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The Interthinx 2014 Mortgage Fraud Risk Report

While Identity Fraud Risk is up only 8 percent in the Wichita Kansas MSA from last quarter, it has risen 290 percent since Q1 2013. *see page 16*

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

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The Interthinx 2014 Mortgage Fraud Risk Report

Executive Summary

This report highlights some of the most significant mortgage fraud risk trends based on analysis of loan applications processed in Q1 2014 by the Interthinx FraudGUARD® system.

- The National Mortgage Fraud Risk Index is 100 for this quarter, the same value as it was a year ago and down 1 percent from last quarter.
- California continues as the riskiest state with a Mortgage Fraud Risk Index of 146 and contains eight of the 10 riskiest Metropolitan Statistical Areas, (MSAs) and eight of the 10 riskiest ZIP codes. California also continues to dominate the type-specific lists with four of the 10 riskiest MSAs for Property Valuation Fraud Risk, seven of the 10 riskiest MSAs for Identity Fraud Risk, six of the 10 riskiest MSAs for Occupancy Fraud Risk, and eight of the 10 riskiest MSAs for Employment/Income Fraud Risk.
- After largely disappearing from the riskiest MSAs, Miami-Ft. Lauderdale-Pompano Beach Florida reappeared this quarter as the ninth riskiest MSA in overall fraud risk with an index of 136, 6th riskiest for Property Valuation, and 4th riskiest for Occupancy Fraud Risk.
- The national Property Valuation Fraud Risk Index is 128, up 27 percent from last quarter, driven by indicators suggesting that actors in certain areas are purchasing and listing multiple properties in the same neighborhood. Dominance of a market can give an actor control of prices in that area, and the ability to alter comparable listing prices to artificially set sales prices to their advantage. At the national level, we also observed increased frequencies of properties being appraised well above traditional valuation thresholds.

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Fraud Risk Trends

The National Mortgage Fraud Risk Index is 100 for this quarter, the same value as it was a year ago and down 1 percent from last quarter.

Figure 1 shows the Mortgage Fraud Risk Index for each state, with risk decreasing from left to right. California continues as the riskiest state with a Mortgage Fraud Risk Index of 146. Washington DC moves up the list to number two from number three last quarter with an index of 118, while Florida jumps from number nine to number three with an index of 114. Rounding out the top 10 this quarter are Maryland, Arizona, Connecticut, New Jersey, Massachusetts, Arkansas and Colorado. For the first time since the inception of this report in 2009, Nevada is not in the top 10. Mississippi is the least risky state this quarter, with an index of 47. Iowa, Nebraska, North Dakota, Montana, West Virginia, Missouri, South Carolina, Kentucky and South Dakota round out the 10 least risky states.

