



Fannie Mae Mortgage Fraud Update November 2006

The following charts and tables reflect data on loans delivered to Fannie Mae. They are a reflection of Fannie Mae's experience, and do not purport to represent statistics covering the mortgage lending industry as a whole. They are intended to be used for information and benchmarking purposes only.

Types of Misrepresentation Findings

Definitions:

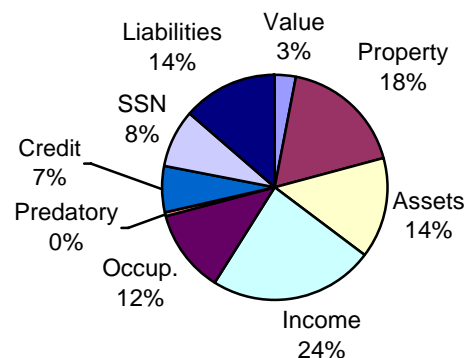
- **Credit** = The borrower's identity and/or credit history was/were misrepresented.
- **SSN** = There is a significant discrepancy in the SSN(s) used to qualify the borrower(s).
- **Liabilities** = The borrower's liabilities were misrepresented.
- **Value** = The property value was inflated and there was non-property-related misrepresentation in the loan transaction.
- **Property** = A specific material fact about the property and/or the comparable sales was misrepresented.
- **Assets** = The borrower's funds information was inflated or fabricated.
- **Income** = The borrower's income/employment information was inflated or fabricated.
- **Occupancy** = The borrower's intent to occupy the subject property was materially misrepresented.
- **Predatory** = The loan was in violation of one or more Fannie Mae predatory rules and there was misrepresentation in other areas of the loan transaction.

Distribution of Misrepresentation Findings by Type

The following pie chart depicts the distribution of significant misrepresentation findings by type. It reflects findings for loans originated in 2005-2006, as of reviews completed through October 2006.

Observations

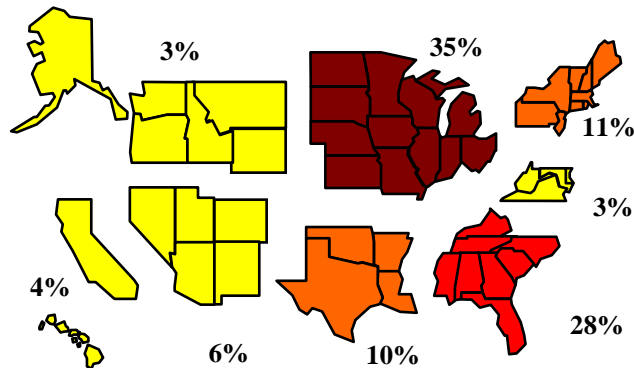
- Income misrepresentation (24%) is the most common single misrepresentation finding.
- Credit-related misrepresentation (Credit, SSN and Liabilities) are the most common group (29%).
- The share of property-related misrepresentation findings tends to increase as more fraudulent loans age and go into default.
- Loans with misrepresentation tend to have multiple misrepresentation findings. Thus far for 2005-2006 originations, each loan with misrepresentation averages 1.5 misrepresentation findings.



Distribution of Misrepresentation Findings by Geography

By Region

The following map depicts the distribution of significant misrepresentation findings by geographic region. It depicts all loans with misrepresentation that were originated in 2005-2006, as of reviews completed through October 2006.



Observations

- The Midwest currently contains the largest share of Fannie Mae loans with mortgage fraud findings.
- The Southeast continues to contain a large share, followed by the Northeast and South Central.
- The West and Mid-Atlantic continue to see their shares declining relative to prior periods.

By Zip Code Area

The following table depicts the top ten markets for Fannie Mae misrepresentation findings by zip code area, which is the area represented by the first three zip code digits. Each zip code area includes a representative city and the most misrepresentation findings for that area. This does not mean that there were not other cities or findings within the zip code area – just that these were the most representative of the loans Fannie Mae reviewed and found misrepresentation. The table depicts all loans with misrepresentation that were originated in 2005-2006, as of reviews completed through October 2006.

