

Be careful out there

29 November 2013

Anne Hinds presents the surveyor's perspective on mortgage fraud

What does a fraudster look like? The characters from *St Trinian's* or *Dad's Army* who operated on the edge had slicked-back hair and tight pinstriped suits: so that is what a fraudster looks like ? or is it?

That is the problem. A person committing mortgage fraud, indeed any fraud, looks just like you or me. Although surveyors are appointed to assess a property's value, we also need to be very much aware of the potential for a fraud and act as a further form of defence for lender clients.

Mortgage fraud is, unfortunately, quite prevalent even in today's market. It is a murky world and the unwary surveyor can be misled if he or she is not careful or alive to the problem. Unfortunately, like all professions, a few do get involved deliberately.

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A chance conversation led to my becoming involved in a fraud review and ultimately giving evidence in court. I was told that a former employee who had left several years previously was possibly the subject of a police investigation. I made a few checks and contacted the investigating officer to ascertain whether their enquiries related to the period of the surveyor's employment. The officer supplied a list of mortgage applicants together with companies with which they may be connected. On checking the computer system, it became evident that not only had valuations been completed by the particular individual for the target group but also that there appeared to be further links with other 'names'. I gave the list to the police and notified our professional indemnity insurers of a 'circumstance of a potential claim or claims'.

When I investigated the addresses on the resulting schedule, it seemed that they were concentrated in two areas, one of which was outside the normal geographical area of the surveyor concerned. The properties were mainly low-value semi-detached and terrace house or flats in converted houses; in one case, the office used by the main perpetrators had been valued as a flat for buy-to-let purposes.

Confirmation of suspicions

An initial check of a sample of the valuations determined that the properties were overvalued by some 15%-20% and the rental valuations were excessive. Further research established that records had been tampered with; a review of the surveyor's diary showed a level of appointments that would be impossible to inspect, even on a cursory drive past. Odd

papers in files referred to other properties not showing on the computer system; a few weeks into the investigation, a claim notification was received from a lender listing a number of properties, some of which could be identified as being instructions received by the firm, but several where there were neither computer records nor hard-copy files. The reports were fakes and all had been submitted to the lender via the broker in hard-copy format. A drive around the areas involved revealed that a number of the addresses did not exist, the so-called flat conversions had never taken place and some of the houses were semi-derelict.

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It was later established that the 'fraudsters' had built up a large portfolio of properties on which they had obtained mortgages often in excess of 100% of the value and sometimes on homes that did not exist. And obtaining the mortgages involved far more than a compliant surveyor. When the case came to court, it transpired that besides those who had made the mortgage applications, a solicitor had completed the conveyancing ? a true fraud ring.

This fraud was discovered when the fraudsters sent several applications to a now defunct lender and an eagle-eyed underwriter spotted a number of similarities. The investigation took several years, comprising mortgages worth many millions of pounds and was much larger than the police initially envisaged; the court case lasted five months and involved several witnesses.

The court case

There were several defendants, each with their own team of barristers. I was confronted by about 15 barristers as well as the judge and jury and gave evidence over three days. Fortunately, only four defence barristers questioned me following my evidence. One of them was determined to find flaws and twist my words. It was a daunting experience, although it was interesting to see how much research is undertaken by the defence about the witnesses; I was even questioned on one of my earlier published articles.

Examples of fraud

Fraud does not always occur on such a large scale and the surveyor is usually an innocent party. I know of one surveyor who went to carry out a mortgage valuation on a property he was advised was a purchase. The person showing him round said he was the tenant and that the applicant had come to an arrangement with the vendor to allow him to move in. When the agents provided sales details, these showed that the property had been on the market at the agreed sale price; the details on the website were the same when the surveyor checked. He valued at the purchase price and the loan went ahead. It transpired that the property had been purchased at a much lower figure and the applicant had effectively obtained a 100% mortgage. Understandably, the surveyor considered that it was an open-market sale. At the time he did think that the tenant already being in occupation was strange and ideally should have questioned further. Trust your instincts ? they are often correct.

Another somewhat amateurish method with properties being converted into flats is to switch the numbers on the doors. A surveyor may visit 'Flat 3' and find a nice

two-bedroom conversion, while the flat that is repossessed only has one bedroom and is much smaller.

It does not just happen with mortgage applications. When a surveyor went to complete a repossession valuation, he found the door number on the flat was different to the one he had been given; he was advised that the flat numbers were often moved to put asset management companies and bailiffs off the scent. Talking to an agent later, he was told that another flat in the development had been purchased through auction. The owner moved in and refurbished the flat, only to find it was repossessed; because the door numbers had been shifted around, he was not in the flat he had actually purchased.

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People do not always realise they are doing wrong. They may see it as a way of saving money or getting what they want. Surveyors often report that the property they have inspected appeared to be tenanted and yet it was apparently a mortgage valuation for owner occupation. Lenders need to know this.

Occasionally people apply for a buy to let mortgage but intend occupying the property themselves. Their income may not allow them to get a standard mortgage, but a rental income multiplier will. Is that wrong and is it really worth reporting your suspicions? The applicant gets the mortgage and providing they keep paying there is no problem ? or is there? But when the property goes into possession, the lender finds out it is tenanted or the circumstances are not as they thought, by which time the applicant has disappeared or has no money. Be in no doubt, this scenario qualifies as fraud. Who is the lender going to look at next ? the surveyor and his professional indemnity insurers? Even though the valuation may have been correct, you will have had several weeks of worry and possibly incur costs.

Making fraud difficult

Many loopholes that had allowed large fraud have been closed because they have been recognised as areas of potential weaknesses. Most firms have changed to a system where all instructions are accepted and dealt with centrally and surveyors allocated strict postcode areas. Requests for a specific surveyor to complete a mortgage valuation are either declined or closely monitored. Few reports go back to lenders via a broker; the majority go direct to the lender electronically. Records can no longer be easily deleted from the computer system either accidentally or deliberately; several stages and 'supervisor' authorisations are now required and reports have been set up to identify patterns of concern. Appointments are monitored to ensure that excessive work is not being undertaken and inspection numbers are realistic.

Most importantly, there are regular audits and all surveyors' files are held electronically with the records being checked to ensure that site notes, comparables and valuation justification exist for every completed inspection. Lenders and their lead valuation partners have a number of tools at their disposal and several risk alerts that flag cases as worthy of investigation.

Nevertheless, however good your systems, fraud often still comes to light by sheer accident or, rather, good luck. The answer is to ensure that your risk management

systems are the best they can be, are regularly reviewed and understood and adhered to by staff. For those who deliberately involve themselves in any fraud, the penalties are high, including the loss of livelihood, profession and, in some case, liberty.

Fortunately, most of us would not dream of being a party to any wrongdoing, but we must be aware that it goes on and do everything we can to protect ourselves. Of course, the best protection is to get the valuation right.

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Further information

Related competencies include: [T072](#) , [T073](#) , [T083](#)