MORTGAGE FRAUD: WHITE-COLLAR CRIME WITH LONG-STANDING COMMUNITY EFFECTS[1]

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ABSTRACT

Mortgage fraud, a white-collar crime committed against lending institutions, has grown tremendously over the past few years across the United States. Mortgage fraud has community implications, and does not follow traditional categories of white-collar crimes, which usually are limited in the types of victims affected. Because of the negative externalities that emanate from neighborhoods hit by cases of mortgage fraud, the ramifications of this crime have long-lasting and harmful effects for multiple parties, in terms of quality of life and financial hardship. This paper explains the implications that mortgage fraud can have on both affected neighborhoods and public administrators. Future research opportunities are also addressed regarding this complex phenomenon. Finally, a brief list of recommendations addresses the challenges brought on by mortgage fraud.

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INTRODUCTION

Mortgage fraud is a white-collar crime that has been a steadily growing problem over the past few years across the country (Mortgage Asset Research Institute, 2006). It is a crime whereby property values are artificially inflated in order to fraudulently remove funds from the property's equity. When mortgage fraud occurs, one or more parties knowingly make deliberate misstatements, misrepresentations, or omissions during the mortgage lending process.[2] While the cost of mortgage fraud is not fully known, one reasonable estimate incurred by the industry approached one billion dollars in Fiscal Year 2006 alone (Sharick, et al, 2007).

In the vein of criminal justice literature, it has been stated that not much is known about the victims of white-collar crime, such as mortgage fraud (Trahan, Marquart, & Mullings, 2005; Van Wyk & Mason, 2001). This paper intends to not only describe the mortgage fraud process, but also explain its implications for both neighborhoods and local government operations, specifically in the areas of the provision of affordable housing, municipal service costs, and long-term effects on the tax base. The article will conclude with recommendations and suggestions for future research and community solutions to the problem.

DESCRIPTION OF MORTGAGE FRAUd

Overview

Mortgage fraud is generally divided into two broad categories: "fraud-for-property" and "fraud-for-profit."

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[2] It is important to note that mortgage fraud is not a process of "flipping" properties for the sake of turning a profit after improvements have been made, and should also not be equated with predatory lending, which is the process in which lenders charge exorbitant fees to unsuspecting consumers.

Fraud-for-property schemes usually involve the "material misrepresentation or omission of information with the intent to deceive or mislead a lender into extending credit that would likely not be offered if the true facts were known" (Financial Crimes Enforcement Network, 2006:3). This type of fraudulent activity is usually committed by prospective homeowners seeking to obtain a home beyond their current means and may simply entail adjusting one's income upward in an attempt to successfully obtain a mortgage for which the family would not otherwise qualify. While this practice is illegal, many would-be home buyers take the calculated risk that their actions will not be punished; meanwhile the family's dream of obtaining housing has been fulfilled. Fraud-for-profit schemes, on the other hand, are done with the intention of accumulating false equity out of the home. These parties have no intention whatsoever of staying in the home long, let alone being a mainstay within the community. Fraud-for-profit schemes are often committed with the help of industry insiders, usually with the principal parties involved with the transaction experiencing profits from the proceeds of the sale in excess of what the transaction would have netted under legitimate circumstances.

Mortgage fraud has numerous, common characteristics with other types of fraud activities, but also has unique characteristics and consequences that separate it from other white-collar crimes. Similar to consumer fraud, individual victims of mortgage fraud may be reluctant to report that they have been victimized due to either a feeling of embarrassment (Ennis, 1967), or a sense of disdain and unworthiness from the point of view of the authorities (Walsh & Schram, 1980). Mortgage fraud also produces a unique set of victims that sets it apart from more traditional versions of consumer fraud. While it is true that banks and lending institutions suffer losses due to mortgage fraud, the neighborhoods surrounding fraudulent properties experience their own hardships as well. In its mature phase, mortgage fraud adversely affects neighborhoods by inviting the negative externalities that one might expect from a foreclosure or vacancy situation. As a result, the consequences of mortgage fraud differ from the commonly held belief that only organizations and individuals can be victims of fraud activities (Baker & Faulkner, 2003). Also, unlike other forms of consumer fraud, many collaborators face the threat of possible prosecution for any role that they have played in the ruse, no matter how innocent their participation has been. In the end, cooperation by insiders of mortgage fraud is essential for authorities to help unravel the intricate web of mortgage fraud schemes and bring perpetrators to justice.

