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L'epidemia delle frodi ipotecarie

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Ugo Bechini

So we are starting with our connection with the United States now and I would like to introduce to you first of all Mrs Eliana Morandi. Mrs Morandi is a civil law notary, a former professor of Civil Law in the State University of Trieste, and I would also like to especially congratulate her because the World Congress of Civil Law Notaries in Madrid a few days ago elected her as a member of the Conseille Permanent, which means of the world's elite of of Civil Law Notaries, where for sure she belongs. And now she will introduce to us Mr Scott Broshears from the FBI, precisely Supervisor Special Agent of the FBI. To you Eliana.

Mrs Morandi:

Good afternoon to all of you ladies and gentlemen and friends, colleagues in general. I am very happy to be here in Washington D.C. right now, in the FBI Headquarters at 935 Pennsylvania Avenue. I am here with Mr Scott Broshears, whom I will ask to introduce himself to all of us. Thank you Mr Broshears.

Mr Scott Broshears:

Good afternoon everyone over there. It is still morning here in DC but I am glad to be here. I'd rather be over there to give the presentation and may be it would be a lot easier technically too. I work on the Financial Crime Section here in Washington DC based on the mortgage trial programme coordinator. Basically what I do is just keep in contact with investigations in the field and see what they are doing and how much work they are doing, what is going on across the United States and pass that information on to our management so we can take actions or initiatives that we see need to be done for Mortgage Trial Programme.

Mrs Morandi:

So, Mr Broshears, how long have you been working with the FBI and especially with mortgage trial section or in mortgage fraud investigations.

Mr Broshears:

I've been with the FBI for fifteen years. I have an accounting background so most of my investigations involved white collar crime, mostly bank frauds, mortgage frauds, for the last four or five years maybe, and I've been here at Headquarters working on a mortgage fraud programme for approximately one year.

Mrs Morandi:

Mr Broshears, mortgage fraud seems to be a very hot issue in the United States right now. Would you like to let us know what is the impact and what data you have on this kind of issue now based your experience of course.

Mr Broshears:

Well, we can start on the slides and during the presentation we'll go over some numbers and then I will explain those as we go. I have a battery slide here representing the FBI in the United States. Here's the American eagle.

Mrs Morandi:

Ugo, it will take some time for the slides to flow in, so please be patient.

Mr Broshears:

We get our work with the Financial Crimes Section here, in the Economic Crimes Unit. We handle bank fraud, mortgage fraud, bankruptcy fraud and money laundering. I work mostly at mortgage and as you can see from the slide, there's a crisis in the making. There's a question mark after that but I'm taking away that question mark because it is more of a definite issue now.

Mrs Morandi:

It is a crisis in progress.

Mr. Broshears:

Right

Mrs Morandi:

So you will have some numbers now.

Mr. Broshears:

What this slide shows is that in the United States, financial institutions are required to file something called a Suspicious Activity Report – we call it SARs for short - and that is any kind of bank or mortgage company of a certain size that's usually backed by the US Government by a federal insured corporation and things like that. Whenever they have what is any kind of suspicious activity, they have to file a report to the Government and we collect that data and we can analyse it and we determine, based on the analysis of those, what to investigate basically.

Mrs Morandi:

So they have increased in a very serious way.

Mr. Broshears:

Correct, yes, with the charge in 2003, we received 6,936 Suspicious Activity Reports on mortgage frauds and as of the first part of the year 2007, which ended September 30th of 2007 we have received 46,717. The other category is that of false statements, that is a different category but also they are false statements related to a mortgage fraud, so they could be a false statement on some banking documentation, it could be misrepresentation in the loan process or anything like that that the financial institution receives false statement, so that's how we have another 28,692 violations or suspicious activities in mortgage fraud. You can see the increase there, also since 2003, from about 4,500 to close to 30,000.

Mrs Morandi:

So there is almost the same rate of increase between false statements and mortgage frauds and we will come back to that later. In terms of damages and losses, what would you tell us?

