

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

Fraudcast Episode 2: Investigating Suspicious IRS

Announcer [00:00:01] You play an important role in preventing mortgage fraud. Freddie Mac's 'Fraudcast' under the 'Home Starts Here Podcast' series shares insights from our investigators and experts in how to spot red flags that can stop suspicious activity in its tracks.

Mike Tsikoudakis [00:00:17] Hello and welcome to the second episode of our Fraudcast series where Freddie Mac's Single-Family fraud risk team shares the insights, they've gained from their field work to help you recognize and fight back against mortgage fraud. My name is Mike Tsikoudakis. I'm a marketing and communications manager here at Freddie Mac and today I'm joined by a returning guest, Ron Feigles, vice president of Single-Family Quality Control and Fraud. And I'm also joined by Martin Abad, a director in the Fraud Investigations Unit. Thank you both for joining me. Ron, before we get into today's case, tell us a little bit about the synergy between the fraud unit and quality control here at Freddie Mac?

Ron Feigles [00:00:53] Yeah, Mike and synergy is the right word. Our two teams work together jointly to combat fraud at Freddie Mac. You know, the QC team's there to help ensure that the loans are eligible for sale to Freddie Mac by doing a thorough underwriting QC review. But if during our review we find something that looks out of line or seems suspicious, we frequently submit it to the fraud team and really work with them, asking them to take a closer look at what we feel seems out of line or suspicious. If the fraud team determines that there's something amiss, an investigator will open up a case and start an investigation.

Mike Tsikoudakis [00:01:45] Excellent, and Ron, I'm a little curious, how often the QC team find suspicious activity and how often does that mean that you need to bring in an investigator?

Ron Feigles [00:01:57] Yeah, that's a good question. So, in the scope of how many loans, we review thousands of loans every month; it's not that frequent. But at the same time, because it is thousands of loans, we submit probably 20, 30, 40 tips to the fraud team every month. Some of those are what I would call benign and, you know, they check it out and send it back to the QC team. But on a monthly basis, there are tips from the QC team that lead to open investigations and open cases.

Mike Tsikoudakis [00:02:28] Before we jump into today's case, I want to mention in our previous Fraudcast episode, we talked about how Freddie Mac has its dedicated investigative team with many investigators working in the field. They're all out there talking to lenders, underwriters, borrowers and others who may be either perpetrators or victims of fraud. We're going to be talking to Martin, and he's one of those investigators working on a very specific case. Let's get into it, Martin, how did you hear about this case and what made it so unique?

Martin Abad [00:03:02] I've been in the mortgage industry for approximately 35 years, the last 30 years at Freddie Mac as an underwriter and now in the investigations unit. I've seen a lot over my career and just when I thought I had seen it all, I recently learned about a new fraud that we will discuss today. And it goes to show that with any document, what you see isn't always what you get. So, one of our clients actually contacted us about a group of loans in which the borrowers were identified as self-employed. The client further stated that the loan files contain suspicious tax returns and similarities with the tax preparers, which, of course, was one of the major red flags.

Mike Tsikoudakis [00:03:58] So why is that a red flag for you?

Martin Abad [00:03:59] All right, so to start with after we received the information from the client, I ordered approximately 30 loan files to review. I immediately noticed a pattern of similarities with tax preparers and real estate agents. Now, what made this suspicious was that it appeared that this group of real estate agents were working with the tax preparers to facilitate the fraud scheme - there was one particular loan file that actually caught my attention. It contained a set of IRS transcripts, along with the suspicious tax returns and the CPA letter. The loan application listed the borrower as owning an electrical company. When I compared that information in the loan application to the Schedule C in the tax returns, there was just something that didn't quite make, you know, make sense. The borrower profile didn't match their earnings shown in the income tax returns. You know, for example, the Schedule C indicated that the borrowers was making a fairly good income, but when you look at the loan application the borrower didn't show much in terms of assets and also had very little debt. In fact, the borrower actually received gift funds for the down payment, the Schedule C also listed no expenses or deductions of any kind. And when I was looking at the transcripts, the information in the IRS transcripts actually matched the tax returns line by line, including the taxpayer's name. And when I confirmed with the borrower about his employment and income, the borrower said he was never self-employed. He was actually working at a trucking company when he applied for the loan and he received W2's and paystubs. So, what makes this case a little different from other ones, is that typically sacred alter-proof documentation such as IRS transcripts, turn out to be false.

