

Fraud Prevention Track

General Fraud Prevention: What to Look Out For

MODERATOR



Don Effertz

Vice President, Fraud Risk Management
DataVerify

SPEAKERS



Robert Maddox

Partner
Bradley Arant Boult Cummings



Steve Safavi

AML Officer, Nationstar Mortgage
Mr. Cooper

CPE = 1.0

MBA's RISK
MANAGEMENT,
QA & FRAUD
PREVENTION
FORUM 2021

GET SOCIAL!

#MBARisk21





General Fraud Prevention: What to Look Out For

*Learning from the Past: Case
Studies in Mortgage Fraud*

September 28, 2021

Presented by: Robert Maddox

Trusted Advisors

Fun with Fraud

Horse Play

Identity Theft, Money and Assets

“Could rob a bank with a pencil.”

TBW, Farkas, and Power

01

02

03

Learning from the Past: Case Studies in Mortgage Fraud

Fun with Fraud

An old man was on his death bed. He wanted badly to take some of his money with him. He called his priest, his doctor and his lawyer to his bedside. "Here's \$30,000 cash to be held by each of you. I trust you to put this in my coffin when I die so I can take all my money with me."

At the funeral, each man put an envelope in the coffin. Riding away in a limousine, the priest suddenly broke into tears and confessed, "I had only put \$20,000 into the envelope because I needed \$10,000 for a new baptistery."

"Well, since we're confiding in each other," said the doctor, "I only put \$10,000 in the envelope because we needed a new machine at the hospital which cost \$20,000."

The lawyer was aghast. "I'm ashamed of both of you," he exclaimed. "I want it known that when I put my envelope in that coffin, it held my personal check for the full \$30,000."

Horse Play

Orange County, FL – Ms. Se’Belle Smith Dymmek – looks like your 67-year-old grandmother, goes to Department of Motor Vehicles to have her driver’s license taken with new photograph.



Horse Play

- Grandmother Dymmek, and her family were large landowners in and around Kissimmee.
- Kissimmee, FL is very closely located to Walt Disney World.



- Another fun fact, many large landowners don't have mortgages or encumbrances on their properties.

Horse Play

- Dymmek decided to take out a small mortgage on her citrus grove property – for \$350,000.00.
- Dymmek waits a few months and then takes out another mortgage on the citrus groves, this time for \$2,300,000.00.
- Dymmek then has the funds wired into a newly opened account (remember, no payoff of the prior mortgage).

Horse Play

The settlement funds travel from:

- 1) Florida
- 2) Grand Cayman
- 3) Bank of England
- 4) Atlanta, Georgia, and then.....



To purchase a horse farm in Cherokee County, GA

Horse Play

- Meanwhile, back among the orange groves, the FL DMV refused to issue Ms. Dymmek a driver's license – the real Ms. Dymmek.
- The fraudulent mortgages are discovered. Money is tracked from the settlement, across 2 continents, 3 countries – the fraudster exited the funds from the fake Grand Cayman account and into her real name, Eva Verner a/k/a Eva Buchowski.
- “Verner wired large amounts of the money she stole to an account she opened under Dymmek’s name in the Cayman Islands, investigators said. She then transferred funds from the account to her own, they said.”
 - Nov. 25, 2004, *The Gainesville Sun*

Horse Play

- Multiple lawsuits filed to freeze the stolen money and recover assets.
- ***Optimum Bank v. Eva Verner a/k/a Eva Buchowski, Equestrian Center Co., Wachovia Bank, Tower Financial Services, Inc., Case No. 2004 CV 92896 (Superior Court of Fulton County, Ga.)***
- **NOTE:** You can also take/freeze an asset purchased with stolen funds and you/your client become “responsible” for the asset, which is great if it is a car, boat, home....
- But caring for live animals...



Horse Play

- “A 67-year-old Georgia woman was arrested in Gainesville Wednesday and charged with stealing more than \$2.5 million for using a fraudulent driver’s license to obtain mortgages on property that did not belong to her, according to the Orange County Sheriff’s Office. Eva Patrick Verner of Alpharetta, Ga., who authorities called “**a master conwoman,**” was charged with two counts of identity theft.”
- Verner’s **grandmotherly appearance fooled** people into believing her scams, said Sgt. Chuck Morgan, a supervisor in the economic crimes unit of the Orange County Sheriff’s Office. “**That’s what made her successful. When she walked over into an office no one really questioned her, no one assumed that she was a criminal,**” Morgan said.
- Dymmek said she could not understand how the DMV could mistakenly issue Verner, who is **several inches taller and 17 years older,** her license.