Mr. Broshears:

Yes, this shows the dollar loss increase, again from the year 2003 to 2007. These numbers are actually not as accurate as they should be. As you can see the dollars of losses decreased a little bit in 2007. It is still like 813 million. The one problem we have getting that information is many banks or financial institutions when they file a suspicious activity report, they don't know their dollar loss yet. So even though they file a suspicious activity, since they haven't sold the property, they just put zero dollars in there, so it is not very reflective of the loss. But you can see it is still near a billion dollars and not every mortgage company and not every financial institution is required to file suspicious activity. There are mortgage brokers or mortgage lending companies that aren't required to file. A problem since we're getting maybe half the actual filings from fraudulent activity.

Mrs Morandi:

So your feeling at the FBI is that the issue is still increasing, the numbers are still increasing.

Mr Broshears:

There are estimates from the industry on mortgage fraud that mortgage fraud in 2006 account ofr a loss in excess of 4 billion dollars.

Mrs Morandi:

Four billion dollars! So it is a very large amount of money. What is the amount you are presently investigating?

Mr Broshears:

The slide you see now shows an estimated 4 billion. Our cases in the FBI, even though we don't have an exact number, but we are very easily investigating over one billion dollars of losses on mortgage fraud.

Mrs Morandi:

You have some more data to show us?

Mr Broshears:

Yes, the next slide shows FBI investigations. In 2003 we had 436 mortgage fraud investigations open. As of September 30th of this year we had 1,210 mortgage fraud investigations throughout the country. So we have our 50% increase from 818 to 1,200 just in one year, so it's about a 50% increase.

Mrs Morandi:

So, Mr. Broshears, maybe now we can through some questions I would like to ask you. So you told us that misrepresentations and false statements and forged documents are some of the elements that mortgage fraud nearly always plays, right? So do you find that the use of technology - facilitating the input in the system of data which have not been checked - could have had a role, could have played a role in the sharp increase in these crimes, in general in fraud crimes?

Mr Broshears:

Yes they definitely played quite a role in some mortgage fraud in several different ways. One; just the use of the internet has made it easier for people to get false documentation and acquire assistance to help them pull off the mortgage fraud. For example, there are companies on the internet that will provide you false bank statements, false tax returns, false identifications and also will even back you up as far as providing you an employment, providing you a phone number that the financial institution could call and verify your employment, so to speak. So there are people out there helping to start a mortgage fraud.

In another way, and again there's no definite study as to how this is effected, but with people advertising and starting a company over the internet on mortgage fraud, it has created more competition and with that increase in competition people come up with ways to make it easier for you to get a loan and when they make it easier for people to get a loan, in some instances they probably make it easier for the people who do mortgage fraud to carry out the mortgage fraud, to pull off their scam.

Mrs Morandi:

So making it easier with lower standards on the data checking over the data inputs, plus the easier way that internet allows for false and forged data to get into the system and provide the system with unreliable data, did play an important role...

Mr Broshears:

Yes. I wouldn't go as far to say that financial institutions are making it easier but obviously with the increase in the volume of loans and things, the percentage of mortgage fraud did also go along with those increase.

Mrs Morandi:

So now we can go on to the causes of this situation, I mean do that you feel that there was an increase in the competitive pressure of the market, of the loan market, so that it had to be made easier, people in the industry felt that they had to make it easier?

Mr Broshears:

That's not something that I - you know - I'm not an expert on, but I know that in the past it took longer to get a loan sorted and with the increase in the competition and the booming market, it appears that the industry was forced to process things faster and in some cases I'm sure lenders or other people in the industry didn't follow the procedures maybe as well as they should have and the procedures were not set up well enough, obviously that's testified by the fact that the fraud is happening.

Mrs Morandi:

So who are the players of these mortgage frauds?

Mr Broshears:

A large percentage of our mortgage fraud is carried out by industry insiders, the people actually working in the industry. Sometimes the people have been in the industry for several years and either they got greedy or maybe they were getting small amounts in the past and as dollar values increase, they were able to get away with more or, in some instances, new people coming in the market, more like the what you might think is the criminal guys / or the con guys that went after waiting for a fraud

Mrs Morandi:

So by insiders you mean mortgage brokers, title agents ...

Mr Broshears:

Providers d by anyone who works in the mortgage industry, sometimes I say some, you know, that type of person whether it is a mortgage broker, a realtor, an appraiser, an attorney or people working in the financial institutions.

Mrs Morandi:

So these people are to be intermediate partners of the lenders, right?

Mr Broshears:

Right

Mrs Morandi:

So they are the people who should have made the control on the data which has been input, right?