Ironically, modern society appears to work more in favor of those perpetrating the fraud schemes than for those trying to detect fraud. While great strides have been made to find automated "red flags" that signal potential mortgage fraud (Sandler, Raman, & Mitchell, 2006), mortgage fraud perpetrators have benefited from an increasingly open network of existing Internet and media-based information about fraud techniques that have allowed mortgage fraud (and other forms of fraud) to diffuse quickly throughout society (Baker & Faulkner, 2004, 2003). To compound the problem, the chances of getting caught are minimal, the punishment is negligible, and the social stigma attached to the offense is insignificant. In addition, many law enforcement agencies do not have trained personnel to adequately handle white-collar crime, let alone mortgage fraud offenses (Turner & Stephenson, 1993).

Data Concerning Mortgage Fraud

In 1999, the number of potential mortgage fraud cases only accounted for 2,934 total cases (as measured by the housing industry's count of Suspicious Activity Reports (SARs), but that figure has increased considerably to over

23,000 potential cases by 2006. In addition, the geographic scope of mortgage fraud problem areas has spread to at least 26 states (U.S. Federal Bureau of Investigation, 2005). Although SARs cover a number of broad-based financial crimes, mortgage fraud represents a growing percentage of white-collar crime, with the number of mortgage fraud offenses as a share of financial crimes growing nearly 200 percent between 1997 and 2005 (Financial Crimes Enforcement Network, 2006). Information in Table 1 provides information on the growth of mortgage fraud within the past few years.

Table 1. *Mortgage Fraud Suspicious Activity Reports, 1999-2005*

Mortgage Fraud SARs

Fiscal Year	**SAR Submissions**
2005	23,018 (est)
2004	18,391
2003	9,539
2002	5,387
2001	4,696
2000	3,515
1999	2,934

Source: Mortgage Asset Research Institute (2006)

While mortgage fraud schemes have been around for years, the crime has not been widely known or documented until recently. It is tempting to assume that the exponential growth in crime reports over the six years covered in Table 1 suggests an absolute growth in mortgage fraud of the same magnitude. There are a few reasons why this may not be the case. First, the classification of mortgage fraud as a separate crime has not come into play until recently. As a result, many types of crimes that did not initially resemble mortgage fraud have now become familiar as part of a mortgage fraud scheme, and thus become easier to classify. Also, many areas of the country have not had the proper training to successfully pursue mortgage fraud cases at the most basic law enforcement level, allowing many fraud perpetrators to operate unfettered back in the 1990s when law enforcement had not yet come to terms with the recognition of mortgage fraud and its consequences. Occasionally the discovery process can take a period of one to four years, allowing the perpetrator to avoid apprehension (Shiller, 2005). Thus, the SARs shown in Table 1 likely pertain to frauds that occurred several years back, and therefore should not be considered as "new" incidents. Still, despite these reasons, it is safe to assume that the commission of mortgage fraud has indeed grown considerably during those years, simply because the relaxed mortgage underwriting environment and the exceedingly vibrant mortgage lending environment that prevailed during that time created ideal conditions for fraud to occur without great fear of detection by regulators or authorities.

Surprisingly, academic research on mortgage fraud has been practically nonexistent. Comprehensive reference materials and encyclopedias relevant to the subject matter are guilty of the same types of oversights regarding mortgage fraud. Haigh (2005) does offer a general reference entry on the matter, while other lengthy periodical anthologies relevant to consumer interests, housing issues and white-collar crime do not mention mortgage fraud within their broad array of references (Gerber & Jensen, 2007; Wells, 2005; Van Vliet, 1998; Brobeck, 1997).

How Mortgage Fraud Works

It is important to note that mortgage fraud-for-profit schemes take on many different forms. As a result, it is unusual to see two mortgage fraud transactions directly mirroring one another. Nevertheless, some common themes and tactics persist in a number of mortgage fraud cases that can prove instructive to law enforcement and to new professionals entering the housing industry for the first time.

