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Mortgage Fraud

And How To Avoid It

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Page

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The estimated figure mortgage fraud cost the UK economy £1.58bn in 2017.

As a mortgage adviser, you're on the frontline of the fight against it. It's your actions that can make the difference, and we know you want to do all you can to make sure you don't become the victim of fraud.

Like you, we're committed to tackling this serious problem, which is why we work closely with our lending partners to identify these and protect you.

Please take the time to read the information presented here. It may well save your career.

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The biggest source of fraudulent applications is business introduced to an adviser by an introducer. Often, these third parties are involved in the property sector and a large number are advisers that have been removed from lenders panels.

Examples

- An introducer referred numerous clients to an adviser, in his role as a business owner the introducer was producing fraudulent contracts for the clients.
- Introducers who are present at the meetings with the client and effectively lead the client in what to say- particularly prevalent with community business, using the language barriers as an excuse.
- An introducer who was known to lenders as a panel removed adviser, referred business to our adviser and still took a large 'advice' fee from the client and supplied the fake documents to support the mortgage application.
- Introducers who place business with a mortgage adviser at the other end of the country from the client. They rely upon the fact that the adviser are not familiar with the local property market to place Below Market Value (BMV) sales with them.

How can you protect yourself?

In ALL cases HLP require an introducer agreement to be in place before business is accepted from an introducer.

Sometimes this is sufficient enough to scare off unscrupulous introducers. If we refuse to accept an application there will always be a good reason for this. If you take introductions from unregistered introducers then you leave yourself open to being used as a conduit to fraud.

Quite simply, if the amount of business an introducer wants to place via your business (often from clients in other parts of the country) looks too good to be true, it probably is!

Ask yourself a few questions:

- ☐ What happened to the last person who dealt with introductions from that source? Is the introducer's answer to this question reasonable?
- ☐ Does the introducer want to be overly-involved in the sales process? Do they want to be at all of the client meetings? Do the meetings take place in their office?
- ☐ Does the introducer want to manage all the contact between you and the client? Do they want to provide you with income evidence and copies of any documentation?
- ☐ Do the clients introduced give you any cause for concern? Are they reluctant to meet you at their homes?
- ☐ Are all or some of the pay slips produced by these clients in the same format?
- ☐ Is the introducer reluctant to have their relationship with you formalised by way of an introducer agreement?
- ☐ Why might this be?

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The most frequent type of fraud involves the presentation of false occupation and earnings details, backed up by fraudulent income evidence.

There are numerous websites that provide these services and the low cost of these services are quite simply staggering.

Payslips

We see false payslips on a regular basis. We've reproduced an example, which highlights where you may spot clues to suggest the payslip you've received is not genuine.

1

[redacted] Flooring Company

2

Basic Pay			2083.33	Income Tax	1193.86	
Bonus	1000.00	3000.00	3000.00	Nat.Ins.	364.07	
		3			4	
						Gross for Tax TD 5083.33
						Tax Paid TD 1193.86
						NI Earnings TD 5083.33
						Nat.Ins. TD 364.07
						Gross for Tax 5083.33
						NI Earnings 5083.33
						Total Gross Pay 5083.33
	Tax Mth	Tax Code	NI Code and No.	Payment Method	Cash 6	NET PAY
30/04/2009	1	647L	A SG [redacted]	012 [redacted]		3525.40
				5		

1. **Company details**
   Does the company exist? You can check this on Google. Does their telephone number and address match the one provided by the client? In this example, the phone number the client gave was not genuine. When we looked for the business's correct number on Google and called it, they said the client didn't work there and never had.

2. **Basic pay figure**
   This client's basic pay works out at exactly £25,000 per year (less four pence). How many of your employed clients earn such a round figure?

3. **Bonuses**
   The bonus here is £3,000 and was exactly this for three months. Is this usual?

4. **Deductions**
   Clients with higher earnings often have additional deductions from their salary (eg. pension contributions). Is it credible that there are no deductions for anything other than tax and NI?

5. **Low employee numbers**
   This can often be an indicator of a false document. If the client works in a large firm, how likely is it they'd be employee number 012?

