

Fraud deepens Michigan housing crisis - Metro Detroit's foreclosure explosion linked in part to mortgage scams

Detroit News, The (MI) - Wednesday, November 28, 2007

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Danny Stokes used to sell drugs, before he discovered it was safer and more lucrative to sell mortgages.

Samer Fawaz and Bashar Farraj were students in a mortgage fraud class where they learned to inflate appraisals and bilk lenders. They murdered one of their fellow con men in their Sterling Heights mortgage office when the scheme began to unravel.

Nelson Sumpter served time for fraud in a scam that drew national media attention in 1994. That criminal record didn't stop him from beginning a new career as a loan officer. He was recently indicted for fraud.

Michigan ranks among the nation's leaders in mortgage fraud, costing residents millions of dollars and adding thousands of homes to the region's record number of foreclosures, a Detroit News investigation found. Here, scam artists found the perfect combination of eager, unsophisticated borrowers and lax regulation.

Reports of possible mortgage fraud perpetrated against Michigan banks grew 150-fold in 10 years, from nine cases in 1997 to 1,431 in 2006. Unscrupulous lenders, sometimes with the cooperation of borrowers and sometimes without, processed loans that were bound to fail, knowing they would collect commission and likely be safe from legal blame.

"This is all the result of predatory lending," said Detroit attorney Bob Day, who represents several homeowners whose homes were foreclosed as a result of scams. "There was an anything-goes attitude out there. It was, 'How to rob your neighbor.' "

Investigators are increasingly seeing drug dealers and other criminals skim millions out of a Michigan lending system that's fraught with lax regulations and minimal documentation.

"We are seeing people who two years ago were involved in drug trafficking," said Mark Bowling, supervisor of the FBI's regional office in Macomb County. They slide into mortgage fraud, he said, "because it's easier, it's safer and the amount of profit is incredibly high. Once they're in the mortgage fraud business, they see how easy it is."

Sometimes, their efforts were just inside the law. Other times, they were felonies. Either way, homes ended up in foreclosure and they, with few exceptions, walked away with pockets full of cash.

The actual level of fraud and its cost are difficult to determine, because much goes unreported. Prosecutors fear that many victims are either too ashamed to admit they've been duped or aren't aware of it. Some may fear a complaint may jeopardize their chances to get a new loan. "A lot of them, from (what) I've seen, do not realize they've been victimized yet," said Margaret DeMuynck, an assistant Macomb County prosecutor. "They can't exactly figure out what happened."

The Center for Responsible Lending estimates that mortgage fraud has cost Metro Detroit \$500 million in bad loans, lost property taxes and reduced values of nearby homes.

The number of mortgage fraud cases investigated by the FBI nationally has jumped more than six-fold in four years. The FBI won't release state-by-state data, but lists Michigan among the top 10 states for fraud, ranging from borrowers lying about their income to lenders outright stealing homes from the elderly.

Fannie Mae data rank Detroit as the nation's leader in loan fraud, noting lenders and borrowers are particularly known for falsifying Social Security numbers, debts and appraisals.

Inflated appraisals are so common that it's almost impossible to accurately value properties in some parts of Metro Detroit, said Liza Manzella, a Shelby Township appraiser. Things are particularly bad, she said, in parts of Detroit.

"You can't find any in a whole neighborhood that aren't fraudulent," she said. "I don't think the powers that be (law enforcement) are doing enough to stop this."

Inflating home values to draw larger loans from lenders is just one of the many scams that often lead to foreclosure. New mortgages that limited the disclosure and verification of financial information made fraud much easier to perpetrate -- both by lenders against homeowners and by homeowners against lenders.

State examiners find evidence of wrongdoing in 80 percent of the cases they review, according to lead mortgage examiner Heidi White of the Office of Financial and Insurance Services.

Because the crime is so prevalent, and the resources required to convict so high, federal authorities target only cases that involve hundreds of thousands of dollars. "This is an unbelievably prevalent crime," said the FBI's Bowling. "I could keep all eight of my agents busy with mortgage fraud."

Fraud secrets revealed

Mortgage fraud was easy for Hani Mortada. And the money was a lot better than what he had earned as a part-time clerk at the Dollar Store.

From 2002-04, the Lebanese citizen went from a struggling part-time college student in Dearborn to a mortgage loan officer with \$25,000 in the bank and a Cadillac Escalade in his garage. In those heady days, money came fast and the chances of getting caught were slim.

"I knew (lenders) would not call to verify (loan information)," Mortada told a federal jury in Detroit. His group of scam artists had "the best underwriters and the best banks -- you would not even believe what they would do."