Mr Broshears:

Correct

Mrs Morandi

So the falsifications, the misrepresentations, the forgeries went through them, either because they were conniving with the fraudsters or because they were also actively participating in the process

Mr Broshears:

People that are in the process obviously know the weaknesses, know where's there the blind eye, who are able to beat the system. And they have the way to beat the system and get away with it, so I think that why they did it and that's the problem today.

Mrs Morandi:

So competitive pressure put the lenders in the need of out-sourcing some of the procedures to get loans, and the people they out-sourced the controls to worked against the system, not checking what they should have checked or participating in misrepresenting the data which were put into the system to get the loan, right?

Mr Broshears:

Well I think it's everything involved, even though the financial institutions might have been doing the same checks that they've been doing for several years, the people figured out what those were and how to beat the system. Like I said, in the past you called someone to verify their employment and you did that, but now they've come up with somebody pretending to be your employer and they do a little background on where they call to verify your employment and your salary. In the past that might have worked. Now you've got to go a step further because now somebody has figured out how to get around that.

Mrs Morandi:

So what there is, is approximately 53,000 market brokerage companies in the US and they have over 400,000 employees working in this industry. And in all your investigations you have found these people are connected in approximately in 80% of cases cooperate in the fraudulent schemes, right?

Mr Broshears:

Correct.

Mrs Morandi:

So you told us about the direct impact that mortgage fraud gives – although only as an estimate - in the system, as far as losses are concerned, up to 4 billion dollars losses, now do you think there is a connection between (interruption ... oh yes, here, do you see a slide that /---/? I'm sorry, a technical...delay). Do you think that this kind of – if a mortgage fraud meaning process presentation and forged papers may have had a role also in helping and putting through the system a greater number of what are called sub-prime mortgages? Because what I mean is that in the FBI records, the early payment default, which means delinquency on mortgages, long repayments, is considered a consistent indicator of mortgage fraud and at the same time the highest number of early payment defaults happen in the sub-prime mortgage loan part of the system. Do you feel that to be true?

Mr Broshears:

Well I'll tell you, it was just another avenue for mortgage fraud to happen and in the last five years the sub-prime market has increased substantially and they've come out with products to make it

clear to sub-prime borrower to make it easier for them to get loans, which has a lot of positive impact. At the same time I think that anything new gives new opportunities for the people who want to do mortgage fraud, it gives them new opportunities to do that. And there were some products out there, new ways to lend that they probably weren't aware of how the people who wanted to make fraud were going to take advantage of that. And that's what's happened in some of those cases. And in our investigations, you know we do have wide investigations on sub-prime lending, and we also have seen a lot of fraud, you know just as in the conventional lending. A lot depends on the area. A market in a lower social economic area in a big city is more likely to have crime in that area, but we've also got cases in the highest value property in Los Angeles too – you know, million dollar homes where mortgage frauds are being carried out with conventional lending tools. So it is just another avenue for the fraud people to take advantage of.

Mrs Morandi:

Since one of the schemes in which mortgage fraud developed is foreclosure, perhaps I have the feeling that there could be more room for frauds to work in the sub-prime market share because in the very high value cases, I think, people are more aware and pay more attention. As far as the normal foreclosure cases, which are concerning normal people, I would say they could hit the sub-prime borrower rather than the others.

Mr Broshears:

Yes, we are starting to investigate some foreclosure scams and it is starting to be a problem, but again you have the con guys looking for a way to con somebody out of some money, so now that foreclosures are starting to be a problem, they come up with foreclosure rescue scams where they take advantage of the people who are now faced with losing their house. Somebody else has come and has taken advantage of them and may be of another financial institution at the same time.

Mrs Morandi:

Let me explain for our French and Italian friends: foreclosure is the process which starts when a borrower does not pay back his loan. Foreclosures in the year of 2006 and 2007 went up very sharply in the United States. The problem was that from the year 2000 to year 2005 the house market prices had a very high increase, and starting from the year 2005 the market started going down, showing that the houses were not as valuable as they were supposed to be and the real estate bubble started to evolve. I was wondering Mr. Broshears, when the mortgage people put through a system inflated values in order to allow people to get loans, people who otherwise would not have had access to the loan market or the sub-prime market, weren't they also - not knowingly, maybe - inflating artificially the house market pricing because they gave inflated values. This would get the borrowers the loans they would not otherwise have got and at the same time they got more money from selling the mortgages on the secondary market. Don't you think there is an effect from their false statements on the selling values on homes?

