Valuation Review
News and analysis for the real estate appraisal industry

Is the nation awash in mortgage fraud?

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Once a nuisance to a handful of lenders, mortgage fraud has blossomed into one of the fastest-growing white collar crimes in the United States. It puts innocent homeowners on the hook for overpriced houses and pushing up interest rates for all home-loan borrowers.

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Or, fraudsters will find novice real estate investors and convince them to sell their good name and credit record. In return, scammers promise to arrange a loan on an investment property, find tenants, make mortgage payments and sell the property for huge profits once it appreciates.

Instead, the fraudsters use the borrower's name on loan documents — and then walk away with hundreds of thousands of dollars in loan proceeds.

"No tenants are found, no rental payments are collected, no mortgage payments are made, the house goes into default, turns out it's not worth anything, and the borrower is left holding the bag and their credit is destroyed," said **Rachel Dollar**, an attorney in Santa Rosa, Calif., who represents lenders in mortgage fraud cases.

Or, identity thieves use stolen information to buy properties in victims' names, pocketing the loan and leaving the victim and the lender to sort out the mess.

Often, the borrower is a willing accomplice, but these schemes, which the FBI calls "fraud for profit" and which account for about 80 percent of mortgage-fraud cases, usually require the work of an industry insider.

The other 20 percent of mortgage fraud is "fraud for property," in which borrowers lie about their income or assets to buy a home, but for which they intend to pay.

Lenders lost over $1 billion to mortgage fraud in fiscal year 2005, up from $429 million a year earlier, and $156 million in fiscal year 2000, according to the FBI, which currently has 748 mortgage-fraud cases pending, up from 436 in 2003.

But those dollar amounts understate the true damage, experts said, because the FBI's numbers are based solely on data provided by only about one-third of all mortgage lenders nationwide.

Plus, mortgage fraud often goes undetected in hot housing markets: Inflated appraisals become moot if home values rise to match those figures.

Lawmakers, including Sen. **Barack Obama**, D-Ill., recently proposed legislation to address the issue. And lenders appear eager to tackle the problem: The Mortgage Bankers Association is scrambling to make room for more attendees after initially selling-out its first-ever fraud conference, to be held in May.

Obama sponsored a measure that would increase funding for federal law enforcement programs, create new criminal penalties for mortgage professionals found guilty of fraud and require industry insiders to report suspicious activity.

“Mortgage fraud is robbing thousands of Americans of their dream of homeownership, and costing the mortgage industry hundreds of millions of dollars each year,” Obama said. “Congress needs to come to the table and do its part.”

Obama’s proposed bill, written in consultation with the Treasury Department, Attorney General **Lisa Madigan** and Chicago police, would authorize increased federal funding for mortgage counseling. It also would grant funding to the state agencies that license and monitor appraisers and other real estate professionals.

Obama’s bill would authorize $10 million more for anti-mortgage fraud programs in the Departments of Justice and Housing and Urban Development.

It also would require the FBI to update bankers on fraudulent activity in a formal, systematic way. Today, real estate attorneys, companies and trade groups rely on several industry Web sites that use news articles and government press releases to disseminate fraud reports from across the country.

And the bill would establish a national database of mortgage professionals who have been sanctioned by state or federal regulatory agencies.

For borrowers who become unwitting victims, the effects can be devastating, including losing a home through foreclosure once it's revealed the house is worth far less than the mortgage loan. This usually happens when the borrower goes to refinance or sell and a true appraisal is done.

Lenders will often work with unwitting fraud victims to try to keep their credit from being ruined, Dollar said.

But many borrowers simply don’t want to be on the hook for more money than their homes are worth. Many just walk away, damaging their credit. Some wind up filing for bankruptcy.

To some degree, borrowers everywhere pay for mortgage fraud, as lenders cover losses by charging higher interest rates overall.

But some say that hit is negligible, making up just a tiny fraction of an industry that in 2005, for example, originated $2.8 trillion in mortgages.