

# Home Is Where the Mortgage Fraud Is

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

In some cases, scammers buy dilapidated houses, get fake appraisals to inflate the value and sell the homes for far more than they're worth, industry experts say.

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.

## 'Left Holding the Bag'

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," says Rachel Dollar, a lawyer in Santa Rosa, Calif., who represents lenders in mortgage-fraud cases.

Or, identity thieves use stolen information to purchase 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 Federal Bureau of Investigation calls "fraud for profit" and which account for about 80% of mortgage-fraud cases, usually require the work of an industry insider.

"It's hard to perpetrate fraud for profit without some kind of

third-party professional being involved, whether an appraiser, loan officer, real estate broker—someone to extract the money from the lending channel," says Mark Fleming, chief economist with CoreLogic, a firm in Sacramento, Calif., that makes tools for lenders to assess fraud risk.

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

Lenders lost more than \$1 billion to mortgage fraud in fiscal year 2005, ended Sept. 30, up from \$429 million a year earlier, and \$156 million in fiscal 2000, says the FBI, which currently has 748 mortgage-fraud cases pending, up from 436 in 2003. But those dollar amounts understate the true damage, experts say, because the FBI numbers are based solely on data provided by only about one-third of all mortgage lenders nationwide.

## Hidden in Hot Markets

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 seem eager to tackle it. The Mortgage Bankers Association is scrambling to make room for more attendees after initially selling out its first fraud conference, to be held in May.

## What Happens to Victims

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, Ms. Dollar says. 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.

## The Costs Are Shared

To some degree, borrowers everywhere pay for mortgage fraud, as lenders cover losses by charging higher interest rates overall. Some say this hit is small. "It's probably less than an eighth of a [percentage] point because of the scale of fraud versus the industry as a whole," Mr. Fleming says.

Local homeowners may feel another pinch: A neighborhood where some houses have falsely inflated appraisals can lead to higher tax bills for all, as happened in one Atlanta neighborhood, says Tim Doyle, senior director of government affairs at the Mortgage Bankers Association. Later comes another problem: "They'll hit four or five properties in one small area, the properties will get foreclosed upon and get boarded up," he says. "That affects other people's property values."

## How to Protect Yourself

How can you protect yourself if you're buying a house? Ask to see the appraisal to ensure accuracy. For instance, check the square footage and house description.

Others urge borrowers to pay for an independent appraisal. "It's only another \$300 to \$400 to have someone on your side telling you what it's worth," Ms. Dollar says.

She recommends buying a home inspection. "Make sure a new coat of paint isn't hiding things from you. A lot of first-time home buyers walk in and fall in love with the home. They don't realize what it is they're actually buying, which is the roof and the foundation."

Also, be wary of real estate "experts" who tell you it's OK to fudge the numbers, or those who promise your investment in a particular property will yield huge profits. An FBI page ([www.fbi.gov/page2/dec05/mortgagefraud121405.htm](http://www.fbi.gov/page2/dec05/mortgagefraud121405.htm)) has more information.

Andrea Coombes writes for MarketWatch ([www.marketwatch.com](http://www.marketwatch.com)). Email: [forum.sunday03@wsj.com](mailto:forum.sunday03@wsj.com)

### HOW TO CONTACT US

**Our address:**  
The Wall Street Journal Sunday  
4300 Route 1 North  
South Brunswick, N.J. 08852

**Our e-mail:** [sunday03@wsj.com](mailto:sunday03@wsj.com)

**Love & Money**—Jeff Opdyke  
[lovemoney@wsj.com](mailto:lovemoney@wsj.com)

**SmartMoney**  
[letters@smartmoney.com](mailto:letters@smartmoney.com)

**Barron's Insight**  
[mail@barrons.com](mailto:mail@barrons.com)

**Ask Dow Jones**—Tom Herman  
[askdowjones.sunday03@wsj.com](mailto:askdowjones.sunday03@wsj.com)

**Getting Going**—Jonathan Clements  
[jonathan.clements@wsj.com](mailto:jonathan.clements@wsj.com)

**Encore**—Kelly Greene  
[encore@wsj.com](mailto:encore@wsj.com)

**Readers' Forum:** [forum.sunday03@wsj.com](mailto:forum.sunday03@wsj.com)