Freddie Mac Single-Family Home Starts Here Podcast Episode Transcript:

Investigating Income Misrepresentation

Fraudcast Episode 1

Announcer: *The Fraudcast* is a new podcast under the Freddie Mac *Home Starts Here* podcast series. In our first episode, Freddie Mac's Single-Family Fraud Risk investigator shares recently uncovered income misrepresentation schemes committed by loan officers, borrowers and employers

Liz Mugavero [00:00:23] Welcome to the first episode of our new Fraudcast series, A Freddie Mac Single-Family *Home Starts Here* production, where Freddie Mac Single-Family fraud risk team will share insights they've gained from investigations in the field so you can recognize and combat mortgage fraud. This is your host, Liz Mugavero. In our first episode, I've got Carrie Schoenhals a fraud investigator, and Ron Fiegles, vice president of our Single-Family Quality Control and Fraud Area. Welcome to both of you. We're going to cover a few topics today, including some recent experiences related to fraudulent behavior. But before we get into that, I'd like you both to describe your backgrounds and how you came to be on the team and really a sneak peek into your daily lives doing fraud. So, Carrie, I'll start with you.

Carrie Schoenhals [00:01:00] OK, I am a certified fraud examiner. I've been investigating mortgage fraud for a little over 15 years now. The last twelve of which had been at Freddie Mac. Prior to that, I was an underwriter. My daily activities include investigating loan files and going out into the field to interview targets and witnesses and put cases together.

Liz Mugavero [00:01:18] Awesome. It definitely sounds like an exciting job here at Freddie Mac. Ron, what about you?

Ron Fiegles [00:01:07] Thanks, Liz. Well, I've been at Freddie Mac for just over 14 years and I've been in a variety of risk management roles. Prior to Freddie Mac, I worked in the primary market also in risk management. The primary in the field of underwriting, so similar to Carrie that background of finding fraud in the origination practices of some of the loans we've seen in the past.

Liz Mugavero [00:01:43] Thanks, Ron. So how many people do you have investigating currently? And then can you also kind of explain what the quality control team does for our listeners and how that interaction occurs between your investigators and that side of the team?

Ron Fiegles [00:01:56] Well, the fraud team consists of 14 individuals, specifically eight fraud investigators. For us, having a team dedicated to investigating mortgage related fraud makes us unique. On the quality control side, what we do is we look at loan files that have been purchased by Freddie Mac, and it is the one area at Freddie Mac, where we actually open up the loan file and validate the documentation in the loan file matches the data delivered to us by our customers. And that's really where, you know we find things that are sometimes just wrong or it gives us insight to things that need to be investigated further, which will involve us maybe sometimes talking to our fraud partners. And that's one of the things that we've implemented most recently is I would say, an integration between the two teams where we meet frequently talk about what we're seeing, what we're doing and the steps we're taking to ensure good originations are being purchased by Freddie Mac and then on the fraud side, investigating those areas of suspicious activity.

Liz Mugavero [00:02:56] So tell us a little bit about that. So what does it look like to identify that something is wrong? Like, how do you figure that out? And then what happens from there?

Ron Fiegles [00:03:05] Well, in our QC world, if something doesn't seem right or if it doesn't fit with what we've seen in the file or the loan review, we may send it over to the fraud team. If the fraud team determines that it really is suspicious and it's got something to it. We'll assign an investigator who will open a case and start an investigation. Further, the dynamic works both ways. Fraud will occasionally send things that they see that are unusual and have QC review that.

Liz Mugavero [00:03:32] Excellent. So you see something's wrong. You assign it to an investigator. And that's Carrie where you come in, I think. So can you tell us, you know, how you would pick that up and what you would do from there?

Carrie Schoenhals [00:03:43] Sure. So we get a tip over. First thing we do is look for exposure, whether it's a, you know, a mortgage broker, a loan officer, whatever, depending on the type of mis rep that's suspected, we'll pull an exposure check in and then kind of look for patterns. So you start off the investigation, working from your desk, putting it all together on a spreadsheet once you identify a pattern and do a little more loan file review. And then we head out into the field to interview borrowers, loan officers, appraisers, next door neighbor, anybody that we think can give us the information we need to confirm whether or not we have fraud.

