Society of
Mortgage
Professionals
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Good Practice Guide

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Fraud
for Mortgage Professionals

in association with

HALIFAX

This paper is in response to members' requests to provide a summary of good practice within one source document and is based upon the Society of Mortgage Professionals' understanding of the regulator's rules and current stance. Whilst a summary, it is not intended to be exhaustive and should not be relied upon at the exclusion of other sources of information.

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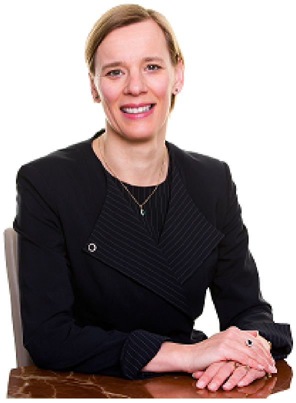
Foreword



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This Good Practice Guide, written in association with Halifax, outlines some of the current mortgage application fraud themes seen by lenders in the UK mortgage market. The guide will provide you with some hints on how to spot and prevent mortgage fraud and will look at the following topics:

- Mortgage fraud in the UK financial services industry
- Support for first-time buyers
- Income and employment fraud
- Other types of mortgage application fraud
- Cyber crime
- Accessible resources and online tools

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Introduction

The UK mortgage market has remained resilient despite facing several challenges in recent years. Economic adversity, a changing regulatory landscape and the advancement of technology in the mortgage process have led to increased collaboration between lenders and intermediaries. Working together, the industry adapts to meet this changing environment. We must build and maintain a safe and secure marketplace and ensure our customers continue to receive the right level of service with product offerings designed to meet their current and future needs.

As a mortgage professional, you play a vital role in the application process. By maintaining high standards of due diligence, the disclosures you make at the application stage will be relied upon by lenders to deliver accurate and sustainable lending decisions for our customers. At the same time, this approach will help to reduce the risk of fraud and financial crime, delivering increased consumer confidence and trust across the intermediary mortgage market.

Mortgage fraud in the industry

Mortgage application fraud can range from borrowers misrepresenting their position to secure a loan supported by false disclosures and documentation, to organised criminal rings defrauding the financial sector. Both types of application fraud may also be aided by complicit third party professionals including intermediaries, solicitors and valuers.

The vast majority of mortgage application fraud seen today is what is termed as “fraud for housing”. Essentially, this is where applicants will either fabricate, embellish or conceal elements of their personal circumstances in order to obtain a mortgage loan. Often in these scenarios, the lending will not be affordable or sustainable across the term of the mortgage advance. As a result, some customers may experience financial difficulty in the future because of inaccurate income disclosure.

To combat mortgage application fraud, UK lenders have invested in front-end application fraud controls and technology. This position is supported by lender panel management delivering continuous oversight of third-party professionals involved in the mortgage process. However, it is vital that lenders and intermediaries continue to collaborate to manage this risk.

It is also important that borrowers understand the consequences of making false disclosures on a mortgage application. Where fraud is identified, lenders may not only decline the application, they may also provide details of the transaction to national fraud databases to help prevent future fraud attempts. This action may impact on a customer’s ability to obtain financial products and services in the future.

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Supporting first-time buyers

First-time buyers remain a vital part of the UK mortgage market, with this segment accounting for around half of all house purchases. It is essential that lenders and intermediaries provide the right support to first-time buyers as economic factors continue to present challenges for those trying to gain a foot on the housing ladder.

In recent years, UK house prices have risen more steeply than earnings. The ability to save for a deposit and meet lender affordability criteria means that the profile of the typical first-time buyer has changed. Today, the average age of a first time buyer is creeping up as borrowers stay with parents or in rental accommodation longer in order to build sufficient savings for a deposit. Because of this, some borrowers may be tempted to exaggerate elements of their true position to secure a mortgage loan. This, along with typically higher loan to value lending presents increased risk to the industry.

It is critical for lenders that affordable, sustainable lending decisions are delivered for first-time buyers. Mortgage intermediaries are ideally placed to support first-time buyers through the application process and ensure that accurate disclosures are recorded. So, how can you do that?

- Take sufficient time to discuss existing credit commitments and the credit history of your customers. Don’t be afraid to ask probing questions and if necessary, talk to them individually. This may be necessary if you feel one of the applicants may be withholding key elements of their personal circumstances from their partner. You must be confident that all disclosures made present an accurate representations of the current position for all parties to the mortgage.

