Mortgage fraud risk is at its highest level since the recession

Mortgage fraud risk rose to its highest post-recession level, climbing 12.4 percent year-over-year in the second quarter of 2018, according to the latest CoreLogic Mortgage Application Fraud Risk Index from real estate data and analytics company CoreLogic. An estimated one in 109 applications contained indications of fraud, partially due to rising home prices, according to the study.

“This year’s trend continues to show an increase in mortgage fraud risk year over year,” said Bridget Berg, principal of fraud solutions strategy for CoreLogic, in a release.

“Because home prices are rising, and demand is strong, most mortgage fraud in this type of market is motivated by bona fide borrowers trying to qualify for a mortgage,” added Berg. “Undisclosed real estate liabilities, credit repair, questionable down payment sources and income falsification are the most likely misrepresentations.”

CoreLogic’s analysts developed the index based on residential mortgage loan applications processed by their proprietary predictive scoring technology. Six different fraud indicators – identity, income, occupancy, property, transaction and undisclosed real estate debt – are detailed in the survey.

Regionally, the same states remained at the top for mortgage application fraud risk: New York, New Jersey and Florida. The top 10 states all showed increased in risk year-over-year, with New Mexico, Mississippi, Illinois, Oklahoma and Texas seeing the greatest rise.

Income fraud risk had the largest jump this quarter, rising 22.1 percent, year-over-year. Occupancy fraud risk rose 3.5 percent and transaction fraud risk climbed 0.6 percent, both year-over-year. Property fraud risk fell 0.1 percent and undisclosed real estate debt dropped 11.4 percent, both year-over-year.

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The report also warns of a rising three-year trend, first reported by Fannie Mae, of borrowers using fake employers to validate their income.

The report from Fannie Mae detailed schemes taking place in California, using mortgage brokers, but CoreLogic reports that it is happening all over the country. Be on the lookout for a new job with a significant pay increase or a high-paying first job out of college.

By falsifying a fake employer – services often include pay stubs, phone verifications and can be found on the internet – it removes the option for the lender to validate income with the IRS.

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