In a mortgage-for-profit scheme, the criminal is intent on defrauding unwitting lending institutions and individuals. The scheme starts usually with either a person stealing someone's identity, creating a false one, or through the use of a "straw" borrower. In the straw borrower situation, a naïve individual is enticed into signing the loan paperwork (usually for a fee), sometimes under the guise of a real estate investment specialist guiding the would-be investor. Using the false identity or the straw buyer, the perpetrator next locates a house or series of properties that are for sale. The perpetrator then enlists the aid of a real estate appraiser to artificially inflate the value of the identified property to make it appear that it is much more valuable. At the same time, the perpetrator works with a corrupt loan officer or loan processor, who prepares fraudulent documents to support the loan application. Then, a settlement agent either wittingly or unwittingly is recruited into the scheme to close the loan and disburse the proceeds. Some settlement agents may not know that a fraud is about to be committed, but others may create a false set of documents to send to the lender in an effort to conceal the fraud. The last step is to close on the mortgage loan and have the proceeds either disbursed to the perpetrator indirectly in the form of a kickback to the buyer, or directly via a payment from the seller's proceeds to an illegitimate corporation. Eventually, the mortgage payments are left unpaid, and the property goes into delinquency and finally foreclosure.

Many of these types of mortgage fraud scenarios involve the use of illegally obtained false identities. Data compiled by federal authorities show that mortgage fraud growth corresponds with the rise in identity theft (Financial Crimes Enforcement Network, 2006). Many fraud criminals also commit identity theft to not only help facilitate the mortgage fraud scheme, but also to create yet another layer of complexity to further complicate law enforcement's efforts at zeroing in on fraudsters' activities (Toneguzzi, 2006). Recent data from the Bureau of Justice Statistics estimates that identity theft affected roughly seven million households in 2004 alone, with future cases of identity theft expected to grow even higher (Baum, 2006).

One of the more frustrating aspects of mortgage fraud from both the law enforcement and victim perspective has been the lack of comprehensive efforts to reduce and eliminate the spread of mortgage fraud. Even though banks are direct victims of mortgage fraud, their response toward addressing this criminal activity is tepid. Because the cost of mortgage fraud is relatively small compared to the overall loan portfolio of a lending institution (Bajaj & Creswell, 2006), many times lenders will simply ignore the financial losses of fraud and concentrate on future income. This lack of responsiveness by the lending industry has enabled criminals to commit mortgage fraud. Meanwhile, there is a common perception among mortgage fraud perpetrators that committing the crime is a "zero-risk" venture (Aaron, 2006; Gillespie, 2006), primarily because law enforcement resources are limited in what they can do to address this crime adequately (Kelly, 2006; Gillespie, 2006). Once convicted of mortgage fraud, the penalty has traditionally consisted of only paying back the amount of the money gained from the theft (Harmon, 2006), which only serves as an incentive for committing future fraudulent activity.

COMMUNITY EFFECTS OF MORTGAGE FRAUD

One of the least recognized victims of mortgage fraud is the community in which the fraud has occurred. A property that serves as the subject of the mortgage fraud crime initially boosts neighboring property values, but this ultimately does not serve as an advantage to the community, since the increased value is illusory. Eventually, the crime is exposed and a host of events detrimental to the community can occur. That is not to say, however, that mortgage fraud is necessarily the beginning of a neighborhood's decline. There is evidence that neighborhood characteristics may play a role in attracting mortgage fraud in the first place (Carswell & Bachtel, 2007). Figure 1 below provides an example of the types of community effects that can occur in a typical mortgage fraud scenario.

Figure 1. *Timeline of Mortgage Fraud Community Effects*

T1: Legitimate sale is made to criminal intent on committing fraud.

↓

T2 (shortly after T1): Fraudulent sale occurs, usually at inflated house price value.

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T3: Neighborhood house values rise as a result of inflated house price of fraud house.

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T4: Appraisals of neighborhood properties with artificially high "market values" eventually start to leak out into surrounding communities, contaminating further true value.

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T5: Fraud house goes into foreclosure.

↓

T6: Professionals within the housing industry and law enforcement determine that the house was obtained through fraud.

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T7: Neighborhood property values soon plummet, due to distressed sale of fraud property and negative externalities associated with foreclosures.

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T8: County assessment offices are stymied as to how to properly assess market value in a fraud-ridden housing market.