Mortada, 29, was among 10 people indicted in a scheme involving at least a half-dozen homes in Detroit and Dearborn. Mortada pleaded guilty to federal charges of conspiracy to commit bank fraud and aiding and abetting bank fraud. Through his attorney, Mortada declined to comment for this story. But a transcript of his testimony in the April trial of co-defendant Safi Sobh reveals the secrets behind scams that stole hundreds of thousands of dollars from banks and sent numerous homes into foreclosure.

Sobh is serving a 10-year-sentence for leading the scheme. Mortada is scheduled to be sentenced in December.

Mortada testified that he was taught how to run mortgage scams by Sobh in 2002, when low-interest rates and escalating home values drew thousands into the industry. Loans were so attainable and oversight so lax, Sobh made \$35,000 in one two-week period, Mortada claimed.

Instead of income statements to see if they qualified for a loan, Mortada would do just the opposite: Calculate how much income was needed and write that number down as the applicant's income.

"So do you say, 'Sir, you're applying for a loan, how much do you make?' " asked Assistant U.S. Attorney Cynthia Oberg.

"Basically, we don't ask the customer anything," Mortada said.

To justify the false income, Mortada would create phony W-2s and pay stubs. Some buyers approved for mortgages didn't even have bank accounts. If Mortada believed the loan underwriter might check on the homeowner's finances, he'd add the home buyer's name to his own bank account until the mortgage was secured. Others had no credit score because they had never borrowed money, and Mortada and his cohorts would create phony loans on which the home buyer had allegedly made timely payments.

At times, Mortada would pose as the employer of a loan applicant to verify employment.

"Sometimes we chose where we wanted him to work," Mortada testified. "If his income should be \$60,000 (to qualify) and he work(ed) as a waiter, it's not going to make sense ... So, we put him as a manager, accountant, any job that fits the profile."

He and others working out of Sobh's realty office, Success Group, used those falsified applications coupled with inflated appraisals to obtain millions of dollars in bank loans. Often, the buyer was in on the deal -- with the group offering the buyer \$10,000 or more to take out an inflated loan on a home owned by the Success Group or a homeowner in on the scam. Knowing that the phony buyer's credit would be ruined after the home was foreclosed, Mortada would encourage them to buy numerous homes before the credit reporting companies noticed late payments. Mortada offered one potential phony home buyer a Cadillac Escalade if he signed a home loan.

In the 10 months between July 2003 and May 2004, Mortada committed \$552,950 worth of mortgage fraud, according to his plea agreement. He fled to Lebanon with \$120,000 in checks in his pocket. When the U.S. government put a hold on those checks, Mortada returned to Detroit, where he was arrested.

Crime is easy, prevalent

Mortada's scam was only one of at least a half-dozen common in Metro Detroit, aimed at duping lenders, borrowers or both.

Committing fraud is easy, explained Abed Hammoud, Wayne County assistant prosecutor and member of the county's interagency Deed Fraud Task Force.

"You don't have to pull a gun on someone. You don't have to be on camera with a dye pack (as you are when robbing a bank). You're sitting at a desk. Someone brings you coffee. There's a lot of money, and sometimes it doesn't take any more than one forged signature," he said.

The Task Force has brought charges against 30 people so far this year who they accuse of mortgage fraud. That's an increase over 2006, but Hammoud did not have access to last year's statistics.

Neither Oakland nor Macomb counties keep a tally of the number of mortgage cases they prosecute.

A task force of Oakland County officials, comprised of the county clerk, the sheriff and the Prosecutor's Office, met this week to get an update on pending cases, said Ed Cibor, an assistant prosecutor and chief of the warrants division.

Because the chances of getting caught are lower than with many other crimes, police are discovering criminals moving into mortgage fraud. Stokes had recently been released from federal prison after serving 15 years for drug dealing when he got involved in mortgage fraud. Stokes organized a scam in Detroit in which he sold a home without the knowledge of the real owner by falsifying documents and forging names. The real owner is now struggling with a mortgage company to avoid a foreclosure, Hammoud said. Stokes is back behind bars, serving 3-14 years for mortgage fraud.

A mortgage office killing

Fawaz and Farraj were co-conspirators of Mortada, learning mortgage fraud at the knee of Sobh, according to police. After the FBI began investigating the scam, Farraj and Fawaz killed a co-conspirator, Raed Al-Farraj, in the office of Michigan Mortgage, on 15 Mile in Sterling Heights. Police never found the body, but a large stain on the office carpet that Farraj and Fawaz claimed was cranberry juice turned out to be the blood of Al-Farraj. Both were convicted of second-degree murder and are serving 20-50 years behind bars. Both also were convicted of mortgage fraud.

