

Q4 | The Interthinx 2013 Mortgage Fraud Risk Report

The fraud risk index associated with Multi-unit properties is 250, well over twice the value of the indices associated with the other property types. *see page 12*

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

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Type Specific

Special Interest

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Executive Summary

The National Mortgage Fraud Risk Index is 101 (n = 100), up 2 percent from a year ago, but down 7 percent from the last quarter. The quarterly decrease is mainly driven by a 19 percent decrease in the Identity Fraud Risk index.

- California is again the riskiest state with a Mortgage Fraud Risk Index value of 139. It has eight MSAs on the top 10 list for overall risk, nine of the top 10 MSAs on the Employment/Income Fraud Risk, and six of the 10 riskiest ZIP codes in the US.
- Tulsa Oklahoma is the riskiest MSA this quarter with a mortgage fraud risk index value of 175, up 20 percent from last quarter. Tulsa ranks number one for Identity Fraud Risk, number two for Occupancy Fraud Risk, and number three for Property Valuation Fraud Risk.
- Loans associated with Multi-unit properties have a much higher risk than loans associated with other property types. The Mortgage Fraud Risk Index for multi-unit properties is 250, which is more than double the Index for Single Family Residences, Condos or Planned Unit Developments (PUDs).

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Fraud Risk Trends

The National Mortgage Fraud Risk Index is 101 this quarter (n = 100), up 2 percent from a year ago, but down 7 percent from the last quarter.

Figure 1 shows the Mortgage Fraud Risk Index for each state, with risk decreasing from left to right. There has been some movement in rank for the riskiest states, but despite an 8 percent drop California remains the riskiest state with a Mortgage Fraud Risk Index value of 139. Oklahoma jumps from 13th to 2nd place with a Mortgage Fraud Risk Index value of 129, an 11 percent increase from last quarter. Washington DC drops from 2nd to 3rd place this quarter with a Mortgage Fraud Risk Index value of 125, a 14 percent decrease from Q3 2013. Rounding out the top 10 this quarter are Colorado, Massachusetts, Maryland, New Jersey, Illinois, Florida, and Nevada. Last quarter, Nevada dropped out of the top three for the first time since the inception of the report and remains at number 10. Nebraska is the least risky state this quarter, with an index value of 50. North Dakota, Indiana, West Virginia, Mississippi, Louisiana, Ohio, South Dakota, Alabama and Wisconsin round out the 10 least risky states.

