

U.S. Department of Housing and Urban Development

Office of Inspector General

Housing and Mortgage Lending Frauds



HUD Office of Inspector General

- Mission: Detecting and preventing fraud, waste and abuse and promoting the effectiveness and efficiency of government operations
- Office of Investigation:
 - 30 Forensic Auditors, 235 Special Agents
- Office of Audit: 350 Auditors

U.S. Department of Housing and Urban Development

- 9,000 employees
- FY 2007 Budget Request: \$33.6 billion
- Mission includes:
 - increase homeownership
 - support community development
 - expand access to affordable housing free from discrimination

Federal Housing Administration (FHA)

- Established 1934
- Became part of HUD in 1965
- Federally Insures Mortgages
- Insured 556,000 mortgages totaling \$62.4 billion in FY 2005
- In California, insured 22,600 mortgages totaling \$1.5 billion in FY 2005
- FHA's outstanding mortgage insurance portfolio at the end of FY 2005 was about 5.2 million loans totaling \$416 billion

FHA's Personal Commitment

- First time home buyers
- Lower income individuals and families
- Minority and immigrant populations
- The elderly
- Other underserved communities

OIG's FY 2006 INVESTIGATIVE RESULTS: Single-Family Housing Programs

- Total recoveries of \$207 million
 - \$158.2 million in Criminal recoveries
 - \$25.3 million in Administrative recoveries
 - \$2.2 million in Law Enforcement recoveries
 - \$21.4 million in Civil recoveries
- 190 New cases
- 386 Arrests
- 450 Indictments / informations
- 366 Convictions / pleas
- 156 Administrative Actions

Single-Family Fraud

- Investigative priority for HUD OIG
- Nationwide mortgage fraud initiatives
- Many investigations conducted jointly with:
 - FBI
 - IRS
 - U.S. Postal Inspection Service
 - Department of Veterans Affairs
 - Other Federal, State and Local Agencies

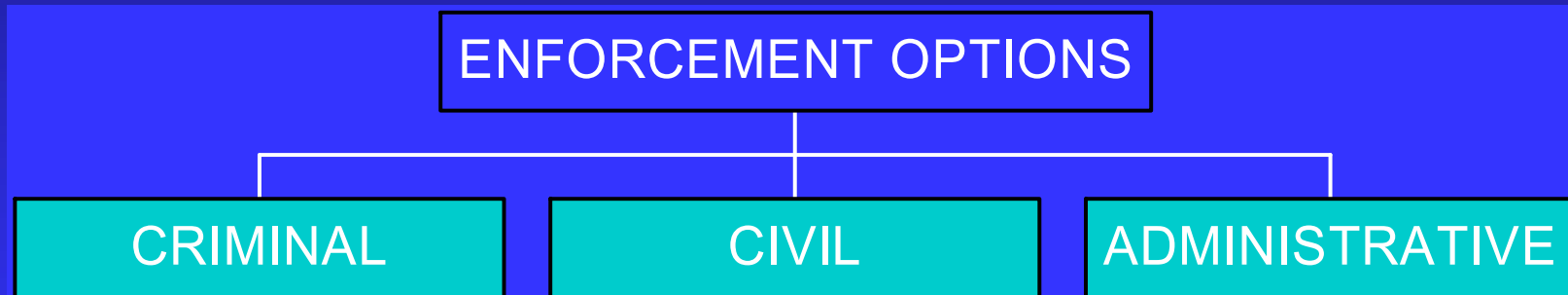
What Do HUD Forensic Auditors Do In Mortgage Fraud Investigations?

- Work as integral part of prosecution team – HUD Special Agent, Government Attorney, other agents
- Assist in assessing facts of case and planning the investigation, especially in determining the financial analysis and evidence needed to prove the crime
- Research HUD and commercial databases to identify property transactions, mortgage activity, financial interests and assets
- Examine FHA, Lender, and Escrow files for evidence; subpoena and research corroborating evidence

What Do HUD Forensic Auditors Do In Mortgage Fraud Investigations? (continued)

- Analyze financial records for:
 - source of down payment funds
 - trace money flow through subject's bank accounts and property transactions
 - identify assets for seizure, forfeiture and means to pay restitution
- Document work accomplished and prepare exhibits for trial
- Testify in Grand Jury, Criminal and Civil trials, and Administrative Hearings

OIG ENFORCEMENT ACTIONS



CRIMINAL ENFORCEMENT

U.S. Code Title 18

- Sec. 371 - Conspiracy
- Sec. 666 – Program Fraud
- Sec. 1001 - False Statements
- Sec. 1010 & 1012 – False statements in HUD and FHA transactions
- Sec. 1028 – Fraud using identification documents
- Sec. 1341 / 1343 – Mail & Wire Fraud
- Sec. 1344 – Bank Fraud
- Sec. 1986 / 1987 – Money Laundering

CIVIL ENFORCEMENT

- U.S. Code Title 31 Sec. 3729 - Civil Fraud / False Claims Act
 - Damages are in addition to the restitution ordered in the criminal case
 - Provides treble damages (*three times the (Loss minus Recoveries)*)

ADMINISTRATIVE ACTIONS

- Suspension
- Debarment
- Civil monetary penalties
- Program Fraud Civil Remedy Act (31 USC 3801, 24 CFR Part 28)
- Close coordination with HUD – Office of General Council

Single-Family Investigations

- Loan origination fraud
- Identity Fraud / False Social Security numbers
- Bankruptcy Fraud
- Other Fraud / Crimes

WHO COMMITS MORTGAGE AND LENDING FRAUD?

- Buyers
- Sellers / Investors
- Loan Officers
- Escrow Officers
- Real Estate Agents
- Appraisers
- Mortgage Brokers
- Title Companies

Fraud in Loan Origination

- SSN / identity fraud
- Fake identity documents
- Fake income documents & verifications of employment / income
- Fake bank statements & tax returns
- Fake credit reports & letters of explanation as to why no credit history
- Buyer does not provide own down payment funds & closing costs
- Fraudulent appraisals
- Third party disbursements at closing

Fraud in Loan Origination - continued

- Property flips
 - Investor buys and sells property on same day
 - Second sale (FHA insured) has fraudulent appraisal
 - Second buyer prepares false documents to qualify
 - Second sale goes into default

Social Security Number Identity Fraud

- Transposed Number
- Deceased person's SSN
- Child's or other minor's SSN
- Tax I.D. number
- Potential Indicators:
 - Self-employed with no credit history
 - High income claimed with no credit history
 - Number of changes in loan file documents

Bankruptcy Fraud

- Sham bankruptcy filed to forestall foreclosure

Other Fraud / Crimes

- Equity skimming
- Money laundering
- HUD Officer Next Door and Teacher Next Door Programs fraud
- GNMA fraud
- RESPA fraud

Impacts of Mortgage Fraud

- Defaults
- Foreclosures
- Claims against FHA insurance fund
- Creation of artificial real estate market because of over-inflated sales prices
- Secondary market for mortgages affected (investors may demand higher interest rates to compensate for “junk” in mortgage pools)

Case Studies

To learn about recent case results ,
read HUD OIG's Semiannual Report to
Congress at:

www.hud.gov/offices/oig

How Do We Get Investigative Leads?

- Referrals
 - HUD
 - Hotline complaints
 - Informants & cooperating subjects
 - Mortgage & Real Estate Industry
 - Other Law Enforcement officials
- Proactive case work (internal research & analysis)

HUD-OIG HOTLINE

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