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Catch Mortgage Fraud Before It Sinks You



By Greg Holmes

When I was a kid, my grandfather used to take me fishing. Sometimes we would catch and release, and other times we would bring home fish to enjoy that night for dinner. As I grew older, I realized that our success was determined by our level of preparedness—was the lake we were fishing known for pan fish, did we have the proper bait, was it the right time of day, were we fishing in an area that fish frequent, such as in the branches of fallen trees? I found that if we could answer yes to those questions, we were probably going to have a productive day. But, if we took a more relaxed approach, we might have gotten lucky—heck, even a blind squirrel catches a nut sometimes—but more than likely we spent the day frustrated and looking for nibbles.

Catching mortgage fraud is a lot like fishing—before you can begin to hook it, you first need to know what types of fraud are most common and where it is most prevalent. Once you know what you're looking for, the proper tools will help you reel in illegal activity.

Mortgage fraud is still bobbing along

According to the FBI, numbers of pending mortgage fraud cases dropped a little between 2011 and 2012. But that's no cause



for celebration. Numbers still remain high and, in fact, distressed homeowner fraud has replaced loan origination fraud as the most visible threat to the mortgage industry. In fact, some 94 percent of all incidents reported to the most recent LexisNexis Mortgage Industry Data Exchange (MIDEX) in 2012 were for loans originated prior to 2012.¹

Even though borrowers face up to 30 years in federal prison and a \$1 million fine, or both, if caught and convicted, those potential penalties aren't deterrent

enough for some people. While there are many different types of mortgage fraud, some are more common than others. These include employment fraud, income fraud, occupancy fraud, and illegal flipping.

The LexisNexis report showed that of all loans investigated in 2012, 69 percent of those investigated showed some type of application misrepresentation or fraud—this is a five-year high. Of loans that originated in 2012, 61 percent of loans showed application misrepresentation or fraud.

Application fraud and misrepresentation includes, but is not limited to: Incorrect name(s) used for the borrower(s); misrepresentation about occupancy, income, employment, debt, or assets; different signature(s) for a name; invalid Social Security Number(s); misrepresented citizen/alien status; incorrect address or address history; and incorrect transaction type.

Income fraud, when a borrower inflates his/her income on the mortgage application, was one of the causes of the 2008 mortgage crisis. At that time, borrowers were allowed to qualify for mortgages using stated income, without underwriting to verify that income. New underwriting regulations have made it more difficult to commit mortgage fraud, but it still exists. In a recent high-profile case, a husband and wife were recently convicted of fraud charges for submitting

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falsified loan applications in order to get \$5 million in mortgages and construction loans. The wife, who was unemployed, submitted fake W-2 forms and claimed to be employed as a real estate agent with an income of \$15,000/month.

Cast a wide net

According to Fannie Mae,² inconsistencies in a loan file are often a tip-off that the file contains misrepresentations. The presence of such inconsistencies doesn't necessarily mean that the borrower's intent was to commit fraud, but it may. The more aware a lender is of the red flags to look for, the less likely they will find their organization sinking under the weight of unrecognized mortgage fraud. Common, high-level red flags include:

- Social security number discrepancies within the loan file
- Address discrepancies within the loan file
- Verifications addressed to a specific party's attention
- Verifications completed on the same day they were ordered
- Verifications completed on weekend or holiday
- Documentation that includes deletions, correction fluid, or other alteration
- Numbers on the documentation appear to be "squeezed" due to alteration
- Different handwriting or type styles within a document
- An excessive number of Automated Underwriting Systems (AUS) submissions

Reel in fraud with the right gear

Many types of fraud schemes operate just

under the surface, evading detection because they aren't obvious to the naked eye. To combat this, many companies, including Credit Plus, Inc., are now offering products and tools to help mortgage professionals uncover mortgage fraud before it pulls them under. The use of technology makes it easy for lenders to quickly verify data, perform a thorough risk assessment on each applicant, and detect problems with applications. Information is collected from various sources, including data providers, government services, validating companies, public records, and more.

One of the key benefits is that lenders can get all the verifications they need from one source—they no longer will need to vet various sources to ensure the data they are using is accurate. This makes the lending process more efficient and gives lenders confidence that their process and borrowers are in compliance with regulations.

Easy-to-read reports generated by the validation technology identify worrisome areas on each application reviewed. Reports that offer a summary cover sheet enable lenders to see at a glance whether an applicant is a risk. Such reports can provide a wealth of information, including the following and much more:

Identity validation

Advanced technology validates an applicant's identity, including name, address, Social Security Number, birthdate, and phone number. It often can be customized to provide other information, such as driver's license number, other properties owned and more. Identify reports may also include:

- Alias information: Other identities the borrower may be using to acquire loans and debt.

- Other properties owned: Properties owned by the applicant that may or may not be tied to a mortgage are identified; property taxes and homeowner's insurance must be factored into the debt-to-income ratio for the applicant on their loan.
- Relatives and associates: Details about an applicant's relatives or associates can identify any conflicts of interest.
- Voter registration: Provides additional validation of identity.
- Liens/judgments: A separate search from what is reported on the credit report; includes lien or judgment records associated with an individual.
- Continual monitoring of credit report and undisclosed debts right up until loan closing: Ensures the applicant's debt-to-income ratio hasn't increased to a level that would disqualify him/her from qualifying for a mortgage

Employment and income validation

Technology can also be used in a number of ways to provide information about an applicant's employment and income. The Work Number, a solution offered through Equifax Workforce Solutions, maintains the largest collection of payroll records contributed directly from employers and offers accurate verification of employment. Other types of employer verification can also be conducted, such as searching the employer's address and its proximity to the new house to ensure the applicant will be able to maintain employment after moving into the new home.

Watchlist clearance

The Office of Foreign Assets Control of the U.S. Department of Treasury maintains a

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list of foreign countries, businesses and individuals sanctioned for economic and trade violations as they relate to national security. The Bank Secrecy Act and the Patriot Act require that all money services businesses make a reasonable effort to determine if their customers appear on these lists. Technology can help lenders verify that their applicants are not on any of these lists: the FBI Hijack Suspects list, the FBI Top Ten Most wanted, HUD Limited Denial of Participation, and more.

Make sure every applicant is a keeper

While new regulations have helped reduce mortgage fraud a bit, there will always be people who try to get ahead by lying and cheating. For lenders, the best protection against such predatory bottom-suckers is a fraud prevention program that utilizes the latest technology to validate applicant information and monitor borrower activity all the way through closing. Just as with fishing, preparing in

advance is the best way to ensure your applicants are truly worth keeping.

Greg Holmes is national director of sales and marketing for Credit Plus Inc., a third-party verifications company serving the mortgage industry. He can be reached by e-mail at info@creditplus.com.

Footnotes

1—LexisNexis 15th Annual Mortgage Fraud Report.
2—Fannie Mae.

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