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Mortgage-fraud complaints in quarter rise 88 percent from 2010

California had more reports of suspected mortgage fraud on a per-capita basis than any other state, followed by Florida and Nevada.

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Los Angeles Times

LOS ANGELES — Mortgage-fraud reports to the Treasury Department jumped 88 percent in the second quarter — mainly because banks are re-examining loans from the housing boom and finding problems, the department's Financial Crimes Enforcement Network division said in its latest quarterly report.

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The agency said the mortgage-collection arms of banks filed 29,558 suspicious activity reports involving possible loan fraud in the quarter that ended June 30. That compared with 15,727 that the mortgage servicers filed in the same quarter of 2010.

Most of the mortgages suspected of fraud closed during the height of the real-estate bubble, the financial-crimes division said. The report added that 81 percent of the complaints involved suspicious activities before 2008, and 63 percent described what appeared to be fraud occurring four or more years ago.

The Financial Crimes Enforcement Network said California had more reports of suspected mortgage fraud on a per-capita basis than any other state, followed by Florida and Nevada.

Banks are required to report suspicious activities to their regulators. The Treasury unit attributed the recent surge of mortgage-fraud reports in large part to loan-repurchase demands from investors who contend that mortgages backing securities were riskier than represented when the bonds were sold.

"Financial institutions are uncovering fraud as they sift through defaulted mortgages," Financial Crimes Enforcement Network Director James Freis Jr. said in a statement.

Fraud continues in new loans, albeit at a lower level, Freis added, with misrepresentations of income, occupancy, or debts and assets the most common violations.

Robert Simpson, who heads a Santa Ana, Calif.-based mortgage-fraud audit company, said the lenders had probably already detected and reported the major frauds that flourished during the housing boom, such as rings that systematically falsified appraisals and financial information to obtain loans.

"I have to wonder if the (suspicious-activity reports) being filed now are not organized scams but just people who wanted a home they couldn't afford," Simpson said.