“Could rob a bank with a pencil.”

“Perfecting the Art of Mortgage Lending”



“Could rob a bank with a pencil.”

- 1991 – Lee Farkas purchases Taylor Bean & Whittaker (“TBW”) in Ocala, FL for \$75,000.00.
- TBW at the time was a small local mortgage company and the leadership team didn’t have a great deal of industry experience, but they focused on building relationships. Initially, those relationships focus on community banks.



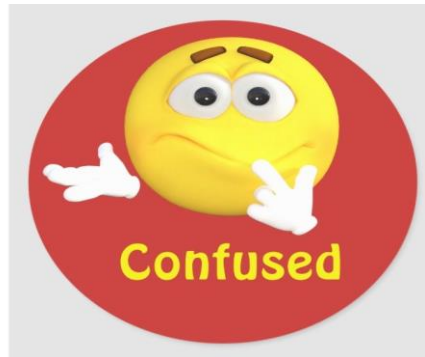
“Could rob a bank with a pencil.”

- Over the next decade, TBW and Farkas were successful in their business strategy.
- However, as TBW grew – one interesting fact began to occur – it appeared that TBW was selling the same loan multiple times (Colonial Bank).
- This led to Fannie Mae raiding TBW in 2002, but TBW/Farkas survived and thrived.



“Could rob a bank with a pencil.”

- TBW’s success was predicated on accounting fabrication and Farkas’ ability to spin the truth.
- **Example:** While under oath, Farkas testified that he directed TBW employees to place REO properties in his name “Lee Farkas” so they could more easily track them from a bookkeeping standpoint, when in reality they were being sold multiple times.



“Could rob a bank with a pencil.”

Selected portions from public court transcript October 2007

MR. MADDOX:stated that Mr. Farkas had been ordered to rest and recover from an infection from his appendicitis and that he was ordered out of the office and not to be at work, which, again, we agreed to, you know. But then as you can read in the motion, subsequently, I attended a mortgage bankers conference for Certified Mortgage Banker, and Mr. Farkas was there.

So premised on the fact that we were told he couldn't be taken this week because he was recovering from an illness and yet he's at a five-day convention in Boston

....

THE COURT: ...I understand he had an illness and -- but apparently, rather than showing up to his depo -- he was too sick to show up to his depo, but he went to an industry conference this week.

And, you know, that really doesn't sit too well with the Court. I understand that that might have been scheduled ahead of time, so I'm not faulting him for that. But obviously his health issues do not seem to be an impediment to his deposition being scheduled and Mr. Farkas submitting or sitting for a deposition.

“Could rob a bank with a pencil.”

By 2009, TBW grew to:

1. 12th largest mortgage lender,
2. One of the largest privately held mortgage companies
3. Over 2,400 employees
4. Servicing over 500,000 loans, including:
 - \$51 Billion in FHLMC loans
 - \$26 Billion in GNMA loans

**Data from June 30, 2011, Bloomberg News*

“Could rob a bank with a pencil.”

TBW’s long term play to cover up the fraudulent activity – assist TBW’s long-time warehouse lender, Colonial Bank, raise funds, in order to receive TARP funds.



**Graphic from American Banker “Dark Days or a White Knight for Colonial?”*

“Could rob a bank with a pencil.”

FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C.

_____)

In the Matter of

COLONIAL BANK MONTGOMERY, ALABAMA

_____)

NOTICE OF CHARGES AND OF HEARING FDIC-09-402c & b

The Federal Deposit Insurance Corporation (“FDIC”), having reasonable cause to believe that Colonial Bank, Montgomery, Alabama (“Bank”), has engaged in unsafe or unsound banking practice , unless restrained, will continue to engage in such practices and/or violations in.....

4. (b) “On August 2, 2009, Federal agents raided the Florida offices of the (Colonial) Bank and wholesale mortgage lender TBW.”

