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The Interthinx 2013 Mortgage Fraud Risk Report

Fraud risks expected to shift as the market changes from a refinance-dominated to a purchase-dominated market. *read more*

The Interthinx Fraud Risk Report represents an in-depth analysis of residential mortgage fraud risk throughout the United States as indicated by the Interthinx Fraud Risk Indices. We hope you find it meaningful to your business endeavors and welcome you to leave comments and share your thoughts or pass along to your colleagues.

Executive Summary

Trends

Hot Spots

Type Specific

Special Interest

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The Interthinx 2013 Mortgage Fraud Risk Report

Executive Summary

The national Mortgage Fraud Risk Index for Q1 2013 is 100, a one percent increase from last quarter and unchanged from a year ago.

- The line-up of the riskiest states has a familiar feel. California is the riskiest state with a mortgage fraud risk index of 125. Nevada and Florida are in 2nd and 3rd places with index values of 124 and 119, respectively.
- In addition to it being the riskiest state, California contains four of the top 10 riskiest ZIP codes, and five of the top 10 riskiest Metropolitan Statistical Areas (MSAs) — including the riskiest, Santa Barbara-Santa Maria-Goleta. Additionally, nine of the top ten riskiest MSAs for Employment/Income Fraud Risk are located there.
- Four of the top 10 riskiest ZIPs in the country, including the riskiest 60640, are located in the Chicago-Naperville-Joliet MSA.
- Occupancy Fraud Risk increased by 15 percent from a year ago, consistent with continuing investor appetite for rental properties. McAllen-Edinburg-Mission in Texas is the riskiest MSA for Occupancy Fraud Risk this quarter, with an index of 217.
- Purchases have a higher fraud risk than Refinances. This is primarily driven by a much higher Occupancy Fraud Risk; the Occupancy Fraud Risk Index for purchases is 176 compared with 76 for refinances.
- The mortgage market is expected to change from a refinance-dominated market to a purchase dominated-market in the coming months, and lenders need to be aware of the shift in fraud risk trends that will result. To this end, all the figures in this report are interactive and can show a view of refinances only or purchases only, as well as other components that contribute to mortgage fraud risk.

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Fraud Risk Trends

The National Mortgage Fraud Risk Index this quarter is 100, a one percent increase from last quarter and unchanged from a year ago.

Figure 1 shows the Mortgage Fraud Risk Index for each state, on a map as well as on a bar chart, with risk decreasing from left to right. California, with an index value of 125, is the riskiest state in Q1 2013. Nevada is second with an index value of 124, and Florida rounds out the top three with an index value of 119. The District of Columbia and Alaska are at 4th and 5th place with index values of 115 and 113, respectively. Rounding out the top 10 are Illinois, New Jersey Georgia Utah and Maryland.

The least risky state is Mississippi with an index of 53. Most of the other low risk states are located in the Midwest with Iowa, Maine, South Dakota, Nebraska, Kansas, Kentucky, Wisconsin, Indiana and Oklahoma rounding out the 10 least risky states.

