



History of Mortgage Regulation Oversight in Texas (Mortgage Brokers and Mortgage Bankers)

➤ *Licensing 1999*

Examination 2001

Registration 2003

Licensing Process

SML Mortgage Broker Search Page

<http://www.sml.state.tx.us:8080/mblolookup/search.jsp>

67% of mortgage loans in the US are transacted through a broker. In Texas for 2005 that included

Unauthorized Bankers Brokers

<http://www.sml.state.tx.us/unauthorizedbankersbrokers.pdf>

262 pages long (this was instituted at the request of Merritt Hopson based on State of Kansas)

Internal Tracking System

Criminal Background

Consumer Complaints

Loan Volume



Licensee and Registrant Info Search

Search using any of the following categories:

Name (Last, First):

Downloads License/Reg#:

Company:

City:

Record Types: Mortgage Bankers, Mortgage Brokers, and/or
Loan Officers

Info: name, company, address and

status: issued, probationary, provisional, and renewal pending are all valid to close,
other designations should not be originating.



Examination Process

SML has adopted with slight modification the compliance rating system established by the Federal Financial Institution Examination Council (FFIEC).

One - Strong compliance. *exhibits an equal emphasis on compliance with origination. Evidence of proactive compliance, sufficient controls and limited violations all provide ongoing assurance of quality.*

Two - Satisfactory compliance. *sufficient compliance to prevent systemic violations. An individual loan file may have multiple problems, but those problems are isolated and are not repeated in other files. No major fee issues or response for corrective action needed.*

Three - Generally, less than satisfactory compliance. *indicative of systemic compliance and/or documentation problems. Some fee issues will be present including underestimation of fees or rates, although not egregious or widespread. The examiner envisions the need for a plan of corrective action and formal response to the Department.*

Four - Requires close supervisory attention to promptly correct the serious compliance problems. *widespread documentation and fee-related issues. Probably a significant number of loan applicants who are entitled to reimbursement. Formal enforcement action. Third-party review of files to determine consumer entitlement to reimbursement.*

Five - In need of the strongest supervisory attention and monitoring. *widespread documentation problems, numerous fee-related issues, and an intentional refusal to maintain adequate records or entire loan files impeding effective examination. Formal enforcement action possibly including revocation.*



What can you do to avoid Enforcement actions

- **Unlicensed Activity**
- **Material Misstatements in loan docs**
- **Failure to produce documents**
- **GFE's not disclosing all fees**
- **GFE's not consistent with final HUD-1**
- **APRs not attempted, no identification of PFCs**



Examination Process

Mortgage Broker Examination Compliance Ratings

Excludes exams of "Not Rated" for Broker's who have originated less than 2 loans in the prior 24 months which total 322 from inception.

	# Broker Exams	Rated "1"	%	Rated "2"	%	Rated "3"	%	Rated "4"	%	Rated "5"	%
Since inception of exams	2,970	440	17%	806	30%	900	34%	408	15%	94	4%
10/13/01 - 2/28/07											
 Holders of dual licenses*	519	76	16%	153	32%	171	36%	68	14%	9	2%
(real estate, insurance, lawyer)											

* Includes only those dual license holders who were grandfathered from taking the pre-license test.



Consumer Complaint Process

Forms and Time Frames

Complaints received last 33 months			
	9 mo -FY 2007	FY 2006	FY 2005
Mortgage Broker/Loan Officer			
Misleading Practices	160	177	161
Fraud	140	164	152
Unlicensed Activities	109	93	73
Identity Theft	3	5	6
Permissible Charges/Fees	30	43	44
Bait and Switch	29	26	33
Refunds and File Transfers	37	74	75
Inadequate Disclosures	1	12	15
Improper Advertising	33	52	37
Failure to Pay Appraisers/Vendors	43	71	75
Failure to Pay Appraisers/Borrower	10	2	26
Customer Relations Issues	33	52	37
Sponsor Issues	18	16	20
Loan Servicing Issues	122	146	68
Other	1	0	109
TOTALS	770	933	931



Enforcement Actions

Orders issued for the violation of State and/or Federal Regulations resulting in disciplinary action including items such as: the assessment of administrative penalties, consumer restitution, license suspension and license revocation. The below definitions in descending order of severity provide both a guide to Alleged Violations addressed through the issuance of orders and a tool to help the user sort the data. The below link to an excel spreadsheet allows the user to download the limited description regarding licensees standing with the Department of Savings and Mortgage Lending. If more detailed information is desired on the specific contents of an order, an open records request must be submitted.

Classification and Definitions

Misleading Practices: All issues dealing with misinformation, sometimes including issues of potential fraud.

Unlicensed Activity: Engaging in unlicensed activity or affiliating with an unlicensed individual.

Consumer Restitution Required: May be present in other categories, but in this case represents primary violation.

Exam Inadequacy: Examination rating resulting in Administrative Order to take action.

Exam Deficiency: Examination rating resulting in Administrative Order to take action, pay consumer restitution and assessment of administrative penalty.

Exam Failure: Examination rating resulting in Cease and Desist Order to take action, pay consumer restitution and assessment of administrative penalty.

Failure to Comply with terms of Order / Agreed Order:

Violation of State and / or Federal Law:

Failure to Cooperate: Failure to cooperate with an examination or investigation.

