

Spotlight On Lending

According to the Mortgage Asset Research Institute, Rhode Island led all 50 states in mortgage fraud last year. Before that, it had never even landed among the top ten, although revised figures for 2007 now suggest it also ranked high that year, in fifth place.

The researchers, who draw their data from hundreds of companies, including lenders, banks and mortgage insurers, note that Rhode Island's first-place position may be a statistical anomaly, yet the figures suggest "significant fraud activity." (Rhode Island is followed by Florida, Illinois, Georgia and Maryland, in that order; New York, California and Michigan also ranked high.)

MARI compares the number of reported frauds with the number of loans made in a given year to come up with an index. In 2008, it said, Rhode Island had three times the level of fraud expected. The most common type, accounting for 38 percent of the cases, was appraisal misrepresentation, which includes value inflation and incorrect use of comparables. In other high-ranking states, application fraud was a far more typical source.

Rhode Island's rating has mystified local officials. Steven Cayouete, chief bank examiner for the state, said he has not noticed an extreme increase in reports of fraud; A. Michael Marques, who heads the Department of Business Regulation, said he too had observed no noticeable increase. Atty. Gen. Patrick Lynch was generally dismissive of the report, saying his department gets only a handful of cases each year.

So what's going on? With credit tightening and defaults multiplying, lenders may be applying far more scrutiny to mortgage applications than before, and detecting more fraud. Also, with home values plummeting, appraisals made in recent years may be drawing challenges. But we don't really know.

Other states, Connecticut and Vermont among them, have been moving aggressively against loan scams, and indicting unscrupulous processors. Some, such as Maryland, have set up special mortgage-fraud task forces. It seems clear that, given MARI's numbers, Rhode Island should at least take a look into what might be happening, starting with the state's system of appraisals.