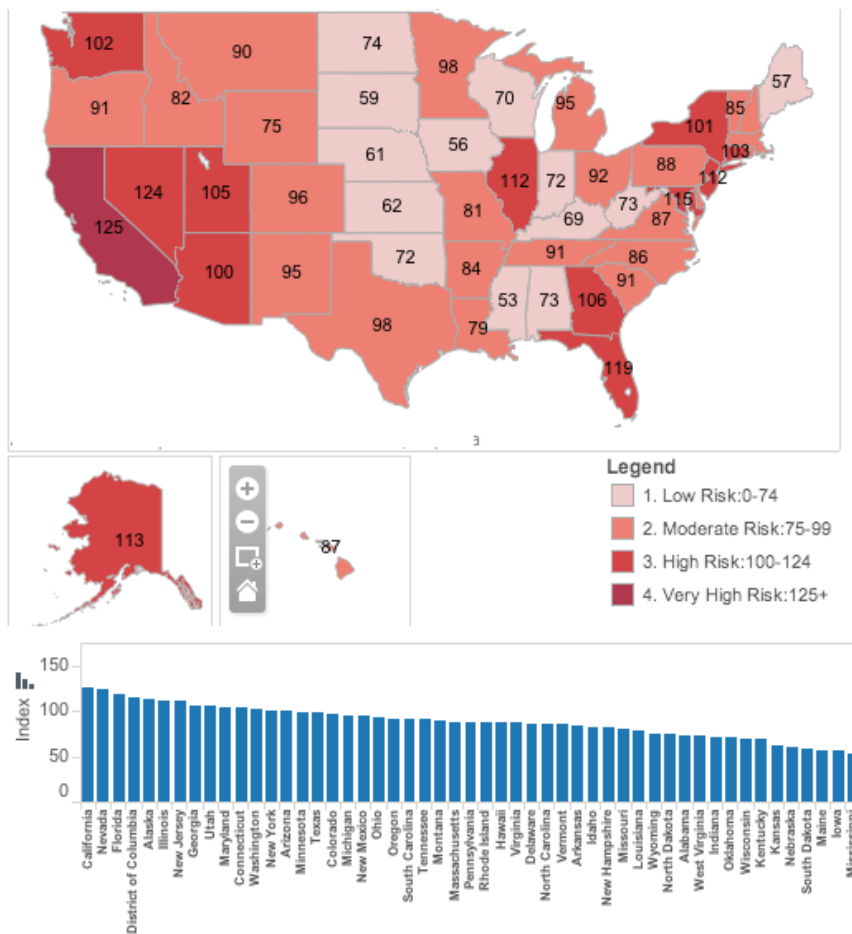


Figure 1: Mortgage Fraud Risk in Q1 2013 by State

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Hot Spots

Figure 2 depicts the mortgage fraud risk by MSA, with darker shades of red indicating higher risk. As has been the case historically, the greatest concentrations of high risk are seen in California and Florida MSAs. Both states, which have been historically associated with high frequencies of mortgage fraud risk, continue to draw the attention of fraud perpetrators, even as the types of mortgage fraud change to adapt to market conditions.

