Wire and Cyber Fraud: The Threat Lenders Need to Address

September 17, 2019

Panelists:
Charles Cain, EVP - Agency, WFG National Title Insurance Company
Thomas Cronkright, Co-founder & CEO, CertifID
John Levonick, Special Counsel, Pepper Hamilton, LLP
Ike Suri, Chairman & CEO, FundingShield
Today’s Topics

• Wire Fraud Scams – New Trends and Tactics
• How a Fraud Starts and Recent Examples
• Recent Court Decisions and Who is Liable
• Wire Fraud Prevention Strategies
• Vendor Management and Lowering Risk
Wire Fraud Scams
New Trends and Tactics
How a Fraud Starts and Recent Examples
Wire Fraud Playbook
Phishing Business Email Compromise Social Engineering

Cyber Attacks: Title Companies as Targets

Fraudsters use phishing attacks to gain access to realtor's email account. Fraudsters then utilize the compromised email to gain transaction-level information. Using knowledge gained from monitoring emails, the fraudster impersonates the realtor or title company to provide fraudulent information.

MBA’s Risk Management, QA & Fraud Prevention Forum 2019

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Wire Fraud Playbook
Phishing

The process of obtaining personal information from someone such as credit card numbers, social security details, or login credentials to a protected system via fraudulent emails meant to look authentic.
Our Digital Distance Exposes Us
91% of cybercrime starts with phishing
Top 10 Brands Used for Impersonation Attacks

- Microsoft
- Amazon
- IRS
- AT&T
- DocuSign
- Bank of America
- FedEx
- UPS
- Netflix

Agari Research
Hello - Netscape Message

Subject: HELLO
Date: Thu, 29 May 2003 12:22:41 +0200
From: "masinga.mbeki" <masinga.mbeki@laposte.net>
To: "masinga.mbeki" <masinga.mbeki@laposte.net>

From: "masinga.mbeki" <masinga.mbeki@laposte.net> on 05/29/2003 12:22 PM
To: "masinga.mbeki" <masinga.mbeki@laposte.net>
Subject: HELLO

Dear friend,

It is indeed my pleasure to write to you this letter, which I believe will be a surprise to you. I actually found your email address at the trade and email listings here in Pretoria, South Africa. I work at the Ministry of Minerals and Energy in South Africa and have the mandate of two of my senior colleagues to search discreetly and diligently for a foreign partner that could assist us concerning a business matter which will be of mutual benefit to all.
Target: Company

Objective: Obtain Credentials

Sophistication: Medium

Red Flags:
• Your IT department should never ask for your participation in maintenance
• “Help Desk Team” – this should come from an individual
• Scaring users with access restrictions
Target: Company

Objective: Distribute Malware

Sophistication: Medium

Red Flags:
• Make sure the email is coming from a company you are actually doing business with
• Double check the email address
• Fake invoice emails will usually involve some kind of urgency
Email Volume Vs Rejected Mail
From 1 Apr 2019 To 30 Jun 2019
Total Email Count : 101,4679 Total Rejection Count : 83,570
Wire Fraud Playbook

- Monitor
- Obtain Access
- Impersonate
- Manipulate
- Phish
- Profile
- Transfer
Trend 1: Buyers are Targeted Week One

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Hi Richard,

Regarding your purchase, I am sure you have the 20% cash on closing balance available at this point. Kindly let me know if you can transfer the fund to us today towards the progress of your purchase.

Sincerely, Jen
Drossman & Associates PLLC
Attorneys at Law
114 Old Country Road, Suite 600
Mineola, NY, 11501

Hi Jennifer, We have it but between three or four separate bank accounts so it may be a day or two.

Jennifer L. Drossman, Esq.

I just send you an open trust account so you can go ahead with the wire transfer. Regarding the report...
Trend 1: Buyers are Targeted Week One
On Thursday, July 25, 2019, Jennifer L. Drossman, Esq. (<jdrossman.nylegalcenter@aol.com>) wrote:

Hi Richard,

Yes the list of the repairs/credits has been sent to the seller's lawyer which as been approved by the seller's, and the credit requested will be deducted from the closing cost.

Let me know as soon as the wire has been done tomorrow.

Thanks.
Hi Richard,

We received the $84k, but still waiting to confirm the first payment ($30k). As of yesterday it hadn't come into our account. Please confirm from your end if the fund is still in your bank account or being processed.

