

For Immediate Release
Wednesday, February 18, 2009

Grassley asks if new program is prepared to avoid helping fraudulently obtained mortgages

WASHINGTON – Senator Chuck Grassley has asked the Treasury Secretary to describe how the new federal loan modification program will avoid providing assistance to mortgages that were fraudulently obtained.

In a letter sent last week, Grassley said he was concerned about indications that the Treasury Department planned to adopt what's known as the "Mo Mod" loan modification platform because Mo Mod is an automated program that has no fraud detection component.

"If mortgages obtained in the last several years were obtained fraudulently, and there's no mechanism in the administration's new program for detecting fraud, then the new program is going to provide a benefit to those who committed fraud," Grassley said. "That's bad policy and unfair to honest borrowers who played by the rules."

The text of Grassley's February 12 letter is below.

February 12, 2009

The Honorable Timothy F. Geithner
Secretary
U.S. Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220

Dear Secretary Geithner:

Last week, I read with great interest the many news articles announcing your intentions to commit a large portion of the remaining TARP funds to a national mortgage modification plan. For several months now, I have been following the Federal Deposit Insurance Corporation's similar proposal. While I understand both your and Chairwoman Bair's desire to stem the tide of foreclosures in the United States, I am very concerned that those who fraudulently obtained mortgages might unfairly benefit from a taxpayer funded modification effort.

My staff has consulted with experts across the mortgage industry in order to understand better the extent of fraud in the mortgage market. These experts agreed that fraud is pervasive and estimated that anywhere between 30%-70% of all mortgages in the last several years may have been fraudulently obtained. Providing a benefit such as a federal loan modification program to those who committed fraud is bad policy and unfair to the honest borrowers who played by the rules.

While you made no specific reference to it in Tuesday's announcement, recent reports have detailed your intentions for Treasury to adopt the "Mo Mod" mortgage modification

platform. Mo Mod is developed by a Florida-based real estate appraisal firm, and is allegedly capable of modifying up to 500,000 loans per month. I am doubtful that such an automated program can sufficiently detect and prevent fraud from the large volume of loan modification applications that can be expected. In fact, the Mo Mod developer's website makes no reference to the program's ability to inspect loan origination and servicing documents for fraud.

To address my concerns that the Treasury seeks to minimize fraud in its federal loan modification program, please respond in detail to the following, by February 26, 2009:

- 1) If Treasury plans to adopt the Mo Mod loan modification platform, what specific anti-fraud tools will be employed to detect fraud in the loan origination and servicing documents, and what tools will be used to prevent fraud in the modification applications and future servicing of the loans?
- 2) Under whatever program is implemented, will Treasury review the original loan documents to confirm the legitimacy of the mortgages (i.e., ensure they are free from fraud) and the bases upon which they were approved?
- 3) Under its program, will the Treasury require borrowers to:
 - a) Sign, under penalty of perjury, that their loan and application are free of fraud and/or misstatements; and
 - b) Complete IRS Form 4506-T, *Request for Transcript of Taxpayer Return*, for years covered by the original and modified loan periods?
- 4) Will the Treasury examine tax records from borrowers in order to compare their actual income with the income claimed when originally applying for the loan? If not why not?
- 5) Will the loan modification program include robust audit provisions which allow the Special Inspector General, as well as third-party auditors, to examine documents of all parties in the mortgage chain?

In cooperating with the Committee's review, no documents, records, data or other information related to these matters, either directly or indirectly, shall be destroyed, modified, removed, or otherwise made inaccessible to the Committee.

Sincerely,

Charles E. Grassley of Iowa
United States Senator
Ranking Member of the Committee on Finance