Foreclosures and vacancies

Foreclosures and vacancies have long been recognized as a housing and public policy problem. The effects of foreclosure have both financial and criminal implications that can affect both the subject neighborhood and the surrounding environs as well. Research has shown that the direct municipal cost of administering foreclosures is prohibitive, ranging in the tens of thousands of dollars per household (Apgar & Duda, 2005; Moreno, 1995). While it may be instinctive to consider these costs of foreclosure and vacancy as being limited to only the disposition stage of the property, research has shown that there are at least two dozen direct and indirect costs involved as well for various levels of local government, including such things as board-up costs and lien issuances, lawn maintenance and trash removal, and the opportunity cost of foregone property tax revenues, among other things (Perrault, 2006; Apgar & Duda, 2005). Apgar and Duda (2005) even show that city fire resources are utilized in foreclosure situations, as foreclosed structures become magnets for vagrants and squatters. An indirect cost is the depressing effect that foreclosed properties have on surrounding property values (Immergluck & Smith, 2005a; Shlay & Whitman, 2006; Moreno, 1995), including the eventual sale price of the foreclosed house in particular (Forgey, Rutherford, & VanBuskirk, 1994). These negative effects are problematic not only for the amount of property tax revenues that a municipality can expect to forego, but also on the collective loss in wealth within neighborhoods (Immergluck & Smith, 2005a). Some areas will simply pass along the costs of boarding up and maintaining these properties with fees and fines to existing residents (Winter, 2005), thus compounding the social, psychological and wealth costs with a fiscal cost as well. In addition, there is also a clustering effect involved with mortgage fraud that results in several houses within one neighborhood ultimately going vacant and neglected, further compounding the neighborhood's problems (Creswell, 2007).

Crime And Destabilized Neighborhoods

Although mortgage fraud has traditionally been classified as a white-collar crime, the spillover effects of mortgage fraud have the potential to create an environment for an increase in violent crimes as well, which can have serious consequences for the entire neighborhood. After a period of time, a house that is subjected to mortgage fraud has a good chance of becoming foreclosed upon and/or vacant over the long term. Research has shown that this also has an effect on neighborhood crime (Immergluck & Smith, 2006; Spelman, 1993). Because mortgage fraud by its very nature is a criminal act perpetrated by criminals, it is logical to assume that there will be more criminal incidents and citizen complaints from properties targeted by mortgage fraud than from other foreclosed and abandoned properties. Newspaper accounts also seem to buttress such claims (McCarthy, 2005). Indeed, mortgage fraud has even been suspected of having a link with terrorism. In this scenario, criminals with links to Middle Eastern extremist groups have perpetrated mortgage fraud and wired the proceeds gained through the scam overseas immediately to avoid domestic scrutiny and to fund terror activities. According to various reports, authorities have uncovered such schemes in states such as Michigan, Ohio, Virginia, Utah, and California (Petree, 2007; Poole, 2007; Rydalch & Kiernan, 2006). The fact that mortgage fraud has become increasingly linked with both organized crime and terrorism (Financial Crimes Enforcement Network, 2006) only reinforces the safety issue further. Also, low-income neighborhoods that traditionally have problems with crime, may become even more destabilized because of mortgage fraud. It is important to note, however, that there does not appear to be a clearly discernable pattern as to the types of neighborhoods that are most susceptible to mortgage fraud, with both high- and low-income neighborhoods experiencing the phenomenon (Creswell, 2007; Carswell & Bachtel, 2007).

Assessments

The appraisal industry has expressed concern over the effects that rogue operators within its industry have had, along with the negative externalities that result to the surrounding communities. During testimony before the U.S. Congress in May 2005, appraisal representatives conceded that mortgage fraud facilitated through inflated appraisals eventually filters through to other properties within a community's multiple listing service, thus contaminating market values for neighboring properties (Financial Crimes Enforcement Network, 2006). This pattern is similar to that shown in Figure 1, when the mortgage fraud is still in its infancy stage and detection of the fraud has not yet been made. Once assessments are based on already-established appraised values, the margin for error widens when an area has experienced multiple cases of mortgage fraud. As a result, artificially high values will translate into improper assessment values. The secondary mortgage market, which purchases residential mortgages from mortgage originators, actually fuels the problem by providing incentives for appraisers to allow this sort of fraud to continue by shifting the risk away from primary mortgage originators and exposing secondary mortgage conduits to financial exposure (Stanton, 1991; United States General Accounting Office, 1991), and through a failed system of regulatory oversight of appraisers (Hagerty & Simon, 2006). As a result, mortgage fraud that occurs through shoddy appraisal practices is so rampant that many honest appraisers have left the industry out of frustration (Callahan, 2005). Given the controversies that have plagued some tax assessment offices (Bennett, 2006), the prospect of having inconsistent and incorrect valuations does not seem comforting for local governments. County assessment offices, already facing pressure from outraged citizens (Gerena-Morales, 2006), will now face renewed cries from citizens over the accuracy of their assessments. These problems may be compounded further, in that high assessment values may cause existing residents to leave due to an inability to pay high property tax bills. This situation becomes more acute in neighborhoods with a high concentration of residents at retirement age with a fixed income who cannot withstand the additional shock of an increase in their property tax (The Seniors Coalition, 2006; Smith, 2005). State and local policies regarding the re-evaluation of property tax assessments also provides opportunities for the damaging effects of mortgage fraud to accumulate, as many jurisdictions wait two years or more to adjust real property values (International Association of Assessing Officers, 2000). This infrequency between valuation periods allows the incongruity between true market value and assessed value to linger, causing anxiety and confusion among taxpayers in the process.

