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## The Interthinx 2013 Annual Mortgage Fraud Risk Report

**Changes in the economy and in financial markets have a tendency to provoke corresponding changes in fraud schemes as perpetrators learn how to game the system in new ways. *see page 13***

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**

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### **Special Interest**

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### Executive Summary

- The 2013 Annual Mortgage Fraud Risk Index is 104, a 4 percent increase from 2012. This continues the gradually rising trend in fraud risk observed over the past three years as inventories shrink, prices rise, and markets stabilize.
- For the second year in a row, the District of Columbia, with a Mortgage Fraud Risk Index of 142, ranks first in the top 10 list of states. California moves from number six to number two with an index of 141, a gain of 12 percent from 2012. Nevada, a seemingly permanent occupant in the top 10, fell from second place last year to number four in 2013 with an index of 116.
- While the geographic distribution of fraud risk was more dispersed in 2012 than it was in 2013, California contains an unusually intense concentration of risks: California claims the riskiest MSA (Salinas), nine of the top 10 riskiest MSAs, 18 of the 25 riskiest ZIP codes, five of the 10 riskiest MSAs for Identity Fraud, seven of the 10 riskiest MSAs for Occupancy Fraud, and eight of the 10 riskiest MSAs for Employment/Income Fraud.
- Nationally, the Occupancy Fraud Risk Index is up 24 percent with an index of 135. This increase is likely due to changes associated with a more purchase driven market and continued investor interest in real estate acquisitions. Greeley Colorado, with an index of 227, is the riskiest MSA this year for Occupancy Fraud Risk.

### Fraud Risk Trends

The National Mortgage Fraud Risk Index for 2013 is 104, a 4 percent increase from last year.

Figure 1 shows the Mortgage Fraud Risk Index for each state, with risk decreasing from left to right. Although its risk dropped 4 percent from last year, the District of Columbia tops this list for the second year in a row with a Mortgage Fraud Risk Index of 142. California moves from number six in 2012 to number two in 2013 with an index of 141, a gain of 12 percent. Last year's second riskiest state, Nevada, has dropped 4 percent to the number four spot with an index of 116. Rounding out the top 10 this year are Illinois, Florida, Alaska, Hawaii, Colorado, Maryland, and New Jersey. The least risky state in 2013 is Maine with an index of 55. Rounding out the 10 least risky states for 2013 are Mississippi, South Dakota, Nebraska, Wyoming, North Dakota, West Virginia, Vermont, Iowa, and Kansas.

