

# Lenders incurred more than \$1 billion in fraud losses in the last fiscal year, twice the amount of the previous year.

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**W**ith interest rates at historic lows in recent years, consumers have raced to get mortgages. So have criminals.

Industry executives and law-enforcement officials say mortgage fraud continues to climb, with lenders incurring more than \$1 billion in fraud losses in the last fiscal year, twice the amount of the previous year. And while no organization has yet tracked how much consumers have lost to fraud, anecdotal evidence suggests that those levels, too, are rising sharply.

"The problem is definitely growing," said Tim Doyle, the senior director of government affairs at the Mortgage Bankers Association in Washington. "The FBI has prioritized this, state attorneys general are looking at

this, and more state laws are being passed about it."

About 80 percent of mortgage fraud involves professional thieves who are bilking lenders, the FBI estimates, while in the remaining cases consumers are involved in one way or another.

This second category is known in law enforcement as "fraud for property." Typically, mortgage applicants falsify financial documents so they can qualify for an out-of-reach mortgage, or their lender or broker falsifies the documents on their behalf, looking for profit or a quick commission. Consumers frequently default on such loans, losing their homes and ruining their credit.

Fraud against a lender is known as "fraud for profit." In such cases, a criminal group works with an unscrupulous appraiser, typically finding a house that has sat on the market for a while at a certain price. They offer the homeowner that price, with a stipulation: The homeowner

must allow the criminals' appraiser to value the home at, say, 30 percent higher.

A criminal in the ring takes out a loan for the higher amount using stolen financial and personal information. When the criminals get the money, they pay the former homeowner the original asking price, then split the remainder among themselves.

Harry Dinham, the president of National Association of Mortgage Brokers in McLean, Va., said that although the authorities are trying to combat the problem, it is so widespread they have not yet caught up. "Criminals have figured out this is a way to make

extra money and not get caught on a regular basis," he said.

Ira Rheingold, the executive director of the National Association of Consumer Advocates, a non-profit legal group in Washington, said prospective homeowners should be wary of unwittingly involving themselves in fraud.

According to Rheingold, most consumers who engage in mortgage fraud are subprime borrowers. A predatory lender will push such cash-poor borrowers into loans they cannot afford by overstating their income and assets on the loan application. "Some applications created by brokers are the greatest pieces of fiction I ever read," he said.

These borrowers are either not sophisticated enough to catch falsifications on the loan's closing documents or simply don't want to lose the chance to live in a particular house.

And although consumers cannot do much to thwart "fraud for profit," they should be aware that such crimes ultimately cost them money, Dinham said. "Companies aren't going to continue to lose money on this without charging more," he said. "Anytime you have a problem this broad, consumers end up paying a premium at some point."

## Avoiding fraud

- Know your credit score.
- Shop around to get a sense of what loan terms you can reasonably expect.
- Demand closing documents early in the process, so you can catch inaccuracies or falsifications before companies pack up for the move.