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### U.S. Treasury notes spike in mortgage fraud reports

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#### **BALTIMORE -**

As real estate prices climb — especially in coastal regions such as the Baltimore area — along with middle-class qualms about first-home affordability, at least one government agency is looking at an obscure cause of home cost inflation: mortgage fraud.

“Appraisal fraud has a snowball effect on inflating real estate values, with fraudulent values being entered into real estate multiple listing systems and then used by legitimate appraisers ... for determining market values,” reported the U.S. Treasury Department’s Financial Crimes Enforcement Network on one aspect of what appears to be a recent rash in mortgage fraud.

“A mortgage loan is a very large write-off,” said Lois Profili, chief executive officer of Baltimore’s First Eagle Federal Credit Union, about mortgage fraud’s impact on cooperative banking institutions, “so that would certainly hurt our bottom line, if something like that happened — and that would hurt our members in raised rates and dividends paid out.”

FinCen recently completed a study of 82,851 (3.57 percent of total) depository institution suspicious activity reports, tagged for possible mortgage fraud connections, which is raising eyebrows.

The study found that — for the 1996-2006 period in question — activity reports pertaining to mortgage fraud increased about 1,400 percent, with the first quarter of 2006 showing a 35 percent increase (7,093) over the first quarter of 2005.

The report also showed an almost 100 percent increase in mortgage fraud-related activity reports between 2003 (9,539) and 2004 (18,391). There were 25,989 mortgage fraud-related activity reports filed by depository institutions in 2005.

It qualified, however, that the increase likely was partly a function of the overall increase in period mortgage lending “concurrent with the decline in interest rates” but also noted the recent boom in the real estate market was a contributing factor.

“Over the past 30 years,” the report said, “house prices at the national level have grown at about a 6 percent annual rate. However, in the first quarter of 2005, the national average percentage increase was 12.5 percent. Many U.S. coastal states saw housing prices increase by as much as 20 percent or more during 2004.”

The report identified automated loan processing, sub-prime lending, and mortgage broker loan originations as prime “vulnerabilities” associated with suspected mortgage fraud.

*Examiner*