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Mortgage Payoffs Under Siege

Cybercriminals target mortgage
payoffs in new fraud schemes

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Mortgage and Lien Payoff Statements are Prime Targets for Wire Fraud

Two Predictions. One Simple Truth.

The real estate industry is in the middle of the worst fraud storm in history. The velocity and sophistication of wire fraud attacks continue to rise as cyber perpetrators reveal their growing understanding of the closing and disbursing process. Over a year ago we predicted two areas that, if exploited by cyber criminals, would result in devastating attacks impacting the real estate industry.

First, we predicted that if perpetrators found a way to get fraudulent wiring instructions into the hands of buyers, it would be a huge problem, given the way we share information. Unfortunately, that prediction came true, contributing to the industry cost of roughly \$1 billion last year.

Our second concern centered on mortgage payoffs communicated via fax or email after the title company initiates a payoff request. Once cybercriminals learn of this industry nuance, it could be exploited and cause chaos during the disbursement of a transaction.

Each year, more than \$1 trillion of mortgages are paid off in connection with sale and refinance transactions. Almost all mortgages are settled via wire transfer as the closing agent follows the instructions found in the payoff letter received from the existing mortgage holder(s) before closing. With mortgage payoffs being higher than the average seller's net proceeds after closing, this is fertile ground for cybercriminals. Unfortunately, this prediction is now a reality.

Mortgage Payoffs Are Prime Targets for Fraudsters.

Over the past six months, the title and settlement industry has seen a sharp increase in the use of spoofed mortgage payoffs by cybercriminals. Knowing a vast majority of payoff letters get sent via fax, these cyber perpetrators create payoff statements that look identical to those issued by the lending institution. These false statements are then faxed to the title and or escrow company disbursing the transaction after closing.

Often the cybercriminal has access to the email account of someone involved in the transaction and incorporates mortgage-specific information on the payoff. Details can include the loan account number, current balance of the loan, interest rate, closing date, per diem interest and late payment fees. These payoff statements are so sophisticated and timely that everyone

needs to be aware of this new fraud threat.

Five Vectors of Payoff Fraud

Here are five instances that highlight the risks associated with payoff statements:

1. Spoofed Lender Payoff Portals

Many mortgage lenders offer the ability to originate a mortgage payoff directly from their websites. With a few key pieces of information relating to the borrower and the loan, any third party could obtain a current payoff – a practice used by the title and settlement industry to assist the current homeowner in a transaction.

We recently heard of a large wire fraud loss involving a payoff generated from a spoofed mortgage payoff portal. The fraudsters learned of a lender portal where mortgage payoffs were being requested by borrowers and title providers. They created a site, outwardly identical to the mortgage company's payoff request portal, and re-directed a title company employee to the spoofed site where the proper credentials were inputted to generate a payoff. Using this information, the fraudsters created a false payoff statement almost identical to the lender's authentic payoff statements except the bank information was changed. The title company employee, believing that the payoff was authentic, wired the funds according to the instructions and the money was lost.

What to do?

This next-level scam underscores the need for remarkable diligence when requesting mortgage payoff letters. If possible, fax or send an encrypted email to the lender requesting the payoff rather than trusting an online portal. When forced to use an online portal, confirm the accuracy of the bank account credentials before acting on them either through a phone call, secure messaging or another form of validation.

2. Lender Payoff Statements Received Directly from the Lender

Most payoff statements are generated electronically after receiving a borrower authorization and the title or escrow company requests a direct payoff from the lender being paid. This practice accounts for roughly 90% of all payoff statements generated. It is interesting that the same percentage of payoff statements get sent via fax rather than through email communication. The industry either views the fax machine as too convenient to move away from (in spite of its near-obsolence in most other sectors) or considers it more secure than email communications because it is a point-to-point transmission through the phone line. Assuming the latter, the industry places a high degree of trust in faxed documents – a fact that fraudsters are now exploiting.

We were recently made aware of an incident in which an email account belonging to one of the parties was compromised and the payoff statement from the real mortgage lender fell into the hands of the fraudster. This gave the thief access to all the lender information including the loan number, current balance of the loan, payoff amount, per diem interest to close, late payment

penalty and all other critical information. It also provided the routing number and account number for the mortgage lender receiving the payment.