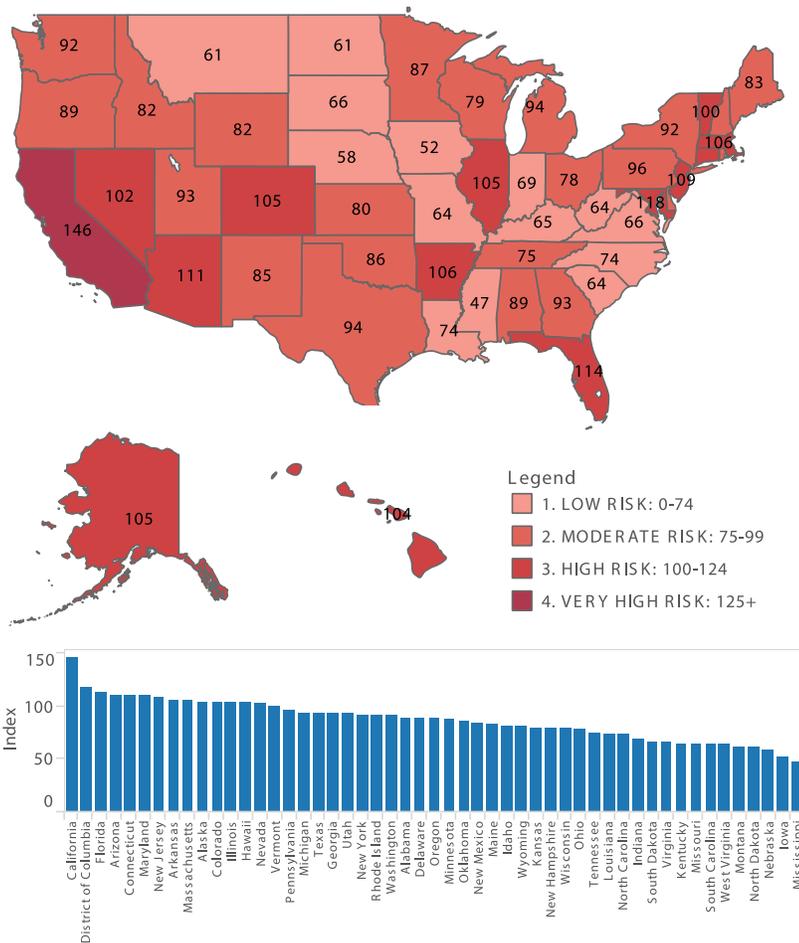


Figure 1: Mortgage Fraud Risk Index Q1 2014 by State

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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 and continuing this quarter, 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 very high levels of underwater loans, a drawn out foreclosure process, and intense investor interest have helped to reduce inventory and create unsustainable increases in housing prices.

