

FBI to target mortgage fraud

By Suzanne Kapner in New York

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The Federal Bureau of Investigation is preparing a nationwide crackdown on mortgage fraud, the latest in a series of efforts to curb lending practices that contributed to the housing meltdown, according to people familiar with the matter.

The FBI is preparing to arrest hundreds of people across the US as early as next week for offences including encouraging borrowers to falsify income on mortgage applications, misleading home owners about foreclosure rescue programmes, and inflating home appraisals, said two people with knowledge of the operation. An FBI spokesman declined to comment.

Since October 2008, the FBI has opened 23 local mortgage fraud task forces around the country with the purpose of curtailing the illegal misstatement, misrepresentation or omission of material facts on mortgage applications.

Such misstatements and omissions helped to fuel the housing bubble by allowing brokers, banks and other lenders to issue loans to borrowers with unverified income and low credit scores.

Many of these borrowers could not afford the loans and once the housing market started to deflate they stopped making interest and principal payments. More recently, mortgage fraud has involved foreclosure schemes in which financial firms collect a fee for falsely promising to help borrowers stay in their homes.

As of June 2009, suspicious mortgage-related activity for the year was on track to exceed 70,000 cases, a 10 per cent increase over 2008 levels, according to preliminary FBI estimates. Mortgage fraud-related losses totalled \$1.4bn in 2008, an 83.4 per cent rise over the previous year.

In the first six months of 2009, losses exceeded levels for the same period in 2008 by \$208m. California and Florida, two states that played a key role in the subprime meltdown, had the most mortgage fraud in 2008, according to the latest data. Los Angeles, Miami, San Francisco, Chicago, Sacramento, New York, Tampa, Detroit, Minneapolis and Atlanta were the top cities in descending order for mortgage fraud.

The FBI is scheduled to release its 2009 mortgage report on June 17. In previous years a series of arrests have coincided with the report's publication. In June 2008, the FBI, along with other agencies, arrested 400 people as part of "Operation Malicious Mortgage," a comprehensive shutdown of illegal mortgage schemes. That sweep was a coordinated effort among multiple agencies, including the Internal Revenue Service, the Department of Housing and Urban Development and the Federal Deposit Insurance Corporation.

A multi-agency effort is also expected to be behind the latest crackdown, said a person familiar with the operation.

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