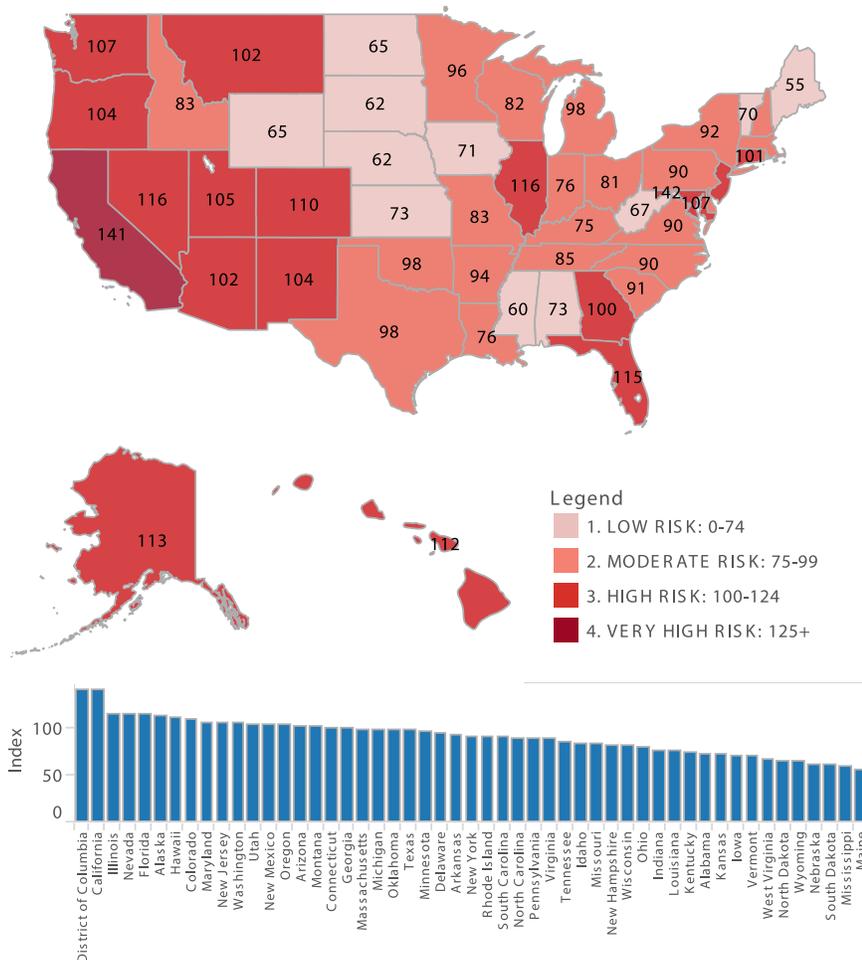


Figure 1: Mortgage Fraud Risk Index 2013 by State

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Figure 2 shows the distribution of Mortgage Fraud Risk at the county level in California, with 2012 on the left and 2013 on the right. The number of counties classified as Very High Risk (darkest red) rose from 20 in 2012 to 37 in 2013. Many counties in Silicon Valley and the San Francisco Bay area, as well as all coastal areas to the south and large swaths of inland areas, fall into the Very High Risk category. Out of 58 California counties, 37 counties have a Mortgage Fraud Risk Index higher than 125; 51 have an index above the national value of 104.

