



The anatomy of a crime

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The trial of 67-year old chartered surveyor Christopher Jarvis, found guilty of mortgage fraud at Shrewsbury Crown Court, is symptomatic of a wider trend of lenders being duped by false property valuations, being played out in courtrooms across the country

The recent conviction of a 67-year-old chartered surveyor, found guilty of a serious mortgage fraud, has posed some serious questions about the quality of due diligence and independent surveyors' reports.

Cost of fraud in financial services

Insurance fraud	£2.1bn
Mortgage fraud	£1bn
Plastic card fraud	£440m
Online banking fraud	£60m
Cheque fraud	£30m
Motor finance fraud	£16m
Telephone banking fraud	£12m
Total	£3.6bn

Source: National Fraud Authority

At the end of February and following a six-day trial, Christopher Jarvis was convicted at Shrewsbury Crown Court of inflating the value of Barn Bank Manor - an 11-bedroom property on the outskirts of Stafford.

The jury convicted Jarvis - a chartered surveyor for 40 years - of stating that the house was worth £4.25m while knowing or believing that it was untrue, in order to defraud Yorkshire Bank out of £3m.

His case, although high-profile, is by no means the only example of dishonest valuations put on properties.

Diane Telford, director of global regulatory operations for the Royal Institute of Chartered Surveyors, said false valuation is not a crime that can be done alone.

She said: "Mortgage fraud is something about which we are all concerned. All the regulators work closely to prevent mortgage fraud. It is difficult to do it in isolation.

"You need the full collection of professionals, like advisers, accountants and solicitors, to be able to pull it off. A surveyor can overvalue a property, but you need somebody who would make money out of selling it. We are working together with all professions on this," she said.

Ms Telford said Rics is making a valuer registration scheme, launched in October,

compulsory in April. This will allow it to better scrutinise surveyors, while the Law Society is taking similar actions for solicitors.

FSA figures show that since 2006, 95 mortgage intermediaries have been banned for fraud.

A spokesman said: “We have a programme called the information for lenders scheme, which encourages lenders to get in touch if it has any suspicions about fraudulent applications.”

Behaviour

The mortgage market review is also bringing in an approved persons element, aimed at reducing fraudulent behaviour, while lenders will be expected to have more stringent checks on affordability and income verification.

Speaking at a British Bankers’ Association conference in November, Margaret Cole, the FSA’s director of enforcement said financial crime was a priority.

She said: “Our aim is to prevent financial crime by keeping crooks out of finance, encouraging the industry to strengthen its defences and warning consumers about the dangers they may face. Where financial crime does occur, or firms fail to put in place the right safeguards to prevent it, we take tough enforcement action to deter others from doing the same.”

She added that the FSA was working on a thematic review, due to be released in July.

However, James Sullivan, policy adviser for the Building Societies Association, said the checks and balances of lenders would be boosted by better law enforcement.

He said: “Fraud is one of so many areas of policing that has to fit into limited and decreasing budgets. While everybody thinks it is the crime that needs to be eliminated I suspect if you are a chief constable with a declining budget, you look at the cost of an investigation and the value it adds. In terms of priority against violent crime and social order, you may think it is not a great return on investment. There needs to be a better deterrent. Building societies and other lenders have got facilities that can spot attempted fraud. The one thing we cannot do is put anybody behind bars. We need law enforcement to tackle gangs and give a deterrent so a fraudster would say: ‘I may make millions but do I want to go to jail?’

“By and large, lenders’ systems are robust enough. They do catch a large amount of attempted fraud. However, the sophisticated fraudster has the advantage of agility and almost limitless funds. They do not have approval committees or all the technical data. They can react faster than fraud prevention committees. Lenders use agencies and databases to check names and addresses are correct, bank account details.

“They use valuers and panels they believe are true and honest and rely on the Royal Institute of Chartered Surveyors to maintain information so penalties are up to date and bad apples are taken out.”

Mr Sullivan said that while a lot of cases are emerging from the “boom years” of bank lending, he said there must be a consideration of the time it takes for issues to emerge.

He added: "Most cases being unearthed are from some years ago. Our members are still discovering fraud going on."

"It is certainly true that a lot of cases were in boom years, but you have to consider that the investigation cycle takes a long time to get to court."

Models

Sue Anderson, head of member and external relations for the Council of Mortgage Lenders, said financial institutions are increasingly using automated valuation models, which use comparable properties, previous valuations, historical house prices and user input to generate a figure."

But even this could raise more problems. Henry Ejdelbaum, managing director for corporate advisers ASC Finance for Business, said: "Because banks get quite mechanical, nobody takes responsibility. It is easier for fraudsters now than it ever was before. If you follow the underwriting process of a bank, there is no responsibility but tick boxing that nobody thinks about anything."

"If the valuation comes in on the right letterhead, they can tick the box, the solicitor acting does not ask questions, they may send the question on to the other solicitor, as long as they get the answers back they do not read it."

The NFA launched the Mortgage Fraud Forum at the end of 2009, bringing together business, regulators, law enforcement and professionals.

This aims to develop measures to ensure attempted mortgage fraud fails, ensure where mortgage fraud is not prevented, it is quickly detected, and to publicise successes and communicate a counter-fraud message.

Mike Haley, director of interventions for the NFA and chair of the forum, said: "The success of the Mortgage Fraud Forum sends a clear message to organised criminals, who wrongly think that committing mortgage fraud is a low-risk occupation, and those individuals who lie on their mortgage application forms, that every party in the mortgage process is working together, sharing intelligence and making sure that there will be severe consequences for fraudsters."

Jarvis will be sentenced on 18 March, but the industry waits to see if changes being implemented will stem the flow of similar cases in the future.

According to the National Fraud Authority, responsible for cracking down on all types of deception, mortgage fraud is costing the UK £1bn a year.

Its Annual Fraud Indicator for 2011 said: "The mortgage market has changed significantly over the last couple of years. There has been a decrease in the volume and value of mortgage products sold (falling by 44 per cent from £254bn in 2008 to £144bn in 2009) as well as changes in the types of products available and a number of lenders withdrawing from the market. Despite these changes, the mortgage industry still loans approximately £12bn each month, making it an attractive target for fraudsters."

KPMG's 2010 fraud barometer claimed mortgage fraud was at a 22-year high. It claimed there were 21 cases of mortgage fraud in the first half of 2010, worth £96m, compared with 18 worth £24m in the first half of 2009, and £77m in the whole of that year.