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Implementing a Successful Mortgage Fraud Prevention Training Program

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In only a few years, mortgage fraud has grown into a major concern in the United States. In 2008, The Federal Bureau of Investigation (FBI) reported that 63,713 mortgage fraud reports were filed and more than \$1 million was spent on investigations of such cases.¹ With an increase of 1,333 percent since 2002, mortgage fraud has become a serious risk for banks and other financial institutions across the country.²

The rise in mortgage fraud has been primarily contributed to by the downturn of the U.S. economy over the past year. When the U.S. stock market suffered big losses in 2008, there was a dramatic increase in unemployment, a spike in foreclosures and defaults in the mortgage loan industry and the continued contracting of financial markets, causing credit to diminish to financial institutions, businesses and homeowners. These combined factors have pressured those participating in all aspects of the lending process to conduct schemes in an effort to maintain or increase their current standard of living, causing mortgage fraud to proliferate.³

Traditional and emerging schemes have the potential to multiply across jurisdictions as foreclosures increase, the market contracts, access to credit diminishes and more homeowners are unable to sell or refinance their homes. Scam artists, for example, have targeted homeowners who are either struggling to meet their mortgage commitments or anxious to sell their homes.⁴ Fraud schemes are also being conducted by industry professionals who are in a position to exploit the depressed housing market. These schemes negatively impact neighborhoods around the country, federally insured loan programs, the mortgage, banking, and securities industries; secondary market investors, tax payers, homeowners and the overall U.S. economy.⁵

Mortgage fraud is expected to continue to hinder the industry and the economy in coming years, with the numbers of cases expected to rise considerably. Therefore, financial institutions in the U.S. need to take action to reduce the risk of mortgage fraud. The best way to protect the institution, its assets, its employees and its clients is for banks to implement a sound training program addressing mortgage fraud prevention.

¹ Federal Bureau of Investigation (FBI), "2008 Mortgage Fraud Report "Year in Review,"" [http://www.fbi.gov/publications/fraud/mortgage_fraud08.htm], 2008.

² Federal Bureau of Investigation (FBI).

³ Federal Bureau of Investigation (FBI).

⁴ Freddie Mac, "Avoiding Mortgage Fraud, [<http://www.freddiemac.com/avoidfraud/>], 2009.

⁵ Federal Bureau of Investigation (FBI).

Preventing Mortgage Fraud With Training

With the recent increase in the sale and purchase of real estate and more consumers viewing the real estate market as a way to make a quick and profitable return on investment, preventing and detecting mortgage fraud has become more important than ever. As a result of enormous competition and the opportunity to make large bonuses from overages and fees, fraudulent loans are made everyday, costing lenders millions. In order to protect customers and assets, banks must equip their employees with the facts about mortgage fraud.

Training will teach employees to become familiar with common schemes such as: Property Flipping; Silent Second; Nominee Loans/Straw Buyers; Fictitious/Stolen Identity; Inflated Appraisals; Foreclosure Schemes; Equity Skimming and Air Loans, among others. In response to tighter lending practices, employees also need to stay up-to-date on any new, emerging schemes such as reverse mortgage fraud, credit enhancements, condo conversion, loan modifications and pump-and-pay.

To prevent mortgage fraud from occurring, it is essential that employees know what to look for when these types of schemes are perpetrated. Through training, employees will learn the different types of fraud used in today's mortgage industry and how to combat them. The bank can greatly reduce lending risk by ensuring that employees are trained on the following aspects of mortgage fraud prevention.

Identification

Additionally, training will teach employees how to identify likely mortgage fraud perpetrators. Employees should know their customers and learn how to spot individuals most commonly involved in these schemes such as mortgage brokers, lenders, appraisers, underwriters, accountants, real estate agents, settlement attorneys, land developers, investors, builders, bank account representatives, trust account representatives, investment banks, and credit rating agencies with a criminal activity which is relatively low-risk with high-yield returns.⁶ In addition to these traditional industry conspirators, there have also been instances involving various organized criminal groups and gang members engaged in mortgage fraud activity.

Detection

Employees can help to identify fraudulent lending by learning to detect red flags of mortgage fraud and mortgage fraud hot spots. By knowing where and when mortgage fraud is likely to occur, employees will be able to reduce the risk of mortgage fraud by preventing it before it happens.

Through training, lenders will learn how to carefully review all documentation to find any misleading, missing or false information, and other potential red flags. Training will teach employees how to spot any wrong information on mortgage loan documentations, credit reports, social security numbers, paystubs, W-2 Forms, Tax Returns, Verification of Deposits (VODs), checks, appraisals, and other additional documents associated with the lending process.

⁶ Federal Bureau of Investigation (FBI).

Accurate Reporting

A bank can also reduce mortgage fraud risk by training its employees on the proper bank policy and procedure for reporting mortgage fraud. It is important for bank employees to understand that they are in the best position to help the institution and its customers from becoming victims of mortgage fraud. Employees who know the correct process of reporting such activity will become more empowered to help protect their customers and their bank.

Employees must also be well-versed in the bank's information security standards and procedures to protect against unauthorized access or use of consumer's confidential information and records. It is important for employees to know the Gramm-Leach-Bliley-Act (GLBA) and the Fair-Credit Reporting Act (FCRA), which regulates when the Bank may disclose nonpublic, confidential customer information and allows customers to stop the sharing of certain information with affiliated banks and companies.

When mortgage fraud does occur, employees should know to report it immediately. By reporting any suspicious activity to their supervisors, employees will help to greatly reduce the risk of mortgage fraud. Though not required by Bank Secrecy Act (BSA), lenders may file a Suspicious Activity Report (SAR) with the Financial Crimes Enforcement Network (FinCEN) should they suspect suspicious activity. To prevent risk, it is beneficial for banks to train their employees on how to file a SAR as part of the reporting process.

Final Word

The steady growth of mortgage fraud over the past several years requires financial institutions to take action in order to reduce the risk of such schemes. The best way for a bank to protect itself, its employees and its clients is by educating its staff on how to prevent mortgage fraud before it happens. By learning how to identify mortgage fraud, detect mortgage fraud and properly report mortgage fraud in the event it does occur, financial institutions can help reduce the risk of fraud and decrease the number of individuals and organizations affected by this crime each year.



Dr. Linda Eagle is Founder & President of The Edcomm Group Banker's Academy—a 22-year-old education and consulting firm dedicated to serving Banks, Credit Unions, Money Services Businesses (MSBs) and all areas of the Global Financial Community with thousands of generic and customized training programs in areas such as BSA/AML, Regulatory Compliance, Teller Training, Systems Training, Sales and Service Training, and many more.

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