Former LPS Exec - 1 Million Fraudulent Documents? More on Auditors; Explanation of Europe

By: Rob Chrisman | Fri, Nov 23 2012, 12:48 PM

The ability to send a petition directly to the White House brings out the interesting folks. Who doesn't want cat-girls? Here you go.

Hey, we still have **6 business days left in November** - but funders know that there are only 20 in December (including Christmas Eve and New Year's Eve, which I guess count from the government's perspective). Today we are privileged to see riots in the streets and stores, full of excited mobs of people with too much debt and little fiscal responsibility trying to obtain more possessions. This scene, however, could be here in the United States OR in Athens or Lisbon. But we'll stick with the United States, where Black Friday is the annual celebration of American consumerism. Yesterday we all sat with our families, gained 5 pounds, and watched some meaningless football match involving the Detroit Lions. But whether it is here, or in Europe, both groups want the same thing: to have their creditors give them more goods in exchange for debt that will ultimately be inflated or defaulted away. And now instead of the election we'll have the press yammering about a) consumer's shopping trends, and b) the fiscal cliff.

One person who won't be doing much shopping is a former executive of Lender Processing Services, Inc. (LPS) who pled guilty last week to mail and wire fraud charges, admitting her participation in a six-year scheme to prepare and file more than 1 million improper mortgage documents as part of the so-called robo-signing scandal. Lorraine Brown, former CEO of DocX LLC, a subsidiary of LPS, faces a maximum penalty of five years in prison and a $250,000 fine, or twice the gross gain or loss from the crime. Assistant U.S. Attorney General Lanny A. Breuer said, "Lorraine Brown participated in a scheme to fabricate mortgage-related documents at the height of the financial crisis. She was **responsible for more than 1,000,000 fraudulent documents** entering the system, and directing company employees to forge and falsify documents relied on by property recorders, title insurers & others.

Andrew Liput, with Secure Settlements, sent out, "The robo signing scandal that has infected the foreclosure process in judicial states has caused millions in losses to banks as litigation has been prolonged or placed on indefinite hold so courts can sort out the mess. These fraudulent activities highlight the lack of transparency and accountability of those few who fail to take their roles as fiduciaries of banks seriously. The days are long gone unfortunately when banks, or the public, can assume that a licensed attorney or any licensed professional is exempt from bad acts. This is precisely why Secure Settlements favors individual vetting and ongoing monitoring on top of licensing and insurance. When those entrusted with bank funds and documents know that they are being checked out, monitored and rated, and that banks and consumers will be expecting independent verification of their credentials and identity, I am certain it will be a significant deterrence to cutting corners and outright fraud. Criminals don't like to work in the sunlight."

Wednesday the commentary discussed some auditing information/suggestions. **Audits and exams are a way of life for banks, mortgage companies, and so forth - most believe it is only a matter of time until other "handlers" of money, such as Realtors, title companies, attorneys, and so on are subject to the same scrutiny**. One of the offshoots of the work of internal auditors, and their process, is to make sure that the integrity of the audit process is maintained, remove undue management influence and while it can sometimes put management and staff on edge, it is designed to serve and protect the bank. Such processes are common in banking. As audits unfold, teams will commonly seek answers to questions that surface from their discussions with staff or management. To ensure accuracy, anything of note that surfaces should be double-checked again to make sure nothing is misunderstood. This is the time when management or staff has an opportunity to respond or clarify things. All of this back and forth process is then incorporated and final results are provided to the audit committee of the board.

Auditing is important and to make sure the process is thorough, fair and effective; **it is also critical to make certain the function is independent of the audited activities**. That sounds like common sense, but when expertise resides in one area and a community bank doesn't have extra people to throw around, it can be more complex than it seems at first blush. Community banks just don't have teams of experts lying around that are unused, so care must be taken to ensure the audit process is followed. In a community bank stretched for resources, it seems to make sense that the internal audit function should be able to design and implement processes to correct findings, but this should be avoided. There are simply too many potential conflicts that can arise, so the audit function must remain independent of operational management. Questions and discussion are common and helpful, but **the audit team should not be directly involved in the development or implementation of internal controls**. Finally, it is important for companies to train their audit staff to keep them at the top of their game. Understanding where risks are coming from is important, but equally important is making sure the auditor has the understanding and training to handle the bank's situation. Here the report indicates auditors should have the ability to collect and understand information, to examine and evaluate audit evidence and to communicate with stakeholders of the internal audit function. **Pacific Coast Banker's Bank** notes, "It makes sense to not only boost training for audit teams, but to share knowledge gained throughout the bank that is obtained as a result of the audit process. Doing so will help your bank maintain best practices, as risk management is further enhanced."

