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## FBI to warn borrowers, lenders on mortgage fraud

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NEW YORK, March 8 (Reuters) - The Federal Bureau of Investigation, seeking to stem a rising tide of crime in home financing, said on Thursday it will warn borrowers and lenders that mortgage fraud can result in stiff fines and prison time.

The FBI said in its Web site that the warning, worked out with the industry's main lobbying group, will educate borrowers on the consequences of criminal activity and put potential perpetrators on notice.

The form will likely be included in consumer loan packets together with other information on fair lending practices, said Stephen Kodak, an FBI press officer.

The FBI is targeting "industry insiders" in pursuing a "pervasive and growing" problem, it said in a report released on Wednesday.

Heightened focus on mortgage fraud comes as the downturn in U.S. housing heads into a second year, pressuring lenders already beset with surging delinquencies. The slowdown has mostly affected the riskiest, subprime tier of the \$10 trillion mortgage market, where some two dozen lenders have closed down, sharply pared production or put themselves up for sale in the last six months.

Suspicious activity reports regarding mortgage fraud schemes that included property "flipping" and inflated appraisals have more than doubled to 35,617 in the two years through 2006, the FBI said in a statement. The reports reflect losses of about \$946 million, it said.

The notice informs consumers and lenders that mortgage fraud is punishable by up to 30 years in prison, a \$1 million fine, or both.

Some lenders of subprime home loans, such as Santa Monica, California-based Fremont General Corp. <FMT.N>, have cited mortgage fraud, along with the softer housing market and loose underwriting standards, as contributing to a rapid run-up in delinquencies.

Fremont, which last Friday said it would exit the subprime business amid regulatory pressure, said in January it severed relationships with 8,000 brokers, some of whom were "pushing appraisals."

The Mortgage Bankers Association, which co-wrote the notice with the FBI, put an even higher cost on fraud.

"Fraud against lenders costs the mortgage industry billions of dollars each year, affecting everyone in the mortgage process," MBA Chairman John Robbins said in the statement.

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