1. 462 - Indianapolis, IN	Property & Assets
2. 300 - Decatur, GA	Income, Credit & Property
3. 303 - Atlanta, GA	Credit & Property
4. 601 - Elgin, IL	Credit & Income
5. 330 - Pompano Beach, FL	Income & Credit
6. 462 - Westfield, IN	Property & Assets
7. 482 - Detroit, MI	Income, Credit & Property
8. 381 - Memphis, TN	Property & Credit
9. 770 - Houston, TX	Property & Income
10. 600 - Wheeling, IL	Income & Occupancy

Observations

- The Indianapolis and Westfield areas are prominent as a result of a major fraud-for-profit "Ponzi" scheme involving inflated appraisals and falsified assets.
- The remaining areas are prominent due to relatively small fraud-for-profit patterns and loan-level fraud-for-house cases.
- Decatur and Atlanta continue to generate a relatively high number of fraud cases. They are numbers 1 & 2 over the 2003-2006 period.

Law Enforcement News

Below are summaries and links for selected mortgage fraud related law enforcement press releases. The information provided below was obtained from the referenced Web sites. The referenced links were active as of October 2006, but may become inactive over time. Fannie Mae does not maintain any of these Web sites.



Phoenix, AZ - The Arizona Attorney General (10/26) announced that a lawsuit has been filed against **Gregory Allen Best** alleging that Best enticed residents to sell their properties to him by representing that the City of Phoenix would use eminent domain to condemn the properties. According to the US Attorney, the City of Phoenix had no plans to condemn the properties. (http://www.azag.gov/press_releases/oct/2006/BestComplaint.pdf)



Los Angeles, CA - The US Department of Justice (10/06) announced that **James Davis Bennett** was sentenced to 121 months in federal prison for running an illegal property-flipping and loan fraud scheme. According to the DOJ, Bennett prepared fraudulent loan applications for straw buyers and inflated property values. (<http://www.usdoj.gov/usao/cac/pr2006/135.html>)



Golden, CO - The Jefferson County District Attorney (10/25) announced the arrests of **Edgar De La Rosa, Manuel Barron, Adela Hernandez, Ruben Martinez, Ventura Moreno, Manuel Jilenez-Galindo, Arturo Flores** and **Inocencio Landa-Madera**. According to the District Attorney, the defendants created false identity, credit and income documents in order to obtain mortgage loans. (http://co.jefferson.co.us/news/news_item_T3_R353.htm)



Washington, D.C. - The U.S. Securities and Exchange Commission (10/11) announced it had filed a complaint for emergency relief against **Pinnacle Development Partners LLC** and **Gene A. O'Neal**. According to the SEC, Pinnacle and O'Neal operated a Ponzi scheme since 10/2005 that affected investors in 33 states and 2 foreign countries. (<http://www.sec.gov/litigation/litreleases/2006/lr19864.htm>)



Miami, FL - The U.S. Attorney (10/18) announced that **Rita Cardoso** and **Luis Delgado** pled guilty to falsifying mortgage documents in order to obtain a personal residence. (<http://www.usdoj.gov/usao/fls/PressReleases/061018-01.html>)



Newnan, GA - The U.S. Department of Justice (10/10) announced that **Joseph E. White** and **Southern Lenders Mortgage Corporation** were indicted on charges of defrauding a lender of approximately \$3.7 million. The US attorney stated that White secured funding with a credit line and when the loans were sold to investors the funds to pay back the credit line were fraudulently diverted. (<http://www.usdoj.gov/usao/gan/press/2006/10-10-06b.pdf>)













Atlanta, GA - The Georgia Department of Banking and Finance (10/11) announced that it entered into a Consent Order with **City Capital Mortgage, Inc** and its owner, **Yong Rae Park**. The Banking Department said that this Consent Order resolved allegations previously made that City Capital and Park made false statements to a lender. (<http://www.ganet.org/dbf/pdfdoc/CityCapitalConsentOrder.pdf>)



Atlanta, GA - The U.S. Department of Justice (10/24) announced that **Carl F. Hairston** and **Janice Reena Hairston** (AKA **Cheryl Owens**) were each sentenced to 9 years in prison followed by 5 years of supervised release and ordered not to be employed in any mortgage-related business. The DOJ reported that the Hairstons obtained mortgages and other loans and then laundered the money through a series of shell companies. (<http://www.usdoj.gov/usao/gan/press/2006/10-24-06b.pdf>)



Atlanta, GA - The Georgia Department of Banking and Finance (10/27) announced that a Cease and Desist Order was finalized against **Taisha Pearson**, based on misrepresentations in loan files submitted to mortgage lenders. (<http://www.ganet.org/dbf/pdfdoc/TaishaPearsonC&D.pdf>)