- Credit reference searches conducted by lenders at application will typically cover a six-year continuous address period. However, many lenders will only require a shorter address period to be given as part of the application process. For this reason, consider all previous addresses held by the customer across a full six-year period. This should include student accommodation and previous rental accommodation. It can be beneficial for your customers to obtain a copy of their credit file to evidence this position.

- Ensure that all financial dependants are recorded. Inaccurate disclosures may impact affordability and lending decisions. Remember, a dependant is not just a child and can be anyone who is financially reliant on your customer i.e. spouse not party to the mortgage, adult or elderly relative or a future dependant.

- Scrutinise and consider the plausibility of any recent changes in the customer’s income and employment position. We will discuss this topic in more detail in the following section.

By providing accurate disclosures you help to ensure first-time buyers can confidently enter the housing market. They will be supported by a mortgage that meets their needs and will remain affordable.

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Income and employment fraud

In recent years, property prices have risen faster than income. Affordability remains a key part of the mortgage decision making process. It is no surprise that income and employment fraud continues to be the primary concern seen across the industry. In addition to residential products, this position is also mirrored across the buy-to-let sector following increased reliance on personal income disclosure as part of the application process followed by many lenders.

Income fraud manifests in a variety of ways, although the most commonly seen type of application fraud is "staged income or manufactured salary credits". In these instances income streams are created for the purpose of obtaining a mortgage loan. Bank credits are manufactured to look like a regular income appearing on statements in the lead up to the mortgage application being made – then income will cease or reduce back to the genuine level following completion of the mortgage.

This may involve manipulation or falsification of income through the applicant's true employment or involve the addition of a recently commenced second job to help meet affordability requirements for the advance requested.

Some common indicators of this type of fraud include:

- Short time in current employment
- Sudden or significant increase in income prior to the application
- Salary credits paid into bank account by Faster Payment In (FPI)
- Bank statements show limited activity of day to day living expenses
- Bank statements show payments back to the purported employer or circulation of the income credit back to source
- Employer is difficult to trace or validate
- Poor quality income documentation supporting the disclosure

It is critical that intermediaries undertake some form of sense-check to establish that the borrower's circumstances are plausible. Fraud attempts are becoming more sophisticated and increasingly difficult to spot. Some customers are becoming increasingly savvy around lender requirements, and the ability to obtain false or 'novelty' documentation online to support a mortgage application or loan has become much easier to do.

Some aspects to consider:

- Does the employer exist? Are they currently trading?
- Has there been a recent change in job type? Is this in line with previous roles?
- Does the applicant's declared role and income fit with the employer profile?
- Is there evidence that the applicant is a director / shareholder of the employer?
- Does the applicant work for a family business? If so, does the role and income appear in line with the business profile?

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There are several basic checks you can perform which may help you to identify false payslips or banks statements being used to support a mortgage application:

- Are payslips and bank statements clear and legible?
- Are the fonts and format displayed consistent?
- Do the customer details match the payslip? - NI number, tax code?
- Are there any obvious mistakes? - spelling of name, title?
- Are they the customer's latest payslips? Are there any missing?
- Do the deductions (or lack of) raise additional questions?
- Is the net pay in rounded figures? Is this plausible?
- Do salary credits match the payslips and appear on bank statements as expected?
- Is the payment method plausible based on the employer profile?

Having an effective approach to assessing the plausibility of customer circumstances is especially important in times of wider economic uncertainty.

Periods of downturn or recession are likely to have a significant effect on income in many different parts of the employment market. However, this may have more of an impact where applicants rely on income from self-employment.

Many lenders base their decision to lend on income from recent trading years, but the borrowers' ability to sustainably afford the mortgage commitment remains paramount. On this basis it may be prudent to apply an enhanced level of plausibility when discussing your customers' income and employment circumstances.

Some additional checks / points to consider may include:

- What is the nature of the self-employment?
- Is the trade seasonal – how much of their trade usually occurs in the months where the economy has been in downturn?
- Does the self-employment rely on providing services to another specific business? If so, is there any indication that the business may have been impacted by a poor economy? Is it likely to affect future earnings?
- Is there any indication that the level of income will be adversely impacted?

Ensuring that a customer is in a position to maintain mortgage payments in the future will help lenders make sound lending decisions and support wider economic growth and the financial prosperity of our customers.