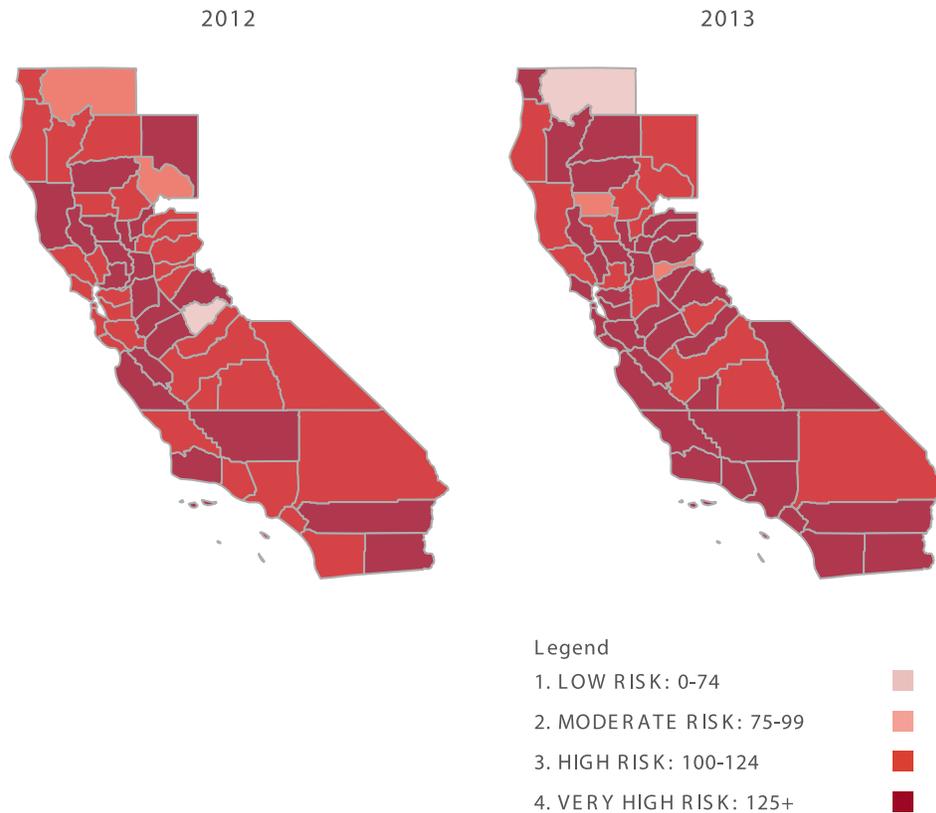


Figure 2: Mortgage Fraud Risk 2013 in California by County

### Hot Spots

Mortgage fraud perpetrators have a propensity to operate in locations where opportunity is maximized. For the past several years, the maximum opportunity has been found in markets with high levels of distressed properties and borrowers. Figure 3 shows a high density of Very High Risk metropolitan areas in California, where wages are generally stagnant but ongoing market disruptions and intense investor interest have helped to depress inventory and create upward pressure on housing prices.

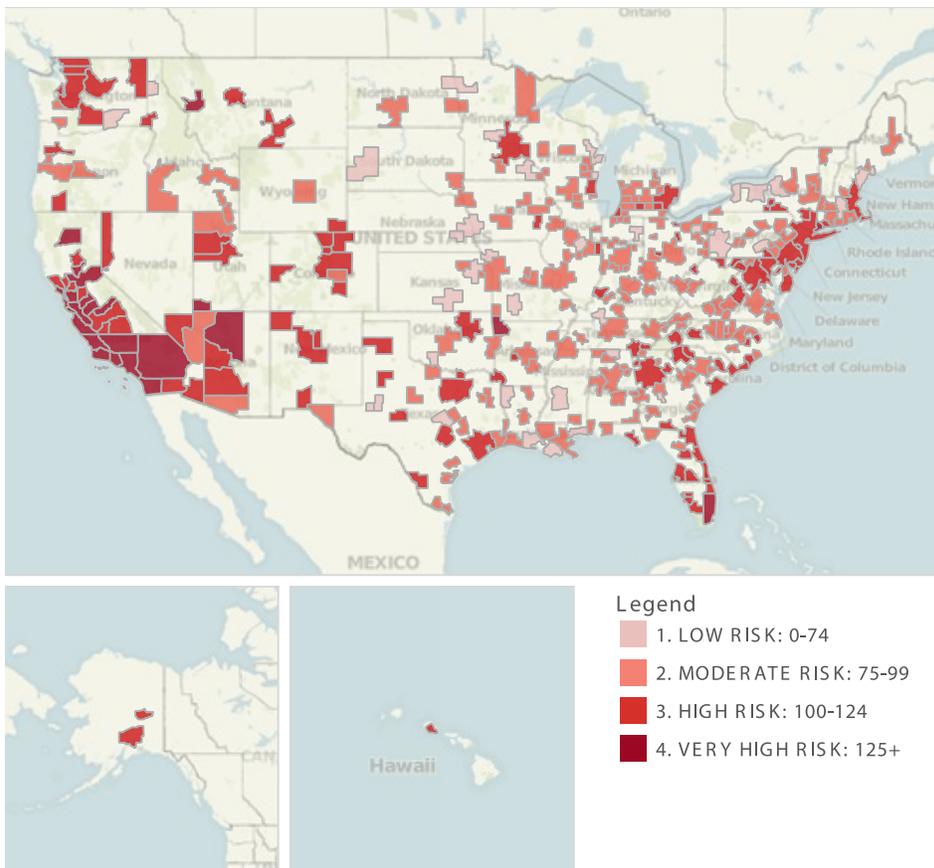


Figure 3: Mortgage Fraud Risk 2013 by MSA

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Table 1 lists the 10 Metropolitan Statistical Areas (MSAs) with the highest overall Mortgage Fraud Risk in the United States. Nine of the 10 riskiest MSAs in 2013 are from California, including the riskiest, Salinas, whose index increased by 2 percent to 155, from one year ago. The second riskiest MSA— and the only one not in California— is Fayetteville-Springdale-Rogers Arkansas-Missouri whose index is 154, up 13 percent from 2012.