Have also got in touch with the seller's lawyer and will like to know if 7th August is good for you to do the signing.

Thanks!
Trend 2: Diverting Seller Proceeds in Real-Time
Trend 2: Diverting Seller Proceeds in Real-Time

The undersigned releases Sun Title Agency of Michigan, LLC and its members, officers, employees, agents, underwriters and insurers, from any and all rights, claims, actions, liabilities, damages or causes of action relating to this transfer.

company

BY: [Signature]

STATE OF MICHIGAN
COUNTY OF KENT

Acknowledged before me in Kent County, on April 9, 2019, by Lawrence D. Kerkstra, Manager of L & V Development Company, LLC.

Notary Public, State of Michigan, County of Kent
My commission expires 7/18/2025
Acting in the County of Kent
Trend 2: Diverting Seller Proceeds in Real-Time
Good Morning,

A new revised Payoff statement has been created for closing with updated wiring instructions. Please kindly send me your fax number so I can fax it to you. Also note that we are funding a new deal with this payoff.
Trend 3: Diverting Mortgage Payoffs
Recent Court Decisions
Who is Liable
Wire Fraud Prevention Strategies
Complexities surrounding mortgage closings – Lenders (B2B risk)

_Solutions at the transaction level to protect lending institutions from risk with third-party title/settlement entities_

**Challenges for lenders**
- Disparate settlement community (~60,000 settlement entities across the U.S.)
- New / unknown mortgage settlement vendors that pose a risk to the Lenders controls given exposure by lenders to the vendors Information Security and Email server controls
- Average transaction size is ~$230,000 across all mortgage loans in the U.S. meaning a single loss including cost to investigate and reinstate insurances will have financial impact to results
- BSA / AML protocols do not catch these fraud schemes, active risk management is needed to protect the lending institution.

**Solutions for Lenders**
API or LOS integrations deployed as part of closing / funding / vendor risk procedures for bank & non-bank lenders as well as for Warehouse banks involved in Resi / Commercial / SBA / Hard Money / Fix-Flip lending.
Complexities surrounding mortgage closings – Consumers (B2C)

Consumer payment loss results in significant financial impact to the consumer while impacting all other parties in the transaction indirectly.

Consumers involved in the home buying process are left to independently confirm wire information with little or no assistance while constantly being warned of fraud by lenders, realtors, title companies etc.

- No purchase nor sale of the property under the transaction
- Lost mortgage origination revenue to lenders
- Lost fees to real estate services providers (Realtors, Agents, Title Companies etc.)
- Reputational damage to financial institutions involved in the transaction
- Lawsuits

Solutions for Consumers:
WAVs (Wire Account Verification Service)
  - Confirm wire accounts are held by the intended licensed party
30%+ of loans have issues, 1:3 have >1 issue

<table>
<thead>
<tr>
<th>DEFICIENCY ITEM / ISSUE</th>
<th>DEFICIENCY DETAIL</th>
<th>Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td>CORPORATE STATUS</td>
<td>Not in Good Standing or Cannot be Found</td>
<td>Of Transactions Submitted</td>
</tr>
<tr>
<td>CPL</td>
<td>WRONG STATE FORM</td>
<td>Submissions w/ Doc Deficiencies 30%+</td>
</tr>
<tr>
<td>CPL</td>
<td>CANNOT BE VALIDATED</td>
<td>Percentage Corrected By Fundingshield 99.51%</td>
</tr>
<tr>
<td>CPL</td>
<td>TRANSACTION DATA MISMATCH</td>
<td>Transactions with Fatal Final Errors 0.49%</td>
</tr>
<tr>
<td>CPL</td>
<td>EXPIRED</td>
<td></td>
</tr>
<tr>
<td>CPL</td>
<td>CLOSING AGENT NAME INCORRECT</td>
<td></td>
</tr>
<tr>
<td>DBA</td>
<td>Does not cover Lender</td>
<td></td>
</tr>
<tr>
<td>NYS ATTORNEY CRIMES INSURANCE</td>
<td>Does not cover Lender</td>
<td></td>
</tr>
<tr>
<td>STATE LICENSE</td>
<td>Expired or Cannot be Found</td>
<td></td>
</tr>
<tr>
<td>UNAUTHORIZED PRACTICE OF LAW</td>
<td>UPL STATES ONLY ALLOWING ATTY</td>
<td></td>
</tr>
<tr>
<td>WIRE</td>
<td>Account Owner Does Not Match LICENSED</td>
<td></td>
</tr>
<tr>
<td>WIRE</td>
<td>Wire Owner Not Covered on CPL</td>
<td></td>
</tr>
</tbody>
</table>