Mr Broshears:

Well that's definitely a fact that also using false appraisals was one way that they were able to get a lot more money on the mortgage fraud scams. And that was basically done to a low level, as the mortgage brokerage, the real attorney, an appraiser and sometimes just a buyer and a seller, were just the people committing fraud, taking advantage of the system and everybody else just because of the work-load of the booming market and they were able to justify the high appraisals. But it's hard to say how far who really knew what and how much and what the overall effect is.

Mrs Morandi:

Absolutely. It is only that I think the houses' prices went up sharply because there was a strong demand but also because there was an evaluation of the subject, the borrowers and the houses which was not under control, which was not safely evaluated.

Mr Broshears:

Yes but the price market was expanding and everyone out there was buying today because they were afraid that the house would be more expensive tomorrow. And in certain areas in the United States up to 40% of the house purchases were made by investors, just either wanting to buy a house maybe still under construction, and by the time it was finished they would sell it and they would sell for more than they initially had a purchase price, or they would buy it and rent it for a year and then sell it for a profit.

Mrs Morandi:

So there was no control. Everything was done through people who would not meet each other, mostly.

Mr Broshears:

Yes, a lot of times. There were companies out there and they were able to take advantage of investors and some of our investigations show that they would advertise "well, buy this house and we'll take care of it and will rent it for you", and they were almost technically stealing your identity, but they were using the scam as if this was an investment and you'll sell the house in a year or two, you will make money and we'll have a profit. And sometimes they were running it out and they would just kind of delaying to fall of the plan.

Mrs Morandi:

Internet definitely made identity theft in whatever way it is used today a lot easier for everybody.

Mr Broshears:

Yes, it was definitely used in some cases, whether it's advertising or recruiting investors or whatever.

Mrs Morandi:

And in the foreclosure scams it also happened that people were signing their homes over while they were believing and being told that they were in fact just refinancing or something like that.

Mr Broshears:

Yes, there were some instances of foreclosure scams where the owner of the property is about to lose his house because he can't pay the mortgage, so somebody comes in with a rescue plan and says 'Here, we can refinance the house for you. You can live in it for a year, have lower payments, or whatever', but in the paperwork they are actually signing their deed over and selling the house to someone else, and they would technically rent it. And then at some point they would usually again get a higher appraisal and the people who plan off the scam were actually pulling money out of the house at the time and then maybe they would have a straw buyer or a stolen identity for somebody to sign the house and then let it go to foreclosure. So now the person is kicked out of the house anyway, and somebody else has made some money out of it.

Mrs Morandi:

But I'm surprised that people would sign a deed without understanding and without knowing they were selling and giving the house away instead of ...

Mr Broshears:

I think that in some circumstances the people didn't know they were selling the house, and in others they did, but thought they had no choice. Maybe they were being promised that in a year the house would be worth more and you people could buy it back.

Mrs Morandi:

So is that a fiduciary duty for the mortgage brokers to make the interest of their customers? Because I think, with the exception of California, there would be no fiduciary duty to explain exactly to the customer, to make their best interests.

Mr Broshears:

Well, technically they should, that's their job, to be in the best interest of their customer but obviously if you are committing fraud you are lying to the individuals, you're giving them false information and false documents.

Mrs Morandi:

Are mortgage brokers highly regulated?

Mr Broshears:

No, they're not regulated, they are probably the least regulated people in the mortgage industry. In some States there is not federal, they are not regulated by the Federal Government, it is regulated by the States, and in some States, just a year or two ago, had no regulation whatsoever on the mortgages brokers

Mrs Morandi:

So I could go out there and say "I am a mortgage broker"

Mr Broshears

Yes, rent some space, open an office and paint a sign out there saying you are a mortgage broker and you can start trying to find business for yourself.

Mrs Morandi

There was an interesting case you were telling me about, and if we have time I hope we will be able to go through that at the end. But going back, you mentioned between the insiders also title agents: is there any case you came upon which involved or involves title agents, title companies, in the real estate fraud?