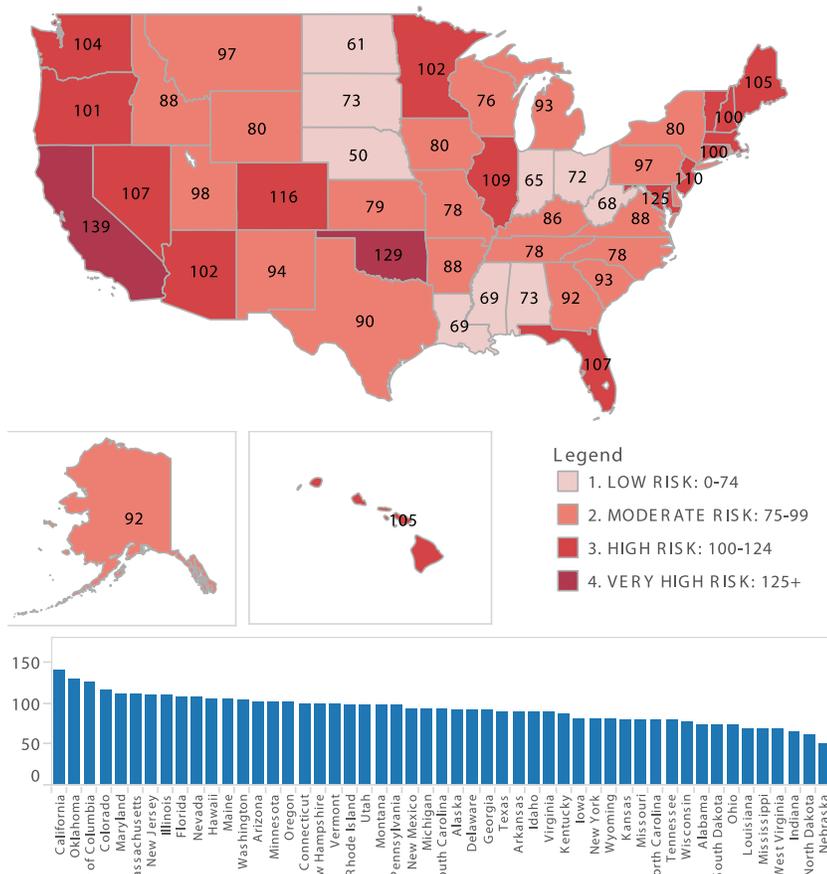


Figure 1: Mortgage Fraud Risk Index Q4 2014 by State

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Hot Spots

Mortgage fraud perpetrators have a propensity to operate in locations where opportunity is plentiful. For the past several years, the maximum opportunity has been found in markets with high levels of distressed properties and borrowers. Figure 2 shows a high density of very high risk metropolitan areas in California where ongoing market disruptions involving high levels of underwater loans, a drawn-out foreclosure process, and intense investor interest have helped to reduce inventory and create upward pressure on housing prices.

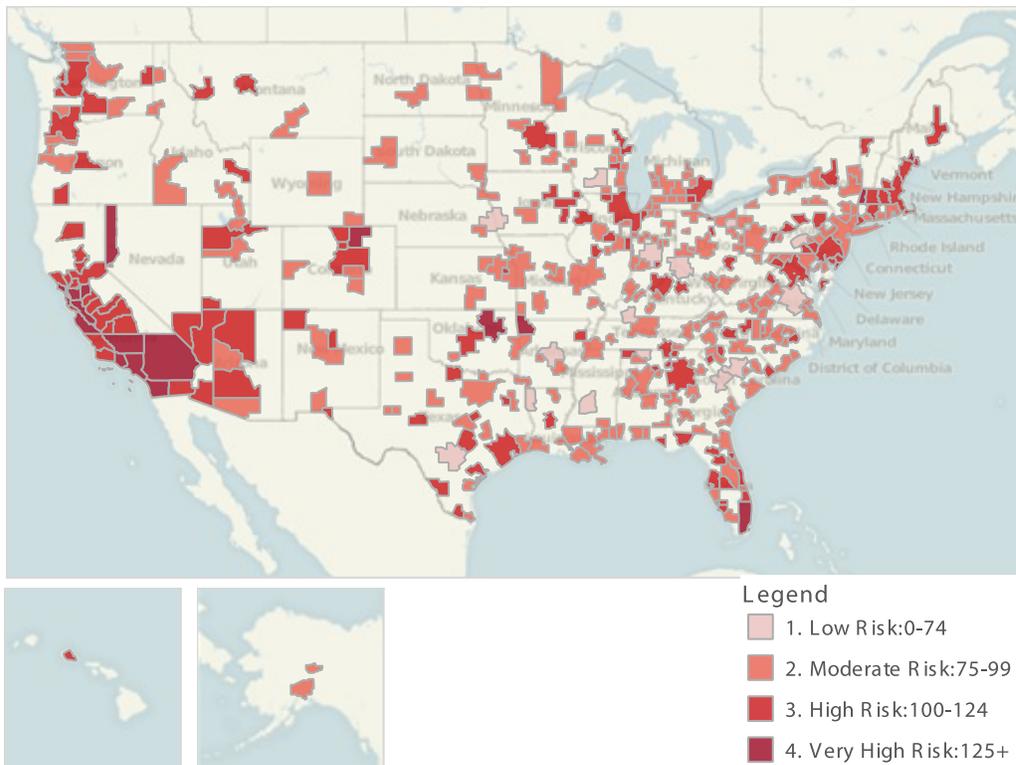


Figure 2: Mortgage Fraud Risk Q4 2013 by MSA

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Table 1 lists the 10 Metropolitan Statistical Areas (MSAs) with the highest Mortgage Fraud Risk Index in the United States. The riskiest MSA this quarter is Tulsa Oklahoma, whose index increased 20 percent from last quarter to 175, propelling it from 10th to 1st place. Eight of the top 10 riskiest MSAs are from California this quarter: Oxnard-Thousand Oaks-Ventura; Salinas; Bakersfield; Los Angeles-Long Beach-Santa Ana; San Jose-Sunnyvale-Santa Clara; San Francisco-Oakland-Fremont; Stockton; and Riverside-San Bernardino-Ontario. Fayetteville-Springdale-Rogers Arkansas-Missouri remains in the top 10, but drops from 1st place last quarter to 9th place this quarter.

