



Before the
United States House of Representatives
Financial Services Committee

Hearing on
Federal and State Enforcement of Financial Consumer
and Investor Protection Laws
March 20, 2009

Merle D. Sharick, Jr., CMB
Vertical Solutions Consultant
LexisNexis Risk & Information Analytics Group, Inc.

On behalf of the
Mortgage Asset Research Institute (MARI)

Introduction

Good afternoon, Chairman Frank, Ranking Member Bachus, and distinguished members of the Committee. My name is Merle D. Sharick, and I serve in the LexisNexis Risk & Information Analytics Group as the Vertical Solutions Consultant for the mortgage industry. It is my pleasure to testify today on behalf of MARI—the Mortgage Asset Research Institute, a LexisNexis service. Mr. Chairman, I commend you and the members of the Committee for holding this hearing and for your dedication to protecting consumers and promoting the principles of responsible lending.

MARI manages and maintains the only cooperative contributory database – MIDEX (Mortgage Industry Data Exchange) – existing today in the mortgage industry specifically established by key industry participants over 18 years ago to keep track of mortgage professionals and companies. MIDEX includes public financial sanction information from over 200 government regulators and non-public incident reports provided by subscribers when fraud or misrepresentation is detected in a loan transaction.

MARI has become a “utility” in the industry whose subscribers use MIDEX and other solutions for credentialing new business relationships, quality control and quality assurance processes, and loan investigations. MIDEX is the only contributory database endorsed by the Mortgage Bankers Association. MARI became a key part of the LexisNexis suite of solutions in September of 2008. Our current focus is driving and supporting the installation of a loan fraud-prevention database for loan origination pipelines for all lenders to share and compare loans in-flight to prevent fraud early in the mortgage process, alerting lenders to suspect fraud in their current lending pipeline.

The goal of the LexisNexis Residential Mortgage Solutions is to identify, reduce, and prevent exposure to mortgage fraud risk by providing a broad suite of solution tools that focus on the application, the professionals, and the transaction.

MARI also is active in working with industry groups, regulators, and law enforcement to provide information and training to support the vital challenge of finding and stopping mortgage fraud and misrepresentation.

Congress, the states, the federal financial regulatory agencies, and the Obama Administration, have all been very active in trying to restore confidence in the mortgage market. I commend your collective efforts to protect consumers and promote the principles of responsible lending.

LexisNexis has positioned MARI to provide information and analytic tools to help restore the integrity so needed in the mortgage industry today. Many in the industry are using this crisis to review, evaluate, and make necessary changes in their processes. Mortgage fraud has been a crime of opportunity. However, as a result of what has happened in the mortgage industry coupled with the economic deterioration—mortgage fraud is now a crime of necessity or desperation for many.

Mortgage Fraud Case Report

This month, MARI released its Eleventh Periodic Mortgage Fraud Case Report to the Mortgage Bankers Association. This reports shows that reported mortgage fraud is more prevalent now than in the heyday of the origination boom. The increase in reported fraud incidents outlined in our report is a sign of better detection at the front end of the origination process and renewed commitment to reporting fraud cases; however, analysis of data by MARI reveals that fraud incidence is at an all-time high. Fewer loan originations coupled with increased

fraud incidence equals new times of desperation. Industry expertise and technological advancements, mixed with difficult economic conditions, are catalyst for the continuation of growth of fraud.

This is the eleventh annual report by MARI to the Mortgage Bankers Association members. This report examines the current composition of residential mortgage fraud and misrepresentation in the U.S. This report is based on data submitted by major mortgage lenders, agencies, and insurers on information describing incidents of alleged fraud and material misrepresentation to a central database know as MIDEX (the Mortgage Industry Data Exchange), in order to share their experiences with the mortgage industry.

The highlights of this annual report include:

- For the first time, Rhode Island is ranked first in the country for mortgage fraud. Future reports will tell if this is a statistical anomaly; however, current data suggests that the state has emerged with a problematic and heretofore unnoticed mortgage fraud problem. Its strong MARI Fraud Index (MFI), 315, indicates significant fraud activity.
- After improving its rankings in 2006 and 2007, Georgia has risen to fourth place for 2008 originations.
- Conversely, California's MFI has fallen to 111 for 2008, a significant drop from 2007's 175.

A complete description and analysis of our findings is included in the attached report.

Conclusion

Combating mortgage fraud is critically important to restoring integrity in the mortgage loan transaction, attracting the necessary capital to meet the needs of prospective homeowners and the industry; as well as rebuilding consumer trust in the industry's professionals when the real estate market segment begins to improve. Our lenders know the financial loss consequences of this growing problem in America and the same reported impacts in foreign nations with similar lending practices.

We believe that the mid to longer term systemic return of the real estate market segment must be anchored by improved fraud prevention and lending practices already being pursued by the lenders. This is essential to helping the country restore the economic foundation that the Obama Administration, your Committee and many others are currently working to achieve.

Mr. Chairman, we look forward to working with the mortgage industry, this Committee, the states, the federal financial regulatory agencies and other stakeholders to combat mortgage fraud, protect consumers, and promote the principles of responsible lending.