

According to FBI reports, fraud is becoming more expensive for financial institutions over time. An estimated 46 percent of all operational risk loss events are related to fraud and the average loss equals about \$70 thousand per instance.

Mortgage Fraud

Of all frauds perpetrated against financial institutions, mortgage fraud in particular has spiked. While the total dollar loss attributed to mortgage fraud is unknown, at least 63 percent of all pending FBI mortgage fraud investigations during fiscal year 2008 involved dollar losses of more than \$1 million each. During 2009, the FBI investigated more than 2,100 mortgage fraud cases, up 400 percent from five years ago. The increase in mortgage fraud can be attributed to the following:

- Declining economic conditions.
- Liberal underwriting.
- Declining housing values.

With the rapid growth of markets such as real estate and the development of new technology associated with refinancing and computer-driven underwriting methods, the opportunity for mortgage fraud continues to escalate. Warehouse lines have been particularly vulnerable, with their 90-day window of “purchasing” mortgages and awaiting ultimate repayments from final investors.

The FBI reports that equity stripping and property flipping are common activities. This problem is compounded in instances where an institution has ineffective policies and procedures that are poorly formulated or outdated. The FBI estimates that 80 percent of all mortgage fraud involves collaboration or collusion by industry insiders. Overall though, according to an FBI Financial Institution Fraud and Failure Report, external fraud schemes outnumber those involving insiders due to the following:

- Pervasiveness of check fraud and counterfeit negotiable instrument schemes.
- Technological advances.
- The availability of personal information through illicit information networks.

The FBI reports that mortgage fraud schemes continue to adapt as the economy changes and that individuals are victimized even as they are about to lose their homes. Foreclosure rescue scams take several forms but usually involve payment of an upfront fee in exchange for a promise to resolve a pending foreclosure. Ultimately, the scam results in unsuspecting victims losing their homes to foreclosure. While this type of fraud is not perpetrated directly against the savings association, the end result can have a negative impact on the association.