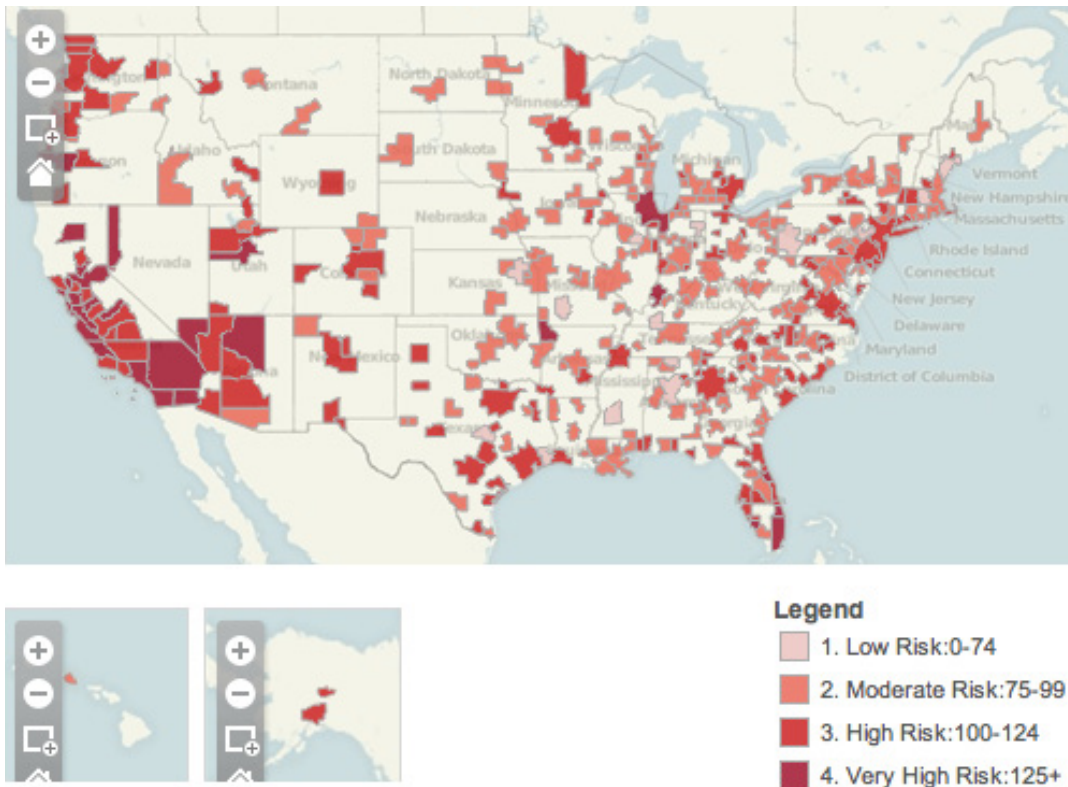


Figure 2: Mortgage Fraud Risk Index in Q4 2012 by State

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Table 1 lists the 10 MSAs with the highest overall mortgage fraud risk in the country. Topping the list this quarter are Santa Barbara-Santa Maria-Goleta California and St. George, Utah, each with scores of 139 and each with notable annual increases of 29 percent and 34 percent, respectively. All of the MSAs in the top 10 have an index value at least 30 percent higher than the national index value.

Five of the top 10 MSAs are located in California, with Vallejo-Fairfield (5th at 136), Modesto (6th at 132), Salinas (7th at 132) and Stockton (10th at 130) joining top-ranked Santa Barbara-Santa Maria-Goleta. Two Florida MSAs - Cape Coral-Fort Myers FL) and Miami-Fort Lauderdale-Pompano Beach FL - along with Fayetteville-Springdale-Rogers AR-MO and Las Vegas-Paradise NV round out the top 10.

Rank	MSA	Fraud Risk Index Q2 2013	Pct Change from Q1 2013	Pct Change from Q2 2012
1	CAPE CORAL-FORT MYERS, FL	164	18.8%	33.3%
2	SALINAS, CA	145	9.8%	4.3%
3	FAYETTEVILLE-SPRINGDALE-ROGERS, AR-MO	142	2.9%	15.4%
4	SAN LUIS OBISPO-PASO ROBLES, CA	139	58.0%	15.8%
5	RENO-SPARKS, NV	136	38.8%	20.4%
6	LAS VEGAS-PARADISE, NV	133	1.5%	8.1%
7	LOS ANGELES-LONG BEACH-SANTA ANA, CA	132	4.8%	24.5%
8	SAN DIEGO-CARLSBAD-SAN MARCOS, CA	131	4.8%	4.0%
9	SACRAMENTO--ARDEN-ARCADE--ROSEVILLE, ..	130	0.8%	0.8%
10	SAN FRANCISCO-OAKLAND-FREMONT, CA	130	4.8%	11.1%
	US	104	4.0%	4.0%

Table 1: MSAs with the Highest Fraud Risk in Q1 2013

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Table 2 lists the 10 ZIP codes with the highest Mortgage Fraud Risk. Illinois and California each contain 4 of these ZIPs. The riskiest ZIP code, 60640, with an index of 439 is located in Chicago, as are ZIPs 60610 (3rd at 279), 60202 (5th at 259) and 60639 (7th at 255).

While the ZIPs from Illinois listed in this quarter's top 10 are concentrated in a single region, the ZIPs from California are more widely dispersed with two located in the northern part of the state and two in the south. In the north, 95826 in Sacramento is the 2nd riskiest ZIP with a value of 294, and 95120 in San Jose is the 9th riskiest ZIP this quarter with a value of 254. In Southern California, 90275 in Rancho Palos Verdes near Los Angeles is the 4th riskiest ZIP with a value of 269, and 90018 in Los Angeles is the 8th riskiest ZIP this quarter with a value of 254.

The table is rounded out by ZIP codes located in Michigan and Virginia.

Rank	ZIP	City, State	Index
1	37179	Thompsons Station, TN	337
2	89110	Las Vegas, NV	327
3	72712	Bentonville, AR	311
4	90266	Manhattan Beach, CA	286
5	33319	Fort Lauderdale, FL	285
6	93635	Los Banos, CA	269
7	32244	Jacksonville, FL	266
9	92314	Big Bear City, CA	265
8	90019	Los Angeles, CA	265
10	20744	Fort Washington, MD	264

Table 2: ZIPs with the Highest Fraud Risk in Q1 2013

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Type-Specific Risks

Interthinx tracks four type-specific fraud risk indices: Property Valuation, Identity, Occupancy and Employment/Income. This section examines the hot spots and trends for these type-specific fraud risks.

