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## Mortgage fraud is booming business for prosecutors

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SACRAMENTO, Calif. -- Investigations into the collapse of financial titans such as Lehman Brothers, Bear Stearns and Washington Mutual have attracted most of the attention in the ongoing unraveling of the nation's mortgage-backed security mess.

Lost in the headlines are prosecutions proceeding quietly on the local level against smaller players.

In dozens of jurisdictions around the country, federal prosecutors are charging hundreds of people with originating the bad loans that helped derail the world's financial markets.

Prosecutors are finding buyers who created fake identities to take out home loans, brokers who paid kickbacks to ensure fraudulent mortgages were approved and lenders who took bribes and forged documents.

They are the ones who fraudulently overstated property values and borrowers' incomes, who used illegal means to secure loans that homeowners ultimately couldn't afford, though they had plenty of encouragement from Wall Street.

That fraud helped artificially inflate home values that have since come crashing to earth. Foreclosures are dragging down property values in neighborhoods across the nation. Lenders, in response, have shut the door on almost anyone without platinum credit, and raised a variety of fees to make up for huge losses.

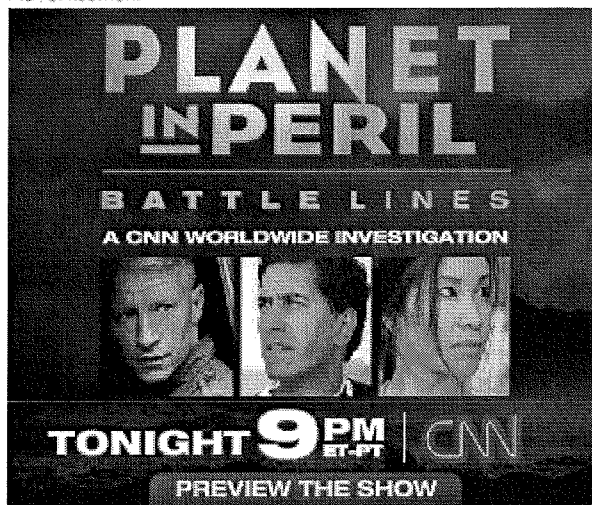
And the fraud is continuing in new ways as desperate homeowners try to unload mortgages they can't afford and builders shed surplus properties.

"Let's not lose sight of the fact that there is immense criminal fraud involved in this financial crisis," said U.S. Attorney McGregor Scott, whose district spans California's vast Central Valley and is among those most affected by the housing bust. "It's a profound ripple effect that affects everyone."

The U.S. Justice Department has formed more than 40 mortgage fraud task forces nationwide as prosecutors and investigators struggle with a flood of mortgage-related criminal cases. The FBI reports that its mortgage-fraud caseload has more than doubled in three years to about 1,600 investigations that have cost lenders at least \$4 billion. About 200 FBI agents are assigned to the cases, up from 120 a year ago.

Nationally, federal prosecutors charged 226 people with mortgage fraud between July and the end of October, the latest figures available, said U.S. Department of Justice spokeswoman Laura Sweeney. Another 406 were charged as part of a national mortgage-fraud crackdown between March and June.

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In Scott's California district, prosecutors have filed charges related to housing scams against 53 people in 15 ongoing prosecutions. They have another 15 active investigations against 68 individuals.

They estimate hundreds of millions of dollars have been paid out by banks and other lenders because of mortgage fraud in the Central California district, which stretches from just north of Los Angeles to the Oregon border.

"We're running out of bodies to handle these cases," said Scott, calling on Congress to approve more money for investigators and prosecutors. "We're just being overwhelmed."

Spokesmen for the FBI and Justice Department said there are no plans to ask Congress for more money. They could not say how much the hundreds of agents and prosecutors are spending to investigate mortgage fraud nationwide.

"We continue to re-prioritize as necessary," Justice spokesman Ian McCaleb said in an e-mail. "Currently, we have shifted significant resources toward investigating mortgage fraud."

Paul Leonard, director of the California office of the Center for Responsible Lending, welcomed investigators' attempts to keep up with newer forms of foreclosure and builder fraud. However, wrongdoing remains so widespread that "I think those agencies have to pick their spots," he said.

"I wish they had engaged in this earlier," Leonard said. "I think it's constructive to sort of root out these evil and malicious scams when they occur ... Given the state of the economy, it's too little too late."

In addition to California, large numbers of investigations are under way in Nevada, Florida, Illinois, Arizona, Atlanta and Rust Belt states such as Ohio and Michigan, the areas that have experienced the highest rates of home foreclosure.

South Florida has been a particular hotbed of activity for federal prosecutors, who have charged 112 people there with an estimated \$176 million in mortgage fraud this year.

"It really is an incredible amount," said Alicia Valle, spokeswoman for the U.S. Attorney's office in Miami. "You name it and we've got it."

Florida, California and Illinois combined to provide nearly half the nation's fraud reports in the second quarter, according to a Dec. 2 report from the Mortgage Asset Research Institute. Nationwide, mortgage fraud reports increased 42 percent from January to March and 45 percent from April to June, compared with their year-ago periods.

"We have a duty to put these people in prison," said Scott, the U.S. attorney in California.

Michael Cardoza, a San Francisco-area attorney representing one of those charged in central California, said prosecutors should be setting their sights higher.

"It's amazing to me that the people on Wall Street walk away with millions and millions if not billions of dollars," said Cardoza. "Now they're just picking off little people ... They're doing scapegoats is what they're doing."

The FBI says about 80 percent of mortgage fraud losses under investigation involve industry insiders who inflated property values or made loans based on fictional information.

The remaining 20 percent is by individual borrowers who lied about their income or job history to qualify for loans. So-called "liar loans," which require little or no documentation about the buyer's income or employment.

The larger group is where law enforcement is focused.

"We are mainly focusing on the mortgage brokers and title companies because they are really at the center of mortgage fraud in this district," said William Edwards, the acting U.S. attorney for northern Ohio.

U.S. Attorney Joseph Russoniello is setting the bar at \$400,000 or more in his San Francisco-based district, where home values are among the nation's highest.

"We could be looking at thousands of potential cases," Russoniello said. "We've been looking at a number of cases that run the gamut from simple mortgage fraud to collusion involving brokers, appraisers ... bait and switch, predatory rescue operations."

His mortgage-fraud task force contracted with a financial analyst in October to help sort through the transactions. Russoniello expects to soon announce "a significant number" of indictments.

Nevada has the nation's highest foreclosure rate, and now a corresponding amount of mortgage fraud complaints are flooding law enforcement agencies, said U.S. Attorney Gregory Brower. A special telephone hot line has fielded more than 1,100 calls since it was set up in April, said Nevada FBI spokesman David Staretz.

Brower has had to shuffle attorneys to handle cases like the one Nevada prosecutors say involved 432 fake buyers for 227 properties worth more than \$107 million. At least 143 of the homes are now in default, costing lenders more than \$17 million. Five Las Vegas brokers, mortgage agents and loan officers have pleaded guilty and six are awaiting trial.

"It's certainly a contributor, if not the contributor, to some of the economic downturn we're seeing," Brower said. "It will be a while before the dust settles."

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