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## FOCUS: REAL ESTATE

# Fraud: Lenders bit

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## Mortgage fraud 'national epidemic'

Mortgage fraud is rampant in metro Detroit and the rest of the country, industry experts say, and is only expected to increase in the short term. In Michigan, financial institutions reported nearly \$26 million in losses due to fraud in fiscal year 2005, and reported losses for 2006 have already surpassed \$68 million. (See box, Page 19.)

Nationally, the FBI says mortgage fraud losses climbed from \$156 million in 2002 to \$429 million in 2004, then skyrocketed to more than \$1 billion in 2005.

Lenders say despite better fraud-detection procedures, the combination of a fast-cooling housing market, higher interest rates and high unemployment are driving the prevalence of fraud up.

There are variations on the fraud schemes being committed, and some scams overlap and involve other crimes such as identity theft or forged documents. At the core of most of them are inflated values.

Consider a recent online real estate listing for a riverfront loft in Detroit that said "the price is whatever you want it to be" and offered a kickback deal for cash at closing based on an inflated appraisal of "any price over \$250,000."

"It's a national epidemic," said Ralph Roberts, founder of Warren-based **Ralph Roberts Realty L.L.C.**

and author of several books on investing in real estate, including one on fraud titled *Cancer in the Floorboards* he is pitching to publishers.

"This is a train wreck that's going to make the savings-and-loan crisis look like two cars hitting each other at five miles an hour," said Roberts, who spoke on the topic of real estate fraud at national real estate conference in California on June 12-13 and who has a Web site, [www.flippingfrenzy.com](http://www.flippingfrenzy.com), that details examples of mortgage fraud around the country.

Recent arrests, indictments and sentencings with a local connection furthered the trend in 2006:

■ In March, a Colorado man, George Small III was ordered to pay restitution of \$22.4 million to Troy-based **Flagstar Bank** and was sentenced to 101 months in jail for a fraud case totaling more than \$200 million involving two companies he owned, **Amerifunding** and **20th Century Mortgage Inc.** Schemes included selling defective properties with inflated appraisals, and stealing identities of people applying for jobs at the two companies.

■ In October, an FBI undercover operation charged 19 Detroit area residents and one from California with defrauding banks out of more than \$10 million in scams involving mortgage brokers, loan officers, fraudulent buyers and appraisers. The 2½-year investigation, which continues, resulted in

## BACKLOGS MAKE FRAUD HARDER TO CATCH

Recording gaps at county registers of deeds or within third-party databases are a major headache for title companies and lenders as they seek to fight mortgage fraud.

When a search does not reveal the most recent transactions on a particular property — because they are yet to be added to the database — it opens up more opportunity for mortgage fraud schemes such as house-flipping.

"Until the gap period issue is resolved in recording documents, we're in a difficult situation," said Kellie Blair, partner at **Garan Lucow Miller P.C.** in Troy, who specializes in real estate and commercial litigation. "Everybody tries to protect themselves by signing affidavits that there's no other liens on the property. That doesn't help the title company if they go into bankruptcy."

Wayne County Register of Deeds Bernard Youngblood said his office has reduced recording times from 83 days in 2001 to less than one month this year. During a visit to the office last Monday, Youngblood showed that documents received May 23 were available through an index search, and employees were processing many documents from early June. Many title companies pay for third-party access to data instead of paying for direct access to the county data, he said, which could contribute to a delay.

However, Cathy LaMont, president of Detroit-based **LaMont Title**, said the delay by third parties is nominal, and there are still many backlog issues in Wayne County where newer documents are being processed before older documents.

Wayne County receives 2,500-3,000 new documents a day, and handles 200 to 300 document searches a day, Youngblood said. The county has been criticized, along with other counties in Michigan, for not keeping records noting the exact time of receipt of new documents.

The **Michigan Supreme Court** directed Wayne County to fix the problem in 2004 and in 2005. Youngblood said a new computer system will resolve the issue, and added that some transactions come in long after closing. In 2005, the county received more than 7,300 mortgage submissions 120 days after the transaction was closed. Title companies push to get documents in within days, LaMont said.

— Jennette Smith

a search warrant at several businesses including **Source One Mortgage** in Shelby Township. The fraud included the creation of phony W-2s, paycheck stubs and employment verifications. Six defendants are set to go to trial in August, and one defendant, Michael Bigbee of Detroit, recently was sentenced by federal judge Lawrence Zatkoff to 44 months.

## How it grew

Experts say mortgage fraud began growing in the 1990s as the mortgage model changed — where once most mortgages were written

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