Liz Mugavero [00:04:18] so can you tell us about some of the income misrepresentation cases that you've recently observed?

Carrie Schoenhals [00:04:23] Sure. Unfortunately, I have a lot to choose from, income misrep is really prevalent in the industry right now. I would say probably over the last two years off the top of my head, I probably only had two, maybe three cases that didn't involve income misrepresentation. I think for today I'll just cover kind of three of the most common scenarios. So the first one being when we have a borrower who's working at the employer listed on the 1003 and on the income documents, but the income documents have been falsified to reflect the higher income in order to get them to qualify. A good example of that, I was in the field, borrower was reported to be working at a local market, corner market. So me and my colleague went in to verify employment. And sure enough, the borrower was working behind the counter. So we thought, hey, maybe this one is legitimate. And so we started talking to the borrower, asked him to review the income documents in the loan file. And as soon as he looked at the paystubs, he was like, I don't make that much money. I don't even make that much money in a month. And it was a weekly paycheck. So you see we see that a lot. But in that case, you know, the borrower had no idea that the loan officer had altered his paycheck in the file.

Liz Mugavero [00:05:24] So why would the lender do that?

Carrie Schoenhals [00:05:26] It's usually to get the borrowers to qualify. So if they don't have enough income to qualify. In some cases, it might be that they've got a spouse who can't document their income. You know whether they're being paid under the table or they're self-employed and the income taxes don't support what they need to qualify. They'll bump up the borrower who's got a pay stub and a legitimate job in order to get that income up.

Liz Mugavero [00:05:47] So are all income misrepresentations employment related?

Carrie Schoenhals [00:05:51] No. We see all kinds. I had a case just recently where we had falsified court documents showing child support in the loan files. So every loan filing started again. Went through a pattern with this loan officer that the majority of her files, the borrowers, had child support income. And in many cases, that was their only source of income. So it was a red flag. Luckily, with this county, the public records were online. So I could check and verify that, you know, the case numbers weren't legitimate, that the names or sometimes case number was legitimate, but it didn't match the borrower's name. So in this case, I knew I had mis rep before I even went into the field, but I went into the field to see who was doing it and why. Talk to many borrowers. I had one borrower who answered the door, looked at the documents for me and said, you know, I'm not divorced. That's my husband. I have two kids, not four. He certainly doesn't pay me alimony and child support. We're still married. Turned out that all these borrowers had met the loan officer through baseball. Their kids all played baseball together. Another area We also see is false lease agreements. So, again, borrowers need additional income in order to qualify. They may have a legitimate rental, but don't have a current tenant in it. So they falsify lease agreements to show that they've got income coming in from that property. We also see it with the reverse occupancy schemes in which the borrower is actually buying a primary residence but doesn't have enough income to qualify. So they say that it's an investment property and falsified lease agreements again to bump up their income. And in those cases, fieldwork is really critical because it's hard to verify occupancy without knocking on the door. So you can, you know, go to a property that the borrower said is an investment. You knock on the door and they answer. So you've got to I thought, this is your investment property, but you catch him at the actual house. So, fieldwork is really critical for that.

Liz Mugavero [00:07:38] This is very exciting. I may actually, after I retire from Podcast's, come over and see what's open on your team to come investigate with you.

Carrie Schoenhals [00:07:44] Yep. It's fun work.

Liz Mugavero [00:07:47] So we talked a little bit about lenders doing these sorts of things and borrowers as well. So are there others who might be perpetrating falsified income or where were you seeing it the most?