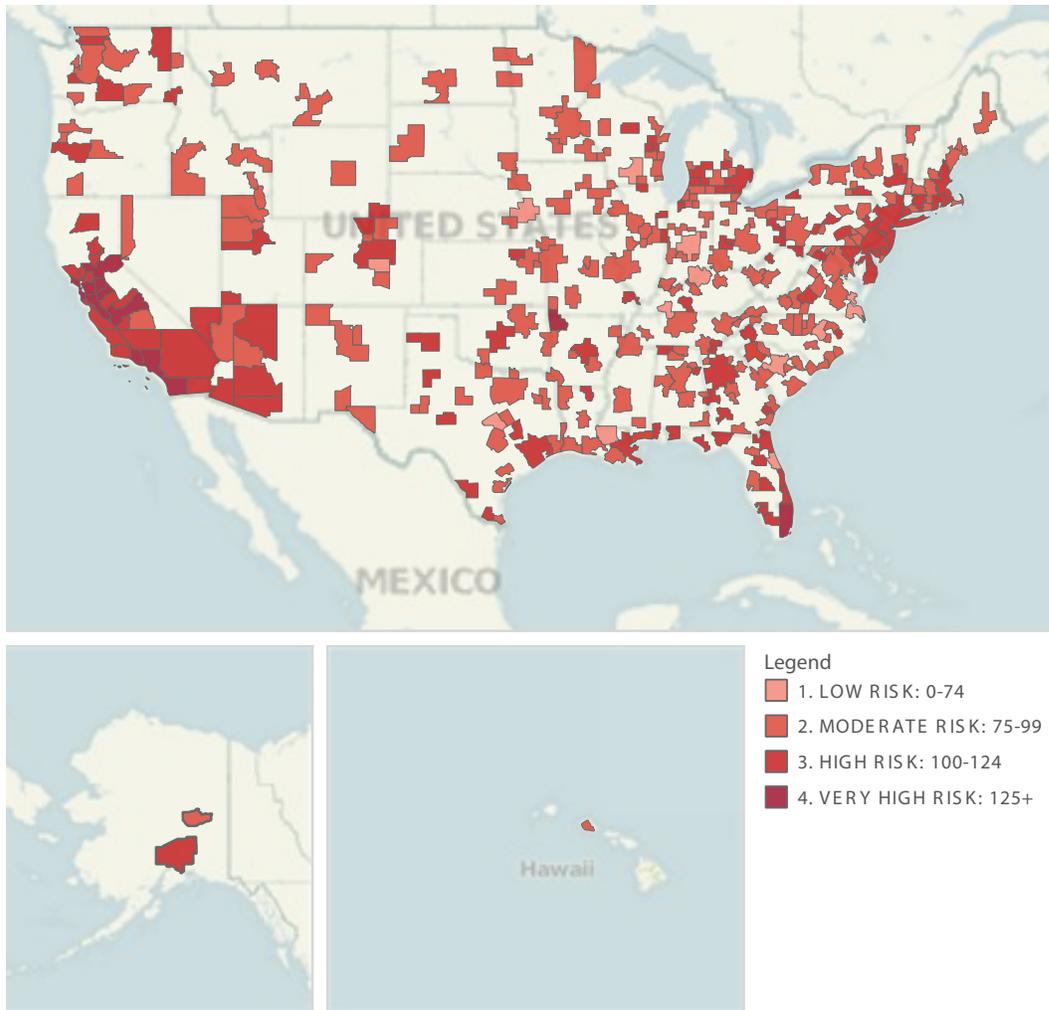


Figure 2: Mortgage Fraud Risk Q1 2014 by MSA

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Table 1 lists the 10 Metropolitan Statistical Areas (MSAs) with the highest Mortgage Fraud Risk in the United States. The riskiest MSA this quarter is Sacramento-Arden-Arcade-Roseville California, whose index increased 30 percent from last quarter to 160. In addition to Sacramento, seven additional MSAs from California populate the top 10 this quarter: San Francisco-Oakland-Fremont; San Jose-Sunnyvale-Santa Clara; San Diego-Carlsbad-San Marcos; Los Angeles-Long Beach-Santa Ana; Modesto; Fresno; and Oxnard-Thousand Oaks-Ventura. Last quarter's ninth riskiest MSA, Fayetteville-Springdale-Rogers Arkansas-Missouri, jumps up to number two with an index of 156 – an 11 percent increase from last quarter. Miami-Fort Lauderdale-Pompano Beach Florida is the only other non-California MSA in the top 10 this quarter.

Rank	MSA	Fraud Risk Index 2014 Q1	Pct Change from 2013 Q4	Pct Change from 2013..
1	SACRAMENTO--ARDEN-ARCADE--ROSEVILLE, CA	160	30.1%	24.0%
2	FAYETTEVILLE-SPRINGDALE-ROGERS, AR-MO	156	11.4%	13.0%
3	SAN FRANCISCO-OAKLAND-FREMONT, CA	156	8.3%	25.8%
4	SAN JOSE-SUNNYVALE-SANTA CLARA, CA	156	6.9%	34.5%
5	SAN DIEGO-CARLSBAD-SAN MARCOS, CA	154	16.7%	23.2%
6	LOS ANGELES-LONG BEACH-SANTA ANA, CA	153	2.7%	21.4%
7	MODESTO, CA	150	24.0%	13.6%
8	FRESNO, CA	144	22.0%	24.1%
9	MIAMI-FORT LAUDERDALE-POMPANO BEACH, FL	136	3.8%	3.8%
10	OXNARD-THOUSAND OAKS-VENTURA, CA	131	-17.6%	4.0%
	UNITED STATES	100	-1.0%	0.0%

Table 1: MSAs with Highest Overall Fraud Risk Q1 2014

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Table 2 lists the 10 ZIP codes with the highest Mortgage Fraud Risk this quarter. The riskiest ZIP code is 92107 in San Diego, California, with an index of 354. Eight of the top 10 riskiest ZIPs are located in California, three of which are in the Sacramento-Arden-Arcade-Roseville MSA (95628, 95682 and 95661), which is the riskiest MSA this quarter. The only non-California ZIPs in this top 10 are 72764 in Springdale, Arkansas, and 30039 in Snellville, Georgia.

Rank	ZIP	City, State	Fraud Risk Index 2014 Q1
1	92107	San Diego, California	354
2	95628	Fair Oaks, California	348
3	91766	Pomona, California	346
4	92109	San Diego, California	340
5	72764	Springdale, Arkansas	316
6	93065	Simi Valley, California	316
7	95682	Shingle Springs, California	281
8	94539	Fremont, California	279
9	30039	Snellville, Georgia	274
10	95661	Roseville, California	273

Table 2: ZIPs with the Highest Mortgage Fraud Risk Q1 2014

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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. Overall, Mortgage Fraud Risk is down 1 percent. A 27 percent increase in Property Valuation Fraud Risk is balanced by decreases in Identity, Occupancy and Employment/Income Fraud Risk.

