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## Loan fraud 'epidemic' sweeping the country

Part 1 of 5: Inside real estate's fraud crisis

Monday, May 22, 2006

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The once-pleasant Moorings IV neighborhood in suburban Georgia in 1996 became a nightmare of deteriorated, boarded-up vacant homes, their owners' dreams lost to foreclosure as a result of a skyrocketing national problem – real estate fraud.

Residential real estate loan fraud is a national epidemic, costing communities nationwide an estimated \$1 billion in 2005, compared to \$429 million in 2004, according to the [Federal Bureau of Investigation](#).

A 2005 [white paper](#) from the [Federal Financial Institutions Examination Council](#) said up to 10 percent of all mortgage loan applications in the \$3 trillion annual U.S. residential real estate market involve some material misrepresentation.

And mortgage fraud is likely to increase as the mortgage market shrinks, according to the [Prieston Group](#), which provides mortgage fraud insurance.

Mortgage fraud affects individuals whose identities are stolen in the process, and entire neighborhoods are decimated because fraud rings tend to concentrate in specific areas. Banks and other lenders bear the financial brunt of the swindles.

In this five-part series, *Inman News* examines the rising tide of mortgage fraud in the U.S., giving an overview of the problem, describing how it works, explaining obstacles to fighting it and describing technologies that combat it and legislation that aims to defeat it.

There are generally two types of fraud: the first, fraud for property, is when individuals make misrepresentations, such as overstating their income, when borrowing money to buy a home to live in. This represents about 20 percent of cases, according to the FBI, and is generally low on that agency's priority list.

The second type, fraud for profit, involves industry professionals. The goal of these schemes is to make money, not to provide housing for the borrower.

"Generally, mortgage fraud for profit involves multiple loan transactions and misrepresentations," James "Chip" Burrus, deputy assistant director of criminal investigations for the FBI, [said last October](#) at a San Francisco National Association of Realtors convention.

"Common schemes involve property flips, or rapid resales, that involve an inflated appraisal," Burrus said. Flipping is perhaps the most prevalent scheme, experts say. Other common schemes: "chunking," according to Attorney Rachel Dollar, in which the fraudster holds a seminar, convincing attendees to become investors and selling them overvalued properties, and foreclosure rescue scams, where fraudsters pretend to help people whose homes are in foreclosure only to rip them off.

If the FBI, the Mortgage Bankers Association, local and state law enforcement agencies and everybody else and their sister recognize the pervasiveness of mortgage fraud, why doesn't somebody do something about it? Good question. The FBI, slammed by the sheer number of cases and beset with other crimes, openly admits it can't help with cases involving less than \$500,000.



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Similarly, attorneys general and district attorneys are often more concerned with murders, robberies and other, more pressing crimes. And, perversely enough, in some cases technology has helped make mortgage fraud faster and easier, as it has with more worthy pursuits.

In a rousing example of consumer activism at its best, spurred by the rising tide of mortgage fraud, two stay-at-home moms in Georgia – from 2002 through 2004, [highest in the nation](#) for reported mortgage fraud, according to the Mortgage Asset Research Institute – decided to do something about it.

When Alicia Sheppard's Moorings IV neighborhood was devastated in 1996 because of mortgage fraud, she teamed up with Ann Fulmer, another stay-at-home mom in a mortgage fraud zone.

The two built the Georgia Real Estate Fraud Prevention Awareness Coalition, which advocated for Georgia's new [Residential Mortgage Fraud Act](#). The Act was [signed into law](#) last year by Georgia Gov. Sonny Perdue.

On the heels of this action, other states have grabbed the baton, with Colorado, New Jersey and Utah pondering similar legislation. In February, Sen. Barack Obama, D-Ill., [proposed a sweeping set of federal reforms](#) to combat mortgage fraud, ratcheting up enforcement and creating a national database of brokers who have been disciplined.

Of course, an ounce of prevention is worth a pound of cure, and the best approach is to stop mortgage fraud before it starts. Government entities like the Federal Financial Institutions Examination Council have suggestions for mortgage banking professionals to help screen out fraud. Industry groups such as the Illinois Bankers Association have issued [tips for consumers](#).

And a plethora of technology offerings, among them InterthinX, CoreLogic, LoanIQ by First American Real Estate Solutions, Rapid Reporting, HQ FraudID and a soon-to-be-released Fidelity offering, LSI FraudDetector– offer tools to help ward off fraud.

Despite these efforts, the outlook is grim, experts say.

Rachel Dollar, an attorney who represents lenders in mortgage-fraud cases, said stiffer penalties and increased enforcement will help chip away at current forms of fraud. But, according to Dollar, the bad guys are likely to come up with new ones – leaving us all "dancing the mortgage fraud tango for years to come."

*To read the entire five-part report, "Inside real estate's fraud crisis," with two bonus stories, [subscribe to Inman News](#).*

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