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Trust Respect Partnership

Fraud Aware

Protect yourself against Mortgage Fraud

Contents

1. OVERVIEW

It is important to understand that each adviser has a regulatory responsibility to prevent financial crime and the regulator itself is responsible for enforcement of the laws. Further details on the FCA website: https://www.the-fca.org.uk/financial-crime

By taking the practical steps referred to in this module, on a consistent basis, you will be very unlikely to be exposed to fraudulent applications. Fraudsters and criminals tend to 'prey' on firms with a poor attitude and weak controls. That said, there is always the possibility that it could happen and it could be you that is the target. It is thought that around **1 in every 100 applications will be subject to some form of criminal intent**. For many that will mean the possibility of at least one transaction each year being fraudulent.

And if it happens once, and the fraud is successful, it will probably happen again, and again. You will become an unwitting conduit for organised criminals.

It is important therefore that the Network has a system for referrals of any suspicious activity and as such I would draw your attention to the Suspicious Activity Reporting Process on our website.

2. INTRODUCERS

If you use introducers please complete an Introducer Agreement and Introducer Statement, which you can find on our website, and send this to compliance@therightmortgage.co.uk. Under no circumstances should you accept business from an introducer until they have been vetted by our compliance dept.

It's extremely important to be careful when accepting business from an introducer and it's you should always consider the following:

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 payslips produced by these clients in the same format?
Do they have any of the issues highlighted in the Occupation and Income Evidence section of this guide?

Is the introducer reluctant to have their relationship with you formalised by way of an introducer agreement?

Too good to be true?
Quite simply, if the amount of business an introducer wants to place via your business looks too good to be true, it probably is!

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3. FALSE OCCUPATION AND EARNING DETAILS

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

Here are some common things to look out for:

1. **Company details**

Does the client's company exist? You can check this on Google using The Key. Does their telephone number and address match the one provided by the client?

2. **Basic pay figure**

Very few people's salary works out at a round figure, so if your client has a salary of £25,000 for example, this may ring alarm bells.

3. **Bonuses**

If someone's bonus is exactly the same for several subsequent months this is also unusual.

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 that they'd be employee number 012?

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.

The client only supplied a copy of their income evidence

Never accept copies, they are significantly easier to forge.

The income evidence doesn't 'stack up' alongside other supplied documents

Always check the occupation and income matches against all of the income evidence.

Non-payslip 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

- Ask for a bank statement for proof of address and make sure you get one that shows all the transaction details.
- 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 commensurate with the level of income they are declaring?
- When considering whether a property purchase is a Buy to Let being proposed as a Residential purchase, look at the pattern of the client's spending. Can you see evidence that they spend a significant amount of time in the area they are buying in? You may be able to determine this from the shops they spend money in and the service stations they visit. If you can't see they've spent any time in the area they are buying in, is it logical they are moving there?

Google Street View

The Key offers lots of functionality to help you remain compliant, such as the Google Maps search facility. Click on the Google Maps icon next the customer and employee address field on The Key to be taken through to that address on Google Maps.

This is a very useful tool in checking that a client's address, and particularly their employer's address, is accurate and therefore supports you to identify fraudulent activity.

Accounts and accountants' references

If you are presented with a set of accounts or a reference, how can you be sure they are genuine? Testing the accountant is usually the best way. Do they have their own website and an easily accessible office? Do they advertise anywhere?

Think about whether the financial situation set out in the accounts matches what you know about the client's circumstances.

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4. SCHEME MANIPULATION

This is also known as 'product abuse' and refers to instances where an application is submitted to the lender with false intention:

- **A Residential mortgage, but where the client has no intention of living there (and will instead let the property) – back door BTL**
- **A BTL mortgage, where the client is intent on using the property as their residential home but cannot meet lenders affordability requirements – back door residential**

Why is it a problem?

Lenders have historically set their products according to their view of the risk of the client defaulting. Along with this came the FCA Mortgage Market Review in 2014. MMR introduced as part of the lender application process a number of measures around borrower affordability to ensure that the end client could afford the agreed monthly mortgage repayments both immediately and should the market change, responsible lending.

