

FORENSIC

# Mortgage Fraud

Helping to identify, measure and prevent

ADVISORY

Turbulent credit markets, a downturn in the economy and the rise of organised crime have all resulted in a sharper focus by lenders and investors on the quality of mortgage loan books. Mortgage fraud, in particular large scale organised fraud, is now a significant issue. KPMG Forensic has extensive experience of investigating fraud and is able to apply advanced data analytics to review mortgage portfolios and generate insight for our clients.

## The Problem

When mortgage fraud occurs one or more of the following is often intentionally misrepresented to the lender:

- **Application details** – including income, identity, purchase price, occupation and business accounts.
- **Property values** – including inflated valuations or failure to disclose purchase price discounts from a developer.
- **Ownership of property** – including manipulating property details and collusion with conveyancers.

This can result in loss for both lenders and institutional investors.

## Key questions for lenders and investors to consider:

### For lenders:

- When was your loan book last reviewed for mortgage fraud trends and what were the top three issues?
- What percentage of your loan book has been affected by fraudulent applications?
- Does your compliance or fraud risk department have access to the latest analytical techniques which can be used to identify fraudulent transactions?
- Are you being targeted by organised mortgage fraudsters and what processes do you have in place to identify, prevent and detect such risk?
- Have you identified a potential mortgage fraud and require an independent professional investigation?

### For investors holding mortgage portfolios:

- Do you know the spread of loans across lenders and have you identified those who may still have the resources to compensate for fraudulent loans?
- Have you considered litigation for breach of warranty as a result of mortgage fraud?
- Do you suspect that certain loans may be fraudulent but have not yet considered an independent investigation?



## KPMG Forensic can help

Our approach to mortgage fraud incorporates the following:

- In-depth understanding of mortgage fraud techniques based on a wealth of investigative experience.
- A dedicated, secure and highly specified data analytics facility, using a variety of software from multiple vendors according to client needs.
- Using lessons learned from our work to improve existing financial crime controls.
- Technology to capture, interrogate and present data in preparation for potential litigation.
- Ability to accurately measure, reduce and re-measure fraud losses, delivering substantial financial benefits.

## Our approach

### Step 1 Assessment and Scoping

#### Risk Factors

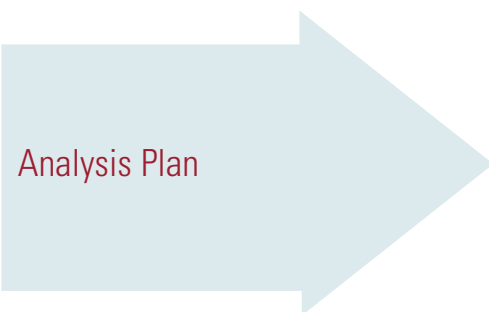
- Known frauds
- Significant losses
- Internal reviews/reports
- Defaults

#### Policies/Procedures

- Application process
- Approval limits
- Product terms

#### Data Sources

- Applications
- Payment/drawdown histories
- Credit risk reports
- Standing data files
- Third party research



Analysis Plan

“Organised mortgage fraud can take many forms and, while difficult to measure accurately, remains a significant element of the UK’s annual fraud losses.”

Mike Bowron  
Commissioner of the City of London Police  
*The Times*, 5 March 2008

### Step 1

We will work with you to assess your current fraud risks, application policies and procedures. We will identify the relevant data sources and use available information including our mortgage fraud investigation and risk management experience.

### Step 2

We can tailor our approach to each individual business but may use one or more of three different analysis processes:

- 1 Rules-based analysis** – known fraud schemes are associated with particular indicators, or ‘red flags’. Rules-based analysis identifies transactions, entities and master records which exhibit these red flags.

“In the current climate, a high quality loan book... is more important than ever, and has to be good for market confidence too. So catching the fraudsters, and keeping them out of the mortgage market, works directly for your bottom line and reduces financial crime.”

Philip Robinson  
Financial Crime and Intelligence Division Director, FSA  
CML Mortgage Fraud Seminar, 13 February 2008

## Step 2 Data Analysis

### Rules-based

- Score loans/individuals

### Models-based

- Use known frauds/defaults to predict future frauds/defaults
- Identify clusters and behaviours

### Clustering

- Post codes/individual buildings
- Agent/conveyancer/valuer/underwriters/mortgage type

### Social Network Analysis

- Identify hidden links between: applicant, introducers, valuers, conveyancers, bank staff and estate agents.

Output

## Step 3 Reporting / Investigation

### High Risk Accounts

- Approaching default
- Inadequate security
- Potentially fraudulent (pre and post drawdown)

### High Risk Intermediaries

- Watch list
- Stop list

### System and Control Improvements

- Use lessons learnt to improve the application process

**2 Model-based analysis** – derives insight from the data itself:

- Supervised – features of known fraudulent transactions are used to predict the likelihood that a given transaction or relationship is fraudulent.
- Unsupervised – identifies anomalies by reference to deviations from ‘normal behaviour’.
- Clustering – can be used to identify unusual patterns or features of data sets, some of which may represent previously unknown or emerging fraud or abuse.

**3 Social network analysis** – establishes links between events, records and entities using a range of techniques including:

- **Fuzzy matching** – associating similar names, addresses or other fields.
- **Record linking** – using an evidence-based approach to infer connections between disparate transactions.
- **Network generation** – exploring the length and breadth of an entity’s relationships.

## Step 3

Our data analysis will help inform you of the extent of fraud affecting your loan book.

We will work with you to:

- **Investigate** – conduct an independent and professional review of high risk cases.
- **Improve systems and controls** – advise on systems and control changes to reduce further instances of fraud, particularly during the application process.

## Our experience – selected case studies

### Investigation on behalf of a law enforcement agency into organised mortgage fraud

We conducted an investigation on behalf of a law enforcement agency to maximise the recovery of criminal proceeds. As part of the investigation, the team identified a number of mortgage frauds and collected evidence to show the use of inflated valuations by a surveyor. As a result of the investigation £10 million of assets were frozen.

### Fraud risk assessment for a commercial and residential lender

As part of a fraud risk assessment of a commercial and residential mortgage provider, we identified key risks of mortgage fraud in the valuation of properties and information provided by brokers. The client adopted all our recommendations regarding systems and controls improvements and as a result reduced the incidence of mortgage fraud.

### Review of self certified mortgages for fraud

We reviewed a large sample of self certified mortgages for a retail bank, looking at the quality of and fraud features in the application process. We identified a high proportion of manipulated applications and poor internal controls throughout the bank's application process. As a result of our recommendations our client improved systems and controls and took action in respect of the affected accounts.

### Investigation of a legal firm for a mortgage lender

We investigated a third party legal firm that was involved in the mortgage process on behalf of the lender. We identified a series of frauds amounting to £8 million including withholding funds and not changing information on the title deeds of properties. Our client was able to regain control of the funds and related documentation based on the work we undertook.

### Assessment of fraud risk in purchasing a loan book

We assisted a retail bank in examining the fraud risk associated in purchasing a loan book from another financial institution. We gave our client a better understanding of the fraud and related risks of taking on the loan book. This enabled them to put more effective operational controls in place.

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