Rank	MSA	Fraud Risk Index 2013	Pct Change from 2012
1	SALINAS, CA	155	2.0%
2	FAYETTEVILLE-SPRINGDALE-ROGERS, AR-MO	154	13.2%
3	LOS ANGELES-LONG BEACH-SANTA ANA, CA	151	36.0%
4	SAN FRANCISCO-OAKLAND-FREMONT, CA	148	32.1%
5	SAN JOSE-SUNNYVALE-SANTA CLARA, CA	145	34.3%
6	SAN DIEGO-CARLSBAD-SAN MARCOS, CA	144	21.0%
7	SAN LUIS OBISPO-PASO ROBLES, CA	143	31.2%
8	SANTA CRUZ-WATSONVILLE, CA	141	34.3%
9	OXNARD-THOUSAND OAKS-VENTURA, CA	140	26.1%
10	MERCED, CA	139	-9.2%
	UNITED STATES	104	4.0%

Table 1: MSAs with Highest Overall Fraud Risk 2013

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Table 2 lists the 25 ZIP codes with the highest Mortgage Fraud Risk for 2013. The riskiest ZIP code, with an index of 376, is 60640 in Chicago, Illinois. A second ZIP code from Chicago, 60610, is the fourth riskiest ZIP with an index of 310. The appearance of these two Chicago ZIPs may serve as a warning of a resurgence of risk similar to that observed in 2010, when high risk in a few ZIP codes in Chicago's Back of the Yards neighborhood quickly spread throughout the city. While the appearance of two Chicago ZIP codes in the top four is noteworthy, this list is dominated by California, which claims 18 of the top 25 riskiest ZIPs. Twelve of the California ZIPs belong to the Los Angeles-Long Beach-Santa Ana CA Metropolitan Statistical Area, which is the third riskiest MSA in the country for 2013.

Rank	ZIP	City, State	Fraud Risk Index 2013
1	60640	Chicago, Illinois	376
2	20657	Lusby, Maryland	346
3	90037	Los Angeles, California	342
4	60610	Chicago, Illinois	310
5	94112	San Francisco, California	310
6	96816	Honolulu, Hawaii	303
7	92651	Laguna Beach, California	299
8	92109	San Diego, California	298
9	91770	Rosemead, California	295
10	95132	San Jose, California	286
11	95111	San Jose, California	270
12	90068	Los Angeles, California	267
13	90046	Los Angeles, California	260
14	90019	Los Angeles, California	258
15	92835	Fullerton, California	258
16	48098	Troy, Michigan	256
17	91755	Monterey Park, California	254
18	91202	Glendale, California	248
19	94520	Concord, California	248
20	91205	Glendale, California	241
21	11209	Brooklyn, New York	240
22	19001	Abington, Pennsylvania	240
23	95864	Sacramento, California	240
24	90710	Harbor City, California	236
25	92843	Garden Grove, California	236

Table 2: ZIPs with the Highest Mortgage Fraud Risk 2013

### Type-Specific Mortgage Fraud Risks

Interthinx tracks four type-specific fraud risk indices: Property Valuation, Identity, Occupancy and Employment/Income. Figure 4 shows the annual changes in the overall index as well as the type-specific indices. In 2013 the increase in overall risk was largely driven by an increase in Occupancy Fraud Risk (+20 percent), but this increase is mostly offset by decreases in Identity and Employment/Income Fraud Risk.



Figure 4: Annual Change in Risk Types

### 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 in 2013. The national Property Valuation Fraud Risk Index is 105, up 3 percent from last year. Fayetteville-Springdale-Rogers Arkansas-Missouri is the riskiest MSA in 2013 for Property Valuation Fraud with an index of 197, up 10 percent from 2012. Fayetteville-Springdale-Rogers Arkansas-Missouri occupied the number one or the number two spot each quarter in 2013, and is 2013’s second riskiest MSA for Overall Risk. Up 26 percent from one year ago, New Haven-Milford Connecticut is the second riskiest MSA for Property Valuation Fraud, with an index of 166. Rounding out the top three is Eugene-Springfield Oregon with an index of 163, up 14 percent from last year.

