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FBI: Housing scams more than double

By Donna Leinwand, USA TODAY

WASHINGTON — Federal mortgage fraud convictions have more than doubled in the past year, and the FBI expects a growth in foreclosure scams as the crisis over substandard, high-interest home loans escalates.

Foreclosure rates for these mortgages, known as subprime loans, are at historic highs, according to surveys by the Mortgage Bankers Association and government records.

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The FBI opened 1,210 mortgage fraud cases in fiscal year 2007, nearly triple the number of new cases in 2003. Convictions more than doubled from 123 in the 2006 fiscal year to 260 in 2007.

"We expect that number to increase again in 2008," says FBI financial crimes section chief Sharon Ormsby.

Low interest rates, rising home values and lax lending standards "created the perfect storm of lending fraud," she says.

In the past year, the bureau created 34 mortgage fraud task forces and working groups with investigators from departments including Housing and Urban Development, Treasury and Veterans Affairs.

They investigate suspicious activity such as deceptive pricing and falsified documentation by mortgage brokers, lenders, appraisers, real estate firms and others, Ormsby says.

The FBI expects more foreclosure scams as criminals prey on growing numbers of people desperate to keep their homes while interest rates balloon on adjustable rate mortgages, Ormsby says. She also expects increasing fraud in "reverse mortgages," in which homeowners 62 or older can take out a loan against the equity in their home. Unlike a traditional home-equity loan, the borrower doesn't pay back a reverse mortgage until they sell the home.

Ormsby says the FBI's mortgage fraud cases have focused for years on fraudulent

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documentation of assets and property flipping crimes, in which buyers purchase cheap homes, have them falsely appraised at a higher value, then sell them at the inflated price.

Housing advocates and public-interest lawyers say federal law enforcement and regulators have focused too sharply on property flipping, and not on companies that defraud consumers by steering them to high-interest loans or by issuing deceptive contracts.

"They have not done enough," says Kathleen Keest, senior policy counsel for the Center for Responsible Lending. "The business standards have really sunk across the board in the last few years. The federal regulators were just asleep at the wheel."


FBI Special Agent Steve Kodak says, "We could always use more assets, but through our task forces, we are working this crime problem progressively more than in past years due to the rise in mortgage fraud. Our focus is to work the larger, more complex cases — the frauds for profit."

In another scam, people posing as "foreclosure rescue" experts persuade homeowners with bad credit to sign over their deeds to a third person who can get a second mortgage against the home. The "expert" pockets the cash and defaults on the loan.

A New York grand jury charged six people with fraud last month for allegedly stealing more than 80 homes in this way.

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