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BY ANN PARMAN

STAMPING OUT LENDING FRAUD

Fraud (noun)—Deceit; trickery; intentional perversion of truth in order to induce another to part with something of value or to surrender a legal right; an act of deceiving or misrepresenting.—Webster's Dictionary

It is no secret that fraud exists in corporate America. The morning newspaper brings new examples to our attention almost daily. Many high profile companies and individuals have experienced the uncomfortable spotlight of media and investor attention in recent years due to

fraudulent business activities. Fraud became a household word as consumers and small investors felt the sting of corporate scandals through the loss of money in investments and pension funds. As a result, Congress, the federal regulatory agencies, and corporate America itself, are setting in

place safeguards to identify and fight fraud.

The manufactured housing industry is also taking serious steps to reduce fraud and restore consumer confidence in the industry through its new alliance with the Mortgage Asset Research Institute Inc. (MARI, pronounced "Mary"). Fraud in

lending has increased significantly over the past three decades as home lending, once primarily conducted face-to-face with the borrower's community bank or savings and loan, has changed. Today, there can be many people involved in the lending process and most of them will never

meet the borrower. Jim Croft, the founder of MARI, reports that the compartmentalization of the loan processes and commission-based compensation have significantly contributed to incidents of fraud in home lending.

FIERCE COMPETITION

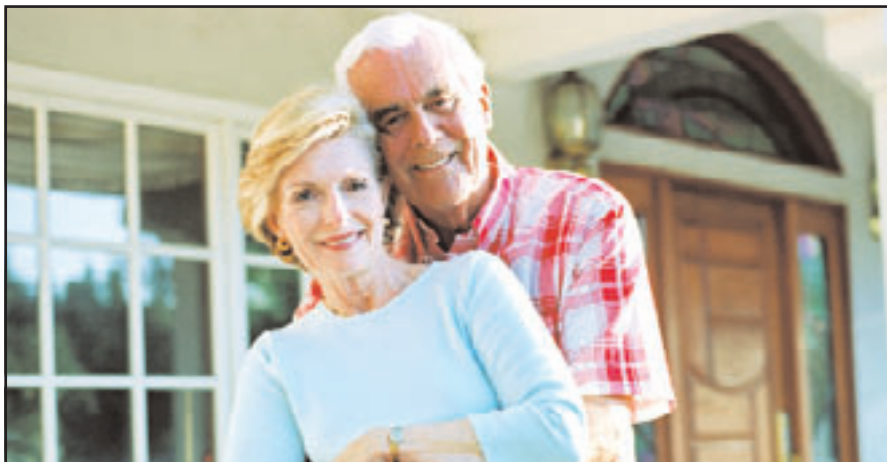
From the mid to the late '90s, lending fraud in the manufactured housing industry increased as retailers competed for customer sales and lenders competed with each other to fund those sales. This competitive frenzy increased the incidence of fraud and contributed significantly to the high number of loan defaults and the glut of foreclosed homes that dampened new home sales.

Recently, the Manufactured Housing Institute entered into an agreement with MARI with the goal of reducing the incidence of fraud in manufactured home loan transactions. Hopefully, the end result will be fewer loan defaults and, as a result, better loan terms for consumers. Higher defaults cost lenders more money, and that gets passed on in higher rates to consumers. In addition, the industry's participation in MARI can help prevent consumers from obtaining loans that are too large for their budgets or for the homes they purchase, and therefore, increase their ability to build home equity.

REPORTING FRAUD

MARI is the information service provider that collects reports of possible incidents of wrongdoing in the mortgage and financial service industries. MARI has developed and maintains a database that includes two types of information: 1) non-public incidents of alleged fraud, material misrepresentations and other serious misconduct; and 2) public sanctions against professionals and companies involved in the mortgage and financial services industries.

Subscribers to MARI's services contribute the non-public information. They are mortgage lenders, financial service companies, secondary market agencies (Fannie Mae and Freddie Mac) and mortgage insurers. The subscribers, or clients, of MARI can then access the database to perform background checks on individuals or



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firms with whom they have a pending business transaction.

Public sanction data are gathered from over 160 regulators and oversight organizations in the mortgage, securities, real estate, commercial banking and appraisal industries. Sanctions, for example, include license revocations and suspensions, debarments, cease-and-desist orders and fines.

Non-public incidents are forwarded to MARI when a subscriber discovers material misrepresentation that causes the lender (subscriber) not to fund the loan—or had they known about the misrepresentation, they would not have funded the loan. This could include false employment or down payment information, an inflated appraisal or invoice, a straw borrower, a modified credit report, and other types of fraud.

Most non-public incident reports in MARI's database today are about mortgage brokers, appraisers, real estate agents and employees of lending institutions. An incident report:

- Identifies who took the application from

History of MARI

The Mortgage Asset Research Institute (MARI) is a private company that was established in 1990 as an information service provider to the mortgage and financial services industries. Initially, the MARI database was built from public information on disciplinary actions from regulatory agencies such as the Securities Exchange Commission (SEC), the Federal Deposit Insurance Corporation (FDIC) and other self-regulatory organizations that perform oversight for the mortgage, real estate, appraisal, commercial banking and securities industries.

Over time, the subscribers to MARI services wanted to share with one another non-public information about incidents of fraud and misconduct by professionals in the mortgage industry. Fannie Mae, Freddie Mac and the largest mortgage insurance companies funded a feasibility study on the creation of the system and conducted legal research on this type of collection and information sharing. In 1995, MARI began to collect non-public information from their lender and financial service company subscribers.

