

Opening Statement

Chairman Bob Ney

Subcommittee on Housing and Community Opportunity Hearing

Hearing on

“Mortgage Fraud and its Impact on Mortgage Lenders”

Thursday, October 7, 2004

Today the Housing Subcommittee meets to discuss mortgage fraud and its affect on mortgage lenders.

This Subcommittee, along with Chairman Bachus’s Financial Institutions Subcommittee, conducted a number of hearings concerning abusive lending practices, sub prime lending, and how to ensure credit availability for those who need and want it. During these previous hearings, topics revolved around addressing fraudulent schemes and how it affects the individual consumer.

However, consumers are not the only ones affected by abusive lending practices. Financial institutions and other lenders are also victims of mortgage fraud and lose millions each year through this type of corruption. Some studies have shown that between 10 and 15 percent of all home loan applications include some fraud or misrepresentation. Lenders can choose to absorb the loss and reduce earnings that harm stockholders or charge higher consumer fees to recuperate losses. Government-insured loans that fall victim to fraud end up being paid by taxpayers. Examples of this fraudulent behavior include elaborate flipping schemes, straw buyers, fake credit histories, inflated appraisals, fabricated pay stubs, and falsified tax records.

One of today’s witnesses, the Federal Bureau of Investigation, has stated that mortgage fraud has the potential to become a national epidemic that could expose lenders to hundreds of millions of dollars in losses. As a result, the Bureau has targeted a variety of fraud schemes through its “Operation Continued Action,” the largest nationwide operation in FBI history directed at organized groups and individuals engaged in mortgage fraud.

From its inception in August 2004 through this month, Operation Continued Action investigators have identified more than 245 subjects in 158 investigations in 37 states. More than 151 indictments have been filed to date. These charges have thus far led to more than 144 arrests, convictions, sentences, and millions of dollar in forfeiture and restitution.

The United States mortgage market is the deepest and most affordable in the world. Due to the evolution of unique funding structures for mortgages, Americans pay less for mortgages than almost any other country. As a result, this country has

the world's highest homeownership rate. Today's hearing is another important step as we attempt to find common ground with comprehensive solutions to the problem of abusive lending.

Our witnesses have a variety of expertise in the issue of mortgage fraud and I look forward to hearing their testimony.