title history to see if it has been sold repeatedly within a short time; that could signal that the property has been "flipped" and the value falsely inflated.

Look at written information to include recent comparable sales in the area.

If it sounds too good to be true, it probably is. Promises of extraordinary profits in a short time should be a warning sign.

Never sign loan documents that contain blanks. That would leave you vulnerable to fraud.

If you don't understand documents you are about to sign, reread them or get help from a lawyer.

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

Know and understand the terms of your mortgage. Check your information against the information in the loan documents to make sure they are accurate and complete.

## RECENT CASES

In recent years, a handful of local mortgage cases have unfolded in federal courtrooms:

**2004:** Seven homebuyers and their real estate agent were indicted in a scheme in which the homes were purchased based on fake income tax returns and other fictional financial data. The buyers were immigrants who had no credit history. The agent, who profited through sales commissions, was sentenced this fall to two years in prison. The buyers received either probation or one-day jail terms with a few years of federal supervision. None of the loans went into default.

**August:** Six real estate insiders, including an appraiser and investors, were indicted after prosecutors said the insiders flipped 10 homes among themselves, inflated home values by as much as \$170,000 along the way and split the loan profits. They have yet to go to trial. The case dates to 2003, when two other men were indicted in the same type of scheme. Those two eventually pleaded guilty to fraud.

**September:** Three Dallas businessmen and a title company employee were indicted after being accused of paying straw borrowers \$7,500 to \$10,000 to use their credit for inflated home loans that authorities say they never planned to repay. The men are awaiting trial. Prosecutors allege that profits in the scam ranged from \$40,000 to \$140,000 per home.

**November:** A federal jury convicted three people in a mortgage scheme, wrapping up a three-year investigation of seven North Texans who made money off home loans by doubling the property values of nine houses in cities including Arlington, Addison and Rowlett. Four others, including two straw buyers, pleaded guilty to fraud charges. All seven await sentencing.

*SOURCE: Federal court records*

E-mail [twyatt@dallasnews.com](mailto:twyatt@dallasnews.com)

---

Online at:

<http://www.dallasnews.com/sharedcontent/dws/news/localnews/stories/121805dnmetfraud.2bdfef.html>