The U.S. Department of Justice reviewed the information-sharing database and issued to MARI a business-review clearance. Great care is taken to protect contributors, the users and the subjects of the non-public reports.

For more information about MARI, visit its Web site at www.mari-inc.com.

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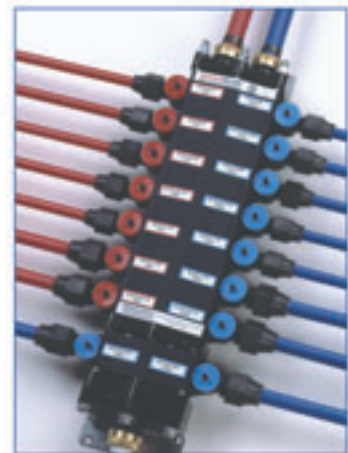
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the borrower (individual and company) and, if appropriate, other professionals whose area of responsibility is related to the misrepresentation (such as the appraiser when the appraisal is inflated);

- Indicates how the information was verified;
- Provides a factual narrative describing the misrepresentation; and
- States the date of the incident.

LBP LENDERS PARTICIPATE IN MARI

Participation in MARI is now a requirement of the Manufactured Housing Institute's Lender Best Practices (LBP) program. "The members of the LBP Steering Committee felt it was important for industry lenders to become more diligent in both the detection and reporting of fraud," said Don Scarmuzzi of DFS Consulting LLC who assisted in putting the LBP and MARI programs together.

Public sanction data are gathered from over 160 regulators and oversight organizations in the mortgage, securities, real estate, commercial banking and appraisal industries.



The LBP program is a voluntary program that manufactured home lenders can use to enhance the integrity of their lending transactions. By following the program, LBP lenders are able to demonstrate to their funding sources (investors) that they have the appropriate business systems, procedures and standards in place to prevent fraud and improve loan portfolio performance.

Beginning in the fall of 2003, LBP lenders

LBP Lenders

The following lenders have been certified by MHI's Lender Best Practices (LBP) program. This voluntary certification program requires lenders to submit to an annual independent audit to verify that their day-to-day lending and business practices meet the requirements of the LBP program. These lenders participate in MARI as a requirement of the LBP program.

- Chase Home Finance,
www.chase.com
- Origen Financial L.L.C.,
www.origenfinancial.com
- Triad Financial Services,
www.triadfs.com
- Vanderbilt Mortgage and Finance,
www.vmf.com

To learn more details about the LBP certification program, go to www.manufacturedhousing.org and click on "Quick Links" and then click on "MHI's Lender Best Practices Program Summary."

were required to report incidents of wrongdoing in manufactured home lending transactions to MARI. This reporting requirement covers all types of manufactured home loans, to include personal property (chattel), non-conforming (land home) and conforming mortgages. Anyone involved in the loan transaction that commits an act of fraud—a retailer, mortgage broker, appraiser, closing agent or even the lender's own employee—can be reported.



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“We were fortunate that the MARI database was already in existence and serving the mortgage market and other subscribers. I firmly believe using MARI's database will advance our industry,” Scarmuzzi added.

THE IMPACT ON RETAILERS

Because retail sales centers and their employees are involved in lending transactions for manufactured homes, those that commit acts of fraud may now be reported to MARI. If anyone involved in a loan transaction falsifies financial documents such as W-2 forms or tax returns, or in any way misrepresents the financial transaction of a homebuyer, the LBP lender is required to report the incident to MARI. Brenda Westfall, chairman of MHI's National Retailers Council (NRC) said, “The NRC supports the new partnership with MARI as well as other initiatives that might help eliminate fraud in the manufactured housing industry.”



Services like MARI can help the industry in its efforts to regain a sizable portion of the housing market.

Companies active in loan transactions can contact MARI to see if any reports on the company or its employees exist in the database. For retailers, because they are not “subscribers” to the service, MARI may charge a small fee for performing the database search. If a report exists, the retailer can respond to the information contained in the report. The response becomes a part of the report.

Brenmar
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If a subscribing LBP lender checks the MARI database to see if a report exists on a retail sales center or one of its employees, and a report does exist, the retailer will then be notified. This again gives the retailer the opportunity to respond to the information contained in the report.

Westfall, who is a member of MHI's LBP Steering Committee, would prefer an additional step be included in the process before a lender sends a report to MARI. She explains, "When information being reported is non-public information, I believe the lenders should have a process in place for investigating those claims of wrongdoing before they are formally submitted to MARI. That extra step will help ensure reports are valid and accurate."

LONG-TERM BENEFITS

Over time, participants in MARI should be able to identify clear-cut patterns of fraudulent activity related to loan transactions committed by companies and/or individual employees in the manufactured housing industry. MARI information can help lenders make decisions about doing business with companies with whom they have not done business previously and, therefore, reduce their risk of loss from fraud.

In the future, the MARI database and its uses may be able to be expanded to assist more industry participants that want to eliminate fraud. "The door was also left open for retailers and manufacturers to participate in the MARI services as they are developed," Scarmuzzi reports.

For example, retailers, manufacturers, lenders and other industry companies might be able to use MARI to screen employment candidates for reported acts of fraud. Manufacturers could use MARI to screen retail businesses wanting to carry their homes in the future. And, there may be other ways the industry could utilize MARI to enhance the business environment.

As the industry turns the corner to higher sales and production, it will be important that the failures of the recent past are not repeated. Services like MARI can help the industry in its efforts to regain a sizable portion of the housing market. ■

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