Affordable Housing Implications/Rise In Insurance Costs

Previous research on white-collar crime in other fields points out the repercussions in terms of billions of dollars in costs being passed on to consumers, and also the inability to fully account for the true costs of such crimes

(Wells, 2005; Coalition Against Insurance Fraud, 2001; Sparrow, 1996; Dionne, St.-Michel, & Vanasse, 1995). Mortgage fraud is no different from these scams, in that lending institutions are forced to charge extra fees to its customers after they become aware of fraudulent properties in their loan portfolios. The accumulation of fees becomes even more of a problem for low-income populations, given that there is a tendency already for banks to charge higher fees to those customers who are the least profitable to them (Immergluck, 2004). Thus, further increasing the costs of providing credit will tend to price out low- to moderate-income families from achieving homeownership, and may in turn cause these families to seek credit from subprime lending companies. This situation can create a host of problems for the borrower, not the least of which is the increased probability of foreclosure attributed to borrowers who choose this credit option (Immergluck & Smith, 2005b). Even absent the issue of subprime lending, artificially high assessment values tend to price out low- and moderate-income families, many of whom would be considered good credit risks. This affordability issue becomes even more magnified when one considers that low- and moderate-income Census tracts are not spared from being hit by mortgage fraud.

The affordable housing issue becomes further magnified on the occasions when banks are forced to buy back the properties affected by a fraud perpetrator. Banks will simply buy back the property at the existing mortgage amount, rather than concede the loss and expose their error to the company's shareholders. Meanwhile, they will hold onto these houses until the market has effectively "caught up" to the value of these particular properties, which may take several months, if not years (J.C. Hillis, personal communication, February 20, 2007). This absentee landlord status by the bank creates an awkward situation in which the neighborhood has a house sitting vacant when it could be actively marketed. Advocates against mortgage fraud are also caught in a “no-win” situation, in that they would like to create widespread awareness of mortgage fraud within some of the communities, but in doing so they risk alienating certain lenders from considering lending to such risky areas.

CONSEQUENCES AND FUTURE ROLES OF COMMUNITY, INDUSTRY, PUBLIC ADMINISTRATION AND POLICYMAKERS

Mortgage fraud victims, both individuals and collective neighborhoods, have been overwhelmed by the complexity of the challenges that emanate from mortgage fraud. These challenges require the attention of private interests, community organizations and public officials in several capacities. From the perspective of the affected parties, it is important to make citizens aware of the importance of reporting victimization of mortgage fraud – a suggestion previously made by the research community regarding other forms of white-collar crime (Van Wyk & Mason, 2001), and which certainly applies in the case of mortgage fraud. Each state has a consumer agency for reporting mortgage fraud (Richardson, 2005), but it is not at all clear that these resources are available to all citizens.

Municipal law enforcement has its own obvious concerns about whether it can adequately address the growing tide of mortgage fraud cases occurring throughout the country. Although white-collar crime units have been established in many of the largest municipal and state police departments (Stotland, 1982), there still exist many disincentives for conventional police forces to adequately address such crimes relative to street crimes. These include such reasons as the amount of time needed to resolve such cases, the mundane nature of the offenses, public and political pressure to eradicate street crimes, media exposure of violent crime, and the lack of effective competence to adequately address some forms of complicated white-collar crime (Friedrichs, 1996). This indifference on the part of law enforcement occurs despite evidence that the effects of white-collar crime are "frequently more personally and socially important" than that of street crime (Ermann & Lundman, 1996).

