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Keeping The Mortgage Professional Informed

Technologies help to protect the American dream

By Thomas Brown

Homeownership is one of the great American dreams. It provides a sense of accomplishment, safety and family pride. And in most cases, it is also a good financial investment. In fact, in certain markets throughout the country, many homeowners have realized healthy returns on their investment as a result of a sizzling real estate cycle. Unfortunately, this has not gone unnoticed by fraudsters who thrive on bilking lending institutions out of billions.

Mortgage fraud can be as simple as a loan applicant lying about income or employment and as complex as a ring of conspirators using identity theft, fake appraisals and straw buyers to manipulate lenders into approving false mortgages. Additionally, the highly competitive mortgage environment has placed significant pressure on underwriting practices fueling explosive home values, making it an even more lucrative opportunity for fraudsters. This process forces lenders to drive up rates to cover additional costs, increasingly threatening the ability of homeowners to receive available mortgage funding for the American dream.

According to the FBI, mortgage fraud is steadily rising, and brokers and lending institutions are all at risk of losing substantial amounts of money. These statistics show that reports of mortgage fraud have tripled to 21,994 in the last two years; and the dollar value of these alleged crimes has quadrupled to $1.01 billion.

Naturally, this amount of fraud costs both businesses and consumers alike. Fraud increases the price of mortgages for all buyers, as lenders pass on their higher costs. Even worse, the FBI indicates that the amount of deceit is undoubtedly much greater than the reports state.

So what exactly has caused a spike in fraudulent activity? The plunge in interest rates caused an increase in mortgage volume beginning in the mid-1990s and again in 2002, when the federal government provided incentives to borrowing. To handle this demand, lenders quickly beefed up staff, which often included hiring inexperienced people who cut corners on the due diligence that could have prevented much of the fraud. What's more, the willingness of buyers to pay ever-increasing prices, often on an accelerated timeframe, contributed to the amount of volume in the market, making fraud even more difficult to detect.

The growing problem many banks and other lenders face is that fraudulent people and entities are increasingly finding new ways to mask themselves as creditworthy mortgage customers. And the problem could get worse for many lenders. Before many real estate markets began to cool, banks could often curb their losses by reselling defaulted properties back into the rising market. This window of opportunity for banks will shut as the real estate market slows down.

Fortunately, there are technologies available to financial institutions to help reduce the risks associated with fraudulent mortgage applications.

Over the years, fraudsters have become more sophisticated in their tactics by preying on a less-stringent application process or through the use of identity theft. Some have taken advantage of overburdened county deed offices, meaning that con artists can take advantage of overworked lenders who may be confused about true ownership titles. Others simply mask their identity by pretending to be a more creditworthy applicant before closing on the deal and fading away with the loan—leaving the real owner or bank left holding the tab.

In both cases, new technologies can allow lenders to identify con artists trying to trick the system. One application searches multiple public information databases—containing four billion consumer and 300 million business records—for information that can verify and validate a person's or business' identity. This technology even contains a reference library of sample photo IDs for every state supporting required documentary identity verification.

Fraudsters thrive on their ability to leverage speed and efficiency in their efforts. As a result, another leading technology available to lenders allows instantaneous identity authentication at the customer contact point for financial institutions and commercial customers. The application generates immediate authentication questions, like length of residence in a municipality, purchases of real estate property, type of car owned and even names of distant family members associated with the applicant.

In our continued fight against mortgage fraud, we must display a concerted effort and leverage every resource available to thwart these thieves' illegal activities. Growing trust in the process will help reduce unwanted cost increases to both banks and their customers, ultimately helping to pave the way to a healthier national economy and a safer identity environment—as well as the continued reality of the true American dream.

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