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Credit Card Fraud Prevention is Good Model for Mortgages

Bank fraud prevention has evolved over 30 years

March 6, 2006

By MortgageDaily.com staff

The evolution of credit card fraud prevention at banks offers some valuable insight for mortgage lenders looking to prevent mortgage fraud.

Banks have historically been the primary target of financial crimes, with fraudulent transactions hiding among a large volume of checks and payment card transactions, according to BasePoint Analytics. Fraud prevention in the sector has gone through four phases lasting 30 years.

"The result of this significant investment by banks in finding effective solutions is a 70% reduction in credit card fraud," the announcement said.

The first phase was reactive investigations of reports or tips from customers, other institutions and law enforcement officials, the statement said. Next was the use of computers to track common risk indicators like the number and amount of transactions in a day.

The third phase was banks' use of "advanced scientific pattern recognition software to provide early warnings of fraud," the California-based provider said. The last phase, optimized fraud sciences, uses the scores and rules to minimize fraud losses.

BasePoint noted that mortgage fraud, which is complicated by insider participation and transaction complexity, has grown by 140% per year over the past three years, costs lenders and borrowers up to \$3 billion annually and touches one in every 250 mortgages. The company said up to 40% of early payment defaults involve fraud that could have been detected prior to loan funding.

"By applying those [banking] lessons and customizing the technology for the mortgage industry ... mortgage lenders shortcut the learning curve and immediately prevent fraudsters from committing their crimes successfully," BasePoint said. The company reportedly tracks the behavior history of loan applicants, brokers, appraisers and loan officers.

"Since fraud adds costs to any operation, we have aggressively implemented protective measures to minimize those costs in the face of escalating fraud attempts," New Century Financial Corp. spokesman and attorney Terry Theologides said in the statement.

BasePoint claims its FraudMark solution has helped its customers mitigate fraud losses by as much as 65%.