Criminal Conviction: Order of revocation based on criminal conviction

License Denial:

x-Failure to Submit Annual Report:



Examination - Mortgage Broker Enforcement Options

3 Rated Exams

- INFORMAL DIRECTIVE

4 Rated Exams

- ORDER TO TAKE AFFIRMATIVE ACTION
- ORDER TO TAKE AFFIRMATIVE ACTION, PAY RESTITUTION, AND ASSESSING ADMINISTRATIVE PENALTY

5 Rated Exams

- ORDER TO CEASE AND DESIST, TAKE AFFIRMATIVE ACTION, PAY RESTITUTION, AND ASSESS ADMINISTRATIVE PENALTY



Examination - Mortgage Broker Formal Enforcement Options

SAMPLE CRITERIA IN (4) or (5) RATED EXAM ORDERS

- **(4,5) Assessment of Administrative Penalties** – Unlicensed Activity, Erroneous APR disclosure, GFE inconsistent with HUD-1, Collection of unearned fees, Failure to disclose YSP
- **(4,5) Pay Restitution to borrowers**
- **(4,5) Complete at least fifteen hours of Core-Classified Continuing Education** Broker and all sponsored LOs must complete from a Department approved continuing education provider.
- **(4,5) Comprehensive written Compliance Plan** - develop and implement
- **(4) Third Party Review** - specified sample of loans and fees charged to determine whether or not any borrower was assessed unearned fees or charges
- **(5) Pass the Pre-Licensing Test** - Broker shall take and pass with in 90 days
- **(5) Material Misrepresentation Review** - by a Department specified representative specifically addressing misrepresentations and violations of law
- **(5) Cease and Desist** - from violations of law, and any irregular lending practices



Examination - Mortgage Broker Formal Enforcement Options

Analysis of volume of (4) or (5) Rated Exam Orders Issued

	<u>(1)</u>	<u>(2)</u>	<u>(3)</u>
FY 2005	141	28	-0-
FY 2006	102	35	19
FY 2007	42	35	18

4 Rated Exams

- (1) ORDER TO TAKE AFFIRMATIVE ACTION
- (2) ORDER TO TAKE AFFIRMATIVE ACTION, PAY RESTITUTION, AND ASSESSING ADMINISTRATIVE PENALTY

5 Rated Exams

- (3) ORDER TO CEASE AND DESIST, TAKE AFFIRMATIVE ACTION, PAY RESTITUTION, AND ASSESS ADMINISTRATIVE PENALTY

Restitution to Consumers \$160,021
Administrative Penalty Collected \$486,900

ORDERS ISSUED - http://www.sml.state.tx.us/enforcement_actions.html



Enforcement Orders Issued

License No.	Name	Description	Title of Order	Order Signed	Status
22446	Able, Christie R.	Exam Deficiency	Agreed Order to Take Affirmative Action, Pay Restitution and Assessing Administrative Penalty	8/17/2006	Final
	Acevedo, Fernando	Unlicensed Activity	Order to Cease and Desist	7/22/2004	Final
22503	Acquisto, Michael	Exam Inadequacy	Notice of Violation, Order to Take Affirmative Action	12/23/2004	Complete
16030	Acuner, Andrew	Exam Inadequacy	Notice of Violations; Order to Take Affirmative Action	1/5/2006	Incomplete
41447	Adderley, Mitzi Dawn	Failure to File Annual Report	Agreed Order	3/28/2005	Final
3449	Adesola, Rilwan	Exam Inadequacy	Notice of Violation, Order to Take Affirmative Action	12/23/2004	Complete
2043	Adkins, Hector Hugo	Exam Deficiency	Order to Take Affirmative Action, Pay Restitution, and Assessing Administrative Penalty	4/25/2006	Open
31360	Adkins, Michelle	Failure to Cooperate	Notice of Hearing to Revoke Mortgage Broker License	4/28/2005	Surrendered License in Lieu of Revocation



SML Definition – Mortgage Fraud

A mortgage transaction in which an intentional misrepresentation(s) occurs from which one or more persons benefit or profit.



Main Players

Borrower(s) & Straws

Borrower Real Estate Agent

Seller(s) & Broker Owners

Seller's Real Estate Agent

Broker/Loan Officer/Processor/Underwriter

Lender employee(s)

Title Agent /Representative/ Fee Attorneys

APPRAISER(S)

Counterfeiters – appraisal reports “borrowed”, cut and pasted/altered
Appraiser Impersonators – borrowed another's number and credentials

Bank employees – deposit verifications

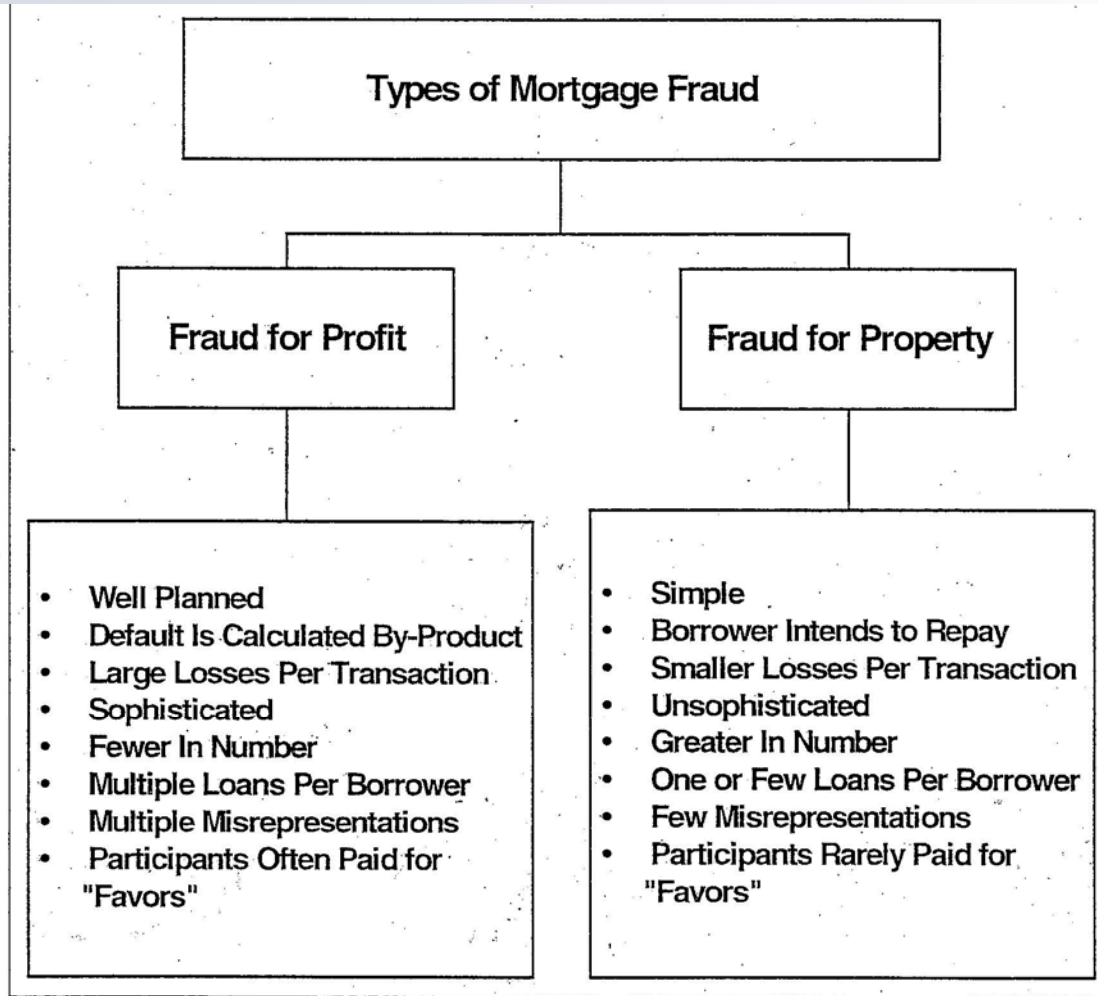
Fake employers – employment verifications