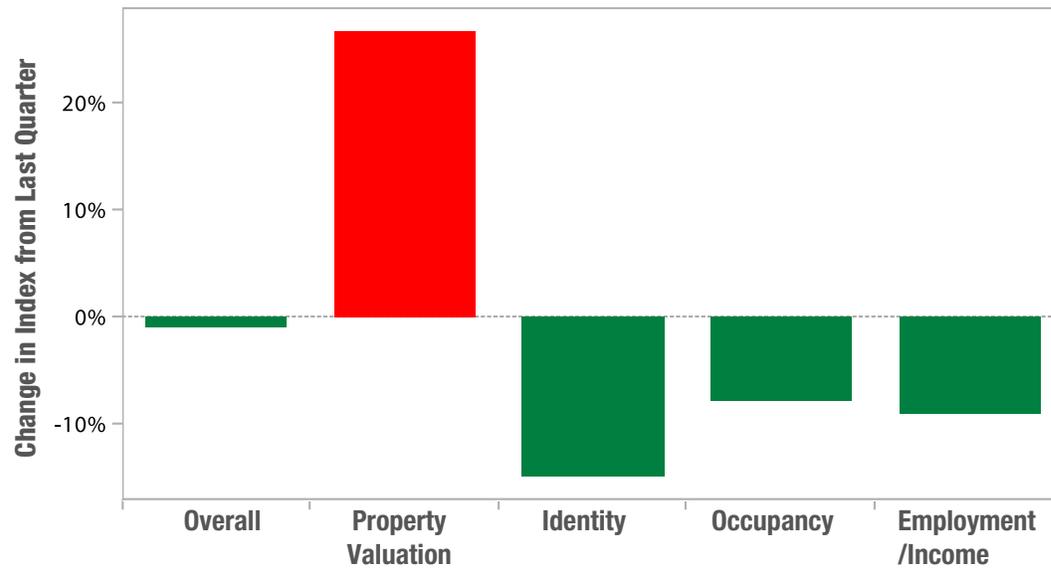


Figure 3: Quarterly Change in Fraud Risk Types

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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. Interthinx detects key alerts that identify Property Valuation Fraud Risk in the areas of Ownership Issues, Value Issues, Property Flip Issues and Valuation Threshold Issues by cross-validating borrower information against public and internal databases, and checking appraised values against multiple sets of comparables data.

The trend line in Figure 4 describes the 5-quarter movement in the national Property Valuation Fraud Risk Index. The national Property Valuation Fraud Risk Index is 128, up 27 percent from last quarter and up 17 percent from a year ago. Increased Property Valuation Fraud Risk this quarter is driven by indicators suggesting that actors in certain areas are purchasing and listing multiple properties in the same neighborhood. Dominance of a market can give the actor the ability to alter comparable listing prices to artificially set sales prices to their advantage. Another contributing factor observed is the rise in the number of properties being appraised well above traditional valuation thresholds.

Table 3 lists the 10 riskiest MSAs for Property Valuation Fraud this quarter. The top 4 MSAs are all located in California. The Bay Area MSAs of San Francisco-Oakland-Fremont and San Jose-Sunnyvale-Santa Clara take the top two spots with index values of 192 and 186, respectively. They are followed by the MSAs of Los Angeles-Long Beach-Santa Ana and Sacramento-Arden-Arcade-Roseville in third and fourth place.

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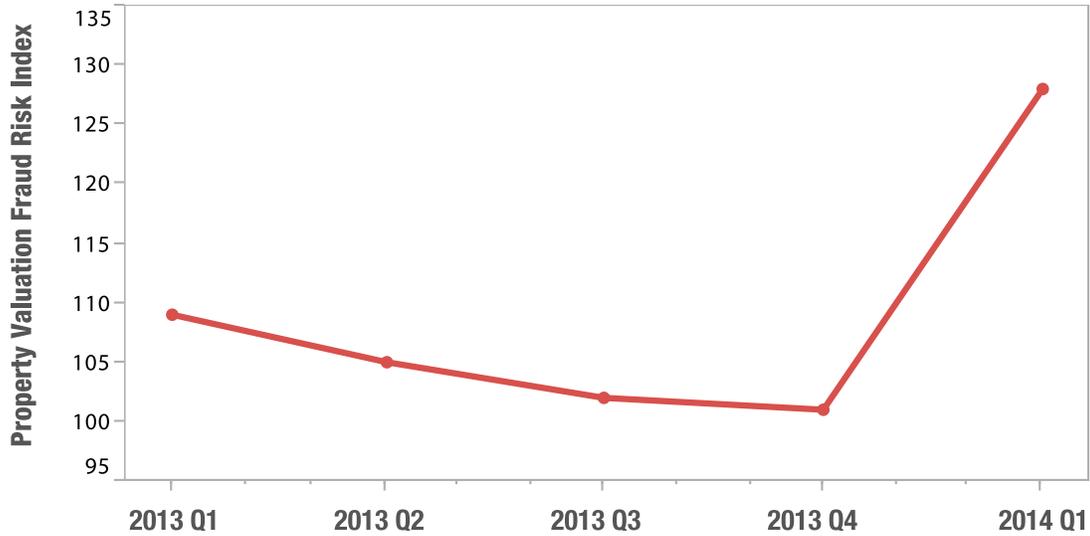


