

**People & Businesses in the News Results**

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**HEADLINE:** A crop of fake credit histories emerges

**BYLINE:** MARK MORRIS, The Kansas City Star

**BODY:**

Bad credit rating? No problem. Just create a fake credit history.

The relatively new fraud has caught the attention of area federal prosecutors and investigators who warn that it risks further undermining the already shaky credit industry and the U.S. economy.

"As we've seen in recent years, what hits the lenders hits all of us," said Assistant U.S. Attorney Linda Marshall.

The scheme allows those with poor credit scores to illegally buff up their credit histories without actually paying their bills. Lenders then depend on those bogus histories when considering new loans or lines of credit.

Federal authorities in the Kansas City area saw an isolated instance of credit history fraud a couple of years ago but began finding more examples only recently. Since then, FBI agent Julia Jensen has re-examined mortgage fraud cases she investigated and found evidence that the credit history scam played a role.

So far, authorities have identified about \$11 million in fraudulently obtained mortgages in western Missouri using the credit history scheme. Losses totaled about \$5 million.

But because the fraud is so new, nobody really has an estimate of how much has been stolen in the Kansas City area or nationwide.

All of this comes at a time when lenders already are under siege. Recent federal "stress tests" estimated that 19 of the largest U.S. banks could absorb \$82 billion in credit card losses by the end of 2010.

## Intricate scheme

Authorities say the new fraud is a complex hybrid that uses elements of earlier credit repair schemes - such as phony Social Security numbers and "renting" other people's credit scores - to create misleading credit histories.

Should someone use that fake credit history to convince a lender to provide a credit card, the borrower would have committed the same kind of crime that federal authorities here have prosecuted for years in the mortgage fraud crackdown.

"When you materially misrepresent your financial situation to a lender, that is fraud," Marshall said.

Though nobody has been indicted locally for the new credit history fraud, federal authorities in late March charged a 30-year-old mortgage broker from Lincoln, Calif., with a bank fraud that bore some of the hallmarks of the scheme.

According to federal court records in Sacramento, Calif., Jerry Van Le allegedly obtained unused Social Security numbers and then worked with employees at a Hempstead, N.Y., furniture company to create fictitious credit histories.

With those new credit histories, Le purportedly obtained credit cards and loans for his \$500,000 home and five vehicles.

Fraud investigators from the Experian credit reporting agency shut down the furniture company's access to credit files - but not before Le allegedly paid employees at least \$16,000 for access to the database, according to an affidavit filed by a Secret Service agent.

## Fiction writers

A fraudster following Le's alleged California model has a thorny problem: How to fill up a fictitious credit report with a good credit history.

So instead of doing it the old-fashioned way - such as paying what's owed - why not simply use someone else's good credit history?

Authorities say scammers often do that by paying someone to add them as "authorized users" to established and well-maintained lines of credit. The buyers, though, are only renting the credit history. They don't have the ability to make charges on the account.

"Piggybacking," as the practice is called, is legal and often used by parents to help establish credit for their children.

But the credit repair industry also has established a credit rental market. For example, last week some Kansas City listings on Craigslist offered to rent a credit history dating to 1999 on a Chase Visa card with a low balance and a \$55,000 limit.

Some credit lines permit a cardholder to add dozens of authorized users to the account, said Curtis Arnold of CardRatings.com, a Web site that tracks credit cards. That means a single account history can be rented many times.

With that fictitious credit file now brimming with well-maintained credit histories, it's time for the scammer to apply for credit cards, car loans and mortgages.

Should the lenders decide to verify income and employment, the formerly credit-challenged scammer can take advantage of Internet-based services that will produce

tax forms and dummy pay stubs that include the logos of major corporations.

They even answer a phone in the name of the scammer's purported employer and verify any job, salary and work history.

#### Desperate measures

Todd Davis, chief executive officer of LifeLock, an identity-theft protection service, said such frauds usually surface during hard economic times.

"The recession puts the screws to people, and people take desperate measures," Davis said. "Some are losing their homes or getting an eviction notice. These are people who never would think of going to the corner grocery and robbing it."

One fraud fighter said credit history schemes will only draw more law enforcement attention as con artists use the techniques to make bigger purchases, such as cars and homes.

"You'll start to see these come out because of larger numbers," said Bruce Dorris, a former prosecutor and program director for the Association of Certified Fraud Examiners. "It certainly is a risk that creditors and lenders are going to have to be on the lookout for."

But the credit industry is fighting back. Diane Terry, senior director for fraud victim assistance at the TransUnion credit reporting agency, said her firm began noticing the scheme about the same time it surfaced in Kansas City.

TransUnion now has an entire unit that works on cases of false, or "synthetic," identities. Terry urged lenders to read credit reports critically for information that doesn't make sense.

"If you have a 40-year-old mortgage broker, and the file was opened only last year and it's full of authorized user accounts, that's a red flag," she said.

American Express, whose cards are considered the gold standard for those seeking to rent credit histories, also has taken steps to limit the fraud by scrutinizing requests for additional users, said spokeswoman Lisa Gonzalez.

"We are aware of the practice, and we don't agree with it because it can impact the integrity of the credit-rating process," Gonzalez said.

The Fair Isaac Corp., which calculates the most widely used credit-scoring system, announced plans in 2007 to exclude the piggybacked accounts in the calculation of credit scores.

But the company backed down after complaints that it could limit credit to those who legitimately use the procedure.

Accountant and fraud expert Tracy Coenen suggested credit reporting agencies should red-flag credit accounts with more than 10 authorized users.

Though never surprised at the resourcefulness of experienced con artists, Coenen said the credit history scam had earned her respect.

"I think it's ingenious," Coenen said.

ABOUT THIS STORY In an effort to discourage such fraud, The Kansas City Star

intentionally omitted several key steps in the credit history scheme.

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