Rank	MSA	Fraud Risk Index Q4 2013	Pct Change from Q3 2013	Pct Change from Q4 2012
1	TULSA, OK	175	19.9%	105.9%
2	OXNARD-THOUSAND OAKS-VENTURA, CA	159	17.8%	47.2%
3	SALINAS, CA	150	14.5%	14.5%
4	BAKERSFIELD, CA	149	1.4%	10.4%
5	LOS ANGELES-LONG BEACH-SANTA ANA, CA	149	-8.0%	31.9%
6	SAN JOSE-SUNNYVALE-SANTA CLARA, CA	146	-3.3%	30.4%
7	SAN FRANCISCO-OAKLAND-FREMONT, CA	144	-13.3%	32.1%
8	STOCKTON, CA	142	19.3%	3.7%
9	FAYETTEVILLE-SPRINGDALE-ROGERS, AR-MO	140	-24.7%	17.7%
10	RIVERSIDE-SAN BERNARDINO-ONTARIO, CA	135	0.8%	4.7%
11	UNITED STATES	101	-6.5%	2.0%

Table 1: MSAs with Highest Overall Fraud Risk Q4 2013

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Table 2 lists the 10 ZIP codes with the highest Mortgage Fraud Risk this quarter. The riskiest ZIP code is 32408 located in Panama City, Florida, with an index of 350. Six of the top 10 riskiest ZIPs are located in California, and are concentrated in three of the top 10 riskiest MSAs: 94112 and 94520 in the San Francisco MSA; 90037, 90706 and 92626 in the Los Angeles MSA; and 93003 in the Ventura MSA.

Rank	ZIP	City, State	Index
1	32408	Panama City, FL	350
2	94112	San Francisco, CA	330
3	80011	Aurora, CO	308
4	90037	Los Angeles, CA	298
5	94520	Concord, CA	298
6	93003	Ventura, CA	292
7	30329	Atlanta, GA	284
9	92626	Costa Mesa, CA	280
8	90706	Bellflower, CA	280
10	98029	Issaquah, WA	273

Table 2: ZIPs with the Highest Mortgage Fraud Risk Q4 2013

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Type-Specific Mortgage Fraud Risks

Interthinx tracks four type-specific fraud risk indices: Property Valuation, Identity, Occupancy and Employment/Income. Figure 3 shows the quarterly changes in the overall Mortgage Fraud Risk Index as well as the type-specific indices. The 6 percent decrease in overall risk is driven mainly by a 19 percent decrease in Identity Fraud Risk, and, to a lesser extent, by a 5 percent decrease in Occupancy Fraud Risk. The only index that increased this quarter was the Employment/Income Fraud Risk index, which is up by 1 percent.

