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### Oral Testimony of Vice President of Business Relations at Interthinx Ann Fulmer, Before the FCIC

Ann Fulmer

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Oral Testimony of Ann Fulmer  
V.P. Business Relations, Interthinx, Inc.,  
a Verisk Analytics Company  
Before the Financial Crisis Inquiry Commission

September 21, 2010

Miami

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Mr. Chairman, Mr. Vice Chairman, Members of the Commission:

My name is Ann Fulmer. I hold a Bachelor of Arts in Mass Media/Communications and a law degree, both from the University of Akron. I have studied mortgage fraud against lenders and how to detect it, and have worked diligently to prevent it since 1996, when criminals began to illegally “flip” houses in my neighborhood just outside Atlanta, Georgia. In this quest I have worked as a licensed private detective, a county tax assessor, as an expert witness, and briefly as a criminal prosecutor. I also co-founded the Georgia Real Estate Fraud Prevention and Awareness Coalition, whose mission includes raising public awareness of the crime and the damage it brings to communities. For the past five years I have been the Vice President of Business Relations at Interthinx, a Verisk Analytics company. Interthinx is a leading provider of automated fraud detection and prevention technology to the residential mortgage lending industry. In that capacity, I frequently lecture on the topic at industry conferences and have been called upon to provide training and assistance to Federal law enforcement agencies including the FBI, the Secret Service, HUD’s Office of Inspector General, and Federal prosecutors.

Because predatory lending activities are frequently referred to by law enforcement and others outside the industry as “mortgage fraud,” it is important to understand the distinction between the terms. In predatory lending cases, the borrower is the victim of the lender or broker’s failure to make proper disclosure of the terms and fees associated with the loan or of a loan containing terms harmful to the borrower, including excessive rates or fees, or a failure to provide a tangible benefit to the borrower. The majority of these cases are pursued in the civil courts, most recently as a defense to foreclosure.

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In mortgage fraud cases, the victims are the lender, the communities in which it is perpetrated, and by virtue of the fact that more than 90% of loans originated today are purchased, insured or guaranteed by the Federal government directly or indirectly through Fannie Mae and Freddie Mac's conservatorship, US taxpayers. Violations are prosecuted as criminal matters.

I was a stay at home mom in 1996, when I first became aware of mortgage fraud. Houses in my upscale neighborhood that had been sitting on the market for years finally began to sell, but I soon began to hear rumors that the purchasers were leaving the closing table with large amounts of cash, and neighbors began to complain about unusual activities at these houses: the new occupants actively avoided contact with neighbors, they didn't seem to have jobs, they didn't mow their yards or maintain their homes, some were covering garage windows with paper, and others had a lot of late night car traffic. Then a neighbor told me that an IRS agent and an investigator from the state Department of Banking and Finance were investigating these sales and he asked me to help them. When I began to investigate I discovered that a handful of people were involved in all of the unusual sales in my neighborhood, that they were buying and re-selling these houses on the same day with price increases of as much as \$300,000, and that they were doing this in communities throughout metropolitan Atlanta. That's when I discovered illegal flipping.

In a typical illegal flip, the perpetrator signs a contract to purchase the property at the asking price. Without making any improvements he obtains an appraisal that shows a value that can be as much as 300% higher than the actual value. Then the perpetrator finds an end buyer, or steals someone's identity, and fabricates critical information on the mortgage application to fool

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the lender into granting the loan. The higher priced sale to the end buyer is closed just before the perpetrator's purchase at the lower price, and the proceeds from the higher priced sale are used to fund the perpetrator's purchase at the lower price. The excess funds are pocketed by the perpetrator and shared with his collaborators.

Mortgage fraud is, essentially, bank robbery without a gun. Its perpetrators include street gangs, drug traffickers, real estate agents, closing attorneys, appraisers, mortgage brokers, bank executives, ministers, teachers, and even police officers. It can, and does, happen anywhere, in any community, in every state, in any price range, and it leaves these communities devastated.

The variety of mortgage fraud schemes shift with market conditions and are limited only by the human imagination. I have focused my testimony on illegal flipping because it was the predominant scheme at the beginning of the last fraud cycle and, in my view, it was the precipitating factor in the current financial crisis. Flipping played a major role in the initial escalation of housing prices, which drew speculative investors and more fraud into the market, and eventually housing became unaffordable in many markets. This in turn led to the abuse of stated income and no document loan programs— particularly through the brokered mortgage channel— in order to qualify borrowers for mortgages that, if they had been fully amortized, the borrowers could not afford to repay. When the housing market began to cool in 2005, the riskiest borrowers began to default in large numbers in what came to be called the “subprime mortgage meltdown.” Their defaults eventually became so pervasive that investors in residential mortgage backed securities began to demand that the originators repurchase entire pools of loans. Since most lenders were originating mortgages to sell on

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the secondary market, they did not have the funds available to meet investor demand. When these lenders began to fail, it created the liquidity crisis and, ultimately, led to the Great Recession.

It is appropriate that the Commission is meeting today in Miami to investigate mortgage fraud's role in the financial crisis because Florida has been ranked within the top 10 states in Interthinx's annual fraud risk reports since 2004 and is in 4th place in our latest quarterly report. Furthermore, Florida ranks 5th in current risk in refinance transactions, and Cape Coral-Fort Meyers ranks 4th among the top ten metropolitan statistical areas in overall fraud risk.

I will now be happy to take your questions.