Third party service providers

Relatives/friends/acquaintances



TEXAS DEPARTMENT OF SAVINGS & MORTGAGE LENDING





Mortgage Fraud

Reported Fraud first 6 mo. 2005

<i>Occupancy</i>	<i>52.9%</i>
<i>Hidden Debt</i>	<i>31.6%</i>
<i>Employment</i>	<i>30.3%</i>
<i>Straw Borrower</i>	<i>12.9%</i>
<i>False Rent Ver.</i>	<i>11.6%</i>
<i>Appraisal</i>	<i>9.7%</i>
<i>Closing Funds</i>	<i>3.2%</i>
<i>Broker Fraud</i>	<i>1.3%</i>

Source: The Prieston Group



Mortgage Fraud

Current Statistics

Financial Crimes Enforcement Network (FinCEN) reports

Suspicious Activity Reports (SAR) filed related to residential real estate

1999 3,088

2005 21,944 or a sevenfold increase

2005 600 Cases taken by the FBI or 2.75% of SARs

(SARs are only required to be filed by insured depositories)

According to the FBI, the fastest growing white-collar crime in the United States is mortgage fraud. The FBI figures say mortgage fraud losses are in excess of \$1 billion, up from under half that a year ago.



Mortgage Fraud

Common Fraud Schemes

- Inflated Appraisals
- Property Flipping
- Silent or Soft Second
- Nominee or Straw Borrower
- Identity Theft
- Foreclosure Schemes
- Equity Skimming
- Air Loans
- Steering



Mortgage Fraud

Red Flags to watch for

- Inflated Appraised values (compared to TAV)
- Borrower with a second mortgage, especially from the seller
- Down payment other than cash
- More than one purchase contract
- Borrower is not the purchaser shown on the contract
- Agent in Dual Role (is both realtor and mortgage)
- Uncommon commission arrangement (or POC)
- Borrower buying investment property but currently renting own home



Mortgage Fraud

Red Flags to watch for

- Borrower and co-borrower work for same employer. Self employed
- Watch title history for multiple sales in short period
- Earnest money/ binder check not cashed
- New housing expense more than 150% of current housing expense
- Loan payments too high with respect to salary
- High income borrower discloses little or no personal property
- Long or unrealistic commute from work to home
- Same phone number for home and business



Mortgage Fraud

Red Flags to watch for

- Requesting documents be signed in blank
- Purchase loans disguised as refis w/cash outs
- Requiring "prepayment" of certain fees
- Personal property value greater than one year's salary
- Name and/or address on deposit/down payment check different from borrower
- Borrower related to seller or Buyer is currently living in property and buying it from landlord
- Investment opportunities outside of the transaction but in connection with



HB 716 Mortgage Fraud Bill

- Provide written NOTICE OF PENALTIES FOR MAKING FALSE OR MISLEADING STATEMENT to all borrowers for acknowledgement
- Requires "separate document"
 - 14-Point type and have specific language
 - 2-99 years imprisonment and fine of up to \$10K
 - Certification of income, identity, intent to occupy



HB 716 Mortgage Fraud Bill

- Reporting Fraudulent Activities
 - Attorney General
 - Texas Department of Savings and Mortgage Lending
 - Texas Department of Insurance
 - Office of Consumer Credit Commissioner
 - Texas Real Estate Commission
 - Texas Appraiser Licensing and Certification Board
 - Texas Credit Union Department
 - Texas Department of Banking
 - Local, state or federal law enforcement agency
 - U.S., County or District Attorney
 - Texas Department of Public Service



HB 716 Mortgage Fraud Bill

- Fraudulent Activity- any act that constitutes a violation of a penal law and is part of an attempt or scheme to defraud any person.
- Reporting requirements: If a person suspects that fraud has been, is going to be committed, the person SHALL report to one of the named agencies.
- The reporting person(s) SHALL NOT notify the persons involved of the report and shall not be liable for such under state or federal law (excepting common law)



HB 716 Mortgage Fraud Bill

- Residential Mortgage Fraud Task Force
 - Texas Attorney General
 - Savings and Mortgage Lending Commissioner
 - Consumer Credit Commissioner
 - Banking Commissioner
 - Credit Union Commissioner
 - Insurance Commissioner
 - TREC Commissioner
 - TALCB Commissioner



HB 716 Mortgage Fraud Bill

- Additional (Federal) Task Force Members:
 - F.B.I.
 - U. S. Secret Service
 - U.S. Department of Justice
 - U.S. Department of Homeland Security
 - I.R.S.
 - U.S. Postal Service



HB 716 Mortgage Fraud Bill

- Task Force will:
 - Share information and resources U. S. Secret Service
 - Enforce administrative and criminal actions against perpetrators
 - Report to the Texas Governor, Lt. Governor, and Speaker of the House annually on the progress of each agency



HB 716 Mortgage Fraud Bill

- Statute of Limitations – 7 years
- Felony charge – 2nd degree, if pattern or subsequent event, then 1st degree.