Back Door BTL - Where a potential borrower hasn't got a large enough deposit, demonstrable income or can't afford the repayments on a BTL mortgage, they may have a motive for stating they are going to live in the new property and take out a residential mortgage. This exposes the lender to a different level of risk than it had intended.

Back Door Residential – Where a potential borrower doesn't meet lender criteria and affordability requirements for a residential mortgage, they may have a motive for stating the property will be let and therefore submit this as a BTL mortgage. This exposes the lender to a different level of risk than intended.

Both examples are fraud and the lender is within its rights to recall that loan. The broker submitting the application will be considered responsible for knowingly supporting this fraud.

What to look out for

Has the applicant visited another adviser?

Has the applicant submitted and been declined on a previous application for a residential/BTL property?

Does the applicant ask for a BTL mortgage specifically? Why?

Income and expenditure, does it all add up? Can it be proved?

Does the scenario make sense? Couple applying for a BTL mortgage 3 bed house whilst main residence is a 1 bed flat?

<u>Your client, who lives and works in one area, decides he wants to move to another part of the country</u>

Ask yourself if it's plausible that your client could relocate.

<u>Couples who separate, reconcile and then separate again.</u>

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?
- But 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.

5. BELOW MARKET VALUE/DISTRESSED PROPERTY SALES/SALE AND RENT BACK SCHEME

This is a growth area, particularly in difficult economic times. The FCA issued a guidance note for consumers on 'below market value' or quick property sales. Although aimed at consumers, the note contains some valuable guidance on what to look out for. The important thing to remember here is that selling a property at a discounted price is not illegal or fraudulent. Disguising this fact to the lender is.

Guidance from the FCA

Please read the below guidance from the FCA website:

"Some homeowners facing financial difficulties may want to sell their property quickly to ease distress, or perhaps avoid repossession, and put the problems behind them. Some companies and individuals offer to help do this by buying the property at a discounted price in exchange for completing the deal quickly. The discount is often around 20% and can be as much as 35% below the market value of the property. The buyer may call these 'below market value', 'BMV' deals or 'distressed property sales'.

These offers may include a promise to complete the deal within as little as 48 hours, pay the sum in cash, help you avoid legal and estate agent fees, and guarantee the sale.

But these deals sometimes involve fraud which could lead to you being prosecuted or losing housing benefits.

Fraud in false sale prices

We are aware that some quick and discounted property sales involve fraud, where the buyer asks the seller to state that the property is being sold for the full market value rather than the discounted price agreed.

This is usually done so the buyer can borrow the full amount they have agreed to pay for the property from a mortgage lender, but the lender thinks they have paid a deposit for the property

In the current market, mortgage lenders will not lend the full amount needed to purchase a property and will require a sometimes substantial deposit. The bigger the deposit paid by the borrower, the more likely their mortgage application will be approved and the lower the interest rate charged.

For example, if the buyer is paying £120,000 for a property they might not be able to borrow the full amount they have agreed to pay, even if it has been valued at £150,000. However, by telling a mortgage lender they are buying the house for £150,000 but only need to borrow £120,000 (or 80% of the inflated price), the buyer may be able to access some or better mortgage deals.

Misleading the lender in this way is fraud and both the buyer and seller could face prosecution.

How to protect yourself

If a buyer asks you to exaggerate the price they will pay you for a property to ensure a quick sale, you should keep in mind that this is fraud and you could put the sale at risk and even face prosecution.

If you are receiving benefits, you should also consider that overstating the price paid for your property could affect your benefits payments as it may be assumed that you have additional money from the sale of the property.

While a quick sale may be appropriate for some people there are other steps you can take to deal with problems paying your mortgage that might leave you better off, such as discussing your options with your lender.

Caution over other home financing schemes

In some cases you may be offered the option to remain in your property and rent it from the investor who purchased it. If so, this is a 'sale and rent back' agreement and firms offering this must be authorised by us.

