

Title Alert 2015-07

October 16, 2015

Fraud Advisory — Email and Cyber Fraud

Cyber Fraud in many forms is occurring in Pennsylvania, in your neighborhood, and most likely to someone you know, the heinous result of which is theft of hundreds of thousands of dollars, claims to E&O carriers, and the potential for wiping out settlement agents' resources. The purpose of this communication is to emphasize that IT CAN HAPPEN TO YOU, that it is happening to your fellow Pennsylvania settlement agents, and to provide real fraud vignettes that occurred in the last month in PA. PLEASE READ on to learn how these cunning cyber hackers are getting the upper hand, so you can recognize red flags in your operations.

1. The Near Miss: Agent was directed by email to wire the settlement proceeds. On the day of the closing, an email was received with revised wiring instructions. A new staff member did not call the seller to confirm the change but fortunately, the agency owner learned about it and immediately called the seller, at which time the fraud was discovered. The agent called its bank immediately and that bank in turn contacted the bank where the wire had been redirected. The agent's call was made only 90 minutes after the wire was sent, and fortunately, the fraudster's bank was a large bank whose standards don't allow large incoming wires to be immediately wired out. It took three days and two sleepless nights before the agent received confirmation that the wire had been reversed, and that no monetary loss was incurred.
2. Could Have Been Worse: Agent received instructions to wire seller's proceeds for purposes of a renovation on another property being purchased by the seller. Agent pushed back and said proceeds would only be wired to seller's account. Then an email was received accompanied by a letter that appeared to be signed by the seller, and notarized, which provided the desired wiring instructions. Agent closed and arranged the wire as detailed in the notarized letter. A week after closing, seller contacted agent stating he had not received funds from closing. Over \$23,000 was lost. Agent paid its \$5,000 E&O deductible, and apparently the E&O carrier paid out the loss. It is unknown whether this E&O claim may cause an increase in the agent's E&O premium in the future.
3. A Worst Case Scenario: Agent issued a check to the seller at closing for over \$218,000. The following day, agent received an email from the seller's realtor (or so the agent thought) to wire the funds to the seller's trustee account. Agent stated that to comply, first the check issued at closing must be returned, and the "realtor's" next email indicated that the check had been shredded. Agent stopped payment on the check, and wired the funds as requested in the revised instructions. Seven days later when seller attempted to deposit the title agent's check, seller learned of the stop payment and contacted the agent who explained the email from the seller's realtor, requesting the wire. Seller and Seller's realtor confirmed that no email had been sent instructing the agent to wire proceeds. The agent contacted law enforcement, the agent's bank, the bank where the wire was sent, and the agent's E&O carrier. As of this writing, this matter has not been resolved and the outcome is unknown.

BE AWARE: An email can *look like* it originated from your buyer, seller or real estate agent and be fake, forged, or otherwise tampered-with.

Best practices

- Make careful review of all emails, especially those containing or directing personal information and means of funding.
- Implement a standard procedure, to only verify by phone, through a previously known safe phone number, any wire instructions.
- Verify by phone, through a previously known safe phone number, any funding related information of any kind, especially those received last minute OR post-closing, most importantly when instructions had been previously provided, and verified.
- Don't reply to an email to confirm funding or proceeds information, or use any phone number that might first appear in email traffic; use previously known safe numbers only.

It is imperative that all Approved Attorneys and their employees read above, because the losses and liability associated with these scams are your responsibility.

Final note affecting your BUYER customers:

ALTA reported this week that *The Washington Post* published a story detailing Hackers' latest scam, tricking homebuyers into wiring them the settlement funds. The blurb warns of increasingly sophisticated fraud in the real estate industry, and the *Post* article itself contains practical pointers for safeguarding personal information, and how to avoid becoming a victim of fraud.

Find the article here:

<http://www.washingtonpost.com/blogs/where-we-live/wp/2015/10/12/hackers-latest-scam-tricking-home-buyers-into-wiring-them-settlement-funds/>

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1250 Tower Lane, Suite 202, Erie, PA 16505
(800) 352-2216 FAX (800) 234-2352