TEXAS DEPARTMENT OF SAVINGS & MORTGAGE LENDING

Required Disclosure – 9/1/07

NOTICE OF PENALTIES FOR MAKING FALSE OR MISLEADING STATEMENT

Effective September 1, 2007 and pursuant to Section 1. Subchapter B, Chapter 343, Section 343.105 of the Texas Finance Code, each mortgage lender, mortgage banker or licensed mortgage broker/loan officer shall provide to each applicant for a home loan this written notice at closing for full verification and execution by each loan applicant.

WARNING:

Intentionally or knowingly making a materially false or misleading statement to obtain property or credit, including a mortgage loan, is a violation of Section 32.32, of the Texas Penal Code, and, depending on the amount of the loan or value of the property, is punishable by imprisonment for a term of 2 years to 99 years and a fine not to exceed \$10,000.00.

If you are aware of or suspect any false or incorrect information used in connection with this loan, and do not report it immediately to the following agency, you could be held responsible and/or accountable by law:

Texas Department of Savings and Mortgage Lending
2601 North Lamar Blvd., Ste. 201
Austin, Texas 78705

Toll Free Consumer Hotline: (877) 276-5550

Main Number: (512) 475-1350

Email: sml.state.tx.us

Website: www.sml.state.tx.us

I/we, the undersigned home loan applicant(s), represent that I/we have received, read, and understand this notice of penalties for making a materially false or misleading written statement to obtain a home loan.

I/we represent that all statements and representations contained in my/our written home loan application, including statements or representations regarding my/our **identity, employment, annual income, and intent to occupy the residential real property** secured by the home loan, are true and correct as of the date of loan closing.

Applicant

Date

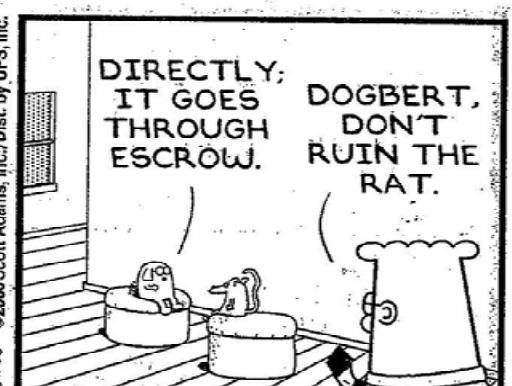
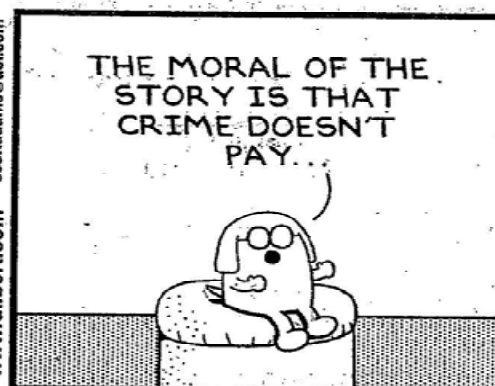
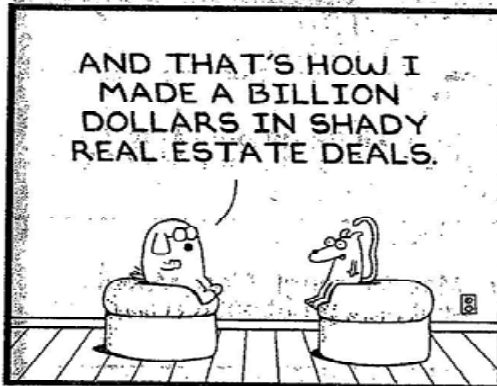
Co-Applicant(s)