Mr Broshears:

Yes, one of our newer emerging schemes is someone starts a title agency and then just goes out and they'll virtually steal somebody's house. Say I worked in a house, had some property, they would just sign false documentation that I'm selling my house to somebody else, they would steal somebody else's identity, process the paperwork from Alia, 500,000 dollar loan, and submit it to the financial institution. If the financial institution approves the loan, gives the title agency 500,000 dollars of the proposed loan, and the title agency may be does five or six or ten of these loans and then they close shop and leave. And they've made a few million dollars. A few months later the financial institution comes to me and wonders why I haven't been making my payments, or they come to the person I sold my house to, and when they find out that I'm still living there, I never sold my house, they are basically out of a loan.

Mrs Morandi:

Wow! It makes forging title, certificate of title to ownership, sound very easy, it sounds easy for these title agents.

Mr Broshears:

You explained to me how you operate in your country. And now how it is here it is probably much easier here to pull off a forgery and false documentation. That's maybe something we need to strengthen a little bit here.

Mrs Morandi:

Did you have any connection with other jurisdictions which may experience the same kind of problems that you are experiencing here on mortgage fraud and real estate fraud? In other countries, yes.

Mr Broshears:

The only connection I have is I have been in Canada, in Toronto, and they are having the same real estate problems. I don't know if their regulations are much different than ours, but they are very close to the United States and they get some good influence and some bad influence. This is one of the bad things they picked up.

Mrs Morandi:

Would you like to go over some other of your slides. We can go through a very interesting case here with Mr. Broshears, but if you feel that people may want to ask some questions....

Questioner:

Please go on, Eliana.

Mrs Morandi:

I think I would like to wrap it up in this way, if it is correct. You have been through the fact that mortgage fraud definitely has as common elements misrepresentations, false statements and forgeries, and they very often involve industry professionals. So this resulted in a great loss of a system but it is also facilitated by the internet use. So I think we can see all of that in the case that I am asking Mr. Broshears to show you now, which has been investigated by the FBI very recently and it is very interesting.

Mr Broshears:

This is a case the FBI completed in 2006. There was a company in Colorado called Amerifunding, a Mortgage Company. This is a man named Gerald Small, lived outside Denver, Colorado, but Gerald Small didn't think small. He was basically just an individual in Colorado, which had very lax laws on being a mortgage broker. Again he decided he'd be a mortgage broker one day. He set up his company, did mortgage loans but he didn't do mortgages on any real property. Every loan he set up was fraudulent. He made up property. He had two different banks that gave him a credit line, what we call 'warehouse loans'. And the warehouse account is basically like a credit line to where you can lend somebody some money - you're broker - until they can close the loan on a property, then they go out and find a mortgage company that wants to pick up that loan and buy

the loan out of you. So basically he would do maybe ten loans say for a 100,000 apiece so he would get his million dollars, and then he would use some of that money to make the payments on the loans that he had just borrowed and then usually the warehouse account would want you to pay off a loan in about three months. Well, in three months you have another deal come through, so you get more money so then you would have money to pay out the old amounts, so it is similar to a cheque-hiding scheme only with mortgage loans.

So he was just making up property, making up names and giving it to borrow money on his credit line. And he had co-conspirators, the other people helping him out and they were all making money, living very well. After a while the warehouse accounts and the banks decided that they needed a little more support for the loan, they wanted some property descriptions and maybe some driver's licences of the people that he was actually lending money to.

So what he did was post an ad in the newspaper for an accounting representative he needed for someone else to work in his company, and offered to pay 100,000 - 120,000 a year, which was a lot of money, especially if there was no experience required. So he had people lined up, up-front wanting to apply for that job, and when you apply for a job, you give all your personal information and you are asked for a copy of your driver's licence. So he could get your social security number and date of birth. And with that information – he never hired anybody – but he did use 47 job applicants in the next few months to support loans in their names. And was able to get a few million dollars from that.

Next way he would create money was that he just told investors again that he was buying property, and he actually asked them to pay 3 or 4,000 dollars just to be investors with him, and that way he would get some more money. He said, 'I'll rent the house for you, or we'll keep the house for a couple of years and we'll sell it and both make money. All you've got to do is just buy the property, sign the documents' and there were people all over the United States just buying that!

