

New Broker Monitoring App Enters Anti-Fraud Fight

With a majority of mortgage crime committed by insiders, it was only time before the vendor community trained its technology expertise on catching nefarious brokers. BrokerWatch from vendor BasePoint Analytics is the second product launched this summer in an attempt to monitor and track broker behavior. Corelogic released its broker monitoring application in July.

New Century has been testing the BrokerWatch prototype for the past 90 days. The application complements BasePoint's FraudMark application, which the lender has been using since February 2006, reported Kevin Cloyd, executive vice president.

"We had used our own internal reporting to account for and monitor a variety of broker metrics," he said. "What BrokerWatch allows us to do is monitor the broker on a real-time basis as opposed to a 30-day look back."

The application analyzes loans that are in the pipeline to identify suspicious activity before funding takes place. "An application of this nature pays for itself immediately," Cloyd noted.

Testing, Testing

Although New Century uses the technology with FraudMark, which looks at loans on a broader scope, Cloyd has not seen any inconsistencies between the two applications. BrokerWatch, for example, is not being unreasonably tougher on brokers than on loans.

BrokerWatch does use much of the technology developed for FraudMark, but comes with its own specialized reports that look deeper into broker behavior.

Cloyd is still vetting the reporting capabilities, but reports that the application is user friendly and does have the ability to handle a number of queries depending on what the lender wants to see. For instance, New Century can pull all of a broker's loans and sort them by type (purchase, income doc, property type and location, etc.). "It is very intuitive

by nature," he said.

Lenders submit loan data on a monthly basis to BasePoint, which then processes the information. It takes about three days, said BasePoint CEO Tim Grace. The firm burns the results to a CD or makes a data file available for download via a secure FTP site.

Grace expects the target market for the application to be large and mid-tier lenders since the application needs a large pool of loans to form its broker analysis.

Red Flags

New Century has always robustly managed risk but the technology provides an important supplemental reporting tool that helps the lender maintain a "best-in-class" anti-fraud program. So far, Cloyd has found that the technology is doing a good job of spotting loans that violate arm's length rules or appear to have straw buyers.

When the application flags a suspicious broker, New Century puts in motion its review process. In the first step, the firm asks the broker for additional information to make sure it has all the correct and appropriate documents in its files.

Some brokers fret that broker monitoring technology will inappropriately flag their loans as suspicious thus making it difficult for them to clear their good name. Cloyd does not see that happening since the technology is only a tool that the lender will use to review loans. Lenders should not use the application as the basis to outright sack a broker, he said.

While BrokerWatch does catch suspicious loan activity, Cloyd is convinced that the technology is also a deterrent. "This is setting the stage for what will become the industry standard. As other originators in our space begin to use this technology, then mortgage related fraud will hopefully cease to exist," he said.

Not a Crystal Ball

While BrokerWatch can break down activity by geographic areas, Cloyd was quick to point out that the scope of the technology is not to predict future broker behavior, but catch current problems.

A planned revision of BrokerWatch will include a database built using loan information submitted by lenders that will track brokers across lenders and states, Grace reported.

New Century considers this future upgrade an important element in monitoring broker fraud. □

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