Date



Mortgage Fraud by others can impact you

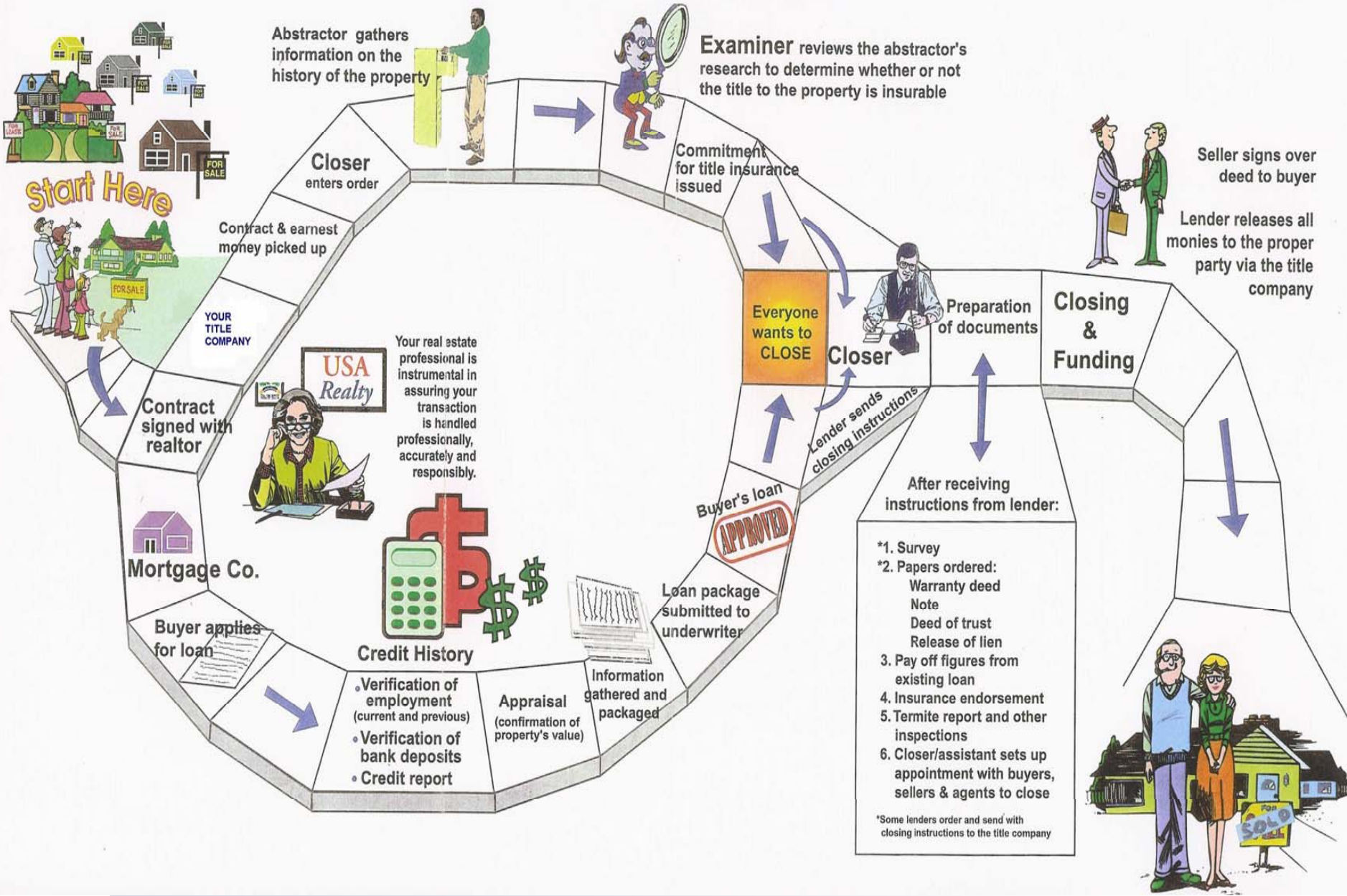
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WHAT HAPPENS FROM CONTRACT TO CLOSING



What is a Title Commitment?

- Insurance form promulgated by the Texas Department of Insurance
- Discloses:
 - Ownership
 - Encumbrances
 - Exceptions to title insurance coverage and
 - Requirements, if any, to clear title prior to closing.
- Binding for a period of 90 days from the effective date appearing thereon.

How to Read a Title Commitment

SCHEDULE "A" (ACTUAL)

Discloses the actual information that will appear on the final product of your closing, the title insurance policy.

- Owner's Coverage:
 - Liability amount of the policy to be issued to the Buyers (Sales Price or Appraised Value, whichever is lower)
 - How they will hold title (in what name)
- Lender's or Mortgagee's Coverage:
 - Liability or contemplated loan amount to the mortgage company and name of the mortgage company.
- Legal description of the property and how title is currently vested (should be the Sellers name).

SCHEDULE A

Effective Date: **JULY 10, 2007 8:00 AM** [date through which title is examined]

GF No. **00111**

Commitment No. **N/A**, issued **JULY 16, 2007** [date commitment is typed]

1. The policy or policies to be issued are:

(a) OWNER POLICY OF TITLE INSURANCE (Form T-1)

(Not applicable for improved one-to-four family residential real estate)

Policy Amount: \$

PROPOSED INSURED:

(b) TEXAS RESIDENTIAL OWNER POLICY OF TITLE INSURANCE

- ONE-TO-FOUR FAMILY RESIDENCES (Form T-1R)

Policy Amount: \$ **110,000.00 [Sales Price] R-3**

PROPOSED INSURED: **ROBERT ALAN BUYERS AND T. J. BUYERS**

(c) MORTGAGEE POLICY OF TITLE INSURANCE (Form T-2)

Policy Amount: \$ **80,000.00 [Loan Amount] R-4**

PROPOSED INSURED: **LENDMORE MORTGAGE COMPANY**

Proposed Borrower: **ROBERT ALAN BUYERS AND T. J. BUYERS**

(d) TEXAS SHORT FORM RESIDENTIAL MORTGAGEE POLICY OF TITLE INSURANCE (Form T-2R)

Binder Amount: \$

PROPOSED INSURED:

Proposed Borrower:

(e) MORTGAGEE TITLE POLICY BINDER ON INTERIM CONSTRUCTION LOAN (Form T-13)

Binder Amount: \$

PROPOSED INSURED:

Proposed Borrower:

(f) OTHER

Policy Amount: \$

PROPOSED INSURED:

2. The interest in the land covered by this Commitment is: **FEE SIMPLE**

3. Record title to the land on the Effective Date appears to be vested in:

WILLIAM T. SELLERS AND WIFE, MARY JANE SELLERS

[current owners of land according to last Deed of record]

Should match Contract Seller

4. Legal description of land:

LOT TWENTY-FIVE (25), BLOCK ONE (1) OF SUNSHINE ADDITION, AN ADDITION SITUATED IN THE CITY OF PARADISE, WAY OUT WEST COUNTY, TEXAS, ACCORDING TO THE PLAT THEREOF RECORDED IN VOLUME 49, PAGES 198-199 OF THE MAP RECORDS, WAY OUT WEST COUNTY, TEXAS.