Rank	MSA	Fraud Risk Index 2013	Pct Change from 2012
1	FAYETTEVILLE-SPRINGDALE-ROGERS, AR-MO	196	10.1%
2	NEW HAVEN-MILFORD, CT	166	25.8%
3	EUGENE-SPRINGFIELD, OR	163	14.0%
4	LAKELAND-WINTER HAVEN, FL	162	-12.4%
5	MINNEAPOLIS-ST. PAUL-BLOOMINGTON, MN-WI	162	0.6%
6	YORK-HANOVER, PA	160	30.1%
7	DAYTON, OH	159	2.6%
8	YAKIMA, WA	159	34.8%
9	CHICAGO-NAPERVILLE-JOLIET, IL-IN-WI	158	9.7%
10	CLEVELAND-ELYRIA-MENTOR, OH	156	16.4%
	UNITED STATES	105	2.9%

Table 3: MSAs with Highest Property Valuation Fraud Risk 2013

### IDENTITY FRAUD RISK INDEX

Identity Fraud is often 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 lists the 10 riskiest MSAs for Identity Fraud Risk. The national index for Identity Fraud Risk, at 92, is down 4 percent on an annual basis. Fayetteville-Springdale-Rogers Arkansas-Missouri tops this list as well with an index of 195, a 39 percent increase since 2012.

Rank	MSA	Fraud Risk Index 2013	Pct Change from 2012
1	FAYETTEVILLE-SPRINGDALE-ROGERS, AR-MO	195	39.3%
2	SAN LUIS OBISPO-PASO ROBLES, CA	168	29.2%
3	MERCED, CA	164	18.0%
4	SALINAS, CA	158	4.0%
5	MISSOULA, MT	144	60.0%
6	SANTA BARBARA-SANTA MARIA-GOLETA, CA	134	-0.7%
7	BRIDGEPORT-STAMFORD-NORWALK, CT	133	14.7%
8	ANCHORAGE, AK	132	51.7%
9	LANCASTER, PA	131	79.5%
10	LOS ANGELES-LONG BEACH-SANTA ANA, CA	129	5.7%
	UNITED STATES	92	-4.2%

Table 4: MSAs with Highest Identity Fraud Risk 2013

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### OCCUPANCY FRAUD RISK INDEX

Occupancy Fraud is primarily committed 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 in 2013. Nationally, the Occupancy Fraud Risk Index is up 24 percent with an index of 135, likely due to changes associated with a more purchase driven market. Greeley Colorado is the riskiest MSA this year for Occupancy Fraud Risk with an index of 227. Los Angeles-Long Beach-Santa Ana California and nearby Oxnard-Thousand Oaks-Ventura California are tied at second and third with an index of 220 and with increases of 96 percent and 83 percent, respectively. Seven of the top 10 riskiest MSAs for Occupancy Fraud Risk belong to California.

Rank	MSA	Fraud Risk Index 2013	Pct Change from 2012
1	GREELEY, CO	227	84.6%
2	LOS ANGELES-LONG BEACH-SANTA ANA, CA	220	96.4%
3	OXNARD-THOUSAND OAKS-VENTURA, CA	220	83.3%
4	SALINAS, CA	208	11.2%
5	MIAMI-FORT LAUDERDALE-POMPANO BEACH,..	205	7.3%
6	SAN DIEGO-CARLSBAD-SAN MARCOS, CA	205	53.0%
7	SAN JOSE-SUNNYVALE-SANTA CLARA, CA	199	114.0%
8	SANTA CRUZ-WATSONVILLE, CA	199	142.7%
9	YUBA CITY, CA	195	37.3%
10	PANAMA CITY-LYNN HAVEN-PANAMA CITY BE..	189	50.0%
	UNITED STATES	135	23.9%

Table 5 : MSAs with Highest Occupancy Fraud Risk 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. Nationally, the Employment/Income Fraud Risk is down 6 percent with an index of 85. Topping the list is San Diego-Carlsbad-San Marcos California with an 8 percent increase and an index of 155. Second on the list is San Francisco-Oakland-Fremont California with an index of 154, up 1 percent since 2012. Completing the top three is Santa Cruz-Watsonville California with an index of 153, up 37 percent. Nine of the 10 riskiest MSAs for Employment/Income Fraud Risk belong to California in 2013, likely as a response to largely stagnant wages combined with high –and unsustainably increasing– housing costs.

