MORTGAGE INNOVATORS

Innovation to Combat Wire Fraud and Protect Borrowers

in collaboration with FundingShield

Managing Mortgage Risk, Compliance & Fraud

One of the most common struggles in the mortgage industry is the never-ending fight against fraud, which costs both lenders and consumers millions each year. Scammers and fraudsters make thousands of attempts at fraud each month, with upwards of 50% resulting in some sort of loss. Fraud can take many forms, including misrepresentation, employment, income, forgery, and many others. When you read a headline referring to "mortgage fraud," you're likely reading about one of these common types. In response to this ever-increasing threat, tenders have made significant strides in recent years to put in place safeguards, systems, and processes that help ensure a secure transaction.

But that's just half of the story.

Many mortgage industry players remain unaware or not fully educated about the evolving threat that wire and title fraud poses to today's mortgage transaction. While lenders have done an admirable job working to secure the "front-end" of the transaction, many have left the "back-end" exposed to a growing number of bad actors preying on vulnerable systems. But what does wire and title fraud really look like? Simply put, it targets borrower down payments and funds headed for escrow. Employing a phishing scam, the fraudster will appear as an authentic company, and watch the transaction's progress, until they strike by sending fraudulent wiring instructions to the lender during the closing process.

If the scheme succeeds, everyone loses (except the fraudster). The borrower will lose the downpayment they've saved up for, since most wire frauds offer little chance of recovering any funds. The lender will likely lose the loan, including the $8K in originating costs, and certainly lose any opportunity to create a borrower-for-life. In fact, the odds are that instead of setting up the borrower on a path towards a refinance or subsequent transaction, the lender will be facing costly litigation.

How is this possible? What makes the mortgage industry particularly vulnerable to this type of fraud?

Wire and Title Fraud

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The Danger of Wire/Title Fraud is on the Rise.

62.1%
increase in CPL/Agent validation errors with title insurers

114.6%
increase in state licensing issues

With the average home price now exceeding $300,000, the sheer size of today's mortgage loan makes it an attractive target for scammers. Additionally, the nature of the mortgage transaction is such that the parties in the wiring process may not know each other and likely have never done business together. Finally, there is simply no centralized body or regulatory agency (like the securities industry) charged with verifying IDs and securing trades in seconds. Bottom line: real estate and mortgage firms are not able to verify who they are dealing with in real-time.

Further, not only is front-end mortgage fraud increasing, the danger of wire/title fraud is on the rise. According to FundingShield's Q2 2021 Fraud Analytics report, "there was an additional increase in fraud/risk exposure surrounding CPL (Closing Protection Letter) errors/issues of 21.7%, a 62.1% increase in CPL/Agent validation errors with title insurers and nearly 114.6% increase in state licensing issues." These figures illustrate the severe nature of production errors, mis-representations, control issues and inaccurate data involved in high-value mortgage loan transactions.

So what can you afford to lose? What would one instance of fraud cost you? Last year, the FBI's Internet Crime Compliant Center (IC3) recorded 19,369 complaints related to business email compromise/email account compromise, with losses (adjusted) of over $1.8 billion. Just one successful instance of fraud could be financially ruinous for a small or mid-size lender.

Beyond the immediate losses you could incur is the reputational damage wire/title fraud can cause. According to a study of borrower experience by McKinsey, customer experience is nearly as crucial to borrower decision making as rates. In fact, for first-time homebuyers, that experience may be the most important factor in deciding which lender to work with. If your company name is synonymous with fraud when potential borrowers search on Google, it won't matter if you are offering competitive rates and products. Protecting your reputation is critical and that includes making serious, pro-active efforts to combat wire/title fraud.

When it comes to fighting fraud, there are two ways to approach – you can either wait for fraudsters to attack and play a dangerous game of whack-a-mole, or you can take affirmative steps to prevent fraud from happening. **At FundingShield, we've monitored, at loan-level, more than $1 trillion in closing value, and flagged over $200 billion, so we've seen first-hand how our automated tools can give lenders (particularly the small to mid-size lender) the ability to stay ahead of scammers and protect their borrowers from losing their down payments and opportunity for home ownership.** Clearly, the pro-active approach makes the most sense – you don't wait to install your security system until after the thief has already broken into your home. Additionally, many lenders have already seen the benefits of working with SaaS providers, like FundingShield, who not only keep data secure on cloud networks, but allow them to boost efficiencies by plugging seamlessly into their existing tech stack and processes.

Fighting fraud is every lender's obligation to both their borrowers and their own survival. Monitoring your data at the transaction level with tools designed to spot and prevent fraud at the closing stage will give you the confidence to know your loans will close securely, your borrowers will be happy, and you'll be maximizing your margins.