Armed with this information, the fraudster was able to create a new payoff statement almost identical to the original, hoping to divert the wire to their own account. To make the delivery of the spoofed payoff directions more convincing, the fraudster faxed the instructions to the closing agent rather than attaching them to an email communication. Even more alarming was the fact that when comparing the correct payoff instructions to the spoofed wiring directions, only two things were different - the account name and the account number where the funds were to be sent. The fraudsters were even smart enough to open an account at the same financial institution in the same jurisdiction of the mortgage lender being paid, so the routing number was identical.

The formatting, font, numbers, disclosure language...virtually everything was formatted to look identical to the real payoff instructions sent by the lender. By way of example, Exhibit A includes the authentic payoff instructions sent via fax from a lender to the title company. Exhibit B includes the spoofed payoff instructions received a week later via fax from the fraudster impersonating the lender to the title company. I invite you to review and ask yourself if your staff would have identified the difference.

What to do?

This alarming new trend may have the most significant impact to date on our fight against wire fraud. We need to stop, think, and confirm before we act. Assuming that the fraudster has matched the routing number of the mortgage lender receiving payment, we have to confirm the identity of the individual sending us the information as well as the accuracy of the information itself. We can no longer take for granted that all payoffs are trustworthy without verification.

3. Payoff Received from Current Borrower

Often the current borrower (who may be the seller in the transaction) will request a direct payoff statement directly from the mortgage lender to send to the title or escrow company. The fraudsters are aware of this and will try to access the borrower's email account to get a copy of the real payoff instructions. Once they have access, they delete the real payoff letter and replace it with a spoofed payoff, sending it from the borrower's email account to the title or escrow company. The email drafted by the fraudster but sent from the borrower's email account typically includes a convincing message making the spoofed wiring information look authentic and originating from the mortgage lender that issued the payoff. This strategy instills trust in the mind of the person receiving the email as they review what looks like a legitimate string of correspondence between the mortgage holder and their current borrower.

What to do?

This fraud profile includes two vectors of information that are in jeopardy. First, always assume that the borrower's email has been compromised and the message containing the payoff instructions comes from the fraudster. For this reason, you must confirm the identity of the borrower in real-time before you take action.

Second, you cannot trust any payoff information received secondhand. You must assume the payoff statement has been compromised, the cybercriminal is using the same routing number and account name as the mortgage lender being paid and only the account number may be different. You must confirm the identity of the borrower as well as someone at the mortgage lender receiving payment. Always confirm bank account credentials before wiring funds. Never call the number on the payoff instructions or use any email address found in an email string forwarded to you.

4. Land Contract Payoffs, Seller-Held Mortgages, and Other Third-Party Payments

While institutional lenders receive the bulk of mortgage payoffs each year, other parties frequently show up on closing statements requiring payment to transfer marketable title from the seller to the buyer. These include seller-held mortgages, land contract payoffs, judgment liens, tax liens, divorce settlements, and other similar encumbrances. This presents an even greater opportunity for cybercriminals to strike as information exchanged between transaction participants is often less secure and frequently travels over unencrypted email messaging. Again, always assume the email account of the person sending you payoff information has been compromised and the payoff instructions tampered with.

What to do?

Non-institutional payoffs are by their very nature riskier than those received from a trusted institution. For that reason, a heightened sense of suspicion must be applied to any set of payoff instructions received from a third party. Taking extra time to confirm identity and review bank credentials could mean the difference between a safe transfer of funds or total loss.

5. Payoff Trolling

All property mortgages in the United States can be easily found in the county where the property is located. As fraudsters monitor multiple listing service (MLS) postings in real-time, they are alerted to active property transactions that move from a “listing” to a “pending” status. This gives cybercriminals an average of forty-three days to prepare to defraud someone in a transaction.

Earlier this month, a REALTORS® organization alerted its members that cyber fraudsters were requesting mortgage payoffs for properties in a “pending” status on the MLS. Why does this matter? The answer is simple: If a fraudster obtains a mortgage payoff early in the transaction cycle, he has ample time to create a spoofed payoff, trick a title or settlement provider into believing its authenticity and ultimately wiring funds to a fraudulent account. This new trend suggests fraudsters are willing to invest the time and energy needed to obtain property and loan-specific information to deploy next-level fraud schemes.

What to do?

While you cannot prevent a cyber perpetrator from impersonating you or your customers when trying to obtain personal information, you can educate all parties in a transaction about the need to authenticate information before acting on it. Any “new” or “revised” payoff information must be immediately flagged and confirmed independently before transferring funds.

A new standard of care.

