

# Extinguishing The Fraud Fire: How Not To Get Burned

*Wiping out fraud should be a proactive,  
not reactive, assignment.*

By Steve Grant and Allen Johnson

Many challenges affect today's mortgage industry, including mortgage fraud and identity theft. Trying to survive in a land of tough interest rates, an increase in foreclosures, and the related trouble in the financial markets is difficult enough. Now, with fraud spreading like wildfire, mortgage professionals need to use every resource possible to make sure their companies and borrowers are not used as fuel for the fire.



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The heat is on in the current U.S. mortgage market, an industry that has a significant overall effect on the nation's economy. According to the FBI, the industry suffered from fraud costs of between \$946 million and \$4.2 billion last year. The growing problem has seen a 237% increase in mortgage fraud investigations in less than five years, with more than half of the current cases having expected losses of more than \$1 million. The industry is seeing mortgage fraud come in the form of borrowers who lie on their application to get a loan for which they might otherwise not have qualified and from professionals who conspire to inflate the price of a home, defrauding banks,

lenders and homeowners alike.

Also pervasive, fraud against consumers has grown to include as many as 9 million Americans having their identities stolen each year, according to the Federal Trade Commission. Although victims are rarely fully financially responsible for the damage caused by identity thieves, they spend countless frustrating hours working to repair their credit histories. Criminals access private identifying information in order to open accounts and charge thousands of dollars, destroying the victim's credit history and leaving them to clear the ashes of a raging fire.

As a mortgage professional, you are aware of how quickly mortgage fraud can spread to your business. The market's intensifying fraudulent activities have created the need for increased caution for both businesses and individuals. As a first responder, you have tools that can be used to extinguish fraud, identity theft and the accompanying loss of billions of dollars to the industry.

### **Danger: Fraud kindling**

For mortgage professionals, a variety of new technology products



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help contain fraud by automating and standardizing the process of detecting scams and deceptive practices. New fraud detection products on the market can help bank and mortgage professionals fight fraud by performing electronic searches, checks and counters to provide descriptions that identify the signs of fraud. Fraud detection products provide key benefits by:

- Instantly recognizing addresses that have never been associated with the consumer on the application;
- Screening for high-risk address profiles and providing a detailed series of address checks;
- Automatically flagging phone numbers that don't correlate with the listed address;
- Identifying the high probability that a Social Security number belongs to another consumer;
- Instantly tracking the number of times a specific Social Security number has been used on previous inquiries; and
- Automatically uncovering inconsistencies in an applicant's identifying information, such as address and Social Security mismatches.

With some programs, the user can

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opt to receive a score that integrates both fraud and credit variables into a single, easy-to-interpret value. By providing a full perspective on an account's fraud and/or first-payment default risk in a single score, mortgage professionals are able to be more efficient in making credit decisions.

Other false information, such as altered tax returns, can be detected through tax return verifications. These reports will either verify or disprove the income-related information applicants provide in order to qualify for a mortgage. Statistics reveal that this type of mortgage fraud is increasing as many become more adept at altering tax returns.

Tax return verifications compare the income-related lines of the tax return provided by the applicant with the same lines on file at the Internal Revenue Service (IRS). Any discrepancies are then highlighted for the lender in an easy-to-read report. In addition, tax return verifications offer further protection by including verification that the applicant's information matches data on file with the Social Security Administration and IRS.

Further verification of the information provided by an applicant can be provided by a credit bureau. For example, Pay Rent Build Credit, an alternative credit bureau, validates Social Security and individual taxpayer identification numbers (ITINs) when issuing its alternative credit reports. These credit reports, known as PRBC reports, are useful for people

who have no-hit or thin credit files. ITINs are issued to people who are not eligible to obtain a Social Security number, such as resident and non-resident aliens.

With the growing problem of identity theft in the U.S., and the authentic-looking counterfeit documents being presented by some applicants, lenders know it is critically important to verify an applicant's identity before a loan is approved.

### ***Stop, thief!***

Everyone knows the threat of identity theft, but few people think it will actually happen to them. To provide protection, a good defensive tactic is to freeze one's credit file. Many states now allow consumers to freeze their credit files, restricting access to a person's credit report and making it unlikely that a thief could open new accounts in a potential victim's name. Mortgage professionals can provide an important service to customers by offering assistance in freezing files.

After placing a freeze on a credit file, credit card companies and lenders are not able to check a person's credit history without permission. Since most creditors will not issue new credit if they can't check the credit file, this tactic prevents thieves from opening new accounts and building up charges.

To place a credit freeze on a credit file, each of the three credit bureaus needs to be contacted. Once the freeze is in effect, no potential creditors or

other unauthorized third parties have access to the file.

Those that may still have access during the freeze include companies the credit holder has existing relationships with, including mortgage lenders and credit card and cell phone companies. In some states, landlords and insurance companies may also access the person's credit history despite the freeze. If the credit holder wishes to give access to a party not covered by the exceptions, he or she would need to temporarily lift the freeze using a PIN.

Since a credit freeze can't prevent a thief from obtaining personal identifying information or using a victim's existing accounts, it's important for consumers to take preventive steps, such as shredding old credit card receipts, insurance forms, bank statements and other no-longer-needed papers that contain Social Security numbers and personal data. Consumers who freeze their credit files give themselves an additional protective tool to help prevent fraud.

With mortgage fraud now one of the fastest-growing white-collar crimes, according to the FBI, and its damages so invasive, it's clear that guarding against fraud is essential for both businesses and consumers.

Utilizing the proper tools, like fraud detection products, tax return verifications and other sources for verifying applicants' information, mortgage professionals can detect scams and deceptive practices that threaten their business. **SME**