Combating fraud

The National Consumer Credit Protection (NCCP) legislation came into effect on 1 July 2010, enshrining into law responsible lending obligations. Having a process in place to mitigate fraud is part of this process, and so brokers and lenders may need to look at ways to bolster their verification and validation procedures, as *Craig Mackenzie* explains

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As a provider of lenders' mortgage insurance, Genworth Financial works with close to 200 lenders, so we see first-hand the types of fraud committed and the effects it has on all parties concerned.

The impacts are widespread: reputations can be damaged, business continuity can be impacted, commissions are almost certainly affected, and potential criminal sanctions apply under the NCCP legislation.

Fraud falls into two categories – soft and hard. Soft fraud involves mostly isolated incidents where borrowers misrepresent details, such as an exaggerated income or having fewer dependents, so they appear better able to repay a loan. And sometimes it's blatantly obvious. Like the roadside fruit stall manager who had a declared income of $120,000, and was working for a company that wasn't registered for GST. Obvious discrepancies like these demand closer scrutiny.

Hard fraud is more complex and may involve organised crime or collusion between a number of parties including the borrower, broker, valuer or real estate agent. In one case, a developer sold land to borrowers promising to build houses on them and sell them at a profit six months later. Working together with the developer, the local valuer had inflated land prices by over $100,000 and the developer's son, a broker, arranged financing by inflating employment and income details. The houses were never built, and lenders took possession when it became clear the borrowers couldn't repay the loans.

In 2007, Genworth introduced minimum verification and validation guidelines to help brokers and lenders more effectively mitigate the risk of fraud. In many cases, these simple checks are enough to pick up inconsistencies. Bank statements in particular are very useful in providing a 'window' into a borrower's life and serve as a great tool to validate the accuracy of other information provided by the borrower. For example, are deposits made by the employer? Are living expenses accounted for? Are there any credit card payments appearing on the statements that do not appear on the liabilities section on the application?

We all have a part to play in reducing the cost of fraud on our community. In conjunction with the introduction of the NCCP legislation and the focus on responsible lending, Genworth is committed to working in partnership with brokers and the industry to uphold prudent and responsible lending practices and improve detection procedures. Indeed, as brokers are dealing directly with borrowers, they are in prime position to mitigate the risk and incidence of fraud by ensuring documents are closely reviewed and information supplied is scrutinised with a keen eye. In summary, a 'know your customer' approach to business ought to ensure that fraud is minimised and potential NCCP risks are mitigated.

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