For economic commentary, David Zervos with Jefferies did a great write up a while back on Europe, and an analogy, that I wanted to share. "Imagine that the state of California could not fund itself in the private capital markets. And as the state unemployment rate pushed north of 25 percent, basic government services ceased, pensions were slashed, house values plummeted and there was growing social unrest on the streets. California needed a massive fiscal adjustment to wean itself off decades of mismanagement, abuse and unsustainable debt accumulation. Default was imminent and it was going to be an ugly end to the great California bubble! Of course, if that were to happen, California would appeal to Washington for help. And given our pork filled federal government structure, there would be immediate relief via fiscal transfers. But imagine a US constitutional set-up like that of the Eurozone - one with no federal transfers for states. As California sank deeper into the abyss, there would be no fiscal lifeline - and the negative externalities from a statewide depression would start to feed into the other states, contaminating the entire financial system, and threatening the longer term growth prospects for all of the United States."

He continued, "In this 'European' version of a US downturn, there would only be one institution that could act - the Fed. But even as the Fed lowered rates to 0, and expanded its balance sheet to counteract the systemic effects from this localized depression, a funny thing happened - none of the stimulus got to California. There were "Draghian blockages" in place! The lower rates went to North Dakota and Texas instead. In fact, the states with sound finances were even able to fund at negative nominal yields. And corporates in those states could fund at record low rates. But those low rates did not actually entice much municipal or corporate investment since folks were simply too worried about the negative Californian externalities. Further, everyone saw what too much leverage did to California and they were rightly nervous. To be sure, there were windfall gains from refinancing existing debts at lower rates in the healthy states, and consequently businesses in those states saw their equity valuations rise sharply, but there was little new investment or job growth. In this hypothetical world, easy monetary policy blanketed the entire US, but the elixir did not make it to the source of the problem. Further, the negative sentiment associated with a California depression kept overall US sentiment depressed - even with record low rates. So what would the Fed's answer be - just do more QE. And as the dosage of monetary policy accommodation increased ad nauseum, the temptations would become too great in the uncontaminated areas - bubbles in Texas and North Dakota would develop. Deja vu all over again!"

Lastly, "Meanwhile, after decades with California living beyond its means, many ordinary US folks would push for them to leave the US. Their profligate ways would be seen as a stain on the rest of the country. And of course many in California would begin to push for an exit from the United States. Their solution would be to redenominate the existing debts into a new currency that featured pictures of their heroes from the old days. The currency would be called 'the bubble' - Kim Kardashian would be on the one bubble bill, Paris Hilton on the five, Lindsay Lohan on the ten, Brittany Spears on the twenty, David Hasselhoff on the fifty and of course Charlie Sheen on the C-note. And a hundred bubbles would basically buy a big gulp a 7 eleven!" Very well done, Mr. Zervos.

(For anyone who cares about where rates are today, they're about unchanged from Wednesday's levels with the 10-yr at 1.67%)

New Federal Golf Rules
Major rule changes in the game of golf became effective in November, 2012.
This is only a preview as the complete rule book (expect 2,716 pages) is being rewritten as we speak.
Here are a few of the changes:
Golfers with handicaps:
- Below 10 will have their green fees increased by 35%.
- Between 11 and 18 will see no increase in green fees.
- Above 18 will get a $20 check each time they play.

The term "gimmie" will be changed to "entitlement" and will be used as follows:
- Handicaps below 10, no entitlements.
- Handicaps from 11 to 17, entitlements for putter length putts.
- Handicaps above 18, if your ball is on the green, no need to putt, just pick it up.

These entitlements are intended to bring about fairness and, most importantly, equality in scoring.
In addition, a Player will be limited to a maximum of one birdie or six pars in any given 18-hole round.
Any excess must be given to those fellow players who have not yet scored a birdie or par.
Only after all players have received a birdie or par from the player actually making the birdie or par, can that player begin to count his pars and birdies again.
The current USGA handicap system will be used for the above purposes, but the term "net score" will be available only for scoring those players with handicaps of 18 and above.
This is intended to "re-distribute" the success of winning by making sure that in all competitions every Player above an 18 handicap will post

only "net score" against every other player's "gross score".
These new Rules are intended to CHANGE the game of golf.
Golf must be about Fairness. It should have nothing to do with ability, hard work, practice, and responsibility.
This is the "Right thing to do."
So, please remember; if you shot a round of golf under par, you didn't shoot it yourself. Someone else built that course, and someone else cut the grass so that you could play on it. Someone else built the clubs and the cart.
You need to share with everyone and anyone who made you a successful golfer.

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