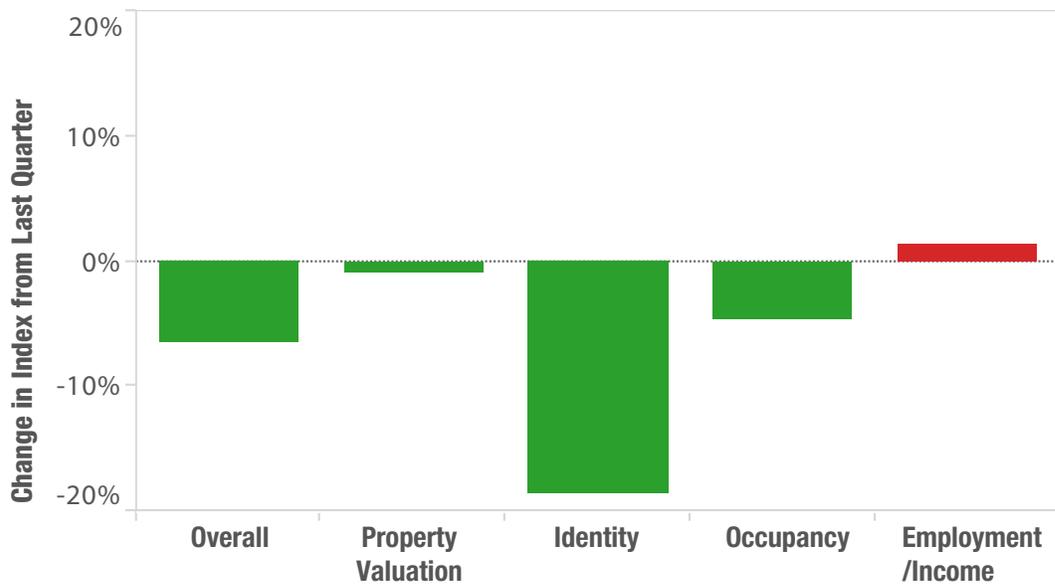


Figure 3: Quarterly Change in Fraud Risk Types

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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 this quarter. The national Property Valuation Fraud Risk Index is at 101, a 1 percent drop from last quarter. Last quarter’s 7th riskiest MSA, Minneapolis-St. Paul-Bloomington Minnesota-Wisconsin, is the riskiest MSA this quarter with a Property Valuation Fraud Risk index value of 177, a 14 percent increase from last quarter. Fayetteville-Springdale-Rogers Arkansas-Missouri, in 1st place last quarter, drops to 2nd place this quarter with a 6 percent decrease to its Property Valuation Risk index value to 171. Last quarter’s 3rd riskiest MSA for Property Valuation Fraud Risk, Tulsa Oklahoma, is this quarter’s overall riskiest MSA with an index value of 165, up 32 percent from last quarter.

Rank	MSA	Fraud Risk Index Q4 2013	Pct Change from Q3 2013	Pct Change from Q4 2012
1	MINNEAPOLIS-ST. PAUL-BLOOMINGTON, MN-WI	177	14.2%	3.5%
2	FAYETTEVILLE-SPRINGDALE-ROGERS, AR-MO	171	-6.0%	16.3%
3	TULSA, OK	165	32.0%	65.0%
4	PALM BAY-MELBOURNE-TITUSVILLE, FL	162	-4.1%	12.5%
5	PHILADELPHIA-CAMDEN-WILMINGTON, PA-NJ-..	155	4.7%	10.7%
6	CHICAGO-NAPERVILLE-JOLIET, IL-IN-WI	149	-13.4%	0.7%
7	BALTIMORE-TOWSON, MD	148	4.2%	29.8%
8	YORK-HANOVER, PA	148	9.6%	28.7%
9	SAN JOSE-SUNNYVALE-SANTA CLARA, CA	144	41.2%	94.6%
10	BAKERSFIELD, CA	142	-10.1%	-4.7%
11	UNITED STATES	101	-1.0%	1.0%

Table 3: MSAs with Highest Property Valuation Fraud Risk Q4 2013

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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 describes the 10 riskiest MSAs for Identity Fraud Risk. The national index for Identity Fraud Risk is down 19 percent from last quarter with a value of 87, essentially wiping out the 18% increase quarter-on-quarter increase we saw in Q2 2013. Tulsa Oklahoma, up 59 percent to 213, is the riskiest MSA for Identity Fraud this quarter. Moving up from the number three spot to number two is San Luis Obispo-Paso Robles California with an index value of 168. Also returning to the list from last quarter are Salinas California, Salt Lake City Utah, and Fayetteville-Springdale-Rodgers Arkansas-Missouri. Fayetteville-Springdale-Rodgers Arkansas-Missouri is down 53 percent, dropping from the number one spot to number 10.

Rank	MSA	Fraud Risk Index Q4 2013	Pct Change from Q3 2013	Pct Change from Q4 2012
1	TULSA, OK	213	59.0%	191.8%
2	SAN LUIS OBISPO-PASO ROBLES, CA	168	-3.5%	78.7%
3	HONOLULU, HI	152	11.8%	85.4%
4	BAKERSFIELD, CA	148	3.5%	35.8%
5	SALINAS, CA	145	-11.0%	-0.7%
6	FORT COLLINS-LOVELAND, CO	142	21.4%	20.3%
7	PHILADELPHIA-CAMDEN-WILMINGTON, PA-NJ-..	141	29.4%	93.2%
8	SALT LAKE CITY, UT	136	-19.1%	30.8%
9	DES MOINES-WEST DES MOINES, IA	134	76.3%	318.8%
10	FAYETTEVILLE-SPRINGDALE-ROGERS, AR-MO	134	-53.5%	7.2%
11	UNITED STATES	87	-18.7%	-5.4%

Table 4: MSAs with Highest Identity Fraud Risk Q4 2013

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OCCUPANCY FRAUD RISK INDEX

Occupancy Fraud is primarily committed by investors who falsely claim the intent to occupy a 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. Nationally, the Occupancy Fraud Risk Index is 140, down 5 percent from last quarter. The riskiest MSA for Occupancy Fraud Risk is Oxnard-Thousand Oaks-Ventura California, which, with an 11 percent increase, moves from 2nd to 1st place with an index value of 280. Tulsa Oklahoma moves up from the number 10 spot to the number two spot, with an index value of 235. Also returning to the list are Miami-Fort Lauderdale-Pompano Beach Florida, and Los Angeles-Long Beach-Santa Ana, in 4th place at 233, and in 8th place at 201, respectively.

