How to prevent mortgage fraud

A broker's guide

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Protect your business and your clients

The market is constantly changing – and so is your business, on a daily basis. With the current cost of living crisis continuing to take effect, both financial institutions and mortgage brokers, like you, continue to feel the impact of mortgage fraud.

Recent findings (UK Finance Fraud Landscape 2022) have confirmed that during 2022 reports of mortgage applications submitted with false supporting documents have surged. Individuals have altered bank statements or faked tax returns to inflate their income to secure mortgages, loan products or services. If successful these clients risk overextending themselves, defaulting and getting into an unaffordable debt spiral.

This guide is designed to help you understand the different types of mortgage fraud and know what to look out for when assessing your clients' mortgage applications.

Did you know?

A total of 1.1m cases of property fraud were committed between April 2022 and March 2023? This increased by **15.3%** from the previous 12 months!*

*Mortgage-related fraud up by a third over past year – Mortgage Strategy

Financial Crime - The brokers' perspective

Types of Mortgage Fraud

There are a number of different types of mortgage fraud - here are a few key examples.

Scheme abuse

A borrower will hide their true intentions for the property to gain a mortgage product that would be otherwise unattainable. A common example is where a Buy to Let product is chosen to buy a property, however upon completion, the borrower intends to live there. This can also happen with a residential property too, for example, where a residential mortgage product is used to purchase a property that is subsequently let without consent from the lender.

False and inflated income

This type of mortgage fraud will usually involve the manipulation of an applicant's genuine source of income. This is usually in the form of false or altered supporting income documents which are provided with the mortgage application, or the fabrication of a false primary or secondary employment. In both scenarios the intention is to influence a lender's decision around their affordability criteria.

Credit abuse

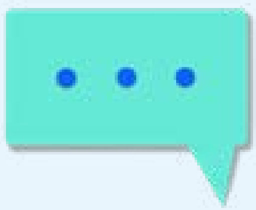
Borrowers will fail to declare adverse credit which may affect their ability to borrow.
This commonly involves a customer hiding a previous address where defaults or CCJs are registered against them.

Property hijack

Also known as identity fraud, criminals will take over the identity of the genuine property owner to raise a mortgage using the property as security.
As soon as the criminals have the mortgage funds, they will then disappear without a trace.
Vacant rental properties, and unencumbered properties, where the owners live elsewhere, are at an increased risk of this type of fraud.

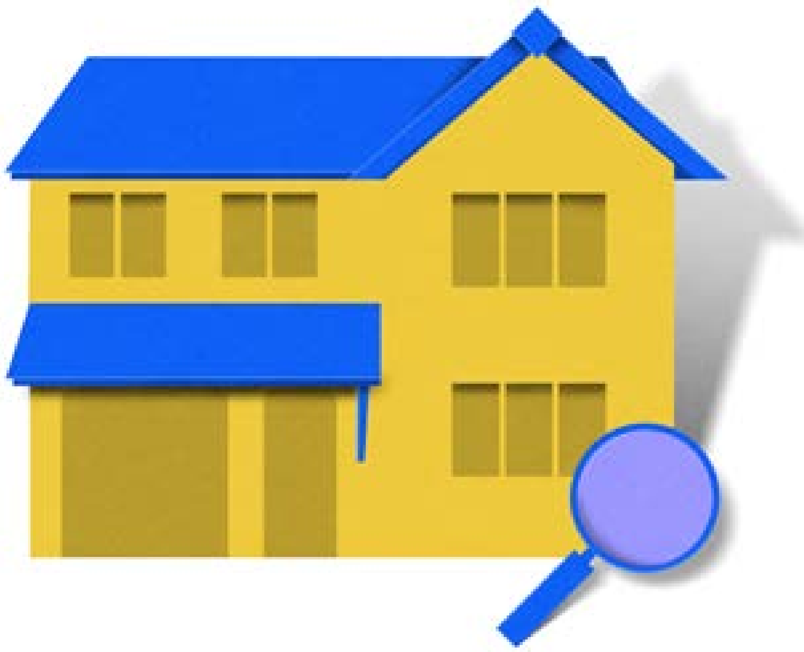
To help the public to protect their properties HM Land Registry offer a free Property Alert service. Once activated, clients will receive email alerts when there is certain activity on the properties they're monitoring.

