

Mr. Chairman and Distinguished Committee Members:

My name is Frank Pellegrini, and I am President of Prairie Title in Oak Park, Illinois, with offices in the metropolitan Chicago area. I have been a practicing lawyer since 1976 and founded Prairie Title in 1983. I am a title agent, and a member of the Board of Governors of the American Land Title Association, which I am here today to represent. ALTA is the national association for the title industry, representing nearly 3,000 member companies, with more than 100,000 employees, including title insurers, title insurance agents, abstracters and attorneys that operate in every state and county throughout the country.

In my hometown of Chicago, as in many large urban areas, the proliferation of mortgage fraud activities is particularly disturbing. The profile of the typical Chicago gang leader has evolved into a picture of a graying, suburban, technology friendly convict overseeing operations as diverse as mortgage fraud and drug dealing. This form of criminal activity is spreading.

Fraud is the second leading cause of title claims, so we track it very closely. Our experience indicates that mortgage fraud schemes change with the economy. In a more robust economy we witnessed claims involving inflated values. As prices have fallen

and equity has dried up, we now see loan slamming claims. Additionally, with the large numbers of mortgage defaults, short sale mortgage fraud claims are becoming more prevalent.

Title professionals enjoy a unique vantage point from which to observe, identify and thwart instances of fraud. We are the independent third party to the transaction whose only interest is to the integrity of the transaction and the protection of our customers. Through training and experience, we hone our ability to spot improper transactions every day.

We look for a number of mortgage fraud indicators that include:

- **Earnest money deposit that comes from someone other than the borrower, or lack of information about the source of the deposit,**
- **Seller carry-back documents that are not being disclosed to the lender,**
- **Payments to third parties that will not appear on the HUD settlement statement,**
- **Wide swings in mortgage amount,**
- **Recent sales with increases in price and checks to others at closing which could be a sign of “flipping”,**
- **Substitution of sales contract for a higher amount,**
- **The signing of blank documents, and**
- **Changes or increases in purchase price.**

As settlement service providers, we prevent fraud by:

- **Carefully checking identification.**

We know of a case in which a caregiver stole the information of the elderly gentleman he worked for by acquiring a replacement driver's license with his picture on it. The caregiver applied for a refinance and walked away with \$65,000. In this case, a check of the birth date would have been a tip-off that something was wrong.

We also prevent fraud by:

- Knowing our customers,**
- Checking lenders' or realtors' licensing status,**
- Always receiving lender approval for any HUD-1 Settlement Statement changes,**
- Prohibiting employees from notarizing documents that they did not witness,**
- Not accepting closing instructions from third parties,**

- **Keeping all matters pertaining to closings in strict confidence,**
- **Warning borrowers to prevent the future risk of fraud by verifying letters indicating a transfer of mortgage servicing companies,**
- **Having parties sign deeds of trust and other documents over the signature line and the typed name which makes signature scanning much more difficult, and**
- **By serving as a resource to local, state and federal law enforcement officials about mortgage fraud.**

All of this work in the back office and at the closing table adds up to a successful and fraud-free transaction.

Additional common-sense steps can be taken to assist in the prevention of mortgage fraud.

Congress should require that borrowers receive their key closing documents in advance of their closing – a consumer protection measure which is strongly supported by HUD.

In many cases documentation is still being faxed to the closing agent while the borrower is seated at the closing table.

The opportunity to inspect documents before closing would help prevent mortgage fraud by providing the settlement service provider and borrower time to review the documents by which fraud is perpetrated.

Let me conclude by saying that the title industry is well positioned and eager to serve as a resource to combat mortgage fraud.

Thank you.