Eventually in March 2004 we actually did a search warrant and were able to seize his assets. He actually had a 20-passenger jet. He had six automobiles, he had a lot of real estate. So we were able to seize all of that. He was finally sentenced on March 6, 2006 and he got 101 months in the federal prison, so the time he will actually serve will be approximately eight years and the US had a loss in this case over 37 million dollars in his order. We had about 12 million dollars in assets seized, so we had some of the money back but obviously not all.

Mrs Morandi:

This case is a very interesting one because it really summarises all the elements that you have been talking to us about of mortgage fraud, meaning there were false identities, stolen identities, forged documents, over-inflated evaluations, all made up by a very unscrupulous insider. Unfortunately he was an insider, so he was the person who was supposed to give the lenders and the borrowers the safety and the certainty that the system asked for, and this created a lot of trouble, a big loss for the system, fortunately recovered, but I wonder how many other cases are not going to be recovered.

At the same time, if I can go back to what we were talking about previously, he overinflated the values of the houses, as in other cases, which were not so successful; so when the lenders go to foreclose the house, they will discover that the houses have a false price. So in turn, the lower value of the house will dampen the value also of the houses in the same environment. Make a down-scaling effect on the house market,

Mr Broshears

Right

Mrs. Morandi

which means the mortgage fraud in one sense helps developing the real estate bubble and now it is heavily helping it to develop in a very negative way, what you feel about that?

Mr Broshears:

Well, the foreclosures and when the loans go bad obviously that's part of the reason why the market is going down because obviously there's a lot more supply because there are a lot more houses on the market, you have got foreclosures, so you've more of a crisis supply, that means that the market doesn't make more houses and because there's more supply prices are going to come down. Besides, if you have foreclosures in your neighbourhood and in some neighbourhoods there may be 200 houses of which 50 of them are being foreclosed on. And obviously you're not going to be able to sell your house if you are in a neighbourhood like that. Your house price is

going to take a big drop because you have to compete with the foreclosures that are there and also those houses are not being taken care of, and it kind of brings down your neighbourhood even more.

Mrs Morandi:

So it will damage, it will also impact on the average borrower

Mr Broshears

Right

Mrs Morandi:

If I am an average borrower and my house price will definitely ...

Mr Broshears:

Yes, your price is going down and you bought two years ago when the market was high. you can't sell now and you're going to take a loss that you probably can't afford.

Mrs Morandi:

The data of the International Monetary Fund published two days ago, when I was coming over here, which I read on the 'Sole 24 Ore', our most important financial and economic newspaper, and which was reporting the IFM report on the house market in the United States showed exactly what we are talking about, that the prices were going down and this could be economically very damaging for the country, of course. Also If it is true that mortgage fraud can be linked from 30 to 70 percent of the sub-prime and delinquent mortgages in this Country, as the FBI report indicates, it means that it really had a very damaging impact on the economy as an overall. An effect which maybe was not foreseen but it is definitely there.

Mr Broshears:

It is hard to say how big – I mean our mortgage industry is having problems. It is hard to say how big a problem mortgage fraud played in there, but they kind of go hand-in-hand. I mean, I cannot say how big a problem it is or how much of the factor the problem is, but it is certainly a factor.

Mrs Morandi:

OK; I think from my side, I think there is just one question. What about the future actions? No, let me ask two more questions. One is how the FBI addresses this problem because I know that you have been actively involved long before the media went over of this issue, so I think you have done and are doing quite a job on it. So let us know.

Mr Broshears:

Well, just on what the FBI is doing, what we are trying to do is to address mortgage fraud. One thing we are doing is we are creating task forces at field offices and what we are doing, even though we merely have one or two agents at a particular office that can work on mortgage fraud, we can team up with our State and local authorities as well as every government agency, maybe Internal Revenue Service or Housing and Urban Development, which is also concerned with mortgage fraud, so we can form on a team and even work with local industry experts if they can help and show us – you know what the problems are and how we can work that. So we have 25 field officers who have mortgage fraud task forces or working groups.

We are developing training to get our agents in mortgage file so that they can understand problems and where the loopholes are and how to more effectively work mortgage fraud.

We have actually got some undercover operations going in a few cities which we have known from our Suspicious Activity Reports, and we know the people and sometimes it is hard to prove because they're blaming somebody else. They're saying 'I didn't know', so we do an undercover operation and if we have some known people doing a mortgage fraud, we can get better evidence.

