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## DEVELOPING AND MAINTAINING AN EFFECTIVE PROGRAM TO COMBAT MORTGAGE FRAUD

*Combating mortgage fraud in loan origination and servicing requires corporate policies and procedures dedicated to mortgage fraud issues, formal training programs for employees, and auditing/review programs that are designed to evaluate the institution's efforts to detect and prevent fraud. The authors describe common mortgage fraud schemes, the legal framework for prosecution, and the multiple components of an effective anti-fraud program.*

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As the mortgage industry recovers from the credit crisis, lenders and servicers continue to face significant challenges in combating mortgage fraud. Ample evidence of the attention being paid to fraud can be plucked from the day's headlines – from the current “robo-signing” servicing controversy, to stories about borrowers losing their homes through sophisticated “foreclosure rescue” schemes. While the root causes of mortgage fraud have been – and remain – simple, the schemes themselves are constantly evolving and can change quite rapidly. Unless this fraud is detected and prevented, it can lead to significant financial and reputational harm to lenders and servicers, as well as exposure to civil and criminal litigation.<sup>1</sup>

At its core, fraud is a crime of opportunity. Fraudsters exploit weaknesses in the loan origination and servicing processes, relying on the significant volume of loans moving through the system and the industry's highly automated processes to provide them cover. Even after one type of scheme is exposed, fraudsters often succeed later using the same basic approach with only minor variations. Fortunately, however, there are usually many steps in the mortgage origination and servicing process at which fraud can be detected. Indeed, the key to an effective mortgage fraud management program is to ensure that employees have the tools and incentives to detect fraud at every stage of a transaction.

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<sup>1</sup> According to the FBI, mortgage fraud causes between \$4 and \$6 billion in losses to institutions each year. See FBI,

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*footnote continued from previous column...*

Mortgage Fraud, available at [http://www.fbi.gov/hq/mortgage\\_fraud.htm](http://www.fbi.gov/hq/mortgage_fraud.htm).

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