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### **MORTGAGE FRAUD IS RAMPANT IN FLORIDA: FLORIDA TOPS THE NATION IN MORTGAGE FRAUD, PARTICULARLY WITH BORROWERS FUDGING INFORMATION ON THEIR LOAN APPLICATIONS**

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Fudging on that loan application may seem innocuous enough: exaggerating income a little; boosting a credit score; hiding some down payment help from the lender.

After all, the borrower probably has every intention of paying the loan. And the mortgage broker who looks the other way is just helping someone realize their dream of homeownership.

But what may seem like harmless lying is fraud. Its motive: hoodwinking banks to fund loans, so borrowers can squeeze into the homes that suit their fancy.

While mortgage fraud often takes the form of complicated criminal schemes, lying to the lender - - called origination fraud because it takes place at the loan's origin -- actually is the most common. And in Florida, origination fraud is rampant. Mortgage giant Fannie Mae reported in September that the state had the highest rates in the nation of misrepresentations on mortgage applications reviewed since August 2005.

And the state recently took the lead in complaints of suspect activity filed by banks and other lenders, said the Mortgage Asset Research Institute, a national mortgage fraud data clearinghouse. According to its annual index, Florida has double the rate it should of loans containing alleged fraud and serious misinformation, given the number of mortgages originated here.

Mortgage fraud is surfacing as economic pressures force more borrowers under, leading to greater scrutiny of the loans that got them in trouble.

"We are seeing a rise in early defaults, and there is a lot of discovery about why. We're learning that mortgage fraud has existed in a lot of those loans," said Arthur Prieston, whose The Prieston Group provides mortgage fraud insurance to lenders.

Some experts predict the problem will only worsen with the slowing market. Mortgage brokers may be more willing to nip and tuck numbers to maintain the business they experienced during the boom.

That could result in increased foreclosures as consumers strain harder under the burdens of payments they can't afford. But everyone could pay down the road through higher loan costs as lenders raise interest rates and fees to compensate for losses.

Coral Gables lawyer Brian Bieber is intimately acquainted with mortgage fraud, having represented people accused of the crime. But earlier this year, he was stunned when a broker instructed his own mother, a Broward County schoolteacher, to create phony evidence of a second job to get a mortgage for a Hallandale Beach condo.

"That mortgage broker actually suggested to my mother that she obtain a false letter of employment from me and my law firm," Bieber said. "The broker went so far as to give her the explicit amount my mother needed to be earning per week and asked my mother to ask me to generate at least four pay stubs."

Bieber called the North Miami broker, who he wouldn't name, himself.

"EVERYBODY DOES IT"

I confronted him and told him he could wind up getting indicted. He said, "Everybody does it."

Prieston sees the fallout in his booming business, one of a few in the country insuring against home-loan fraud. "Florida currently represents 15 percent of our business," Prieston said. He added that the company is seeing a 150 percent increase in the use of their services in Florida, and his firm is handling \$20 million in fraud claims from Florida.

In South Florida, Fannie Mae zeroed in on Pompano Beach, Miami, Hialeah and Miami Beach as particularly hot areas for fraud, based on a review of loans since 2003.

Another fraud indicator: borrowers missing payments right off the bat. Miami ranks second among major metropolitan areas in the number of loans that default early, only after storm-beaten New Orleans, according to First American Loan Performance, a mortgage data firm.

Lenders that autopsy loans failing within the first year typically find that as many as 25 percent contained fraud.

Mortgage industry veteran Cindy Curtis, a wholesale account executive for Wells Fargo Home Mortgage, works with independent brokers to generate business. Among the 50 client brokers she has worked with this year, she had to drop business with about half a dozen for suspected "misrepresentation."

"We have to be so aware of it in our daily business dealings," Curtis said, "The majority of the people in this business are honest and hardworking, but this is an issue that affects us all so deeply. Our jobs and our livelihoods are at stake."

A culture of indifference, a low risk of being caught, lots of foreign investment and old-fashioned greed have created a thriving market for fraud in Florida, experts said.

Scott Messina, a Stuart-based industry veteran who publishes a newsletter for the mortgage banking industry, said the run-up in real estate values is also largely to blame.

"What has happened is you need more of an income to qualify for a loan. So people who are on the borderline, when they apply, the broker is tempted into qualifying them for a loan they shouldn't," Messina said.

The temptation for fraud may worsen, some experts said, because mortgage applications nationally continue to fall with the slumping real estate market -- from a high three years ago of about \$4 trillion to about \$2.4 trillion by the end of this year.

That means increased competition to write loans for a pool of licensed mortgage brokers that has swelled with the boom.

Florida has 67,266 licensed mortgage brokers, up from 41,211 three years ago, according to the Office of Financial Regulation.

"You had all these guys doing [refinances] because they were coming out of their ears. They got used to a lifestyle where they were making \$100 to \$150 grand a year," Messina said. "Take the pie and divide it by half, and now instead of making \$100,000 a year, their making \$30,000. They have to make money, too, and desperate people do desperate things."

#### WHO'S TO BLAME?

Law enforcement calls origination fraud "fraud for housing," where the borrower is lying to get the home loan but intends to repay it.

Fraud for housing can include inflating a borrower's income, assets and credit score, lying about the borrower's intention to occupy the property and falsifying employment status, as in Bieber's mother's case.

Sharon Dawes, the Broward area financial manager for the state's Office of Financial Regulation, blames brokers. Consumers, she said, often are unaware of a lender's underwriting requirements.

"It's my experience that a loan applicant is being guided by the person familiar with the process, which is the mortgage broker," Dawes said.

But Coral Gables broker J.C. Malouf said he has often felt pressure from borrowers themselves to use misinformation to get them loans.

"I've lost a lot of customers because in the streets there are people who will do whatever to get you qualified the way you want," Malouf said.

With the explosion of new kinds of home loans available on the market, Malouf said it's possible to legally qualify just about anybody, but brokers sometimes don't know which products to use

and often sell a loan because of the commission it generates, rather than its suitability for the borrower.

For example, the widely used "stated income" loans, which require little or no salary documentation, seem to invite malfeasance by borrowers, so much so they've been dubbed "liar's loans" in the industry.

For those who do get caught, the consequences can be steep.

In July, Guadalupe Raymond of Hollywood was convicted and sentenced to three years in prison for mail fraud and conspiracy to commit mail fraud by submitting numerous fraudulent mortgages to lenders. She is appealing.

### BUYING BACK LOANS

Also, brokers and other originators can be forced to buy back fraudulent loans from investors who buy bundles of loans on the secondary market. That can put small operators out of business.

"We've seen a number of mergers and acquisitions. We've seen lots of doors shut. The ones that will survive are the ones that have invested a great deal of time, money and training in quality control," Prieston said.

Defense attorney Bieber told the broker who propositioned him and his mother to hang on to his phone number.

Said Bieber: "You better save your money; you may need my legal services in the very near future."