Simply tell your clients to search Property Alert - GOV.UK (www.gov.uk) for more information.



Identifying mortgage fraud

You can prevent potential mortgage fraud if you maintain good standards of due diligence, take time to assess supporting documents and ask clients further questions if things don't seem right. All things we're sure you do on a daily basis.



Assessing documents

When you receive documents from clients, there are certain things you can look out for that may suggest the document has been altered.

Examples include spelling errors, rounded figures on income documents, balances on bank statements not adding up and inconsistencies in font sizes. You can also look out for income documents that have very little information on them, such as basic salary only with no additions or deductions.

These may warrant further questions to your client to ensure you're comfortable with the documentation they've provided.

We don't recommend accepting copies of documents from any 3rd party introducers.

Plausibility of the case

You should always ensure that the overall application seems plausible.

Questions you could ask yourself include:

- Is the customer working for a very large employer, but their payslips are **lacking information?**
- Does the **income declared** seem **plausible** for their line of work?
- Does the income seem **sustainable** for the size of the business?
- Has the applicant had a recent **substantial pay increase?** Would the mortgage amount have been affordable before this increase or is this figure purely to obtain the mortgage?
- Does the **property usage** seem plausible? For example, a non-owner occupier with no mortgage history applying for a Buy to Let – is their true intention to live in the property and are they looking to bypass affordability rules?

Some of your clients might work in a profession where their name would appear on a regulatory website, which can be used to help validate employment. Examples of this would be a doctor, whose name would appear on the GMC's (General Medical Council) medical register or a solicitor who is regulated with the SRA (Solicitor Regulation Authority).

Finally, it's good practice to document each interaction with your client, and if possible, to retain an email trail of any agreements made, or supporting documents that clients have provided to you.

A good tip could be to use an internet search engine to check for adverse information against each client which may impact their ability to obtain a mortgage. For example any previous fraud or criminal convictions.

What to do if you have a mortgage fraud concern?

If you do have concerns that a client is attempting to commit mortgage application fraud, under no circumstances should you continue to submit the application to us or any other mortgage lender. We'd recommend that you follow your firm's internal procedure and also contact your local compliance team for further guidance on what to do next.

Should you identify a concern after you've submitted a mortgage application to us, please let us know as soon as possible.

Transparency is key

It's essential that all mortgage applications submitted are transparent. You should also keep us up to date with all the information you have in relation to your clients' employment and financial situation.

This also includes details of any previously declined mortgage applications which your clients may have submitted to other lenders. Mortgage applications will ask for this information and underwriters will carry out an independent review of the facts and base the lending decision on their own review findings.

Third party referrals

Mortgage brokers may sometimes submit a client's mortgage application which has been passed to them via a third-party referral. If you accept third party referral applications, we recommend that you conduct adequate due diligence checks on the introducing party.

Financial Crime – The clients' perspective

Your clients could be at risk

Frauds and scams are at an all-time high. As a mortgage broker you'll often be the first person that your clients interact with when they begin their house purchase journey.

You can really help protect your clients from future harm when you highlight the potential risks to them.

Deposit redirection fraud

Criminals are actively targeting property purchases, with the aim of stealing property deposit payments. They'll have initially hacked into either the solicitor or the purchaser's email account and will then contact the purchaser pretending to be the solicitor acting in the property transaction. They'll explain that their bank details have changed and provide details of the 'new' bank account for the purchaser to transfer the deposit funds into. The new account details belong to the criminals, and once the money is transferred, it's gone for good.

Help your clients protect themselves with these simple steps:

- Be vigilant if there appears to be any change of payment details. Solicitor firms will very rarely change their bank details and won't usually notify you by email.
- Always double check any changes by calling their solicitor on a trusted number before transferring any money. Remember that emails can be intercepted or diverted.
- Test the account first, by sending a very small sum of money to the account details provided. Then contact their solicitor on a trusted number to check that the payment has been received before transferring all of the money.

Third party due diligence checks

Advise your clients to complete due diligence checks on third parties that they're using in connection with their property transaction.

Both the FCA and the SRA have web pages which provide details of regulated firms who have been targeted or impersonated by criminals.

Further help and support

You can find further information on frauds and scams within the **Coventry Building Society Fraud and Security pages.**

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