Ron Feigles [00:06:24] So, wow. So, yeah, you're right, Martin. I mean, I think most of us have always assumed that if you got tax transcripts, you were good to go like as you refer to them as sacred. And I think we frequently would view them as sort of, you know, gospel documents that would be taken at face value. So in this instance, it sounds like you've got tax transcripts that maybe look fishy. So what steps were taken to verify employment and I guess more, I'm curious, were the borrowers aware that this fraud was being perpetrated or were they part of the fraud?

Martin Abad [00:07:05] So initially I ordered a work number report just to see if I could get a hit on the borrower's employment history. I also searched the licensing boards to see if, in fact, the borrower was employed in the profession that was listed as an electrician. I also searched the Internet to see if I could get any information on the company or even the borrower himself, any use of any kind. I searched the secretary of state to see if the company was registered in the state that it resided in. I interviewed the borrower, I interviewed the tax preparer. Now, Ron to your question in terms of whether the borrowers were aware of the fraud. So, the interviews I conducted with the borrowers, it appeared that they were not aware of the false employment or the false tax returns that were placed in their loan files. I went as far as asking the borrowers if they noticed the false information when they signed the loan application. They all stated that when they went to the escrow company or when the notary came to them to sign the documents, they were only given the signature page of the application. So, they did not see the actual page that contained the employment and income information. And in terms of their tax returns, because some of the tax returns were also signed, I asked them about the tax returns. And they said that, no, they had never had to produce the tax returns and the signatures were forgeries.

Mike Tsikoudakis [00:08:56] So that's super interesting. So you interview the borrower, you verified employment as best you could. What did you learn? What else did you learn from the employment verification?

Martin Abad [00:09:07] On this one loan, where the borrower was listed as a self-employed electrician, when they received the work number report, it actually indicated that this borrower was actually working at a trucking company for many years, including the timeframe of when the loan was originated. When I checked the licensing boards, I found no licenses for the borrower or the company. When I contacted the borrower, of course he confirmed that he was never self-employed and that he never produced any tax returns in that the taxpayer was unknown to him. I also contacted the tax preparer. The tax preparer also validated that she had not prepared the tax returns and in fact that the borrower was never a client of hers. And found no, like I said, no licensing information or registration with the secretary of state for the business.

Mike Tsikoudakis [00:10:10] Wow. So were there any other examples of misrepresented documentation of employment otherwise worth noting?



Martin Abad [00:10:16] Oh, yes. In the 30 plus files that I reviewed I found some other files where the borrowers were listed as other professions, but they were really they were not. For example, one borrower was identified as a dress designer. In reality, she was an employee working at a senior care center for many years, including during the time when the loan was originated. Another borrower was listed as a truck driver. When I spoke to the borrower, she explained that she was not a truck driver, her husband was the one that was the truck driver.

Mike Tsikoudakis [00:10:58] Well, so let me pause here and I'm going to turn to Ron. So, Ron, you're hearing kind of how this story is unfolding. What are your thoughts at this point when you when you're hearing, you know, what about when you're hearing about what Martin's finding? And then I wanted to also ask you during the QC review, what were your underwriter's experiences with income and employment misrepresentation related to his case?