Figure 4: Property Valuation Fraud Risk 5-Quarter Trend

Rank	MSA	Fraud Risk Index 2014 Q1	Pct Change from 2013 Q4	Pct Change from 2013..
1	SAN FRANCISCO-OAKLAND-FREMONT, CA	192	37.1%	58.7%
2	SAN JOSE-SUNNYVALE-SANTA CLARA, CA	186	29.2%	78.9%
3	LOS ANGELES-LONG BEACH-SANTA ANA, CA	184	44.9%	100.0%
4	SACRAMENTO--ARDEN-ARCADE--ROSEVILLE, CA	180	31.4%	44.0%
5	BALTIMORE-TOWSON, MD	176	18.9%	26.6%
6	MIAMI-FORT LAUDERDALE-POMPANO BEACH, FL	175	29.6%	4.8%
7	MINNEAPOLIS-ST. PAUL-BLOOMINGTON, MN-WI	175	-1.1%	4.2%
8	CLEVELAND-ELYRIA-MENTOR, OH	174	24.3%	-11.2%
9	CHICAGO-NAPERVILLE-JOLIET, IL-IN-WI	172	15.4%	16.2%
10	FORT WALTON BEACH-CRESTVIEW-DESTIN, FL	171	34.6%	47.4%
	UNITED STATES	128	26.7%	17.4%

Table 3: MSAs with Highest Property Valuation Fraud Risk Q1 2014

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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. Lenders grant loans based on a borrower's credit profile, and fraudsters often use stolen identities as a means of acquiring property illegally. Interthinx cross-references borrower information against numerous data sources in order to identify possible anomalies in a borrower's Social Security Number (SSN) trace, including Identity Issues, SSN Misuse, Deceased Borrowers and SSN Alerts.

The trend line in Figure 5 describes the 5-quarter movement in the national Identity Fraud Risk Index. The annual and quarterly drop in Identity Fraud Risk is attributed to a decrease in many of the alerts generated this quarter, and in particular, decreases in Identity Issues relating to the SSN trace.

Table 4 describes the 10 riskiest MSAs for Identity Fraud Risk. The national index for Identity Fraud Risk is down 15 percent from last quarter, with an index of 74. Fayetteville-Springdale-Rogers Arkansas-Missouri, last quarter's 10th riskiest MSA for Identity Fraud Risk, is number one with an index of 211 – a 58 percent increase from last quarter – largely due to an increase in loans with issues involving the SSN trace. Seven MSAs from California are in the top 10, including Oxnard-Thousand Oaks-Ventura at number two with an index of 145, and Salinas at number three with an index of 140. Wichita Kansas joins the list at number eight with an index of 117, up 8 percent from last quarter, and up 290 percent from one year ago.

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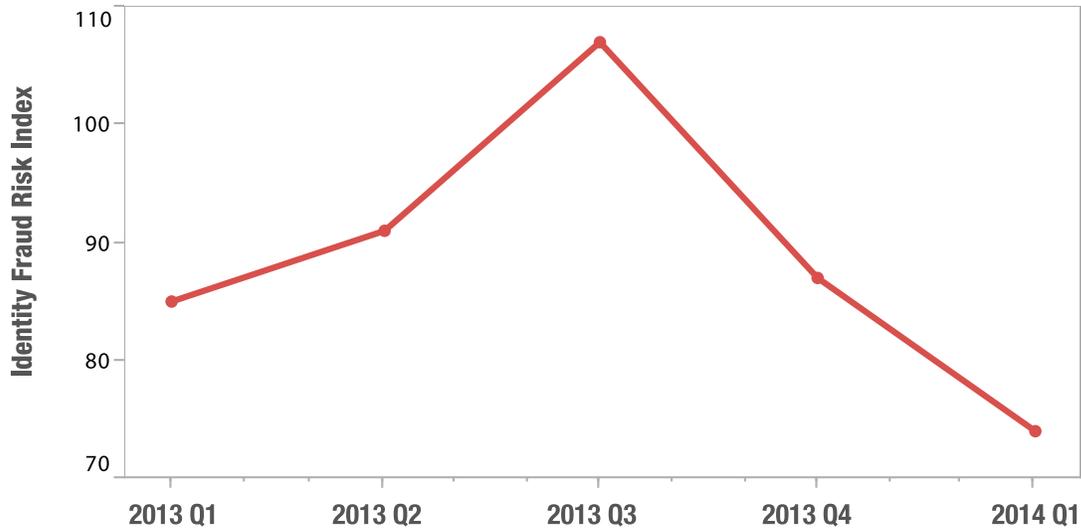