How to Read a Title Commitment

SCHEDULE "B" (BURDENS)

- Discloses all items that will remain on the title policy during transferring of title, such as:
 - Easements
 - Restrictions
 - Current ad valorem property taxes and assessments
 - Boundary lines and other survey issues
 - Reservations of minerals and other interests

**SCHEDULE B
EXCEPTIONS FROM COVERAGE**

In addition to the Exclusions and Conditions and Stipulations, your Policy will not cover loss, costs, attorney's fees, and expenses resulting from:

1. The following restrictive covenants of record itemized below (We must either insert specific recording data or delete this exception):
Restrictions and covenants as recorded in Volume 921, Page 190, Deed Records, Way Out West County, Texas.
2. Any discrepancies, conflicts, or shortages in area or boundary lines, or any encroachments or protrusions, or any overlapping of improvements.
3. Homestead or community property or survivorship rights, if any of any spouse of any insured. (Applies to the Owner Policy only.)
4. Any titles or rights asserted by anyone, including, but not limited to, persons, the public, corporations, governments or other entities,
 - a. to tidelands, or lands comprising the shores or beds of navigable or perennial rivers and streams, lakes, bays, gulfs or oceans, or
 - b. to lands beyond the line of the harbor or bulkhead lines as established or changed by any government, or
 - c. to filled-in lands, or artificial islands, or
 - d. to statutory water rights, including riparian rights, or
 - e. to the area extending from the line of mean low tide to the line of vegetation, or the rights of access to that area or easement along and across that area.(Applies to the Owner Policy only.)
5. Standby fees, taxes and assessments by any taxing authority for the year **2007**, and subsequent years; and subsequent taxes and assessments by any taxing authority for prior years due to change in land usage or ownership, but not those taxes or assessments for prior years because of an exemption granted to a previous owner of the property under Section 11.13, *Texas Tax Code*, or because of improvements not assessed for a previous tax year. (If Texas Short Form Residential Mortgagee Policy of Title Insurance (T-2R) is issued, that policy will substitute "which become due and payable subsequent to Date of Policy" in lieu of "for the year ____ and subsequent years.")
6. The terms and conditions of the documents creating your interest in the land.
7. Materials furnished or labor performed in connection with planned construction before signing and delivering the lien document described in Schedule A, if the land is part of the homestead of the owner. (Applies to the Mortgagee Title Policy Binder on Interim Construction Loan only, and may be deleted if satisfactory evidence is furnished to us before a binder is issued.)
8. Liens and leases that affect the title to the land, but that are subordinate to the lien of the insured mortgage. (Applies to Mortgagee Policy (T-2) only.)
9. The Exceptions from Coverage and Express Insurance in Schedule B of the Texas Short Form Residential Mortgagee Policy of Title Insurance (T-2R). (Applies to Texas Short Form Residential Mortgagee Policy of Title Insurance (T-2R) only. Separate exceptions 1 through 8 of this Schedule B do not apply to the Texas Short Form Residential Mortgagee Policy of Title Insurance (T-2R).)
10. The following matters and all terms of the documents creating or offering evidence of the matters (We must insert matters or delete this exception.):
 - A. **Rights of Parties in Possession (Owner's Title Policy only).**
 - B. **Five foot (5') wide along the rear of the subject property for the use of public utilities, as shown by plat recorded in Volume 49, Pages 198-199 of the Map Records of Way Out West County, Texas.**
 - C. **Twenty-five foot (25') building setback line across the front of subject property as shown on plat recorded in Volume 49, Page 198-199 of the Map Records of Way Out West County, Texas.**

How to Read a Title Commitment SCHEDULE "C" (CLEAR)

Discloses requirements from examination of public property records that need to be cleared or satisfied prior to closing, such as:

- Liens
- Judgments
- Outstanding ownership interests

SCHEDULE C

Your Policy will not cover loss, costs, attorneys fees, and expenses resulting from the following requirements that will appear as Exceptions in Schedule B of the Policy, unless you dispose of these matters to our satisfaction, before the date the Policy is issued:

1. Documents creating your title or interest must be approved by us and must be signed, notarized and filed for record.
2. Satisfactory evidence must be provided that:
 - no person occupying the land claims any interest in that land against the persons named in paragraph 3 of Schedule A,
 - all standby fees, taxes, assessments and charges against the property have been paid,
 - all improvements or repairs to the property are completed and accepted by the owner, and that all contractors, sub-contractors, laborers and suppliers have been fully paid, and that no mechanic's, laborer's or materialmen's liens have attached to the property,
 - there is legal right of access to and from the land,
 - (on a Mortgagee Policy only) restrictions have not been and will not be violated that affect the validity and priority of the insured mortgage.
3. You must pay the seller or borrower the agreed amount for your property or interest.
4. Any defect, lien or other matter that may affect title to the land or interest insured, that arises or is filed after the effective date of this Commitment.
5. **Satisfactory release of the following outstanding indebtedness:**
Vendor's Lien retained in Deed dated January 15, 1991, in the amount of \$55,000.00, executed by Friendship Development, Inc. to William T. Sellers and Mary Jane Sellers, recorded in Volume 2235, Page 938 of the Deed Records of Way Out West County, Texas, additionally secured by Deed of Trust of even date therewith executed by William T. Sellers and Mary Jane Sellers, to Jo E. Blue, Trustee for Lendless Mortgage Company, an Ohio Corporation, recorded in Volume 431, Page 82, Deed of Trust Records of Way Out West County, Texas.
6. Upon payment of the applicable premium, Paragraph 3 of Schedule B of any Mortgagee Title Policy or Mortgagee Title Policy Binder on Interim Construction Loan will be amended to read as follows:
"Standby, fees, taxes and assessments by any taxing authority for the year 2003 and subsequent years, but not those taxes or assessments for prior years because of an exemption granted to a previous owner of the property under Section 1.13, *Texas Tax Code*, or because of improvements not assessed for a previous tax year.
7. Upon payment of the applicable premium, Paragraph 3 of Schedule B of any Mortgagee Title Policy or Mortgagee Title Policy Binder on Interim Construction Loan will be amended to include the following language:
"Company insures that standby fees, taxes and assessments by any taxing authority for the year 2003 are not yet due and payable."
8. Schedule B of the Mortgagee Title Policy will be amended to include the following in addition to the existing language:
"Section 13 of the Conditions and Stipulations of this policy is hereby deleted."
9. In the event the current transaction involves a re-conveyance of the subject property by the purchaser(s), further examination of the subject property will be required for possible additional exceptions and/or requirements.