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Other types of mortgage application fraud

Scheme abuse – where a borrower conceals their intentions for the property following purchase to obtain a mortgage product that would be otherwise unavailable. This is typically where a buy-to-let product is used to purchase a property that the borrower then resides in, or a residential mortgage product is used to purchase a property that is subsequently let without consent from the lender.

Credit abuse – the non-disclosure of adverse credit which may affect a customer's ability to borrow. This commonly involves a customer not disclosing a previous address where defaults or CCJs are registered.

Deposit fraud – this occurs where either no deposit is paid or where the source of deposit funds cannot be substantiated. For example, the source of deposit funds may derive from an unacceptable source and can be indicative of 100% lending, below market valuations, back to back or a distressed sale transaction which are outside of lending policy.

Property hijack – fraudsters take over the identity of the property's genuine owner to raise funds against the security and then disappear with funds. This type of fraud commonly targets unencumbered properties where the owners reside elsewhere. Vacant or properties available to rent can often be targeted by the fraudster.

Authorised Push Payment (APP) fraud – genuine customers are scammed into making large bank transfers by fraudsters pretending to be a legitimate payee such as a bank or solicitor acting on a known mortgage transaction. In the mortgage market this may manifest as deposit redirection – fraudsters compromise a legitimate solicitor firm's email account and whilst appearing as a genuine solicitor request deposit funds to be redirected and sent to an account under their control. Make sure your customers only send mortgage related funds to nominated accounts and conduct additional independent checks on bank account details provided before making the payment. This could be done by contacting the solicitor directly to confirm account details.

Cyber-crime – an ever growing threat within the financial services industry that is seeing rapid growth as a result of advances in technology and software. Personal data is a valuable commodity, and one which fraudsters are becoming increasingly adept at stealing. Criminals may attempt to compromise broker mortgage systems and install malicious software contained within emails or text messages.

It's vital that brokers apply suitable measures to protect personal data pertaining both to themselves and customers. To minimise the risk of cyber-crime against your business there are a number of basic measures you can take:

- Use strong unique passwords and keep these confidential
- Be vigilant for suspicious emails
- Ensure computer software is kept up to date and devices are kept safe
- Take regular back-ups of your data
- Avoid using public Wi-Fi networks to send sensitive data or make online payments
- Use email encryption to protect sensitive information on emails which are sent externally

THINK BEFORE YOU CLICK

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Fraud prevention – accessible tools that you can use

We all have a collective responsibility to combat fraud and financial crime in the industry. There are many assessable and free of charge tools which you can use to help prevent application fraud; whilst you may not necessarily need to undertake these checks on every application, there may be occasions where you may want to validate some of the facts the customer has given to you during the application process.

Some examples of the tools you could use are highlighted below:

- **Google / Street View** – use web searches to check if an employer exists and whether the address provided is likely to be a genuine business premises.
- **Social media** – such as Facebook, Twitter and LinkedIn. These are all free to use and can help you confirm whether the customer profile presented to you is referenced in their online persona. LinkedIn can be particularly useful to help validate employment details and role profiles.
- **Companies House** – free access to basic information on self-employed individuals & directors of limited companies.
- **HM Land Registry** – limited free search access or you can pay to complete a more detailed search of the subject property including ownership information, lease details, legal charges etc.
- **Rightmove / Zoopla** – free to use property listings may help confirm whether an applicant's residential property is up for sale or rent and may help to corroborate the circumstances of the transaction.

If you haven't done so already, we recommend that you consider implementing some of these additional checks within your customer due diligence process to help validate the information provided to you at application stage.

Additional fraud resources

- **Action Fraud** – online fraud resources for individuals and businesses
- **CIFAS Fraudscape** – annual report on fraud trends in the UK financial services industry
- **UK Finance Fraud Report** – an annual fraud report which covers trends, current scams and suggestions of how you can protect your customers and your business
- **Take Five** - a national campaign led by UK Finance and supported by Lloyds Banking Group and other finance institutions. This offers impartial advice for individuals and businesses to help everyone protect themselves from preventable financial fraud.

What should brokers do where mortgage fraud concerns exist?

If you are concerned that a customer is attempting to commit mortgage application fraud, under no circumstances should you continue to submit the proposal to a lender.

Follow your firm's internal procedure and obtain advice on how to complete and send a Suspicious Activity Report to your local compliance team.

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