Figure 5: Identity Fraud Risk 5-Quarter Trend

Rank	MSA	Fraud Risk Index 2014 Q1	Pct Change from 2013 Q4	Pct Change from 2013..
1	FAYETTEVILLE-SPRINGDALE-ROGERS, AR-MO	211	57.5%	44.5%
2	OXNARD-THOUSAND OAKS-VENTURA, CA	145	59.3%	9.9%
3	SALINAS, CA	140	-3.5%	2.9%
4	SAN DIEGO-CARLSBAD-SAN MARCOS, CA	130	42.9%	32.7%
5	FRESNO, CA	129	22.9%	-3.7%
6	STOCKTON, CA	127	36.6%	38.0%
7	ALLENTOWN-BETHLEHEM-EASTON, PA-NJ	123	50.0%	78.3%
8	WICHITA, KS	117	8.3%	290.0%
9	LOS ANGELES-LONG BEACH-SANTA ANA, CA	114	-11.6%	1.8%
10	SAN FRANCISCO-OAKLAND-FREMONT, CA	113	-4.2%	2.7%
	UNITED STATES	74	-14.9%	-12.9%

Table 4: MSAs with Highest Identity Fraud Risk Q1 2014

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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. Borrowers who occupy a property are less likely to default on a mortgage compared to borrowers who do not occupy the property. Because of this, borrowers who intend to occupy the secured property receive preferential interest rates and lower down payments than borrowers for investment properties. Interthinx searches its proprietary mortgage loan database as well as multiple other databases for “red flags”, including evidence that a borrower has more than one owner-occupied loan submission on file and of potential straw buyer activity (a straw buyer is a person who, wittingly or unwittingly, is used as a nominee to make a purchase for the financial benefit of the scheme orchestrator).

The trend line in Figure 6 describes the 5-quarter movement in the national Occupancy Fraud Risk Index. Nationally, the Occupancy Fraud Risk Index is 129 – down 8 percent from last quarter, but up 12 percent from one year ago. The quarterly decrease in Occupancy Fraud Risk is attributed to a decrease in alerts for borrowers submitting multiple Owner Occupied loan applications.

Table 5 lists the top 10 riskiest MSAs for Occupancy Fraud Risk. Sacramento-Arden-Arcade-Roseville California is the riskiest MSA for Occupancy Fraud Risk this quarter with an index of 259. Rounding out the top three are nearby Modesto with an index of 240, and Fresno with an index of 238.

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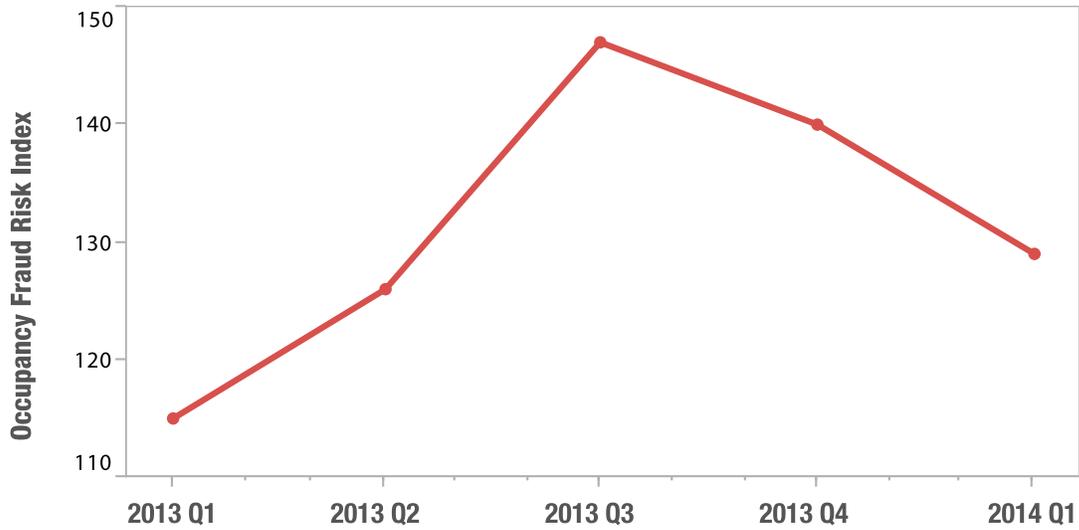