Rank	MSA	Fraud Risk Index 2013	Pct Change from 2012
1	SAN DIEGO-CARLSBAD-SAN MARCOS, CA	155	8.4%
2	SAN FRANCISCO-OAKLAND-FREMONT, CA	154	1.3%
3	SANTA CRUZ-WATSONVILLE, CA	153	36.6%
4	LOS ANGELES-LONG BEACH-SANTA ANA, CA	151	15.3%
5	FLAGSTAFF, AZ	149	56.8%
6	SAN LUIS OBISPO-PASO ROBLES, CA	149	15.5%
7	OXNARD-THOUSAND OAKS-VENTURA, CA	146	5.8%
8	SAN JOSE-SUNNYVALE-SANTA CLARA, CA	146	-4.0%
9	BELLINGHAM, WA	139	31.1%
10	SACRAMENTO--ARDEN-ARCADE--ROSEVILL..	137	0.0%
	UNITED STATES	85	-6.6%

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

### Special Interest : A Purchase Driven Market

Changes in the economy and in financial markets have a tendency to provoke corresponding changes in fraud schemes as perpetrators learn how to game the system in new ways. Since the economic recovery began, residential mortgage originations have shifted from a refinance-driven market to a more purchase-driven market, and this has given fraudsters new opportunities to adapt to changing conditions. In this section, we examine the contrasts in specific fraud types between purchases and refinances. Figure 5 below shows the increased purchase market over the eight quarters. The graph shows the proportion of purchases increased from 37 percent to 58 percent of total loans over the past two years.

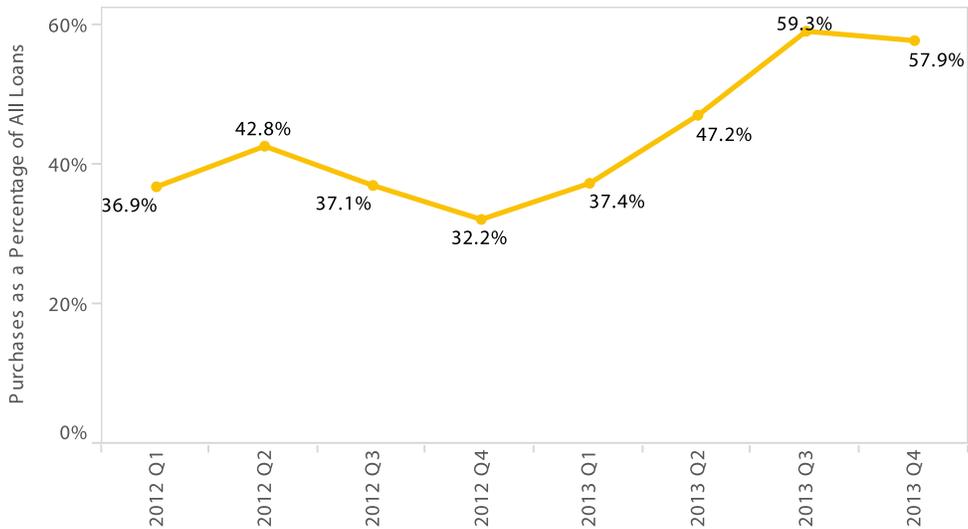


Figure 5: Market Share of Purchases and Refinances from 2012 to 2013.

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Figure 6 illustrates the indices for purchases and refinances for each major fraud type and for overall risk. The Occupancy Fraud Risk Index for 2013 is 135, a 24 percent increase from 2012, likely due to a shift to a greater proportion of higher-risk purchase transactions.

