Fraud detection: current trends

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As we plan ahead for our participation at the CML’s Fraud Detection Seminar in April, it seems an appropriate time to reflect on some of the key trends that we are seeing within the industry so far in 2012, which mortgage lenders need to be vigilant against.

Led by the challenging economic conditions, 2012 is likely to be another tough year in the property and mortgage markets. The CML’s repossession forecast has been set at 45,000 – a seven thousand increase compared to 2011 figures – to take into consideration rising unemployment and continued pressure on cost of living.

Forecasts by Nationwide predict house prices to remain flat during the coming year, RICS suggests a potential decline of 3%, while Halifax is quoted as saying it could be anywhere from between a 2% decline to a 2% rise. All in all, it is fair to say that the year is unlikely to be a ‘boom’ for house prices.

The Government has however been looking at ways of stimulating the markets, such as the introduction of the FirstBuy scheme and the temporary Stamp Duty holiday, which concludes on 24 March. The tax break has certainly given the industry a boost, however there is no doubt that the market in general is likely to remain fairly static over the coming months, and with it, this brings potential risks.

Recent Experian statistics show that between July and September of last year, the number of mortgage fraud attempts was 77% higher than in the same period of 2010 (with 49 out of every 10,000 applications being identified as fraudulent). However, what is particularly interesting is
the way in which such frauds are perpetrated, with 9 out of 10 mortgage frauds originating from misrepresentation of financial data.

This reflects the same messages from the most recent CIFAS FraudScape bulletin, which reported an increasing trend towards falsified data being presented at the application stage, such as non-disclosure of adverse credit history or providing a false proof of income.

Unfortunately, with the challenging economy that we today face, we are likely to see attempts of this nature increasing as financial pressure on consumers mounts. Tightening lending criteria or changes to personal circumstances, such as unemployment, may well be contributing factors towards this predicted increase in such cases.

Another potential risk, which is related to this, is a concern regarding the use of inappropriate financial products. This could include the use of bridging loans to stimulate property chains, or the use of highly-available buy-to-let products for borrowers who may be planning to reside in the property rather than let it to tenants.

We believe such ‘product abuse’ is another risk factor that will require additional vigilance from lenders over the course of the year. Therefore it is important that all professionals in the chain are engaged and alert towards such risks, and any concerns are raised as early in the process as possible to help avoid financial losses resulting from such applications.

Notes

- The CML’s repossession forecast has been set at 45,000: [http://www.cml.org.uk/cml/media/press/3119](http://www.cml.org.uk/cml/media/press/3119)
- CIFAS FraudScape references: [http://www.cifas.org.uk/fraudscape_bulletin_july_eleven](http://www.cifas.org.uk/fraudscape_bulletin_july_eleven)