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FBI Vows to Crack Down on Mortgage Fraud

Hot Real Estate Market Drives Reports of 'Suspicious' Activity, Agency Says

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The federal government yesterday announced a crackdown on what officials called the "growing epidemic" of mortgage fraud, with organized rings of real estate operatives bilking consumers and lenders out of billions of dollars.

At a news conference at FBI headquarters, law enforcement officials announced they had received 21,994 reports of "suspicious" real estate activity in fiscal 2005, up from 17,127 the previous year. They said the FBI is investigating 721 pending mortgage fraud cases in numerous states, up from 534 the previous year.

"It's a pervasive problem, and it's on the rise," said Chris Swecker, assistant director of the FBI, as officials described investors and consumers drawn to the hot real estate market only to find themselves the prey of savvy criminals who use loopholes in lending practices to strip borrowers of their savings, in most cases also ruining their credit. Lenders are becoming victims as well, induced to make bad loans that will go into foreclosure. When the loans are insured by the Federal Housing Administration, taxpayers are on the hook for the losses.

The cases are being handled by a joint task force that includes the FBI, the Department of Housing and Urban Development, the U.S. Postal Service, and the Internal Revenue Service.

Government officials criticized real estate and banking executives for not doing enough to root out mortgage fraud. FBI officials said lenders should check to make sure Social Security numbers on loan applications are legitimate and should double-check to make sure that signatures on documents match because of the increase in forgeries.

Swecker said banking executives are not doing enough to verify that the appraisals on properties represent their true value. He also said a surge of new entrants to the mortgage brokerage business has permitted "fly-by-night operators who exploited" the recent hot real estate market to avoid detection.

Kenneth M. Donohue Sr., inspector general at HUD, said lending-industry executives need to do more "to police their own organizations."

Jim Nabors, president of the National Association of Mortgage Brokers, said his group is seeking to work more closely with law enforcement officials and has placed a direct link to the FBI on its Web site for use by its members. He said his group advocates mandatory state-level regulation of

all mortgage originators, including background checks and licensing, to "get rid of the crooks, the people committing fraud," he said.

"We've been working very closely with the FBI, especially in the past two years," said Tim Doyle, senior director of government affairs at the Mortgage Bankers Association, by inviting FBI officers to the group's meetings and hosting a summit on the issue in the spring. "Lenders have come to the conclusion that mortgage fraud is a threat to their business," he said.

Many lending-related institutions are required to report cases of what is called "suspicious activity" to the federal government. Banks and thrifts that accept consumer deposits have been required to provide the information since 1996, and Fannie Mae and Freddie Mac began reporting similar information to the government in August.

A number of mortgage fraud cases are unfolding around the country, law enforcement officials said. In Detroit, for example, several mortgage brokers have been charged with defrauding mortgage lenders. Officials allege the brokers acquired houses by having confederates pose as purchasers of properties, with crooked appraisers saying the houses were worth more than they really were.

In Atlanta, a lawyer named Chalana McFarland has been sentenced to 30 years in prison for her role in using stolen identities to submit fraudulent loan applications. McFarland paid \$10,000 for each stolen identity and then arranged for inflated appraisals to complete sales of more than 100 properties, officials said.

In Newark, mortgage company officials allegedly created false bank statements, leases, W-2 forms, pay stubs, gift letters, verifications of employment and deposit checks and then obtained fraudulent property appraisals that said the homes were worth more than they were, FBI officials said. In Nevada, another mortgage company owner allegedly provided false documents to arrange for borrowers, most of them illegal immigrants, to purchase 233 properties with FHA loans insured by taxpayers.

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