PROPERTY VALUATION FRAUD RISK INDEX

Property Valuation Fraud is perpetrated by manipulating property value to create “equity” which is then extracted from loan proceeds by various means. Table 3 lists the 10 riskiest MSAs for Property Valuation Fraud Risk this quarter. Topping the list is Fayette-Springdale-Rogers Arkansas, Missouri with an index value of 206, up 14 percent from a year ago and up 40 percent up from last quarter. Next is Cleveland-Elyria-Mentor Ohio with an index value of 196, with a notable 106 percent increase from this time last year and a 26 percent increase since last quarter. Tampa-St. Petersburg-Clearwater Florida takes the number three spot with an index value of 183. An additional four MSAs from Florida join Tampa-St. Petersburg-Clearwater on the list: Jacksonville, Palm Bay-Melbourne-Titusville, Miami-Fort Lauderdale-Pompano Beach and Bradenton-Sarasota-Venice). Rounding out this list are Minneapolis-St. Paul-Bloomington Minnesota-Wisconsin, New Haven-Milford Connecticut and Detroit-Warren-Livonia Michigan.

The table is rounded out by ZIP codes located in Michigan and Virginia.

Rank	MSA	Fraud Risk Index Q2 2013	Pct Change from Q1 2013	Pct Change from Q2 2012
1	DAYTON, OH	199	30.9%	37.2%
2	FAYETTEVILLE-SPRINGDALE-ROGERS, AR-MO	183	-11.2%	9.6%
3	CAPE CORAL-FORT MYERS, FL	174	14.5%	-3.3%
4	TAMPA-ST. PETERSBURG-CLEARWATER, FL	168	-8.2%	22.6%
5	CHICAGO-NAPERVILLE-JOLIET, IL-IN-WI	165	11.5%	22.2%
6	LAS VEGAS-PARADISE, NV	164	6.5%	10.1%
7	NEW HAVEN-MILFORD, CT	160	-4.8%	73.9%
8	REDDING, CA	159	16.9%	18.7%
9	BRADENTON-SARASOTA-VENICE, FL	157	-3.7%	60.2%
10	DETROIT-WARREN-LIVONIA, MI	156	-5.5%	155.7%
	US	105	-3.7%	5.0%

Table 3: MSAs with the Highest Property Valuation Fraud Risk in Q1 2013

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IDENTITY FRAUD RISK INDEX

Identity Fraud is frequently used in mortgage fraud schemes in order to hide the identity of the perpetrators and/or to obtain a credit profile that meets lender guidelines. Table 4 describes the 10 riskiest MSAs for Identity Fraud Risk. While Identity Fraud Risk is down 15 percent at the national level from a year ago and down eight percent from last quarter, some of the riskiest MSAs for Identity Fraud experienced significant surges in their risk values. Dayton Ohio, up 70 percent from last quarter, is the riskiest MSA in this category with an index value almost twice the national value of 160. California has five MSAs in this list: Chico, Santa Barbara-Santa Maria-Goleta, Salinas, Fresno and Oxnard-Thousand Oaks-Ventura. Rounding out the top ten are Fayetteville-Springdale-Rogers Arkansas Missouri, Bismarck North Dakota, Boulder Colorado and Chattanooga Tennessee-Georgia.

Rank	MSA	Fraud Risk Index Q2 2013	Pct Change from Q1 2013	Pct Change from Q2 2012
1	FAYETTEVILLE-SPRINGDALE-ROGERS, AR-MO	174	19.2%	16.0%
2	SALINAS, CA	166	22.1%	-2.4%
3	SAN LUIS OBISPO-PASO ROBLES, CA	155	150.0%	-12.9%
4	LANCASTER, PA	138	30.2%	23.2%
5	MADISON, WI	133	269.4%	47.8%
6	YORK-HANOVER, PA	133	114.5%	125.4%
7	LOUISVILLE-JEFFERSON COUNTY, KY-IN	133	84.7%	3.9%
8	SAN JOSE-SUNNYVALE-SANTA CLARA, CA	132	33.3%	18.9%
9	FRESNO, CA	132	-1.5%	67.1%
10	SAN DIEGO-CARLSBAD-SAN MARCOS, CA	129	31.6%	-1.5%
	US	91	7.1%	-9.0%