The courts have ruled that all transaction participants may share the risk of wire fraud loss. (See our whitepaper: Wire Fraud is Everyone’s Problem). These new payoff fraud schemes serve as a reminder of the domain expertise that cybercriminals have obtained over the past few years. All information needed to start a wire fraud in connection with a real estate transaction is either publicly available or easy to find online. We must remain diligent and confirm that payoff instructions are authentic and trustworthy before we wire funds.

It’s a journey, not a destination.

Always remember that cybersecurity is a journey, not a destination. There is no silver bullet that will keep anyone safe at all times. A commitment to training, infrastructure, policies and procedures around data security will create a multi-layered approach to combat the ever-growing and evolving cyber threat.

That said, before funds are transferred and the cybercriminal gets paid, it is imperative that identity is verified and bank account credentials are confirmed. To learn more about how CertifID can help eliminate the wire fraud risk, please contact support@certifid.com

About CertifID

CertifID is a real-time identity platform for real estate, mortgage and title industry professionals to authenticate parties in a transaction and securely transfer bank account information. CertifID can safeguard the life savings of buyers and the liquidity of businesses and guarantees each wire transfer up to \$1,000,000 against fraud. Easily implement CertifID into your workflow without disrupting your wire system, your bank or your software.

For more information, or to start a conversation, please visit www.certifid.com.

About the Author

Thomas W. Cronkright II, Co-Founder and CEO, CertifID.

Tom is the co-founder and CEO of CertifID, the most secure way to send and confirm wiring information and prevent wire fraud in the title, lending, and real estate industries. He and his business partner, Lawrence Duthler, created the solution in response to a fraud incident they experienced in 2015 and the accelerating instances of fraud in real estate transactions. Tom is a licensed attorney, and frequent speaker on identity, cyber fraud, real estate, and financial topics and an award-winning business leader.

Tom is also the co-founder and CEO of Sun Title. Over the past thirteen years, Sun Title has grown into one of the largest commercial and residential title agencies in Michigan and has been recognized as an Inc. 5000 company for five consecutive years, 101 Best and Brightest Companies to Work For and 50 Businesses to Watch in Michigan.

Prior to becoming an entrepreneur, Tom was an attorney in the business and corporate practice groups of Warner Norcross & Judd LLP and Miller, Canfield, Paddock & Stone, P.L.C. Tom received his B.A. degree in finance from Western Michigan University and his law degree from Wayne State University.

Exhibit A

Authentic Payoff Instructions

Exhibit A - Authentic Payoff Instructions

Payoff Department

Statement Date: July 5, 2018

Payoff Statement Amended

Send to: PATRICIA

FOR INTERNAL USE ONLY

Mortgagor(s) PATRICIA

Property Addr: 4307 ROUND

Loan Nbr: 3229

The following statement reflects the estimated payoff amount required to prepay the above referenced mortgage in full. Interest will be collected up to the date payoff funds are received.

Interest Paid to Date: 6/01/18 Next Payment Due Date: 7/01/18

QUOTE DETAIL

Unpaid Principal	231,925.54	Mortgage Escrow Bal*	796.76
Interest Due	1,487.59		
(From 6/01/18 to 7/31/18 at 3.875%)			
		*items cannot be used as a credit	
		Prin and Interest	1,418.81
		Mthly Escrow Pymt	277.72
COUNTY RECORDING FEE	28.00		
Balance Due	233,441.13	Mortgage Payment	1,696.53

If payoff funds are submitted after 7/31/18, the applicable per diem interest of \$ 24.62 must be added for each day thereafter. Continue to make your scheduled mortgage payments. DO NOT PLACE A STOP PAYMENT ON ANY CHECK PREVIOUSLY REMITTED. If any scheduled payment is received after the Late Charge grace period as set forth in the applicable Note, a Late Charge of \$ 70.94 will be assessed.

Estimated Disbursements: Due Date Amount
HAZARD SFR 12/17/18 1,607.63
COUNTY TAX 2/28/19 858.25

PAYOFF FUNDS MUST BE REMITTED USING CERTIFIED FUNDS OR BY WIRE TRANSFER ONLY. If using wire transfer, forward to: Wells Fargo Bank, N.A., Routing # 121000248, for credit to . If mailing certified funds, make payable to and forward to the address listed at the top of page. Funds received after 3:00pm Central Time may be posted on the following business day. Please include the Mortgagor's Loan Number on all correspondence.