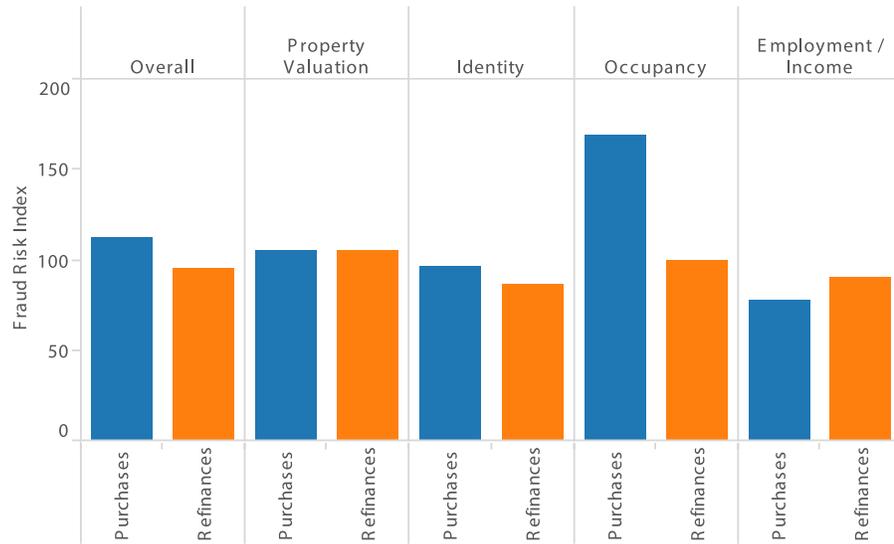


Figure 6: Risk Matrix for Mortgage Fraud Risk over Purchases and Refinances in 2013

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### 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:

- Property Valuation Fraud Risk Index which considers indicators that the subject property value has been manipulated. The index is based on the percentage of loans that have these indicators and is calibrated so that the national index based on all loans in Q1 2012 equals 100.
- Identity Fraud Risk Index which considers indicators that the borrower's identity has been changed in order to obtain a credit profile that meets lender guidelines. The index is based on the percentage of loans that have these indicators and is calibrated so that the national index based on all loans in Q1 2012 equals 100.
- Occupancy Fraud Risk Index which considers indicators that the borrower is an investor who falsely claims the intent to occupy the property in order to obtain a lower down payment and/or interest rate. The index is based on the percentage of owner-occupied loans that have these indicators and is calibrated so that the national index based on all owner-occupied loans in Q1 2012 equals 100.
- Employment/Income Fraud Index which considers indicators that the applicant's income is misrepresented in order to meet lender underwriting guidelines for a loan. The index is based on the percentage of loans that have these indicators and is calibrated so that the national index based on all loans in Q1 2012 equals 100.
- Overall Mortgage Fraud Risk Index is calculated as the average of the four type-specific indices.

Interthinx recognizes the adaptations that fraudsters make in a changing market, and proactively strives to identify and report the latest patterns it finds in the fraud community. In an effort to capture these changes in fraud activity, Interthinx has made major changes and enhancements to the Mortgage Fraud Risk Index beginning with the report for Q1 2013. Due to the comprehensive nature of these enhancements, index values published prior to Q1 2013 may not be directly comparable to index values published in Q1 2013 or thereafter.

### **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, and ZIP code throughout the United States. Starting in Q1 2013 all this information is available based on all loans, as well as on purchases only, and refinances only.

### **About Interthinx**

Interthinx®, a subsidiary of First American Financial Corporation (NYSE: FAF), provides essential products and services to mitigate risk in the mortgage lending marketplace. Interthinx offers solutions in mortgage fraud and verification, property valuation, compliance, quality control, loss mitigation 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](http://www.interthinx.com) or call 1-800-333-4510.

#### MEDIA CONTACT:

Depth Public Relations  
Telephone: 301-337-8477  
Email: [kerri@depthpr.com](mailto:kerri@depthpr.com)