Rank	MSA	Fraud Risk Index Q4 2013	Pct Change from Q3 2013	Pct Change from Q4 2012
1	OXNARD-THOUSAND OAKS-VENTURA, CA	280	10.7%	117.1%
2	TULSA, OK	235	8.8%	79.4%
3	STOCKTON, CA	234	30.7%	40.1%
4	MIAMI-FORT LAUDERDALE-POMPANO BEACH, ..	223	-11.5%	12.1%
5	DETROIT-WARREN-LIVONIA, MI	218	9.6%	36.3%
6	SALINAS, CA	215	73.4%	79.2%
7	GRAND RAPIDS-WYOMING, MI	204	59.4%	106.1%
8	LOS ANGELES-LONG BEACH-SANTA ANA, CA	201	-15.2%	66.1%
9	ALLENTOWN-BETHLEHEM-EASTON, PA-NJ	196	31.5%	53.1%
10	RIVERSIDE-SAN BERNARDINO-ONTARIO, CA	191	22.4%	11.7%
11	UNITED STATES	140	-4.8%	23.9%

Table 5 : MSAs with Highest Occupancy Fraud Risk Q4 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. Employment/Income Fraud Risk, up 1 percent to an index value of 77, is the only type-specific index to see an increase from the last quarter. Nine of the 10 riskiest MSAs are located in California, including San Francisco-Oakland-Fremont, which moves from number five to number one this quarter with an index value of 149.

Rank	MSA	Fraud Risk Index Q4 2013	Pct Change from Q3 2013	Pct Change from Q4 2012
1	SAN FRANCISCO-OAKLAND-FREMONT, CA	149	6.4%	0.0%
2	SAN DIEGO-CARLSBAD-SAN MARCOS, CA	146	0.7%	5.0%
3	SAN JOSE-SUNNYVALE-SANTA CLARA, CA	146	18.7%	-3.3%
4	SANTA ROSA-PETALUMA, CA	142	69.1%	2.2%
5	LOS ANGELES-LONG BEACH-SANTA ANA, CA	139	-6.1%	2.2%
6	OXNARD-THOUSAND OAKS-VENTURA, CA	135	13.5%	2.3%
7	BEND, OR	132	67.1%	16.8%
8	BAKERSFIELD, CA	126	-4.6%	37.0%
9	YUBA CITY, CA	124	40.9%	-12.1%
10	SALINAS, CA	123	17.1%	-0.8%
11	UNITED STATES	77	1.3%	-16.3%

Table 6: MSAs with Highest Employment/Income Fraud Risk Q4 2013

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Special Interest: High Risk in Multi-Unit Properties

In this section we examine the variation in fraud risk associated with the Property Type being funded. Figure 4 shows the overall fraud risk by Property Type. While the risk associated with Single family residences, Condos and PUDs are all similar (index values ranging between 94 and 105), the stand out risk is associated with Multi-unit (2-4 Unit) properties. The fraud risk index associated with Multi-unit properties is 250, well over twice the value of the indices associated with the other property types.

