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FBI says number of mortgage fraud investigations have almost doubled in past 3 years

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WASHINGTON – The number of mortgage fraud cases investigated by the FBI almost doubled the past three years, reflecting a problem that is “pervasive and growing,” the bureau said Wednesday in its annual report on financial crimes.

The bureau said its mortgage fraud cases increased from 436 in 2003 to 818 in 2006, and acknowledged that its case load likely represents a small piece of the problem.

The FBI said mortgage fraud is difficult to track for a variety of reasons. For starters, the industry is not required to report fraud. Moreover, the sale of mortgage loans on secondary markets can “conceal or distort the fraud,” thereby reducing the number of cases reported.

“The true level of mortgage fraud is largely unknown,” the agency's report said.

The bureau said fighting mortgage fraud is a priority due to the impact of mortgage lending and housing on the broader economy.

Recently, shares of companies that lend to subprime borrowers – people with blemished credit histories – have been battered as delinquencies and foreclosures increase in the subprime mortgage market. Britain's HSBC Holdings PLC, the world's third-largest bank, said earlier this week that its bad-debt charges increased 36 percent in 2006.

The bureau's report said mortgage fraud comes in two broad varieties: “fraud for profit,” which is largely committed by industry insiders and involves practices such as falsely inflating property values, and “fraud for housing,” which is committed by borrowers and involves actions such as acquiring a house under false pretenses.

The bureau said it is cooperating with trade associations representing mortgage bankers and the government-sponsored companies that purchase mortgages, Fannie Mae and Freddie Mac, to raise awareness of mortgage fraud.

The mortgage fraud statistics were contained in the bureau's 2006 “Financial Crimes Report to the Public,” which also summarizes the FBI's actions against other types of financial frauds, such as corporate, securities, health care, insurance and mass marketing fraud.

Shares of Freddie Mac dropped 4 cents to close at \$62.07, while shares of Fannie Mae fell 36 cents to \$54.47, both on the New York Stock Exchange.