An extract from Perspective:
The fraud and identity issue

Essential insights into the issues facing your industry today

HOMING IN
Homing in

Paul Heywood, Senior Consultant and Ryan Peacey, Head of Financial Services (Nationals), discuss the rise in mortgage fraud rates and how Equifax is working with lenders to help them comply with increasingly stringent regulations across the industry.

Four years ago, a friend of mine, having just had his first daughter, proudly drove his new family home from hospital in the pursuing weeks, his once idyllic one-bed flat in the heart of the city began to feel more like a cage than the family home he now needed. Within six months, he would become an ‘accidental landlord’ in breach of his mortgage terms and at risk of losing his home.

Mortgage holders have increasingly committed soft fraud (typically opportunistic fraud where a consumer misrepresents their personal details for their benefit) year on year since the financial market began to struggle in 2008. Whether as a result of not being able to sell their property, being unable to afford their loan or for financial gain, borrowers are opting to let their properties and use rental payments to cover mortgage commitments, whilst they move on to pastures new. Such activities have given rise to the term ‘accidental landlord’.

The rising trend in mortgage fraud is not confined to existing borrowers. New entrants to the market are also finding niche ways in which to gain access to the funds needed to compete in a competitive property market. Buyers are attempting to get around the affordability requirements of residential loans by pursuing buy-to-let deals where lenders focus more on whether the rental income will cover the mortgage repayments, rather than relying on a borrower’s income or deposit. Again, this type of activity has attracted its own label with applications being termed ‘back-door resi’ (or residential).

With 70% of fraud in the sector attributed to individuals supplying inaccurate or incomplete personal details (whether deliberate or not), more checks and measures are becoming available to detect and minimise the risk of fraud; but is not ‘living as stated’ a type of fraud? What is the risk to the lender? What is the risk to the market? Do customers care? Evidence suggests they do and new regulations impose that they must.

Cracking down

In response to the increasing fraud trends, mortgage lenders are launching a crackdown on thousands of so-called ‘accidental landlords’ who let out their homes without notifying their bank. Lenders have become suspicious that vast numbers are keeping quiet about their arrangements to avoid being forced on to higher interest rates or to switch to a more expensive buy-to-let loan. Recent studies have shown that the majority of lenders in the mortgage market have between 9-13% of their book not ‘living as stated’ and are concerned by the risks including:

- Fines for inadequate knowledge of their customers
- Not meeting affordability guidelines
- Properties not being insured; most state it has to be the insurer’s primary residence and that insurance does not cover lettings
- A failure to understand the true financial risks associated with customers and associated financial exposure
- Tenants at risk if the landlord defaults

Such regulation has led to increased focus and a greater need for lenders to know their customers. Only by having a detailed understanding of the borrower can mortgage providers ensure that the appropriate products are made available.

Knowing whether a customer is residing at their mortgaged or other property seems a fundamental step in the journey and one that Equifax can support.

The onus on lenders

The National Fraud Authority (NFA) has estimated the value of mortgage fraud in the UK to be £1 billion. With the Mortgage Market Review (MMR) stipulating, “Lenders are fully responsible for assessing whether the customer can afford the loan”, it’s now more important than ever that our clients know their customers. Through our collaborative client relationships in the building society sector, coupled with our data and analytics, we’ve taken pro-active steps to help our clients identify soft fraud within their portfolios. Here’s how we’re helping.

By evaluating data held at either a mortgaged address or, in the case of buy-to-let, some other contact address, we’re able to help our clients understand whether the account holder is living as stated. To date, we have processed over one million customer accounts identifying potential fraud rates as high as 14.8% within a given portfolio. This information provides lenders with a mechanism to pre-risk their customer base and more effectively deploy the resources at their disposal as they seek to satisfy their regulatory requirements. Clients are in the process of evaluating this data – early feedback reports that our new Equifax Mortgage Verifier solution is informing the right conversations with account holders and providing an improved understanding of associated risks.

In addition to identifying accounts at high risk of potential fraud, Equifax Mortgage Verifier perform Anti-Money Laundering (AML) checks through the provision of our three digit profile, as well as providing alerts associated to deceased account holders and properties listed as available for rent. It’s our ability to identify these insightful segments across large volumes of data that is supporting a more proactive and efficient way in which our clients can manage their customers.

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Raising the profile of mortgage fraud

During the summer of 2015 we hosted our annual Building Society Forum in Nottingham, providing an opportunity to present findings to the building society community and demonstrate its thought leadership around the industry’s issues of today.

As we move into 2016, a number of market factors are expected to further raise the profile of mortgage fraud.

- Stamp Duty Land Tax (SDLT) is to be increased for most purchases of buy-to-let investments from April 2016. Under the new rules, the rate of SDLT on the purchase of a buy-to-let property, or indeed on the purchase of a second home costing more than £40,000, will be subject to a 3% surcharge.

- The Chancellor’s announcements on impending tax increases are driving greater numbers of applications for buy-to-let products as limited companies seek to beat the April deadline.

- The Treasury has said a new European Mortgage Credit Directive, which comes into force in 2016, will result in greater regulation within the buy-to-let arena.

- HMRC is warning landlords who fail to declare their rental earnings that they will incur greater penalties.

With economic growth now being projected as weaker than originally forecast, increased regulation in the sector and the International Monetary Fund warning that “we may be in for a bumpy ride this year”, the risk posed by opportunistic mortgage applicants is unlikely to diminish in the short term. Equifax is investing in new data and platforms through which we can continue to develop solutions that will help our clients solve the ever-changing business challenges they face.

To find out more about how we can help, you can contact Paul by emailing paul.heywood@equifax.com or calling 020 7298 3044, or contact Ryan by emailing ryan.peacey@equifax.com or calling 07833 091106.