Politicians, lawmakers and government bureaucrats have their own obligations when it comes to addressing mortgage fraud, but they oftentimes have competing and conflicting interests. Many elected officials address the need for attacking the more visible street crime incidents than to wage battle against those who commit white-collar crimes such as mortgage fraud. Still, ignoring white-collar crime could have negative consequences with voters, in that public perception surveys demonstrate that the public views sentencing guidelines for fraud cases as being far too lenient (Rossi & Berk, 1997). Even those lawmakers who recognize mortgage fraud as a legitimate area of concern face roadblocks in the course of legislative business. Many attempts to address white-collar crime such as mortgage fraud through legislative acts only results in industry lobbyists shaping the ultimate law, which normally conflicts with the public interest (Savelsberg, 1994). This conflict may be partially due to the contributions that industries such as banking and financial services provide to campaigns, which implicitly pressure government officeholders to minimize any embarrassment that might stem from such a controversy (Friedrichs, 1996). Immergluck (2004) chronicles a similar type of ambivalence, and even hostility, toward community concerns in Congressional hearings on the Community Reinvestment Act and predatory lending, a more high-profile housing issue than mortgage fraud is presently. Regulators within the housing industry also face credibility issues as well. Research has shown that regulatory commissions are generally chaired by officials who have worked within the industry (Conklin, 1977), and that regulators usually opt for higher-paying jobs within the industry being regulated after only a few years on the job (Freitag, 1983). Ironically, in those cases when government officials do take a more consumer activist approach in fraud-related cases, their efforts to interfere on behalf of consumers is sometimes met with indignation by fraud-affected parties (Trahan, et al., 2005). Tax commissioners in states and localities have a vested interest in participating in mortgage fraud educational programs because the impacted areas are not restricted to one geographic locale, housing type or price range (Weissman, 2006). Building code officials are also a key component in the recognition of fraud involving home repair scams, in which the stated improvements to the home never took place. Unfortunately, however, many code compliance offices are erratic in their service delivery and are prompted into action only through coordinated complaints by local citizens (von Hoffman, et al., 2006), thus allowing mortgage fraud to go undetected until it is too late.

FUTURE RESEARCH

Future efforts to investigate mortgage fraud and its effects may be problematic, because the complexity of white-collar crime and the high-profile nature of those involved with the crime make it difficult to obtain cooperation from institutions and individuals (Friedrichs, 1996). Still, mortgage fraud has significant implications for the entire housing sector. As a result, possibilities exist for several relevant housing research questions to be addressed. For example, do mortgage fraud related foreclosures have wider effects than typical foreclosures, including increasing crime? Anecdotal information suggests this is the case and if a negative effect exists, estimating the impact on foregone property tax revenue may prove too compelling for local government officials to ignore. Also, is mortgage fraud incidence predicated on condition of the housing market? Opinions differ as to whether mortgage fraud flourishes during housing expansions (Patterson, 2006; Washington, 2006) or recessions (Derus, 2006; Mintz, 2006). In housing boom periods, the volume of mortgage originations distracts housing professionals from paying proper attention to potentially fraudulent activity (McLellan, 2006). In housing bust periods, the pressure to maintain a normal standard of living and meet annual goals and outcomes may force mortgage and housing professionals to resort to fraud. This behavior is consistent with that observed by "strain theory" researchers (Merton, 1957). A more thorough analysis of the economic timing of mortgage fraud crimes may determine whether there is an optimal point along the housing cycle that mortgage fraud is apt to occur. Finally, does mortgage fraud occur in neighborhoods with strong neighborhood homeowner associations? While it is not clear that neighborhoods can actually prevent mortgage fraud from entering the neighborhood, public officials would be encouraged by the efforts of homeowners associations and neighborhood organizations that are pro-active in recognizing the signs of neighborhood disarray commonly seen in mortgage fraud situations (Smith, 2006; Chidi, 2005).

