

Equity line scams

Mortgage fraud schemes have existed for years. But, as the FBI warns in its annual mortgage report issued earlier this year, a depressed housing market provides an ideal climate for mortgage fraud perpetrators to employ a variety of schemes to take advantage of the downward trend. As lending practices tighten in response to the subprime lending crisis, financial institutions are employing higher standards and fewer loans are being originated—forcing scammers to turn to alternative methods.

Moving on up

Identity theft is a key tool for use in mortgage fraud schemes. In the days of subprime mortgages, thieves could pose as people with modest incomes and obtain mortgages in their names with little documentation. Now the identities of individuals with good credit have more value. One of the newest strategies, says the FBI, involves fraudulent equity credit lines.

There are several reasons for the development. Home equity lines are reasonably easy to open once the thief has the proper financial information. The lines are often for significant sums. Even open lines of credit are vulnerable. Scammers are counting on the fact that the funds may not be accessed for an extended period of time, and that account balances on monthly statements may not be regularly verified.

How it works

Here's a typical scenario, courtesy of the FBI:

Once a victim's identification has been stolen, the perpetrator poses as a customer, using the Internet to apply for a line of credit. He or she manipulates the customer account verification processes, including rerouting telephone calls and forging signatures.

The perpetrator uses the account holder's identification information to contact a financial institution and request an advance of funds on the line. Once the advance is granted, the perpetrator sends a fax to the financial institution requesting that the funds be wire-transferred to another account. On receipt of the request, the financial institution contacts the account holder using the telephone number on record to verify the transaction. However, the

call actually is forwarded to the perpetrator who verifies the account holder's information to complete the wire transfer.

A call for vigilance

The Identity Theft Assistance Center, a nonprofit coalition of financial services companies, has been especially active in trying to get the word out to homeowners about equity line scams.

Steve Bartlett, chief executive of the Financial Services Roundtable, a consortium of banking-related companies that offers financial support to the Center, recently was quoted in *The New York Times* as saying that victims of such schemes typically are reimbursed by the lender if a bank investigation confirms fraud. But lawyers who represent victims of identity theft say that such remedies often do not come quickly or easily.

What about “preventative medicine”? Here are three suggestions:

- Borrowers should review every regular statement as they do their banking and brokerage statements, even if there were no transactions in the period covered by the statement.

- Everyone should take advantage of the fact that each of the three nationwide consumer credit reporting companies (Equifax, Experian and TransUnion) are required to provide *free* annual credit reports. Watch out for offers for “free” reports that are tied to paying a monthly fee for additional services. The ways to get a no-strings attached report are available at www.annualcreditreport.com.

- Finally, people who are especially concerned about identity theft should consider subscribing to a service that will alert them regularly to credit inquiries and account changes.

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Any developments occurring after January 1, 2014, are not reflected in this article.