Figure 6: Occupancy Fraud Risk 5-Quarter Trend

Rank	MSA	Fraud Risk Index 2014 Q1	Pct Change from 2013 Q4	Pct Change from 2013..
1	SACRAMENTO--ARDEN-ARCADE--ROSEVILLE, CA	259	103.9%	85.0%
2	MODESTO, CA	240	47.2%	55.8%
3	FRESNO, CA	238	51.6%	126.7%
4	MIAMI-FORT LAUDERDALE-POMPANO BEACH, FL	219	-1.8%	13.5%
5	FAYETTEVILLE-SPRINGDALE-ROGERS, AR-MO	204	32.5%	74.4%
6	SAN JOSE-SUNNYVALE-SANTA CLARA, CA	194	12.8%	86.5%
7	LOS ANGELES-LONG BEACH-SANTA ANA, CA	189	-6.0%	28.6%
8	LITTLE ROCK-NORTH LITTLE ROCK-CONWAY, AR	188	82.5%	102.2%
9	SAN DIEGO-CARLSBAD-SAN MARCOS, CA	188	18.2%	21.3%
10	DENVER-AURORA-BROOMFIELD, CO	187	6.9%	50.8%
	UNITED STATES	129	-7.9%	12.2%

Table 5: MSAs with Highest Occupancy Fraud Risk Q1 2014

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EMPLOYMENT/INCOME FRAUD RISK INDEX

Employment/Income Fraud occurs when an applicant's employment and/or income is misrepresented in order to meet lender underwriting guidelines for a loan. Income plays a critical role in the loan decisioning process and is subject to investor guidelines and regulatory requirements relating to the borrower's debt-to-income ratios, their ability to repay the loan and more. Interthinx compares borrower submitted information to public data to identify discrepancies in areas such as level of income and self-employment status.

The trend line in Figure 7 describes the 5-quarter movement in the national Employment Fraud Risk Index. Nationally, Employment/Income Fraud Risk is down 9 percent with an index of 70. The quarterly and annual decrease in Identity Fraud Risk is attributed to decreases in alerts involving self-employment status and discrepancies in borrower reported income levels.

Table 6 lists the top 10 riskiest MSAs for Employment/Income Fraud Risk. The three riskiest MSAs for Employment/Income Fraud Risk from last quarter return to their respective spots this quarter. San Francisco-Oakland-Fremont California is the riskiest MSA with an index of 144. Second on the list is San Diego-Carlsbad-San Marcos California with an index of 142. Finally, San Jose-Sunnyvale-Santa Clara California remains in the number three spot with an index of 139. The eight riskiest MSAs for Employment/Income Fraud Risk this quarter are located in California, with Salt Lake City, Utah and Asheville, North Carolina rounding out the top 10.

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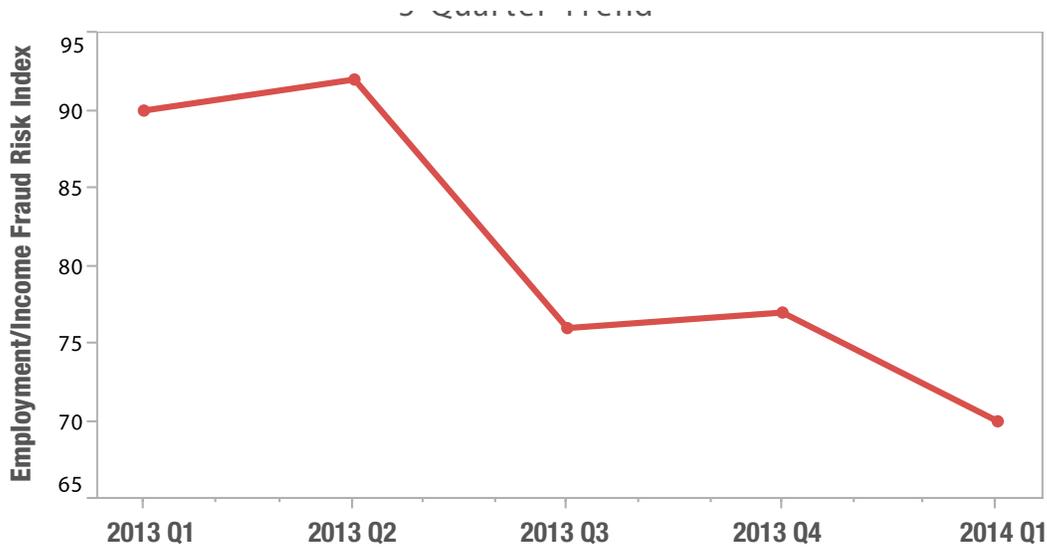