RECOMMENDATIONS

It is certainly possible for private industry professionals both within and outside the housing sector to play a more active role in addressing mortgage fraud issues and concerns. Local area Boards of Realtors and mortgage lenders can also assist simply by informing their members of how easily it is to become unwittingly drawn into a mortgage fraud scheme (Weissman, 2006). Local area housing counselors and educators are also valuable resources within communities, and can certainly assist in disseminating information to potential home buyers on how to avoid becoming a victim of mortgage fraud. Federal legislators have recognized the potential value of this sector of the housing industry, and have proposed appropriating millions of dollars toward the ongoing education of new home buyers (Jackson, 2006). Public utilities also play a role since they are frequently asked to identify mortgage fraud properties through the sharing of water and electricity billing records (Smith, 2006).

There is also reason to believe that state governments have begun to sense the dangers involved with mortgage fraud, and have proceeded to act accordingly. The passage of the Residential Mortgage Fraud Act in the state of Georgia in 2005 served as a seminal moment in the prosecution of mortgage fraud, as state prosecutors were given more latitude in meting out the punishment for those involved with perpetrating mortgage fraud. The bill's passage has had a few desired results for housing activists. First, it has given prosecutors the opportunity to maximize the prison sentences for those people committing mortgage fraud. In a recent case in Atlanta, a jury handed down a 25-year sentence to a closing attorney involved in a local mortgage fraud scam, sending a message about the severity of the crime (Jones, 2007). Perhaps as a result of the new penalties involved, Georgia has also experienced a huge drop in the number of mortgage fraud cases occurring within its borders (Mortgage Asset Research Institute, 2006). While this development is certainly a positive development, it does not spell the end of mortgage fraud for communities. Still, the results have been encouraging enough that eight other states have decided to use the Georgia legislation as a template for their own mortgage fraud bills. It is not clear, however, whether these bills will obtain passage (Roberts & Dollar, 2007).

Local government has also recently figured out innovative ways to turn unfortunate mortgage fraud situations into possibilities within the communities affected. In the city of Atlanta, City Council member Mary Norwood has spearheaded a program which intends to reclaim some of the properties that have been left vacant as a result of mortgage fraud. Under this reclamation plan, foreclosed homes which are owned by banks will be inspected by the city. After any rehabilitation needs have been addressed, the properties will then be marketed to employees of companies working inside the central city. One of the key functions of making the fraud-affected housing stock attractive to potential buyers is the re-appraisal of these properties at true market value, which will undoubtedly create instant affordability for many Atlanta workers who had been priced out of the metropolitan housing market because of artificially high appraised values due to citywide mortgage fraud (Rauch, 2007). While the reclamation plan is still in its infancy, it demonstrates the type of flexibility that local governments need to exert to actively and effectively combat mortgage fraud within communities.

CONCLUSION

The crime of mortgage fraud has become an interesting phenomenon in American communities. The number of newspaper stories associated with mortgage fraud has risen precipitously over the past several years (Carswell & Bachtel, 2007), which suggests that the public is intrigued about the crime’s stealthy nature and its ability to pervade communities. Even more importantly for local government officials, there is a real public cost involved with mortgage fraud, including lost property tax revenues, and additional police and fire protection related to the moral hazards associated with foreclosure. These costs do not even take into account the indirect costs involving loss of quality of life for the surrounding neighborhood. As Roberts and Dollar (2007) explain, these costs involve "[m]oney that would otherwise be used for city services [which] is gobbled up in the cost of fraud, further chipping away at the foundation of the community." (p. 12). At the same time, the issue is inadequately addressed by many local government entities and private business interests. Still, there are signs of public/private coordination in helping to stem the tide of mortgage fraud. The Georgia Real Estate Fraud Prevention and Awareness Coalition (GREFPAC) has served as a template for activist organizations whose main goal is providing awareness and solutions to the problems associated with mortgage fraud. Consisting of concerned citizens that have been victimized by mortgage fraud, GREFPAC has worked together with law enforcement to address current fraudulent activities within the Atlanta metropolitan area, while also developing public educational forums on this complicated, yet relevant topic of concern. Law enforcement officials have also been forced to rely on the help of the private industry during some of their ongoing criminal investigations. Specifically, cooperation has been evident in the appraisal industry, in that more appraisers are offering their time to local law enforcement to perform forensic appraisals on suspect properties under investigation for fraud (McFall, 2007). Continued efforts at coordinating resources on all fronts (community, government, and industry) seem to be the best way to combat the effects of mortgage fraud and protect the neighborhoods in which we live.

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