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Safe Talk®
Loss Control Bulletin

Fraud involving HELOC loans shows no signs of slowing

We have seen an uptick in HELOC loan fraud as criminals find new ways to target your banks and your customers. Over the past few months, we have worked on multiple claims totaling well over $1 million in losses. This SafeTalk describes three real claims scenarios and offers suggested steps that can be taken to mitigate HELOC-related fraud.

HELOC loan fraud varies in its sophistication from highly complex schemes to much simpler, more routine matters. Interestingly, the level of sophistication and the amount of loss do not always correlate; the most basic fraud still translates into significant losses because of these large lines of credit.

Take, for example, this claim involving counterfeit HELOC checks that resulted in a loss of nearly $500,000. The scheme was fairly straight forward in that counterfeit HELOC checks with forged signatures were presented and approved for payment on three different accounts at the same bank. The bank reviewed the HELOCs to ensure sufficient funds remained available to fund each check, but did not review the signatures or notice the dissimilarities in the font and logo on the counterfeit checks from legitimate HELOC checks.

In two other more complex schemes, fraudsters advanced money from HELOCs, deposited the funds into the personal checking accounts of the victims, then stole the money from the checking accounts using counterfeit checks or by wiring money from the accounts. In both cases, the perpetrators were able to conceal their activity from the actual account holders by changing contact email and phone numbers prior to committing their crimes. In one of the incidents, the fraudsters also enrolled the victim in electronic banking, switching statement delivery preferences to electronic from paper to further avoid detection. The total dollar amount exposed in these incidents reached nearly $1.1 million.

While each circumstance is unique, there are some common themes in these recent claims and HELOC fraud in general. **Once criminals find success, they often continue to steal from the same accounts or attack other accounts at the bank using the same methods over and over.** In the three claims described above, a total of six different accounts were targeted eleven times. These crimes are easily repeatable because HELOCs are not used for day-to-day purchases and statements are not reviewed on a regular basis.

Another theme that often emerges after fraudulent activity unravels is how easy it is for fraudsters to change email addresses, phone numbers, and contact preferences. Frequently, this important information is changed in the days leading up to a crime, often with a simple phone call to the bank. Because the answers to commonly used control questions can often be found online through a quick search, we suggest treating any change in contact information as a red flag, recognizing this may be the initiation point of fraud.

Finally, **HELOCs are attractive targets because of the relative ease in which information about the accounts can be obtained.** Account numbers and signatures are readily available to those hoping to perpetrate fraud as this information is usually a matter of public record. When paired with personal details gleaned from social media and other public forums, it becomes a treasure trove for fraudsters.

While it is impossible to prevent all fraud, there are additional steps a bank can take to mitigate their exposure to large HELOC fraud losses. We offer the following suggestions:

1. **Scrutinize HELOC checks in the same manner as regular deposit account checks** and verify the signatures on all checks written in excess of $25,000. While forged signatures are often very realistic and difficult to detect, this is still an important best practice to follow when used in conjunction with other control measures.
2. **Initiate a positive pay system** where the borrower must advise the bank in advance if they are going to draw from their HELOC.

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3. **Notify borrowers when a draw has been requested through an automated email, text, or notification on an app.** Positive pay could be included with the process, requiring an affirmative reply from your customer in order to process the transaction. Borrowers could also be notified when a draw has posted to their account using the same technology. We suggest including the loan officer or relationship manager in the process as they are in the next best position to recognize irregular or out of character transactions.
4. **Impose daily limits on HELOC draws** and scrutinize all internal transfers of HELOC funds, especially those involving personal checking or savings accounts.
5. **Remind your customers to be vigilant about reviewing their accounts.** In several cases, banks have brought the fraudulent activity to the attention of their customers because statements were not being reviewed on a regular basis. We have also seen instances where borrowers forgot they had an open HELOC.

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