6. **Total earnings.**
   This client's total earnings were declared as £47,500. It's unlikely that such an amount would be paid in cash. If the payment method is BACS and there are other indicators that concern you, ask to see the corresponding bank statement. Is there a deposit for an equivalent amount from the employer?

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Other warning signs

The documentation is six months old, but looks like it was printed yesterday
That's possibly because it was! If your clients receive their payslips electronically and only print them when they need them, they should be able to provide them the next working day.

Look out for clients who can't produce payslips or P60s on demand, but come up with immaculate ones a week later. Most people stuff their payslips into a pocket or a drawer so they are more likely to show some signs of wear.

Perforated/tear-open payslips:
The payslip has never been sealed
If the payslips are of the type that are sealed on three sides and have perforations you tear off to open them, but the ones you receive from the client have never been sealed and still have the tear-off strips attached, they may well be false.

Spelling and grammar is incorrect
This may seem the most obvious thing in the world, if a business can't spell basic pay correctly then this should set alarm bells ringing.

The income evidence doesn't 'stack up' alongside other supplied documents
We have had cases where clients have been recorded as working, yet the work permit states they are prohibited from working. As the adviser had both of these documents they should have picked this up. Other hot spots are the payment methods being different to the payslips, dates not matching and the pence being different. A payslip should match the bank statement.

Other income Evidence

Of course the payslip isn't the end of the story. There is plenty of evidence elsewhere in the client's history that can alert you to concerns.

Bank statements

- The standard mandatory requirement is 3 months bank statements. This should give you some peace of mind that the client is genuine.
- If the client is paid by BACS, this will show on the statement and should match the date and amount on the payslip.
- If you see FP or "FASTER PAYMENT" next to the income entry, or it just shows as a counter deposit, it's possible that it's a one-off payment or transfer from another account (perhaps to pre-empt and cover your request for bank statements).
- Look at the client's other income. If they receive Tax Credits or Child Benefit, are these realistic with the income declared.
- We have seen copies of award letters made to appear as if they are coming from directly from HMRC, the figures all look accurate but it is in the spelling and fonts that they fraudsters fall down.

Google Street View

We've mentioned Google when considering payslips, but it's worth using Google's Street View tool to check out an employer as well.

Example
One client claimed to be a Cycle Shop manager and provided the contract showing his start date and salary.
The thing that seemed strange to the compliance team was that until the date of the contract the client was working as an Antiques Dealer and this business still appeared to be running.

A quick phone call to the Cycle shop confirmed the client didn't actually work there, in fact he worked at the antique shop next door!

The address on Street View image below:

This was a clear case of the client pretending to be employed when they were self-employed. This case completed with the lender.

SA302'S and Tax Overviews

If you are presented with client's tax calculations how can you be sure they are genuine?

The first thing is making sure the return is 100% complete and accompanied by a tax year overview.

When lenders have looked at cases concerning self-employed clients, they have found the following:

- Applicants generally presented as sole traders.
- High incomes with employment description of Trades, Accountant, Engineer and Builder.
- Several applicants claim to self-assess yet unrealistic given profile and income e.g. builders earning £95k.
- Features on documents which are incorrect such as an @ rather than X on the tax calculations.

In addition, does the financial situation really reflect what is happening with the client? Are credits seen that reflect the income declared, are the figures declared reasonable?

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Buy-to-Let as residential is the most common form of what lenders refer to as 'scheme manipulation' or 'product abuse'. Lenders are looking for this out for this type of fraud and there are easy things you can do to identify these types of cases.

Examples

- The property they are buying is larger than their existing property- whilst not always a red flag, this does raise questions that you would need to speak to clients on.
- The applicant has submitted and been declined on a residential case just before.
- Does the income and expenditure add up?
- Couples who split up, get back together and then split again.

Quite simply, if the amount of business an introducer wants to place via your business (often from clients in other parts of the country) looks too good to be true, it probably is!

We've seen numerous instances where a couple tell their adviser they are separating, buying a residential property for one, and retaining the original for the other. First time around, this seems plausible, but even then, there can be indicators that something isn't right:

Does the party who isn't moving out still deal with all the details of the mortgage?

Will mortgage payments be made from a joint account? Why is this being maintained if the couple is splitting up?