Table 4: MSAs with the Highest Identity Fraud Risk in Q1 2013

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OCCUPANCY FRAUD RISK INDEX

Occupancy Fraud is perpetrated primarily by investors who falsely claim the intent to occupy a purchased property in order to obtain a mortgage with a lower down payment and/or lower interest rate. Table 5 lists the top 10 riskiest MSAs for Occupancy Fraud Risk. Overall, Occupancy Fraud Risk is up 15 percent from last year and nearly two percent from last quarter, with the national index value now standing at 115. McAllen-Edinburg-Mission Texas, retains the top spot with an index value of 217—89 percent higher than the national value. Florida MSAs claim five of the top 10 riskiest MSAs Cape Coral-Fort Myers (2nd at 207), Panama City-Lynn Haven-Panama City Beach (3rd at 199), Miami-Fort Lauderdale-Pompano Beach (4th at 193), Port St. Lucie FL (7th at 177) and Pensacola-Ferry Pass-Brent (10th at 168). Provo-Orem Utah (5th at 183), Stockton (6th at 180) and Riverside-San Bernardino-Ontario California (8th at 176) and Las Vegas-Paradise NV (9th at 169) complete this list.

Rank	MSA	Fraud Risk Index Q2 2013	Pct Change from Q1 2013	Pct Change from Q2 2012
1	FAYETTEVILLE-SPRINGDALE-ROGERS, AR-MO	174	19.2%	16.0%
2	SALINAS, CA	166	22.1%	-2.4%
3	SAN LUIS OBISPO-PASO ROBLES, CA	155	150.0%	-12.9%
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8	SAN JOSE-SUNNYVALE-SANTA CLARA, CA	132	33.3%	18.9%
9	FRESNO, CA	132	-1.5%	67.1%
10	SAN DIEGO-CARLSBAD-SAN MARCOS, CA	129	31.6%	-1.5%
	US	91	7.1%	-9.0%

Table 5 : MSAs with the Highest Occupancy Fraud Risk in Q1 2013

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EMPLOYMENT/INCOME FRAUD RISK INDEX

Employment/Income Fraud occurs when an applicant's income is misrepresented in order to meet lender underwriting guidelines for a loan. Table 6 lists the top 10 riskiest MSAs for Employment Income Fraud Risk. California dominates this list with nine MSAs. This is likely due to the fact that while California has the third highest unemployment rate in the nation—9.4 percent—housing prices in many of its markets are rapidly increasing. Vallejo-Fairfield California tops the list with an index value of 183, a 44 percent increase from one year ago and a 63 percent increase from last quarter. Oxnard-Thousand Oaks-Ventura, and San Francisco-Oakland-Fremont, are in second and third places, and other California MSAs on this list are San Diego-Carlsbad-San Marcos, San Jose-Sunnyvale-Santa Clara, Los Angeles-Long Beach-Santa Ana, Sacramento-Arden-Arcade-Roseville, Bakersfield and Santa Cruz-Watsonville. The only non-Californian MSA on the list is Wilmington NC in 10th place. Each MSA on this list has an Employment/Income Fraud Risk Index at least 40 percent higher than the national average of 90.

Rank	MSA	Fraud Risk Index Q2 2013	Pct Change from Q1 2013	Pct Change from Q2 2012
1	FAYETTEVILLE-SPRINGDALE-ROGERS, AR-MO	174	19.2%	16.0%
2	SALINAS, CA	166	22.1%	-2.4%
3	SAN LUIS OBISPO-PASO ROBLES, CA	155	150.0%	-12.9%
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9	FRESNO, CA	132	-1.5%	67.1%
10	SAN DIEGO-CARLSBAD-SAN MARCOS, CA	129	31.6%	-1.5%
	US	91	7.1%	-9.0%

Table 6: MSAs with the Highest Employment/Income Fraud Risk in Q1 2013

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Purchases and Refinances

The National Mortgage Fraud Risk Index this quarter is 100, a one percent increase from last quarter and unchanged from a year ago.

Figure 1 shows the Mortgage Fraud Risk Index for each state, on a map as well as on a bar chart, with risk decreasing from left to right. California, with an index value of 125, is the riskiest state in Q1 2013. Nevada is second with an index value of 124, and Florida rounds out the top three with an index value of 119. The District of Columbia and Alaska are at 4th and 5th place with index values of 115 and 113, respectively. Rounding out the top 10 are Illinois, New Jersey Georgia Utah and Maryland.

The least risky state is Mississippi with an index of 53. Most of the other low risk states are located in the Midwest with Iowa, Maine, South Dakota, Nebraska, Kansas, Kentucky, Wisconsin, Indiana and Oklahoma rounding out the 10 least risky states.