Company must be furnished with a properly executed Affidavit of Debts and Liens executed by the sellers in the current transaction.

TITLES-R-US

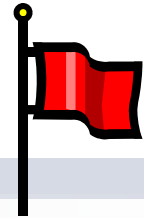
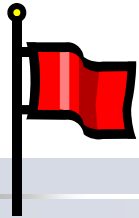
By _____
Authorized Signature
(Countersignature)

How to Read a Title Commitment SCHEDULE "D" (DISCLOSURES)

Discloses:

- Ownership of the title insurance company
- Ownership of the issuing agency
- Contemplated premium charges for policies to be issued based upon information provided at the time of the order

Red Flags of Mortgage Fraud



Title Report or Commitment

- Income tax or similar liens against borrower on refinances
- Delinquent property taxes
- Seller not on title (possible flip/double escrow)
- Buyer has pre-existing financial interest in property
- Chain of Title – do you see buyer, real estate agent, broker?



Documents to Check

- **Application** who - is applying
- **Appraisal** what – is the protection
- **Hud-1** where - is the money going

- **GFE**
- **TIL**



Application

- Income employment or other and Self Employed
- Homestead status when actually investment
- Balances on Credit cards as % of line
- Post-closing Reserves from verified Deposits
- Investment assets are not publicly traded
- Education
- More than one application in file with significant changes in any of above items



Appraisal

- Who Ordered the Appraisal Section I
- Any Financing concessions granted and factored into the sales comparable Section I, VIII
- Economic Life or Effective Age Section V, VII, question 34
- Sales: Adjustments and Net Section VIII, question 50-53
- Compare property and all comps' value with County Tax Assessors files/database (if appraisal is 15-20% above county value – FLAG!)
- What level of internal review is being performed



HUD-1 Settlement Statement

- Names inconsistent from sales contract or application
- Excessive cash proceeds to third parties or to the buyer
- Even dollar amounts on payoff of liens
- Earnest money is inconsistent with amount on sales contract or application
- Unusual credits, disbursements, undisclosed liens or related parties.
- Sales price does not match the sales contract
- All or most of down payment is paid outside of closing



Investigative Priorities

- Dissect/Analyze appraisal reports IN DETAIL
- Analyze sales contracts/agreements
- Closing disbursements analysis
- Collaborate with other licensing entities
- Check for associations/ties with other known perpetrators
- Question all parties, associates, neighbors, employees (past/present), employers, customers
- Subpoena and analyze personal and business bank statements of ALL parties involved, phone records, email, etc.
- Computer forensics



Keys to Discover a Straw-buyer Scheme



Down payment check is drawn on an account that differs from that shown on the loan application or is not from the buyer



Names are added to purchase contract or removed from the vesting



HUD-1 indicates transfers or payments to brokers or third parties



Quit Claim Deed is used either right before or soon after closing



Keys to Discover for Straw-buyer Scheme



The sale is to a relative or related party



There is little or no credit for borrower

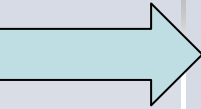


There is usually lack of substantiated down payment through the closing

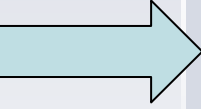


There may be no real estate agent

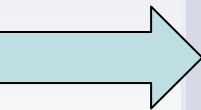
What Do You Look For?



Determine if names are added or removed from the initial purchase contract/escrow instructions at the time of the loan documents and closing. Verify that a copy of the identification for the notary is in the closing file



If there are disbursements to any third parties that do not have a lien on the property or a “normal” invoice.



Watch for adjustment in sales price after the transaction opens for a higher amount!

Case Studies

Case Study – File 530 – HUD submitted for Funding

101	Total Consideration	152,000.00	401	Contract Sales Price	152,000.00
103	Settlement	3,317.76			
120	Gross amt due from Borrower	155,317.76		Gross amt due to Seller	152,000.00
201	Earnest money	12,000.00	501	Excess deposit	12,000.00
202	Principal amount of new loan	144,000.00	502	Settlement charges to Seller	150.00
205	Funds POC from Buyer to seller		505	Funds POC from buyer to seller	
211	Prorations	3.97	511	Prorations	3.97
220	Total Paid By/For	156,003.97	520	Total Reductions in	12,190.31
301	Gross amt due from Borrower	155,317.76	601	Gross amt due to Seller	152,000.00
302	Less amt paid by/for Borrower	156,003.97	602	Less reduction in amt due Seller	12,190.31
303	CASH – to Borrower	686.21	603	CASH – To Seller	139,809.69

Case Study – File 530 – HUD-1 Per Disbursements

101	Total Consideration	152,000.00	401	Contract Sales Price	152,000.00
103	Settlement	3,289.16			
120	Gross amt due from Borrower	155,289.16		Gross amt due to Seller	152,000.00
201	Earnest money	12,000.00	501	Excess deposit	12,000.00
202	Principal amount of new loan	144,000.00	502	Settlement charges to Seller	150.00
206			506	<i>Wire to Mtg. Broker</i>	10,000.00
207			507	<i>S/Proceeds to Mtg. Broker</i>	129,809.68
211	Prorations	3.97	511	Prorations	3.97
220	Total Paid By/For	156,003.97	520	Total Reductions in	152,000.00
301	Gross amt due from Borrower	155,289.16	601	Gross amt due to Seller	152,000.00
302	Less amt paid by/for Borrower	156,003.97	602	Less reduction in amt due Seller	152,000.00
303	CASH – to Borrower	714.81	603	CASH – To Seller	-0-

Red Flags – Case Study 530

Lenders Instructions State

Must have a final HUD-1 – certified to be true and correct

Any deviations from the contents of these instructions must have written approval to proceed

Settlement agent's failure to comply with these instructions may result in a claim by the lender against the title insurance company

