



# AI, Fraud, and the Future of Mortgage Risk Management

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Artificial intelligence (AI) has revolutionized numerous industries, offering extraordinary efficiencies and capabilities. However, this technological advancement can also be misused. AI presents new avenues for misrepresentation and fraudulent activities in the mortgage industry. Fraudsters are increasingly harnessing AI to exploit vulnerabilities in the mortgage industry, leading to significant financial losses and legal repercussions.

Mortgage fraud involves deceptive practices aimed at misrepresenting information to obtain a mortgage loan. Common types of mortgage fraud are income, occupancy, appraisal, straw buyers, and equity skimming on the origination side with foreclosure and loan modification scams during servicing. In the past, mortgage fraud was mostly about faking documents or bending the truth on loan applications. Now, the game has changed, as the integration of AI into mortgage fraud schemes has increased the sophistication and effectiveness of the scammers. Common methods of AI assisting in fraudulent schemes include:

- *The creation of deepfake identities.* AI can create realistic synthetic identities by combining elements from various real individuals. These deepfakes can convincingly mimic legitimate borrowers, making detection challenging for traditional verification systems.
- *The fabrication of documents.* Advanced AI tools can produce authentic-looking financial documents, such as pay stubs, bank statements, and tax returns in addition to falsified deeds, mortgages, and identification documents. These phony documents can deceive lenders leading to the approval of either unqualified or straw borrowers.
- *The creation of voice and video impersonations.* AI-driven deepfake technology allows fraudsters to impersonate real estate agents, lenders, borrowers, or any parties involved in mortgage transactions. This can lead to unauthorized changes in loan terms or misdirection of funds.

The utilization of AI in mortgage fraud poses significant challenges to the mortgage industry and may have significant implications such as increased financial losses, erosion of borrower trust, and regulatory scrutiny. The

sophistication of AI-driven fraud may result in substantial monetary losses for financial institutions and investors. A study by Deloitte estimates that generative AI could cause U.S. fraud losses to grow by 32% annually, reaching \$40 billion by 2027. Repeated incidents of fraud can undermine public confidence in the mortgage industry, deterring potential borrowers and investors from engaging. As AI-driven fraud becomes more prevalent, regulators may impose stricter compliance requirements, increasing already rising operational cost for lenders.

So, what can be done to mitigate the risk of AI-driven mortgage fraud? Some common measures the industry has adopted to combat the rise of AI-assisted mortgage fraud include:

- Enhancing verification protocols by implementing multi-factor authentication and biometric verification to ensure the legitimacy of borrowers.
- Utilizing an AI-powered detection system to identify anomalies and patterns indicative of fraudulent activity, staying ahead of sophisticated fraud tactics.
- Regularly training staff to recognize signs of AI-driven fraud and stay current on the latest fraudulent techniques.
- Engaging in information-sharing initiatives with other financial institutions and regulators to stay informed about emerging threats and best practices.

Most agree that AI will have a positive impact on the mortgage industry, and it certainly is not going away. However, it does introduce new risks for the industry that must be addressed collaboratively and proactively. By understanding the methods employed by fraudsters and remaining diligent with countermeasures, the industry can safeguard the mortgage process for everyone.

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