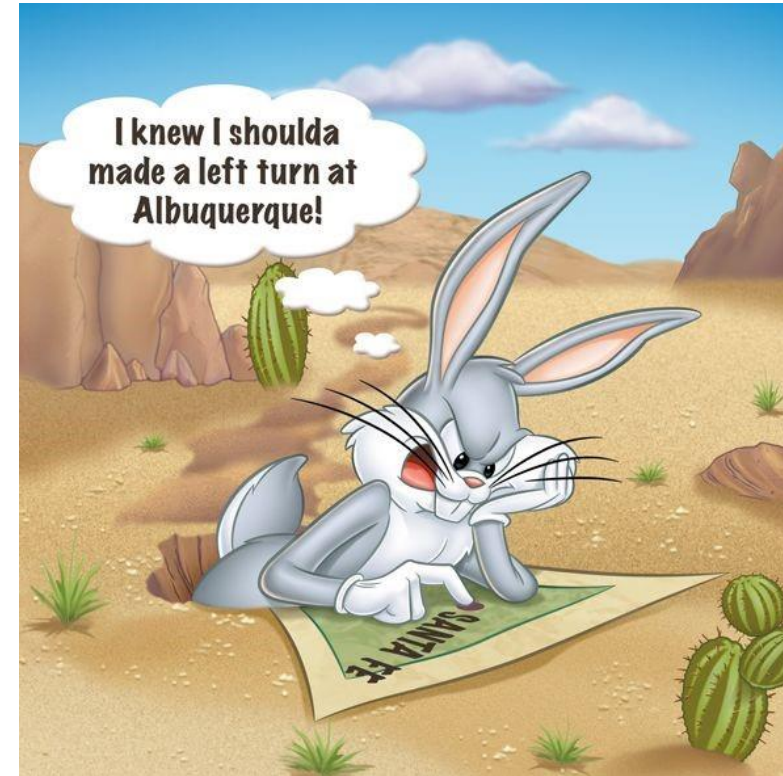
“Could rob a bank with a pencil.”

From the Department of Justice website, April 19, 2011:

“Today a jury convicted Lee Farkas of orchestrating one of the longest and largest bank fraud schemes in the country,” said U.S. Attorney Neil H. MacBride. “In 2008, Lee Farkas boasted that he ‘could rob a bank with a pencil.’ And he did just that. His staggering greed led him to steal nearly \$3 billion from Colonial Bank and other investors. Farkas’s mammoth fraud contributed to the toppling of a financial institution and the ripple effects were felt from Wall Street to Main Street. Now he’s being held responsible for the financial ruin he left in his wake.”

“Could rob a bank with a pencil.”

- Farkas was convicted in 2011 on multiple counts of fraud for the Colonial Bank 2.9-billion-dollar scheme, sentenced to serve 30 years.
- In prison, Farkas was diagnosed with, “coronary artery disease, hypertension, and hyperlipidemia,” and additionally “atrial fibrillation, atherosclerosis, actinic keratosis, gastro-esophageal reflux disease, anemia, sleep apnea, a heart murmur, and has a documented medical history of several bouts of bronchopneumonia.” Per Court hearing transcript 9/15/20 Judge Brinkema.
- In September 2020, was released from prison – house confinement for 3 years – going to live with his sister in Albuquerque.



“Could rob a bank with a pencil.”



**Graphic from March 30, 2021, LawsInTexas.com*

Learning from the Past: Case Studies in Mortgage Fraud

So, What Did We Learn from these 2 Case Studies?

1. Fraud from many:
 - Grandmother (Horse Play) and CEO (TBW)
2. Fraud in many forms:
 - Fraud for individual profit and fraud for business profit
3. Fraud with many focuses:
 - Targeted identity theft and institutional/historic fraud

Learning from the Past: Case Studies in Mortgage Fraud

Fraud During COVID/Recent Trends:

- Historic Orig/Refi
 - Internal controls stressed due to volume
- NonQM/Jumbo
 - Radical appreciation but don't have the same safeguards as QM
- Hot Spots
 - Traditional with CA/FL but decreased docs on 2nd homes nationwide

Questions?



Robert Maddox

Partner

Washington, D.C. // Birmingham, AL

rmaddox@bradley.com

202.393.7150 // 205.521.8454