-  **Des Moines, IA** – The Iowa Attorney General (10/5) reported that a lawsuit was filed alleging that **John J. Davis** and **Christine Frank** committed consumer fraud and criminal conduct in the sale of homes in the Des Moines area. The AG's office alleged that Davis and Frank sold properties at inflated property values and engaged in fraud to induce the mortgage company to make the loans. (http://www.state.ia.us/government/ag/latest_news/releases/oct_2006/John_Davis.html)
-  **Chicago, IL** – The U.S. Department of Justice (10/18) announced that **Norton Helton**, **Edward Varga** and **Lori Westerfield** were charged with fraud for allegedly stealing home equity from clients under the pretence of helping save the clients' homes from foreclosure. The DOJ said that all three individuals targeted consumers who were in bankruptcy and in danger of losing their homes. (http://www.usdoj.gov/usao/iln/pr/chicago/2006/pr1018_01.pdf)
-  **Indianapolis, IN** – The U.S. Department of Justice (10/11) announced that **Kenneth McKinney** was sentenced to 84 months in prison after pleading guilty to conspiracy to commit wire fraud and conspiracy to commit money laundering. The DOJ said McKinney was a licensed mortgage broker who used inflated appraisals and loan applications with false information to make borrowers look more creditworthy. (http://www.usdoj.gov/usao/ins/press_releases/Pressrelease06/20061011.Mckinney.oec.pdf)
-  **Topeka, KS** – The U.S. Department of Justice (10/17) announced that **Elizabeth L. Hessel** and **Angela Parenza** pled guilty to conspiracy to commit bank fraud and money laundering. The DOJ said that Hessel and Parenza admitted to inflating appraisals, selling homes at inflated prices, and falsifying loan documents. (<http://www.usdoj.gov/usao/ks/press/Oct06/Oct17a.html>)
-  **Wichita, KS** – The U.S. Department of Justice (10/20) announced that **Byron D. Fitchpatrick** was sentenced to 66 months in federal prison for attempting to defraud HUD. The DOJ said that Fitchpatrick admitted misrepresenting his intent to occupy properties he and others on his behalf purchased from HUD. (<http://www.usdoj.gov/usao/ks/press/Oct06/Oct20.html>)
-  **Boston, MA** – The Office of Consumer Affairs and Business Regulation (10/2) announced issuance of cease and desist orders against **Confidence Mortgage** and **Middlesex Financial Associates LLC**. The Office's action is the result of an ongoing investigation of allegations that consumer incomes are being inflated and that they are being placed into loans that they cannot afford. (http://www.mass.gov/?pageID=pressreleases&agId=Eoca&prModName=ocapressrelease&prFile=06_10_02_mortgage_fraud.xml)
-  **Detroit, MI** – *Update from the August 2006 Investigator.* The U.S. Department of Justice (10/16) announced that **Richard Leroy Davis** was sentenced to 37 months imprisonment for mail fraud, related to a scheme to defraud Detroit homeowners whose homes were in foreclosure. According to the DOJ, Davis obtained names of homeowners in mortgage foreclosure and then sent fliers representing that he could help save their homes. (http://www.usdoj.gov/usao/mie/press/2006/2006-10-16_ldavis.pdf)
-  **Jackson, MS** – The U.S. Attorney (10/19) announced that **Phillip Weary**, **William V. Fairley**, **Jafus Jones**, **Kenneth Fairley, Jr.** and **Kristy Packer** pled guilty to mortgage fraud on properties in Hattiesburg and Laurel. The Attorney General said that each defendant admitted to involvement ranging from acting as sellers on properties resold to straw buyers to misrepresentation of assets to close. (<http://www.usdoj.gov/usao/mss/press/oct2006/weary.html>)
-  **Eugene, OR** – The U.S. Attorney General (10/19) announced that **Mark Todd Harless** and **Hien Williams** were indicted for using fraudulent documents and false employment information on loan applications. The Attorney General stated that Harless and Williams were employed as loan officers for **Allegiance Mortgage Company**. (http://www.usdoj.gov/usao/or/PressReleases/20061019_Harless.htm)
-  **Everett, WA** – The Washington Attorney General (10/20) announced that it filed first-degree theft and identity theft charges against **Pedro Juarez Romero**, **Miguel Juarez Romero** and **Juana Vega Perez** for allegedly using false social security numbers to obtain mortgage loans. (http://www.atg.wa.gov/releases/2006/rel_Borrows_Charged_Identity_Theft_102006.html)