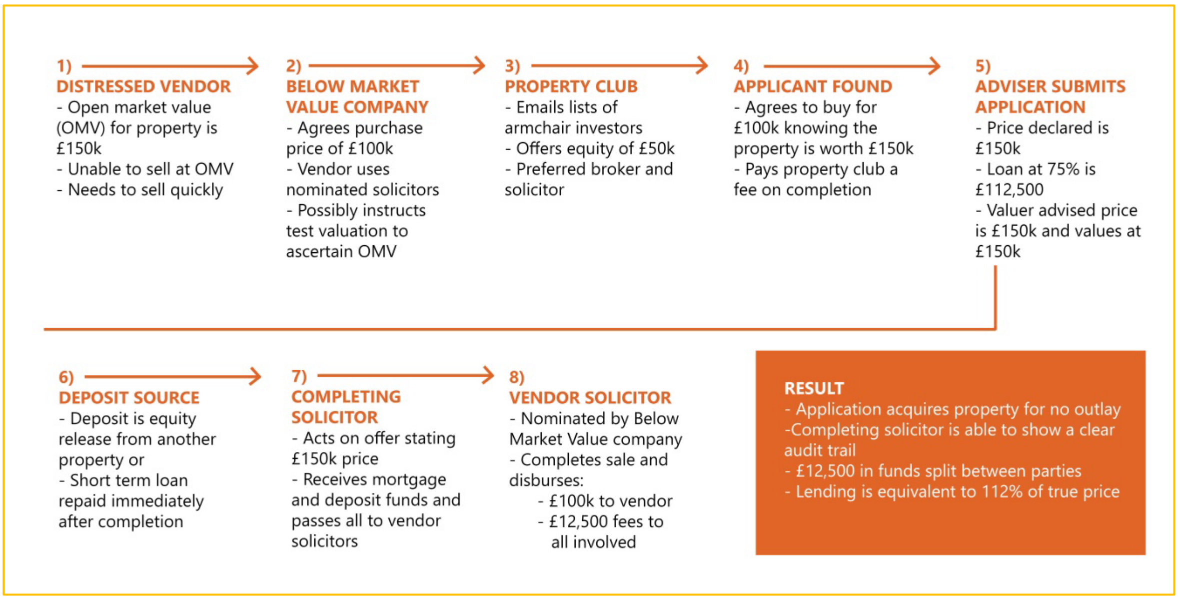
If you are considering a sale and rent back agreement you should **check the Register** to ensure the firm offering it is authorised to do so.

In addition, firms may offer you other solutions which appear to repay your debts and may allow you to remain in your home without selling it immediately.

We urge you to treat all schemes like this with caution and see the consumer alert we issued last year on Lease Options and Exchange with Delayed Completion schemes.

[Source: http://www.fca.org.uk/consumers/financial-services products/mortgages/mortgage-fraud]

How distressed property sales works



Identifying this type of mortgage fraud

If the buyer decides to mislead you over the true purchase price, it can be very difficult for you to identify. But there are steps you can take:

1) **Often, the 'Property Club' in the diagram acts as an introducer.**
   Do you have an introducer who brings you clients who live in a part of the country? Do they buy BTL properties in another part of the country, remote from both you and the introducer? If so, how are these clients and properties being sourced? Internet leads are often the answer. Why not Google your introducer and understand how they find the properties. In one recent case, the introducer was a company who, on its own website, said it was prepared to buy properties for "up to 75% of the market value".

2) In the diagram above, in order to make the process work, the solicitor representing the lender needs to receive a deposit. This might be from a cash fund held by the buyer, but often it's from a short-term lending source such as bridging finance.

3) Make sure you are certain where the deposit comes from. Bank statements can help you here. If you see a credit for an amount that is unusual, and could be used as a deposit, look at the transaction to see where it came from. In the case referred to above, we could see it was from a firm that we found to be a provider of short term finance.

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6. DEPOSIT FRAUD

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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7. DEFRAUDING THE LENDER OF THE MORTGAGE ADVANCE

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.
A common warning sign for this is changing solicitor part way through a property transaction. 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.

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8. OTHER WAYS TO PROTECT YOURSELF

Always Certify ID

Remember, you cannot accept 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. See our guide to verifying ID here.

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. This is not easy to manage but, if you have any doubts, ask to see the client's bank statements. Look for outgoings that appear to be hire purchase or loan payments.

For more information on fighting financial crime, please visit the FCA's website: http://www.fca.org.uk/about/what/protecting/financial-crime