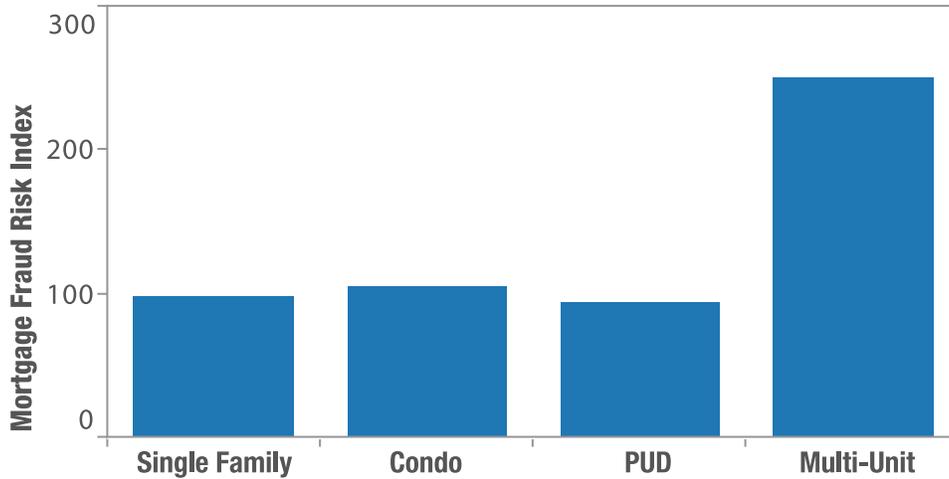


Figure 4: Overall Mortgage Fraud Risk by Property Type, 2013 Q4

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Figure 5 compares the type-specific fraud risk indices for Multi-unit properties with those for ALL properties. The high risk for the multi-unit properties is primarily driven by Occupancy Fraud Risk, with the index for Multi-unit properties being 484 compared to 140 for ALL properties. This extremely high index is not surprising as most multi-unit properties are used as investment vehicles, and so a large proportion of applications stating that they are for owner occupancy purposes are likely to be misrepresented. The Employment/Income Fraud Risk for Multi-unit properties is also very high compared with that for ALL properties (228 versus 77).

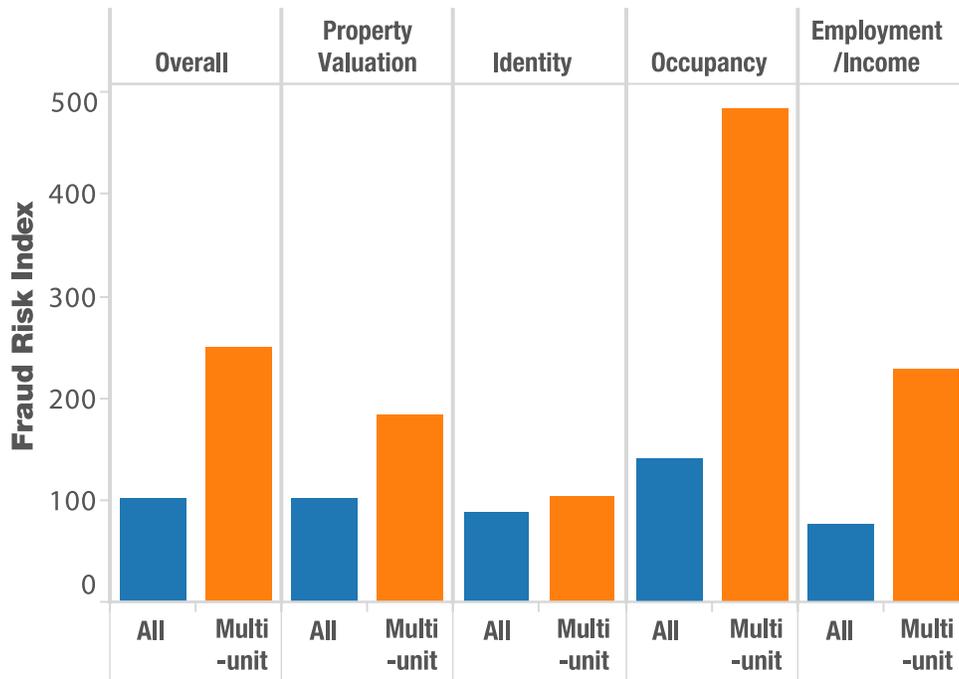


Figure 5: Overall and Type-specific Mortgage Fraud Risk for Multi-unit properties compared with ALL properties, 2013 Q4.

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Table 7 lists the 5 states with the highest fraud risk for multi-unit properties. As with ALL properties, the riskiest state is California, and as expected, the state's index for Multi-unit properties is much higher than for ALL properties (377 versus 139). Two other western states, Washington and Utah, are also in the top five, and this list is rounded out by two Southeastern states, Louisiana and Florida.

Rank	State	Mortgage Fraud Risk Index for Multi-unit Properties
1	California	377
2	Washington	326
3	Louisiana	318
4	Florida	302
5	Utah	292

Table 7: States with the highest Mortgage Fraud Risk for Multi-Unit Properties

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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 which 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.

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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 Verisk Analytics (Nasdaq:VRSK) subsidiary, 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 or call 1-800-333-4510.

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