***Note down payment shown on line 201-501 – paid outside of closing**

Major changes to the HUD-1 without lenders approval or acknowledgement

Wire to Mortgage Broker for \$10,000

Wire to mortgage Brokerage account instead of seller for \$129,809.69

All down payment paid outside of closing without lenders approval

Refund to buyer for funds that did not come from buyer (most likely)

***No signed wire authorizations**

Case Study – File 951 – HUD submitted for Funding

101	Total Consideration	550,000.00	401	Contract Sales Price	550,000.00
103	Settlement	8,373.92			
120	Gross amt due from Borrower	558,373.92		Gross amt due to Seller	550,000.00
201	Earnest money	140,000.00	501	Excess deposit	140,000.00
202	Principal amount of new loan	412,500.00	502	Settlement charges to Seller	150.00
205			505		
211	Prorations		511	Prorations	
220	Total Paid By/For	552,500.00	520	Total Reductions in	140,150.00
301	Gross amt due from Borrower	558,373.92	601	Gross amt due to Seller	550,000.00
302	Less amt paid by/for Borrower	552,500.00	602	Less reduction in amt due Seller	140,150.00
303	CASH – Fr/to Borrower	5,873.92	603	CASH – To Seller	409,850.00

Case Study – File 951 – HUD-1 per Disbursements

101	Total Consideration	550,000.00	401	Contract Sales Price	550,000.00
103	Settlement	8,373.92			
120	Gross amt due from Bor.	558,373.92		Gross amt due to Seller	550,000.00
201	Earnest money	140,000.00	501	Excess deposit	140,000.00
202	Principal amount of new loan	412,500.00	502	Settlement charges to Seller	150.00
207	\$ Coalition Title Co	6,144.40	506	Greg – atty trust account	75,000.00
			507	<i>Premier Marketing</i>	15,000.00
			508	<i>Bob Ellertson – check</i>	15,000.00
			509	<i>Mortgage Broker – wire</i>	50,000.00
			509.a	<i>Wire to LLC</i>	5,000.00
211			509.b	<i>Wire to Invest * not seller</i>	245,700.00
220	Total Paid By/For	558,644.40	520	Total Reductions in	550,000.00
301	Gross amt due from Borrower	558,373.92	601	Gross amt due to Seller	550,000.00
302	Less amt paid by/for Borrower	558,644.40	602	Less reduction in amt due Seller	550,000.00
303	CASH – Fr/to Borrower	\$270.48	603	CASH – To Seller	-0-

Red Flags – Case Study 951

Lenders Instructions State

No credits from seller or 3rd parties

Total consideration must pass through your escrow in the form of cash

We required a final HUD-1 and disbursements must be in accordance with that statement

Do not close if you have any knowledge of kickbacks, fees or consideration of any type directly or indirectly being paid or received in connection with this transactions

There are any cash payments not handled through escrow

Major changes to the HUD-1 without lenders approval or acknowledgement

Wire to Mortgage Broker for \$50,000

Wire to Attorney \$75,000

Wire to Marketing Alliance \$15,000 (outside parties)

Wire to unknown LLS \$5,000

Check for \$15,000 to outside party

Wire of \$245,700 – should be sellers proceeds – sent to outside party

Refund to buyer – money came from seller through Coalition Title

Case Study – File 20770 – HUD submitted for Funding

101	Total Consideration	615,000.00	401	Contract Sales Price	615,000.00
103	Settlement	3,276.67			
120	Gross amt due from Bor.	618,276.67	420	Gross amt due to Seller	615,000.00
201	Earnest money	-0-	501	Excess deposit	-0-
202	Principal amount of new loan	492,000.00	502	Settlement charges to Seller	155.00
206	Funds Deposited with seller	130,000.00	506	Funds deposited with seller	130,000.00
			507		
			509.a		
211	Prorations	1,243.33	511	Prorations	1,243.33
220	Total Paid By/For	623,243.33	520	Total Reductions in	131,398.33
301	Gross amt due from Borrower	618,276.67	601	Gross amt due to Seller	615,000.00
302	Less amt paid by/for Borrower	623,243.33	602	Less reduction in amt due Seller	131,398.33
303	CASH – Fr/to Borrower	4,966.66	603	CASH – To Seller	483,601.67

Case Study – File 20770 – HUD-1 per Disbursements

101	Total Consideration	615,000.00	401	Contract Sales Price	615,000.00
103	Settlement	3,276.67			
120	Gross amt due from Bor.	618,276.67	420	Gross amt due to Seller	615,000.00
201	Earnest money	-0-	501	Excess deposit	-0-
202	Principal amount of new loan	492,000.00	502	Settlement charges to Seller	155.00
206	Funds Deposited with seller	130,000.00	506	Funds deposited with seller	130,000.00
			507	Wire to other Title Agency - no approval	126,768.35
			508	<i>Wire funds to Mtg. Brk</i>	8,110.00
211	Prorations	1,243.33	511	Prorations	1,243.33
220	Total Paid By/For	623,243.33	520	Total Reductions in	266,276.68
301	Gross amt due from Borrower	618,276.67	601	Gross amt due to Seller	615,000.00
302	Less amt paid by/for Borrower	623,243.33	602	Less reduction in amt due Seller	266,276.68
303	CASH – Fr/to Borrower	4,966.66	603	CASH – To Seller	348,723.32

Red Flags – Case Study 2070

Lenders Instructions State:

You must deliver to us prior to closing a source of title, showing name, date and recording info of the document that transferred title to current record owner. – Stop if prelim reflects different seller than listed on our HUD

No other sales

Settlement statement shows the party to whom each line item it to be disbursed. The fee and charges described below are accurately shown on the settlement statement.

You have obtained a copy of the instrument by which the borrower made the earnest money deposit or down payment. Ca copy of this instrument must be included with the closing documents when returned to the lender.

Major changes to the HUD-1 without lenders approval or acknowledgement

**Wire to other Title Agency
\$126,768.35**

***Wire to Mortgage Broker
\$8,110.00***

**Refund to buyer – \$4,966.66
and buyer came in with no money**