Ron Feigles [00:11:17] Yeah, so first what I'd say I think it's great that in this instance that the borrowers were very open and willing to talk to Martin or talk to our investigators to sort of share their experience and help us uncover the fraud; it goes without saying it's a team effort. On the QC side, we saw similar inconsistencies when like, for example, on one of the loans we reviewed the borrower's asset statements from the bank and this is something that happens, unfortunately, with some regularity. The bank confirmed that the statements that we had in our file and a direct deposit on the bank statements were fabricated. They went so far as to tell us that even the account number listed on the bank statement wasn't valid. You know, another one very similar to what Martin's describing, the application listed them as an employee of the company, but they never worked there. And those were the types of things that lead us to referring these situations to the fraud team and then through the fraud team and through the investigation, you know, Martin and the team, they work and really expand that and then in many cases find additional falsification against a or in this case multiple loan files.

Mike Tsikoudakis [00:14:44] Yeah, it definitely sounds the way this is unfolding, there's multiple layers of fraud here, there's not one single thing here. Martin, back to you. You mentioned that you talked to borrowers. Can you share a little bit more about what you learned from the borrower interviews regarding this case?

Martin Abad [00:12:59] Yes. So I learn a lot from the borrower interviews. You know, of course, I learned that their employment, their tax returns and gift letters were false. But I also learned that the borrowers mainly dealt with their real estate agents throughout the entire loan process and not anyone else and additionally, a lot of the documents that contain the signatures had been also forged.

Mike Tsikoudakis [00:13:30] Interesting. And you also mention you talked to tax preparers? What did you learn from those conversations?

Martin Abad [00:13:34] I was fortunate to speak to two tax preparers. One did verify that the tax returns that I sent to her that were found in the loan files, with the CPA letters, she did not produce and she further went on to say that the that the borrowers were never clients of hers and that the signature, her signature on the tax returns and the CPA letter were also forgeries.

Mike Tsikoudakis [00:14:04] Ron, let me turn to you looking broadly over this case from your perspective, what are the lessons learned and what should anyone preparing a loan file look for in terms of fraud, in the term something suspicious?

Ron Feigles [00:14:16] Yeah, well I'll say with the risk of being repetitive and I've said this in the past, we have to look for consistency. If the employment, assets, income, credit depth don't really match with the borrower's employment history or income levels, the question needs to be raised. If a borrower's loan file shows that they're a licensed professional, you know, we should see evidence of that throughout the loan file that that's the industry they're working in. We should be able to see that they have a license and if need be, you know, as Martin did, we can check with the state or county licensing board where the borrower resides. And as always, our lenders are our first line of defense against fraud. Many of the cases that we investigate come directly from our customers. So we rely on your attentiveness. And early identification

means we as an industry have a better opportunity to reduce risk by stopping the fraudsters from continuing whatever scheme they're coming up with and really whatever scheme they're trying to get away with.

Mike Tsikoudakis [00:15:24] Yeah, and before we close out, Martin, I'll pass the ball to you. Do you have any final thoughts, any closing thoughts on what the lessons learned are?

Martin Abad [00:15:31] What I would like to say to the industry is that it used to be, including myself, that I assumed that any document that was issued by a government agency on an agency letterhead was trustworthy. But this case shows that with the evolving technology, fraudsters can and will alter any form of documentation, including IRS transcripts. You can't always rely on the income tax documents to be 100 percent authentic anymore just because they look official. So I would recommend that if you suspect that any document, including the IRS transcripts, may be false, that you use whatever means you can to verify their authenticity.

Mike Tsikoudakis [00:16:22] Excellent. Well, that's all the time we have for today. Thank you both for helping us understand what to look for when there's a suspicion of falsified tax documents with the added layer of misrepresentations of employment, assets and income. And thanks to our listeners for tuning in. Make sure to look for the next installment of our Fraudcast series. You can read stories of other recent fraud investigations in our 'True Lies' article series. When you visit our Fraud Prevention and Best Practices webpage on SF dot Freddie Mac dot com, just search for the term true lies. And remember, if you suspect fraud, let us know by contacting the Freddie Mac fraud hotline at eight hundred four fraud eight. That's 800, the number four, fraud, the number eight. Or you can reach us at our mailbox at mortgage underscore fraud underscore reporting at Freddie Mac dot com. Thank you and have a great day.

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