We will continue to make disbursements of all escrow items (hazard, flood, PMI/MIP, taxes, etc.) up to the date of payoff. It is the responsibility of the borrower(s) and their closing agent to obtain a refund should a double payment occur.

IMPORTANT NOTICE

We reserve the right to adjust any portion of this statement at any time for one or more of the following reasons, but not limited to: recent advances, returned items, additional fees or charges, disbursements made on your behalf, scheduled payment(s) from an escrow account, transfer of servicing and/or inadvertent clerical errors.

This payoff estimate does not waive our rights to collect any funds which become due on this account as a result of any subsequent adjustments. Additionally, will not provide reconveyance or release of the Security Instrument until the account is paid in full. Upon payment in full and within state specified guidelines, the necessary documents will be forwarded to the Trustee and/or County Recorder's Office to release our lien. Any overpayment will be refunded to the mortgagor(s) within 30 Business Days after payment in full.

is a debt collector. This is an attempt to collect a debt and any information obtained will be used for that purpose. However, if you are currently in bankruptcy or have received a discharge in bankruptcy, this communication is not an attempt to collect a debt from you personally to the extent that it is included in your bankruptcy or has been discharged, but is provided for informational purposes only.

Exhibit B

Spooferd Payoff Instructions

Exhibit B - Spoofed Payoff Instructions

Payoff Department

Statement Date: July 12, 2018

Payoff Statement
Amended

Send to: PATRICIA [REDACTED] Mortgageor(s) PATRICIA [REDACTED]
FOR INTERNAL USE ONLY Property Addr: 4307 ROUND [REDACTED]
Loan Nbr: [REDACTED] 3229

The following statement reflects the estimated payoff amount required to prepay the above referenced mortgage in full. Interest will be collected up to the date payoff funds are received.

Interest Paid to Date: 6/01/18 Next Payment Due Date: 7/01/18

QUOTE DETAIL

Unpaid Principal	231,925.54	Mortgage Escrow Bal*	796.76
Interest Due	1,487.59		
(From 6/01/18 to 7/31/18 at 3.875%)			
		*items cannot be used as a credit	
		Prin and Interest	1,418.81
		Mthly Escrow Pymt	277.72
COUNTY RECORDING FEE	28.00		
Balance Due	233,441.13	Mortgage Payment	1,696.53

if payoff funds are submitted all or 7/31/18, the applicable per diem interest of \$24.62 must be added for each thereafter. Continue to make your scheduled mortgage payments. If any scheduled payment is received after the late charge grace period as set forth in the applicable Note, a Late Charge of \$70.94 will be assessed.

Estimated Disbursements:	Due Date	Amount
HAZARD SFR	12/17/18	1,607.63
COUNTY TAX	2/28/19	858.25

PAYOFF FUNDS MUST BE REMITTED USING CERTIFIED FUNDS OR BY WIRE TRANSFER ONLY.

Bank Name: Wells Fargo Bank, N.A.
Bank address: : 420 Montgomery St., San Francisco, CA 94104
Account Name: Asgard Group
Beneficiary Address: 74 Montgomery St San Francisco, CA 94104
Account Number: 7019139968
Routing number: 121000248
Wire Reference: Payoff 411283229

We will continue to make disbursements of all escrow items (hazard, flood, PMI/MIP, taxes, etc.) up to the date of payoff. It is the responsibility of the borrower(s) and their closing agent to obtain a refund should a double payment occur.

IMPORTANT NOTICE

We reserve the right to adjust any portion of this statement at any time for one or more of the following reasons, but not limited to: recent advances, returned items, additional fees or charges, disbursements made on your behalf, scheduled payment(s) from an escrow account, transfer of servicing and/or inadvertent clerical errors.

This payoff estimate does not waive our rights to collect any funds which become due on this account as a result of any subsequent adjustments. Additionally, [REDACTED] will not provide reconveyance or release of the Security Instrument until the account is paid in full. Upon payment in full and within state specified guidelines, the necessary documents will be forwarded to the Trustee and/or County Recorder's Office to release our lien. Any overpayment will be refunded to the mortgageor(s) within 30 Business Days after payment in full.

[REDACTED] is a debt collector. This is an attempt to collect a debt and any information obtained will be used for that purpose. However, if you are currently in bankruptcy or have received a discharge in bankruptcy, this communication is not an attempt to collect a debt from you personally to the extent that it is included in your bankruptcy or has been discharged, but is provided for informational purposes only.



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