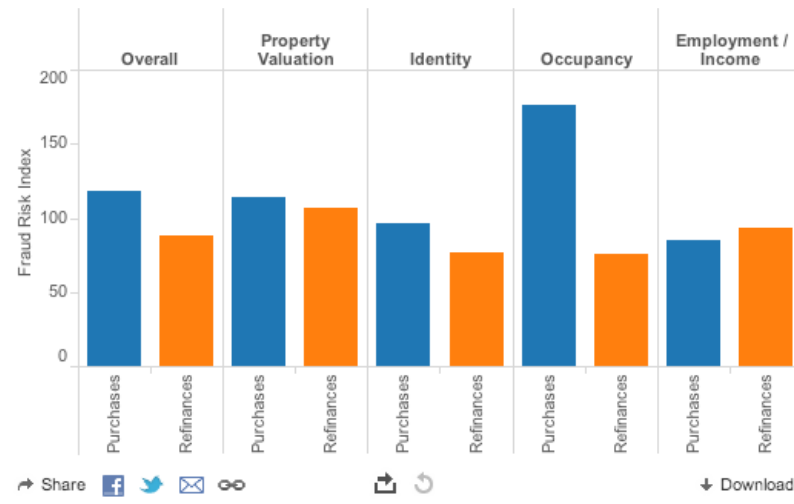


Figure 3: Overall and Type-specific Fraud Risk Indices Q1 2013 for Purchases and Refinances

This section has illustrated important differences in fraud risk between purchases and refinances, and these differences will have important implications as originations shift from mainly refinances to mainly purchases. Therefore, starting with this quarter’s report the Interthinx Fraud Risk Indices will be calculated based on all loans, as well as based on purchases only, and refinances only, and this information can be obtained by interacting with and selecting the appropriate view for each figure and table in the report.

About the Interthinx Fraud Risk Indices

The Fraud Risk Indices are calculated based on the frequency with which indicators of fraudulent activity are detected in mortgage applications processed by the Interthinx FraudGUARD® system, a leading loan-level fraud detection tool available to lenders and investors.

The Interthinx Fraud Risk Indices consist of the Mortgage Fraud Risk Index, which measures the overall risk of mortgage fraud, and the Property Valuation, Identity, Occupancy and Employment/Income Indices, which measure the risk of these specific types of fraudulent activity.

The Mortgage Fraud Risk Index considers 40+ indicators of fraudulent activity including property mis-valuation; identity, occupancy and employment/income misrepresentation; non arms-length transactions; property flipping; straw-buyers; “silent seconds”; and concurrent closing schemes. The four type-specific indices are based on the subset of indicators that are relevant to each type of fraudulent activity.

Each Index is calibrated so that a value of 100 represents a nominal level of fraud risk, a value calculated from the occurrence of fraudulent indicators between 2003 and 2007 in states with low foreclosure levels. For all five indices, a high value indicates an elevated risk of mortgage fraud and each Index is linear to simplify comparison across time and location.

The Interthinx Indices are leading indicators based predominantly on the analysis of current loan originations. FBI and FinCEN reports are lagging indicators because they are derived primarily from Suspicious Activity Reports (SARs), the majority of which are filed after the loans have closed. The time lag between origination and the SAR report can be several years. For this reason, the Interthinx Fraud Risk Indices’ top geographies and type-specific findings may differ from FBI and FinCEN fraud reports.

About the Interthinx Mortgage Fraud Risk Report

The Interthinx Fraud Risk Report represents an in-depth analysis of residential mortgage fraud risk throughout the United States as indicated by the Interthinx Fraud Risk Indices. Published quarterly, as part of the Fraud Risk Report, Interthinx will report on the geographic regions with the highest Mortgage Fraud Risk Index as well as those with the highest Property Valuation, Identity, Occupancy, and Employment/Income Fraud Risk Indices. The Interthinx Fraud Risk Indices track these risks in all States, Metropolitan areas, Counties and county equivalents, throughout the United States.

About Interthinx

Interthinx, a Verisk Analytics (Nasdaq:VRSK) subsidiary, provides essential products and services to mitigate risk in the mortgage and retail lending marketplace. Interthinx offers solutions in mortgage fraud and verification, property valuation, compliance, quality control, loss mitigation, retail loan loss forecasting, and capital planning that are used by the nation's top financial institutions. Interthinx helps its clients minimize risk, increase operational efficiencies, satisfy regulator demands, manage data verification, and remain compliant. For more information, visit www.interthinx.com or call 1-800-333-4510.

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