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Beating the Mortgage Fraud Boom

As the credit crunch continues to bite, the number of mortgage fraud cases continues to increase. Auditing firm, KPMG, recently revealed astonishing new figures that reported during the first half of 2008 nine cases of mortgage fraud were identified, which was worth in excess of £20m. This compares with just 10 cases worth £3.7m for the whole of 2007.

One particularly high profile case that recently made the headlines focused on three fraudsters in the West Midlands being jailed for fraudulently obtaining property deeds on four properties using false identities and then using these as security for loans. This was then laundered into gold bullion. It was reported that over £1.2million passed through their bank accounts in a matter of weeks as a result of these activities, of which over £800,000 of this money is still to be recovered.

A additional article focused on the FSA and its steps to not only ban a mortgage broker but to enforce its largest fine to date due to the IFA submitting seven applications with falsified payslip and supporting documentation, in addition to adding her own bank details to a further four client's mortgage applications. A fine of £129,000 was dealt, demonstrating the FSA's commitment to driving out bad practices, whilst working with the industry to bolster defences against such fraudulent activities.

In a tightening market, it is the sad fact that news reports of this nature are likely to keep increasing and so now it is a vital time for mortgage lenders, intermediaries and those involved in the application process to be extra vigilant in scrutinising applications before they are processed to drive down incidents of fraud.

At the end of July, the FSA announced new measures in its commitment to reducing fraud by making it harder for organised fraudsters to get away with such crimes. This included undertaking targeted visits to 200 intermediaries to assess systems and controls; streamlining reporting processes and providing more clarity on the information needed for lenders; enhancing intelligence usage by supervising firms and bringing about enforcement actions; and encouraging improved information sharing and intelligence analysis across the industry to name just a few.

Technology's Role in Combating Fraud

At Quest, we are fully supportive of the moves the FSA and other industry bodies are taking to help overcome fraud. Combined with these initiatives we also believe that technology will play a major part in supporting the anti-fraud drive in delivering greater security and efficiencies by automating a large part of the application analysis process.

We are currently working with over 20 lending institutions to discuss and implement a new additional layer of security and data analysis to support existing anti-fraud strategies and technologies.

This new technology, Q-Guard, which has been implemented and enhanced over the last six months, intelligently analyses existing valuation data that already flows through Quest's Secure Panel Network, and using this data is able to determine whether there are any discrepancies in the application through pattern matching techniques. This includes historic and current valuations and takes into consideration a wide range of information from the application to flag-up any questionable data. It works alongside existing tools, such as N Hunter, and complements the personal identity and credit check process, which are managed through the likes of Experian.

By applying additional security checks at the point of valuation, we are identifying potential areas for concern, which subsequently warn the Lender via email alerts so questions can be asked before the application is processed any further. The feedback we have received from those using Q-Guard has been very positive indeed.

As the technology usage advances simultaneously across all Lenders, security will become even tighter as the system will be able to analyse real-time and historic data from across multiple Lenders and therefore identify any valuation instructions or reports that exhibit suspicious characteristics, and therefore 'Red Flag' any cases that are identified that require closer inspection. This industry-wide analysis will provide a more complete picture of applicant, broker, valuer and other third-parties activity, which can be fully scrutinised and questioned.

Coupled with a Property Identity database, we believe this technology creates a complementary process to the major credit check agencies involved in combating mortgage fraud, along with the FSA and CML initiatives.

Supporting the Industry in Fighting Fraud

At Quest, we have always been in the business to help streamline processes to create efficiencies in the home buying and selling process; and this is no different. We see there are great advantages of the industry working closer together to intelligently analyse mortgage applications from a number of different angles. The potential for assessing historic mortgage valuations creates new avenues for Lenders to explore when assessing every individual case – the more information to review, the more stringent the analysis.

Ultimately, as technology usage advances across the UK's lending community, we see that security will become even tighter. Analysis of real-time and historic data from multiple lenders will report suspicious characteristics and therefore help combat the increasing cases of fraudulent activity. We believe that cross-industry analysis of this nature will deliver a more detailed picture, which can be fully scrutinised and questioned.

By adding further layers of security to the mortgage application process combined with the huge steps the industry is taking in organising major nationwide initiatives, we believe the number of fraudulent cases can

only start reducing as potential fraudsters become more aware of the improved system, processes and initiatives that are now in-force.

By comparison, just as a burglar is warned off by a visible alarm bell on the front of a residential property, so too will mortgage fraudsters as they become fully aware that such technical advances are being made behind the scenes across the mortgage processing sector.

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