Mrs Morandi:

Do you think there will be more regulation and what kind of action do you feel the US will take?

Mr Broshears:

Well a lot of States are coming up with their own specific mortgage fraud violations, so it makes it easier for them to charge mortgage fraud. And the US government is starting to look at regulations and maybe giving us more money to investigate mortgage fraud. We're trying to attack it from both sides – better regulations and maybe work the criminal elements too.

Mrs Morandi:

I have seen that there are some ideas and proposals on new responsible lending acts which several States are trying to have approved and also President Bush expressed his approval towards this kind of Act, because they connect the predatory lending - meaning the lending activities made very aggressive by the competitive pressure that we were talking about before and made it possible for a lot of non-screened people to get into the game and make this kind of mortgage fraud - . Do you think that they can play a role, meaning again that also the parliament are feeling there can be a connection between predatory lending and aggressive marketing lending and mortgage fraud and sub-prime crisis which has developed?

Mr Broshears:

Obviously, as I say in one of my presentation, there has to be a medium there between too much regulation and free-entrepris. That gets the economy going and more people get into the market where they can do work and make money. But obviously you have to have regulations too to control the sort of things that are happening now. I am not an expert necessarily in that field and I'll let the Congressmen decide what they think needs to be taken care of in that area but it looks as if they are moving in some direction and trying to tighten down and have more regulations so we don't spiral out of control.

Mrs Morandi:

That is important for us also because the USA are living ten years ahead, if we can focus on the weak points which made the issue so difficult to approach, I think we can try and avoid, or at least try and find the right measure in between no regulation at all, which allows for a free market but in a free market also has these type of scams can grow very rapidly, very fast, because of technology, because of competitiveness, and some regulation, which is needed.

Mr Broshears:

Yes, obviously some regulation... In some cases the procedures could maybe be better, the financial institutions. We have some cases where people in the financial institutions were part of the scam, so that makes it a little tougher to have procedures. And when there is a real estate deal which is closed, everybody makes money, and everybody wins, and so everybody is consenting to make the deal happen, but unfortunately you have got to make sure it is a legitimate deal.

Mrs Morandi:

Exactly. I wonder if you agree with me that all the forgeries and misrepresentations and stolen identities were put together by insiders, which in my opinion is pretty worrying, meaning that's obviously a weak point, because you certainly can go on the internet and check out that you are the owner of that house, but if I am a fraudulent title agent and I forge a document because in fact 'Tim' is the owner of your house, well I think the data in Internet itself, the procedure on the internet will not allow for a safe deal.

Mr Broshears:

Yes, there are still things that need to be done no matter how you try to streamline the processes, obviously there are still a few things you need to do to make sure. I think the bulk of the problem is people in the industry. I mean there are cases of mortgage frauds where the buyer and seller put together a plan and do it, but it is harder for them to do a multiple transaction. If you are in the industry, you can put together all the transactions and make a bigger impact on your fall.

Mrs Morandi:

Otherwise it would not have become what it became. Do you cooperation with other jurisdictions? You told me that you went to Canada, in Toronto. Do you have any contact with civil law jurisdictions?

Mr Broshears:

No.

Mrs Morandi:

Because there is a feeling, at least from what I researched on the internet, but I saw the problem in the United States, in Nova Scotia, in the UK, where it has already happened in the 1980s but we didn't know about it, and not in enough in civil law jurisdictions, so your experience is important.

Mr Broshears

Mortgage fraud has been around for a long time.

Mrs Morandi:

But not on this scale.

Mr Broshears:

Yes, not on this scale. Property was just going through such a boom market. There are more loans and I guess more loans is going to create more fraud because everybody is overworked, and in sub-prime you open up to a lot more people to the markets.

Mrs Morandi:

Ugo, I think our time is ...?

Ugo Bechini

Yes, it is almost over. You have covered in such a satisfying way the subject, so I only had one question and this question comes from a journalist from Corriere della Sera, and it has already been answered by you. She was asking whether your Unit worked with law enforcement agencies in France and Italy, and you have already answered this. Thank you.

So I think we can close here the connection. I would like to thank you very much, Mr Broshears.

Words like sub-prime and mortgage fraud were well known here in Europe but we knew very little about their causes and we have learned a lot. We are impressed with the activity of your Unit and we wish you all the best.

I would like to thank also Eliana Morandi. ...