Nelson Sumpter would not have been able to pull his alleged mortgage scams in most states. Sumpter served a prison sentence for a scam in which he fraudulently claimed he could help people get airline jobs in exchange for a fee. Because Michigan does not require a criminal background check to become a loan officer, Sumpter later worked as a mortgage loan officer.

Sumpter, 42, of Pittsfield Township was indicted in September in what Wayne County authorities believe to be a scam to strip the equity from the homes of several elderly Detroit residents. The homes are now in foreclosure.

One of Sumpter's alleged victims was Dorothy Walker. Walker's husband had recently died, and she had fallen behind on the mortgage of the Detroit home she'd owned for 17 years.

"I was working in the yard and a man came up and said he could help me save my house," Walker recalled. "He brought these papers to sign. I told him I didn't know if I should."

The man, who was Nelson Sumpter's brother, Omar, convinced Walker that a refinance could save her house and get her cash back. Eventually she signed, without realizing that instead of a refinance, she'd signed a quitclaim deed, handing ownership of her home over to Sumpter. He then sold the property to a bogus buyer, walking away with about \$60,000 in equity Walker had built.

Walker and her six children lost their home. "We didn't have anywhere to go," Walker said.

Wayne County's Hammoud thinks investigators are only "scratching the surface" of the mortgage fraud taking place in Metro Detroit. "The damage out there is huge. Sometimes people think that blood crimes are the only crimes that destroy lives. But this is destroying lives."

Types of mortgage scams

There are numerous mortgage schemes -- some legal and some not -- that often lead to foreclosure. Here are some of the most common:

House flipping

A house is purchased, and a false, inflated appraisal is obtained. The house is then sold to a "straw buyer" -- a person in on the scheme who has no intention of paying the mortgage -- for the inflated appraised value. The straw buyer gets a cut of the loan, and everyone walks away, leaving the bank with a mortgage that is higher than the true value of the home.

Equity skimming

A quitclaim deed is obtained from the homeowner, signing over ownership. The signature on the quitclaim can be forged, or can be obtained from the true owner by misleading them about the nature of the document. Once the quitclaim deed is obtained, the property is sold to a straw buyer, and the proceeds are split. The true owner loses the home, and the lender loses its loan.

Falsifying documents

Bogus financial data is used to obtain a home loan. This can be done by borrowers eager to get a home, by loan officers trying to increase the size of the loan they can sell, or by both. Fake W-2s can be generated, as well as phony work histories and bank records. Because the borrower actually can't afford the mortgage, these loans often end in foreclosure.

Bait and switch

Borrowers are promised one type of loan or interest rate, and arrive at closing to discover the documents record a worse loan. Often, buyers do not notice the change until after the three-day revocation period is over, or are so invested in the new home that they sign anyway.

Yield spread premium

Yield spread premium isn't illegal, but can cost unsuspecting borrowers tens of thousands of dollars over the lifetime of a loan. Lenders pay loan officers a bonus for selling borrowers loans at a higher interest rate than they qualify for. Borrowers aren't told that they could receive a better interest rate, and do not receive any benefit for paying the higher rate. One former subprime loan officer called yield spread premium "a loan officer's bread and butter."

Loan flipping

Loan flipping isn't illegal, but can often send homeowners into a financial spiral. Loan flipping involves selling loans to people who only have enough income to afford the short-lived teaser rates. Once those loans adjust to higher rates, the homeowners must refinance to get another teaser rate they can afford.

In each refinance, the lender tacks fees onto the mortgage -- usually between 1 percent and 5 percent of the loan's value. Those fees typically are added to the mortgage rather than paid in cash. The fees often amount to more than the homeowner pays off before it's time to refinance again. The result: Lenders get fees from the same homeowner every year or two, and the homeowner's mortgage keeps increasing.

Once home values decline under what is owed, homeowners can no longer refinance, driving them into foreclosure.

About this report

Tuesday: Easy money and risky loans make Metro Detroit a center of the foreclosure crisis.

Today: How fraud permeated the region's mortgage industry.

Thursday: What Michigan isn't doing, but other states are, to oversee lenders.

Caption: "I was working in the yard and a man came up and said he could help me save my house," says Dorothy Walker, who had fallen behind on the mortgage. Without realizing she was signing a quitclaim deed and not a refinance, she lost her Detroit home and \$60,000 in equity.

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Index Terms: MICHIGAN ; FORECLOSURE ; REAL ESTATE ; MORTGAGES ; BUSINESS CONDITIONS ; FRAUD ; LIST

Record Number: det31830883

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