Former Felon Reveals Tricks of the Mortgage Fraud Trade

By HEATHER ANDERSON
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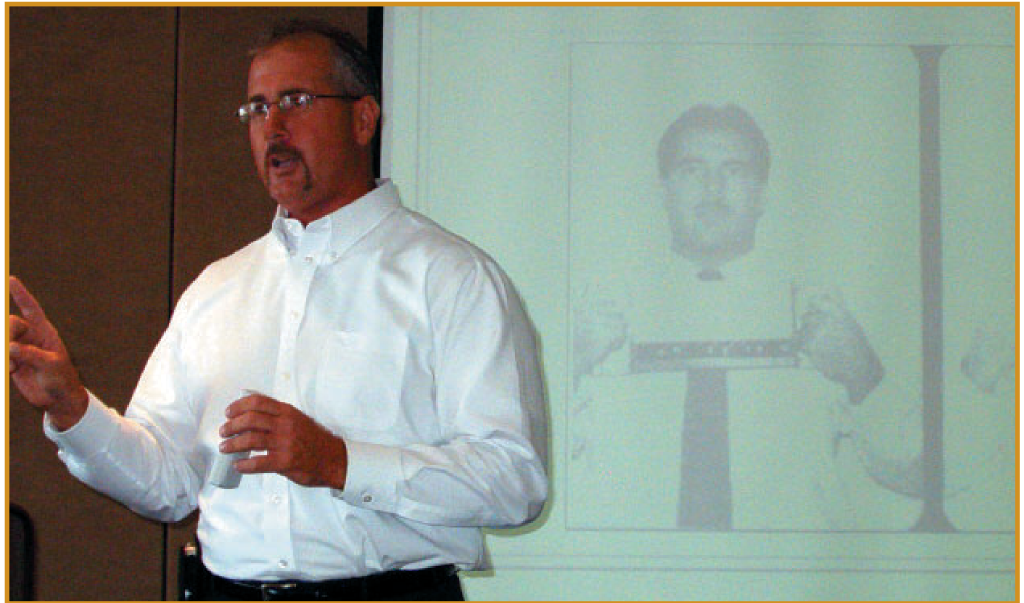
HUNTINGTON BEACH, Calif. – Want to find the weak links in an institution's fraud prevention safety net? Ask a convicted mortgage fraud felon.

Kevin Barnes was once an insider in the industry, working as a loan officer, branch manager and loan broker for 20 years. He became involved in an extensive fraud ring, which included ties to organized crime, and was eventually convicted of making false statements to the tune of $124-million in fraudulent loans.

Now president of Mortgage Fraud Awareness, Barnes travels the country working with institutions to reduce fraud and assisting the FBI in building cases against suspected criminals.



Barnes included mug shots from his arrest in his presentation, to drive home the seriousness of the crimes he once committed.

The criminal-turned-FBI consultant recently presented his exhaustive list of potential red flags to attendees at the CU Partners Mortgage Lending Seminar.

"We choose not to ask questions when a loan looks suspicious, because if we get the wrong answer, the deal is dead and we don't get paid," he told the audience.

Even non-profits like credit unions can fall into the trap of placing more value on closing the deal than avoiding fraud, he explained.

"Everyone involved in real estate made a bunch of money in 2002 and 2003, and they became accustomed to a certain lifestyle. They don't want to lose that lifestyle, which leads to the temptation to commit fraud," Barnes said, adding, "Management pressure to keep numbers up to where they were in 2003 doesn't help matters any."

The real estate boom resulted in a boom in mortgage fraud, he reported. In 2002, there were 263 active FBI mortgage fraud cases. As of the end of May, there were already 634 such cases in 2005. The FBI estimates 80% of mortgage fraud is committed by industry insiders, but Barnes said that number sounds low to him.

"In all my deals, I never had a consumer come up to me and ask me to help him commit fraud for profit," he said. "It's always done by insiders, because they know how to do it."

Barnes said he would prey on loan officers, underwriters, title company employees, appraisers, and other insiders to find their weakness and convince them to help him push his fraud through the system.

Often, his partners in crime were the loan department employees nobody liked, nobody talked to, and nobody noticed. He asked questions to find the "weakest links" in each organization.

"I didn't want to draw attention to myself, so I wasn't interested in the friendly employees who talked to people," he said.

Involvement in his schemes was often as simple as accepting less than due diligence when it came to loan paperwork.

"How many of you have put a verification of deposit in the place of a bank statement because the statement has negative information on it?" he asked.

"That's fraud you've just committed," he told his audience.

Other common practices that could land a financial institution in hot water include omitting child support obligations, combining spouses into one income source, not reporting loans that don't reflect on the credit report, and coaching the borrower to provide misleading information.

Barnes provided the audience with list after list of red flags to look for to avoid fraud. One red flag that drew gasps from the audience was the advice to speak to both spouses before approving cash out on equity. Barnes explained that in the event of a separation leading to certain divorce, one spouse will forge the other's signature and make off with the shared equity.

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