

Mortgage fraud targeted by FBI, lenders group

by Emmet Pierce

Warning that mortgage loan fraud is growing at an alarming rate, the FBI and the Mortgage Bankers Association agreed Thursday to cooperate in a partnership to protect lenders and home buyers. "Fraud against lenders is a growing problem that hurts everyone throughout the mortgage process, from the lenders themselves through the brokers and appraisers to the consumers and the communities we invest in," bankers association Chairman John M. Robbins said at the National Fraud Issues Conference, which ended Friday.

At the meeting, Robbins and FBI Financial Crimes Section Chief Karen E. Spangenberg signed a memorandum of understanding to issue nationally a new mortgage fraud warning notice.

Lenders would distribute notices to borrowers warning that mortgage fraud is punishable by up to 30 years in prison, a fine of \$1 million or both.

The warning "is a reminder that this is not a game you can play anymore and expect not to be punished," Robbins said. The number of mortgage fraud cases investigated by the FBI has more than doubled from 436 in 2002 to 1,036 now, making it one of the fastest-growing white-collar crimes in the nation, Spangenberg said.

Lenders estimate that fraudulent loans cost their industry more than \$1 billion a year, "and that's a conservative estimate," Robbins said.

Reports of suspicious mortgage lending activity filed by financial institutions have quadrupled from about 900 in 2003 to about 3,600 last year, he said.

Analysts say such crimes often go unprosecuted.

"Fraud is down the pecking order pretty far in terms of government priorities," said Richard H. Wohl, president of IndyMac Bank.

Wohl spoke at the opening session of the conference, which brought in about 400 lending industry professionals from around the country. He urged lenders to tighten underwriting practices. "Fraud is at record levels," Wohl said. "A lot of us are seeing deals pushed in our shops that never should get through the front door."

Fighting mortgage fraud is a priority for the FBI because "mortgage lending and the housing market have a significant overall effect on the nation's economy," the agency said in its financial crimes report for fiscal 2006.

The FBI says mortgage fraud is difficult to track, in part because the lending industry is not required to report it. The bureau investigates mortgage fraud in two areas: fraud for profit, or "insider fraud," and fraud for housing.

In fraud for profit, the motive is to falsely inflate the value of the property or to issue loans based on fictitious properties. About 80 percent of all reported fraud losses involve collaboration between industry insiders.

Fraud for housing is a crime committed by the borrower. The motive is to acquire ownership of a home under false pretenses. Such borrowers may misrepresent their income or employment history. A popular method of mortgage fraud is a form of "property flipping" in which the value of a home is artificially inflated through false appraisals. The property then is repurchased several times at higher prices. Eventually, it is foreclosed upon by a victim lender.

In other matters Thursday, Robbins called for standardized licensing requirements for bank loan officers to

make sure they understand the mortgage process and can explain it to consumers. Requirements now vary from state to state.

He said people in other professions go through a licensing process. "You have to be licensed to be a hairdresser," Robbins said. "We need some kind of basic education, some competency test." Outside the conference, Gary Wong, senior vice president of residential lending for Union Bank of California in San Diego, said large banks in the state don't have licensing requirements for loan officers.

"My loan officers here do not require licenses to operate," Wong said. "Obviously, we have our own internal regulations, guided by the federal government. The level of oversight is intense."

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