

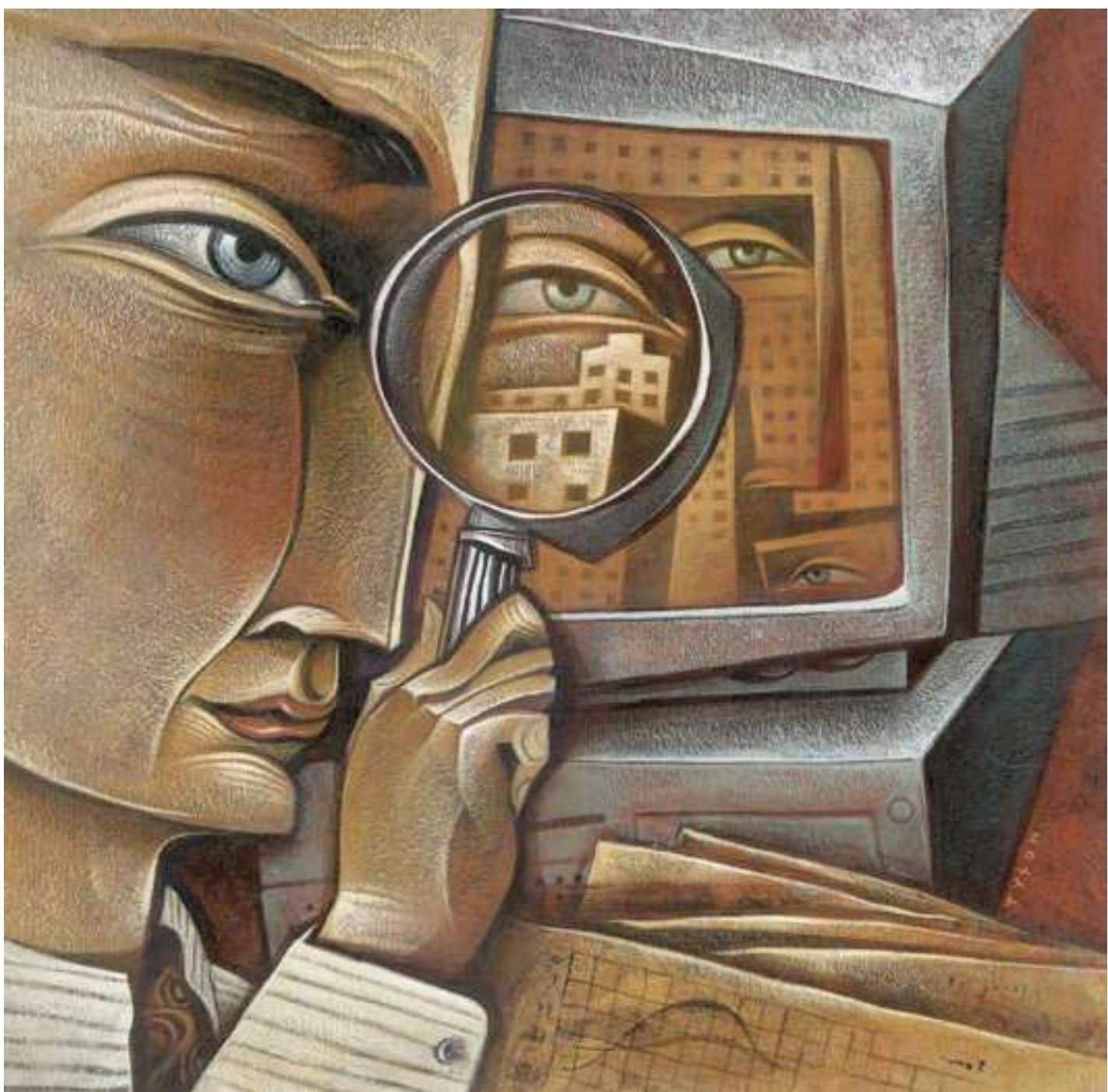
KEEN EYES HELP SOLVE FRAUD

Training and education efforts
can be the differentiator
when it comes to risk mitigation.

BY MICHAEL MILLER

Schemers, fraudsters and bad actors are doing everything in their power to keep pace with businesses and stay ahead of technology and other security practices aimed to prevent illegal activities. According to the FBI's Internet Crime Complaint Center (IC3), there were a record number of complaints filed in 2023 (880,418) with losses reaching a potential of more than \$12.5 billion. This is an uptick of 22% in total dollars and a 10% increase in the number of complaints compared to 2022.

Except for the major climb in complaints from 2019 to 2020, the total number has averaged roughly 830,000



complaints per year since 2020. Meanwhile, total losses have grown yearly from \$3.5 billion in 2019 to \$6.9 billion in 2021 and \$10.3 billion in 2022, resulting in almost 3.8 million complaints and \$37.4 billion in losses during the past five years.

There were over 9,500 complaints in 2023 directly related to real estate, which is defined as having funds lost due to a real estate investment or fraud linked to a rental property or timeshare. This totaled more than \$145 million in losses in 2023.

Real estate complaints and total losses in 2023 pale in comparison to 2022 and 2021. While total complaints are down from around 11,700 in 2022 and 11,600 in 2021, total losses have declined drastically. Losses were at nearly \$397 million in 2022 and \$350 million in 2021.

What the Rental Housing Industry is Witnessing

Those in the rental housing industry experience similar fraud attempts to those outside, for example phishing and business email compromise (BEC) scams and fake documents. The risks of fraud are always there, often hidden by those looking for the entry point, and the onus is on the rental housing companies to search for that fraud. This can be in the form of multi-factor authentication and due diligence or technological enhancements to weed out those bad actors.