Carrie Schoenhals [00:07:56] Yeah, it's typically the loan officers who are the most culpable. We've had one example. Me and a colleague went to the borrower's house to verify the information in their loan file. And we happened to catch the husband and wife, and it was borrower and co-borrower, they were coming home. So we started going through the loan file documents. The husband, the borrowers employment had already been verified. It was legitimate. But the wife's. We had confirmed already was not. So we asked her about her employment and she didn't answer. Her husband said she didn't speak English. So we asked him, you know, where she was working. He said she wasn't then. So we clarified where was she working at the time of the loan. And he said, I need to call my loan officer. Like, you need to call your loan officer to find out where your wife works. Kind of strange, but indeed he did. And the loan officer just referred us to his attorney. So most often we see that it's the loan officers culpable. Sometimes the borrowers are aware like in that situation, and sometimes they have no idea, like in that previous example I gave with the borrower working at the market. We also see employers that are culpable, whether they're covering for a friend or it is an employee that works for them. But they're falsifying the income to make it higher to help out their employee. Again, I have one case. We go into the small office to verify employment. And there were just two gentlemen working and the first one comes up, never heard of the borrower when I asked to verify if she worked there. Second guy comes up. Oh, yes, she used to work here. They kind of look at each other and he's like, she used a different name when she worked here. And the pay stubs were full of typographical errors. The company name was spelled wrong on one paystub, not the other. And it's like, well, can you explain that? They're just typos. So in this case, we had a legitimate employer, but who was providing false information for somebody else. And oftentimes we see it's a combination, again, whether it's the loan officer and the borrower, the loan officer and the employer. One case, again, I know a lot of stories, we went and verified borrowers didn't work there at a couple of different places. So then I go to the loan officer at the end of the day and ask him if he can explain why we have all these discrepancies. And he was like, well, clearly you didn't talk to the right person. He had somebody set up to provide the false information. But when we went in in person, we were able to talk to somebody other than who he wanted us to talk to and get the truth.

Liz Mugavero [00:10:08] So what could somebody who might be privy to some of these schemes going on do to identify or stop these misrepresentations from happening?

Carrie Schoenhals [00:10:17] You know, we're seeing a lot of really sophisticated schemes right now. So they're a little harder to identify. Not all of them are going to have typos on the paystub. But you just you have to trust your gut. If something doesn't make sense, dig further. I always say if it doesn't pass the smell test, you know, there's something wrong with it. I just reiterate, pay attention to those red flags. If something doesn't fit. You know, you've got a borrower who just graduated from college, you know, been working at McDonald's, and now suddenly he's an engineer making one hundred and fifty thousand dollars. You know, question that and dig a little further.

Liz Mugavero [00:10:46] That's great information. Thank you. To go back to you, Ron. Are you seeing the same type of volume of this kind of misrepresentation in quality control reviews?

Ron Fiegles [00:10:55] Well, fortunately, you know, misrepresentations been somewhat kept in check by diligent upfront underwriting, and I would say through the upfront use of Freddie Mac's assessment tools. But like Carrie said, you know, the predominant reason for determining a loan is ineligible, has historically been income and employment defects. Now, those are not all suspicious activity. Those are not all fraud. Sometimes the more often the income and employment defects found through our QC processes are human error. But there are some that that we refer over because we see misrepresentation.

Liz Mugavero [00:11:26] So what can a lender do or should they do when they suspect some sort of misrepresentation?

Ron Fiegles [00:11:31] Well, I think we want them to be aware. They play a pivotal role in identifying and combating fraud. Most of the cases or many of the cases that we get internally at Freddie Mac are referred by our clients or customers. So we rely on their early identification that gives us a greater opportunity to stop the fraudsters and for them to improve their origination practices.

Liz Mugavero [00:11:51] Carrie anything to add to that?

Carrie Schoenhals [00:11:53] I would just say, you know, little shout out you suspect fraud, let us know. We've got our fraud hotline, which is 1-800-4fraud8 or shoot us an email at Mortgage_fraud_reporting at Freddie Mac dot com. But we take all the tips people send us seriously and we look into them and we work them. So if you see something, give us a holler.

Liz Mugavero [00:12:17] Excellent. Well, thank you both so much for the insights and for this special look into what our fraud risk team does. I'm really looking forward to forthcoming conversations on future *Fraudcasts* with you and your team. I know this is an area of great interest to our listeners. For anybody looking for more information, you can also visit our Fraud Prevention and Best Practices Web page on our Single-Family dot Freddie Mac dot com site. We'll put the link in the episode description where you can look at stories of recent fraud investigations in our True Lies article series. And thanks to all of our listeners for tuning into our H*ome Starts Here* Podcasts. Please subscribe so you're up to speed on future episodes and remember to share with your networks. We're looking forward to talking with you next time.

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