Figure 7: Occupancy Fraud Risk 5-Quarter Trend

Rank	MSA	Fraud Risk Index 2014 Q1	Pct Change from 2013 Q4	Pct Change from 2013..
1	SAN FRANCISCO-OAKLAND-FREMONT, CA	144	-3.4%	-10.6%
2	SAN DIEGO-CARLSBAD-SAN MARCOS, CA	142	-2.7%	-10.1%
3	SAN JOSE-SUNNYVALE-SANTA CLARA, CA	139	-4.8%	-11.5%
4	LOS ANGELES-LONG BEACH-SANTA ANA, CA	126	-9.4%	-17.7%
5	BAKERSFIELD, CA	119	-5.6%	-15.6%
6	MODESTO, CA	119	43.4%	13.3%
7	REDDING, CA	110	6.8%	34.2%
8	SACRAMENTO--ARDEN-ARCADE--ROSEVILLE, CA	110	-5.2%	-24.7%
9	SALT LAKE CITY, UT	110	3.8%	35.8%
10	ASHEVILLE, NC	108	12.5%	36.7%
	UNITED STATES	70	-9.1%	-22.2%

Table 6: MSAs with Highest Employment/Income Fraud Risk Q1 2014

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Special Interest: High Identity Fraud Risk in Wichita Kansas MSA

In this section, we examine the factors that may be affecting Identity Fraud Risk levels in the Wichita Kansas MSA. Figure 8 shows Wichita’s 5-quarter trend for Identity Fraud Risk. While Identity Fraud Risk is up only 8 percent in the Wichita Kansas MSA from last quarter, it has risen 290 percent since Q1 2013. This increase is especially striking considering that Identity Fraud Risk at the national level is down 15 percent for the quarter and down 13 percent from one year ago. While it is unknown whether local law enforcement activities play a role in our findings, we note that local news outlets have recently reported on Wichita officials’ targeting of forgers who falsify documents that are then used to obtain government issued identification cards.

Although Wichita is only the eighth riskiest MSA for Identity Fraud this quarter, it has the highest annual percentage increase (290 percent) among the top ten riskiest MSAs. The second highest increase, in Allentown-Bethlehem-Easton Pennsylvania-New Jersey, was only 78 percent. Although it appears that Identity Fraud Risk peaked at 134 in Q3 2013 in Wichita, it has remained high even as much of the country experiences a decrease.



Figure 8: Identity Fraud Risk in the Wichita Kansas MSA 5-Quarter Trend

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Figure 9 illustrates the difference in Identity Fraud Risk levels in the Wichita Kansas MSA between purchase and refinance activity. The index for all loans is elevated at 117, largely due to the purchase index which stands at 136. By comparison, the index for refinance transactions is only 90. As noted in previous Interthinx publications, purchase transactions are inherently higher in risk because there are more participants in the transaction (and thus more opportunity for collusion between parties), more documents to be reviewed for forgery and misrepresentation, and a borrower who is often a new customer of the lender (compared to refinance transactions where the borrower is often an existing customer).

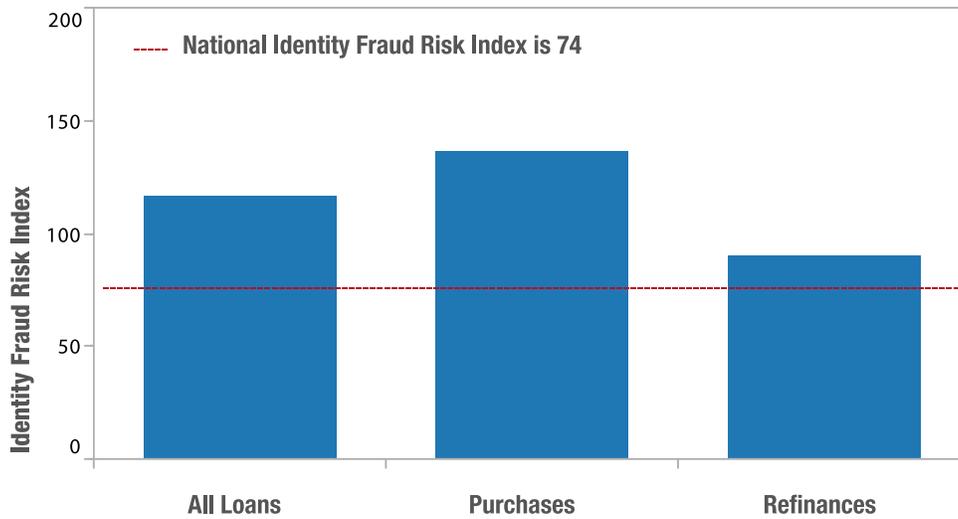


Figure 9: Identity Fraud Risk in the Wichita Kansas MSA by Loan Purpose in Q1 2014

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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 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 or call 1-800-333-4510.

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