Sample portfolio from q3 2019

<table>
<thead>
<tr>
<th>Issue</th>
<th>Loan Amt by Issue</th>
<th>% of Total</th>
<th># of Loans</th>
<th>% of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>No Issues Found</td>
<td>$5,395,000,536</td>
<td>60.72%</td>
<td>10232</td>
<td>68.1%</td>
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<tr>
<td>Issues Found</td>
<td>$3,469,877,823</td>
<td>39.28%</td>
<td>4791</td>
<td>31.9%</td>
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<tr>
<td>Total</td>
<td>$8,864,967,359</td>
<td>100.00%</td>
<td>15023</td>
<td>100.00%</td>
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</table>

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<tr>
<th>Issue</th>
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<th>% of Total</th>
<th># of Loans</th>
<th>% of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>No Issues Found</td>
<td>$5,300,000,536</td>
<td>57.83%</td>
<td>10222</td>
<td>67.69%</td>
</tr>
<tr>
<td>Wire</td>
<td>$2,005,222,219</td>
<td>22.46%</td>
<td>2906</td>
<td>18.1%</td>
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<tr>
<td>CPL</td>
<td>$1,638,087,601</td>
<td>17.56%</td>
<td>2417</td>
<td>15.0%</td>
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<tr>
<td>License</td>
<td>$1,301,113,688</td>
<td>14.00%</td>
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<td>2.5%</td>
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<td>CPL Validation</td>
<td>$70,016,308</td>
<td>0.75%</td>
<td>128</td>
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<tr>
<td>E&amp;O</td>
<td>$1,846,612</td>
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<td>Licence</td>
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<td>0.00%</td>
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<td>0.0%</td>
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<table>
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<th>TID</th>
<th>Date</th>
<th>Issue</th>
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<tbody>
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<td>Thursday, August 8, 2019</td>
<td>No Issues Found</td>
</tr>
<tr>
<td>134970</td>
<td>Thursday, August 8, 2019</td>
<td>No Issues Found</td>
</tr>
<tr>
<td>134971</td>
<td>Thursday, August 8, 2019</td>
<td>Wire</td>
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<tr>
<td>134972</td>
<td>Thursday, August 8, 2019</td>
<td>No Issues Found</td>
</tr>
<tr>
<td>134973</td>
<td>Thursday, August 8, 2019</td>
<td>No Issues Found</td>
</tr>
<tr>
<td>134974</td>
<td>Thursday, August 8, 2019</td>
<td>No Issues Found</td>
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<tr>
<td>134975</td>
<td>Thursday, August 8, 2019</td>
<td>No Issues Found</td>
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<tr>
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<td>Thursday, August 8, 2019</td>
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<td>Thursday, August 8, 2019</td>
<td>No Issues Found</td>
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<td>134978</td>
<td>Thursday, August 8, 2019</td>
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<td>134979</td>
<td>Thursday, August 8, 2019</td>
<td>Wire</td>
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<tr>
<td>134980</td>
<td>Thursday, August 8, 2019</td>
<td>No Issues Found</td>
</tr>
</tbody>
</table>
Tools Focused on transaction level fraud and risk management

- Improve loan quality and recourse while adding to the bottom line
- Don't force use of a single system
- Access via LOS or by APIs

- Wire Fraud Prevention
- Closing Agent Compliance
- Funding Control
- Risk Management
- Loan Level Analysis
- ROI Driver
- Not Cost Center $$$

Actionable Intelligence vs static data to interpret, maintain and apply.

Technology using live data across loan transaction validations to identify patterns put through algorithms + Title live counterparty data

<table>
<thead>
<tr>
<th>Total loan closing value monitored</th>
<th>Flagged for Closing Deficiency, Inconsistency, Potential Fraud</th>
<th>Closings Halted by Clients or Redirected to new closing parties (due to potential fraud)</th>
<th>Top 25 mortgage lender clients</th>
</tr>
</thead>
<tbody>
<tr>
<td>Over $550 Billion+</td>
<td>~ $95 billion+</td>
<td>~$6 billion+</td>
<td>12</td>
</tr>
</tbody>
</table>

MBA’s RISK MANAGEMENT, QA & FRAUD PREVENTION FORUM 2019