The main goal for many owners and operators is to not let fraudsters move-in to communities under false pretenses, which can be seen with fake paystubs or a fraudulent identity. Once

this happens, the fraud scheme has the potential to snowball and not only be a move-in under a fake identity, but now the deposit payment will not clear – among many other potential business disruptions.

“We’ve had people use fraudulent documents to get an apartment, then move in and stop payment on their deposits, etc.,” says Todd Watkins, COO & General Counsel, RailField. “As a

result, they’ve moved in without paying anything, and we have to go through the eviction process to get the unit back.”

Fraudsters are also misrepresenting themselves, not necessarily to move in with fake documents, but rather rent the unit on behalf of someone else.

Not exactly the ideal operational process for the onsite team. So RailField, like many other companies, is turning to technology as a way to combat these fraudsters.

Pratum Companies wastes no time acting for its ownership groups. “We have a robust incident reporting and investigation process, which includes filling out an incident report detailing the incident that occurred, obtaining witness statements that are signed and dated, taking pictures of the incident site, pulling video footage of the incident site and obtaining first responder reports,” says Michael C. Hodges, Director of Risk Management & Safety, Pratum Companies. “This process aims to understand what happened and make our owners aware of the incident within 24 hours of it occurring.”

What’s New?

The FBI continues its search for fraudsters in the real estate industry. One form is people selling land they don’t own. Fraudsters pose as the rightful owner of the lot, many times in a rural community, looking for a fast sale and an all-cash close.

“It boils down to property owner impersonation,” said Special Agent Joe Cardosi of the FBI Newark, N.J. field office, in a release about the scam. “These bad actors are able to use electronic communications to convince everyone at every level of a property sale that they’re the rightful owner of the property and, therefore, the rightful recipient of the sale proceeds. But they don’t own the property.”

While the rightful owner of the property can often have no idea what is going on and later be locked in legal battles and left picking up the pieces, title companies have been bearing the financial losses. This scam has started to spill into abandoned properties and rental homes as well, said Special Agent Joe Sullivan.

Some helpful advice from the FBI: Keep an eye on the property or have a third-party manager for that task; try to avoid remote closings; and research and do due diligence on addresses, emails, names, etc.

Where’s the Risk?

The short answer: Everywhere, but risks differ depending on myriad issues, including type of business service. While both face exposure, owners and property managers have different risks to worry about. In his experience, Watkins says there’s too much legal or financial risk and even reputational risk to actively try to defund a company on the investment side of the industry. Of course, there are times when there is a piece of missing information, but that’s hardly a case of fraud. Property management and onsite is not quite the same.

-Individuals are actively working to break the law with fraudulent paystubs, IDs and employment forms. Property managers also face risks regarding construction and renovation projects.

A major differentiator between owners and managers is insurance. “Property management firms with effective risk management practices often require the owner of the property’s insurance to be primary and non-contributory,” says Hodges. “This along with the additional insured status of the property owner’s insurance policies and a waiver of subrogation insulates the property manager from risk whereas the owner of the property’s exposure is larger and much less insulated.”

Training and Education

“How do you get to Carnegie Hall?” and “What makes perfect?” are two questions with the same answer: Practice. The same is said for risk management and fraud. Training and education are steps in the process for all staff from the CEO down to part-time associates, since anyone with access to a company’s network is potentially an at-risk employee subject to deception.

“Employees that have been properly taught and trained are better prepared to handle any situation appropriately, from a resident request to a natural disaster and beyond,” says Cyndy Breit, Senior Vice President of Risk Management, Human Resources, and Investor Relations at Western National Group. “Our robust training and education programs enable our team to take charge of every situation with confidence and sensitivity, with the owner’s and the residents’ best interests in mind.”

Establishing an education process is often a first step in the risk mitigation procedure.

“Once everyone understands the threats, buy-in is much easier to achieve,” says Hodges. “Once buy-in is achieved the organization can put proactive practices in place to avoid or mitigate potential losses. Ultimately, organizations that continually train and educate staff on risk avoid losses that their competitors suffer. This leads to a more dynamic, cohesive and profitable organization that would not be in that position if they had not continually trained and educated staff on the exposures of their business.”

Training and education can be the difference maker between a bad actor moving into a community and the saving of time, money and other costs like employee hours. The cost of educating staff is also cheaper than the alternative.

“[Education is] important because it’s much easier (and much less expensive) to deal with something before it becomes a problem than afterwards,” says Watkins. “...Stopping someone from leasing a unit fraudulently is prevention. Between training and technology, you can avert the problem at little or no cost.”

Michael Miller is NAA’s Managing Editor.

Red Flags

Training and education are wonderful tools for staff to mitigate risk and fraud in the rental housing industry. But what are companies searching for when reviewing?

“Risks on the investment side are related to decisions that reduce or threaten to reduce the value or stability of the asset,” says Breit. “We always advise our clients to consider both the short- and long-term impacts of any decision about their property, and we caution them when we believe the risks of those decisions are greater than the potential returns.”

When becoming a third-party manager there are aspects of the property that must be investigated. “Understanding a property’s current state and how it got there is key,” says Hodges. “If you see that the property is not well maintained and has a history of issues that have not been resolved, then it could be a sign that the owner is not able or does not want to fix risk management exposures that are currently present.” Another red flag for Hodges is the number and trend of claims from residents. His example was fixing a water leak after multiple reports of falls.

Be active, especially on social media, to see if property names or portfolios pop up. Sometimes it’s as easy as, “See something, say something.” Watkins says his company doesn’t allow residents to sublet or rent out their units for short-term rentals—specifically spelled out in the lease agreement. So, onsite staff are trained to look out for suitcases that are out of the ordinary, among other items.