Why are you dealing with both partners at all? Shouldn't you just be dealing with one?

The real indicator is when that same couple comes back to you later. They may tell you they briefly reconciled (and so are still living in the original property), but are now definitely separating, and so need to repeat the whole process.

Why is this a problem?

The fact the lender has agreed to lend the mortgage amount is based on the property being let out and achieving the rental income that is declared as realistic. The client then is committing fraud by moving into the property when they are likely to have not been able to afford the mortgage on the property on normal residential repayment terms.

The lender is exposed to a different type of risk than intended and the lender is within their rights to recall the loan.

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Lenders set loan to Value (LTV) ratios to make sure clients have placed sufficient resources of their own into the property. This mitigates the risk that the borrower will 'walk away' when times are tough.

Lenders also do this to make sure clients aren't over-extending themselves. For that reason, lenders are keen to make sure they understand where a deposit comes from.

If the client has borrowed the deposit in the shape of a personal loan and misrepresented it to the lender as 'savings', they could be overcommitted.

Look for evidence of this on bank statements. Satisfy yourself that your clients could realistically have saved the amount of money they say they have.

Money Laundering

In one instance we saw, a client in their early twenties, earning £25,000 a year, claimed to have saved £100,000.

It's possible that there was an inheritance or a gift involved. However, it turned out that this was criminal money, meaning the adviser became unwittingly involved with a money laundering attempt.

Gifted Deposits

Gifted deposits are perfectly legitimate. Clients will often be able to produce a letter from a parent or other relative, confirming that the gift is non-repayable and that they will have no interest in the property.

However, be sure that statement is reasonable. You may also reasonably ask where the parent got the money from.

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In all of the previously-highlighted examples, frauds were committed by applicants who fully intended to meet the mortgage payments. That is perhaps why some advisers have willingly turned a blind eye to such issues in past.

However, it's important to recognise that those examples still constitute fraud - and advisers have lost their livelihoods as a result.

Criminal Involvement

There is a more sinister side to mortgage fraud, which involves criminals looking to defraud a lender of the mortgage proceeds, with no intention to repay it.

Thankfully, we've seen little evidence of this practice within HLP - but it's not completely unheard of.

Changing solicitors

Changing solicitors part-way through a property transaction may be a cause for concern. There could be a good reason but, as the client will incur costs from the minute they instruct a solicitor, it's unlikely they would want to start all over again.

Seller is a Property developer

Numerous cases in the industry have seen houses being sold by a developer at inflated prices, using a local solicitor. After a drawn out process it turns out that the properties were never sold and the developer and solicitor have strolled off with thousands of the lenders money.

Buying in different geographical area

Whilst not always a problem, if there is fraud involved it regularly includes properties that are hundreds of miles from the client's current home. Ask yourself how plausible is it that someone is going to relocate, particularly if they are working for a local employer and not national.

Certifying ID

Remember, you cannot certify photographic ID unless you have met the client face-to-face. If you haven't met them, you have no way of knowing whether the photograph is a true likeness. You are required to state this when you certify the copy.

We've seen cases where advisers have done this and the ID has turned out to be fraudulent.

Pay attention to valuations

We appreciate that you, as an adviser, are not involved in the valuation process. However, we have seen transactions that should have given the adviser cause for concern.

For example, a mortgage adviser dealt with the mortgages for both transactions on a property that initially sold for £75,000, and was then sold five months later for £150,000. In the current climate, an increase in value of 100% is unlikely.

Advisers who have experience of a local area will also have a feel for what properties are worth, and are likely to be able to tell if a valuation is inflated - or too low.

Disclosure of liabilities

You may have seen instances where clients have tried to conceal the extent of their liabilities, in the hope of obtaining a mortgage they do not qualify for.

Of course, lenders carry out credit checks to combat this, and some have raised concerns with us in the past that an adviser has not documented a client's debt position accurately. This is not easy to manage but, if you have any doubts, ask to see the client's credit report. With the availability of free services there are very few reasons why a clients wouldn't be happy to provide this.

For more information on fighting financial crime please visit the FCA's website:

https://www.fca.org.uk/firms/financial-crime

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