

Q3 2012

Mortgage Fraud Risk Report

In-depth analysis of nationwide
risk as indicated by the
InterthinX® Fraud Risk Indices

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Executive Summary

The national Mortgage Fraud Risk Index is 137 ($n = 100$), a decrease of nearly eight percent from last quarter, and of almost five percent from its value one year ago. After a spike last quarter, the index has dropped to the lowest value observed in the last two years.

- Florida was the riskiest state this quarter, moving up from the number three spot last quarter to overtake Nevada. The Miami-Fort Lauderdale-Pompano Beach Metropolitan Statistical Area (MSA) continues to be noteworthy in its risk, appearing on the overall and three of the four type-specific top 10 riskiest lists this quarter. Investment properties in Florida are significantly more risky overall than those purchased for owner occupation and especially in the employment/income fraud risk category, where investment properties present more than three times the risk for fraud than do primary residence purchases.
- California metros continued to dominate the overall and type-specific top 10 lists, representing six of the 10 riskiest MSAs, half of the 10 riskiest metros for Property Valuation Fraud Risk, and eight of the 10 riskiest metros for Employment/Income Fraud Risk. Merced, in California's Central Valley, was the riskiest metro in the nation.
- All of the type-specific indices have decreased by at least four percent over the past year. Although in the last two years the overall and Occupancy Fraud Risk indices are essentially flat, the Property Valuation and Identity Fraud Risk indices have decreased dramatically, by 23 and 24 percent, respectively, and the Employment/Income Fraud Risk Index is up by 15 percent.

Mortgage Fraud Risk Hot Spots and Trends

The national Mortgage Fraud Risk Index, at 137 ($n = 100$), fell 7.7 percent from last quarter and 4.5 percent from its value one year ago. After a spike last quarter, the Index has dropped to the lowest value observed in the last two years.

Corresponding to this quarter's decline in the national Mortgage Fraud Risk Index, the number of MSAs classified as very high risk declined from 91 in Q2 to 70 in Q3. The number of very high risk California MSAs remained the same at 19, while Florida added one MSA to bring its total to 17. These two states account for more than half of the very high risk metros. Many of the states which had multiple very high risk metros last quarter continued the trend this quarter: Arizona claims six; Colorado, New Jersey and Oregon each have three; and Connecticut, Georgia, Michigan, and Nevada each have two. Much of the decrease in the number of very high risk metros can be attributed to Midwestern states like Ohio, Wisconsin, and Michigan, each of which had at least two fewer metros in Q3 than in the last quarter. New entrants to the list include Millville-Bridgeton and Ocean City New Jersey, Bend Oregon, Yakima Washington and Spartanburg South Carolina.

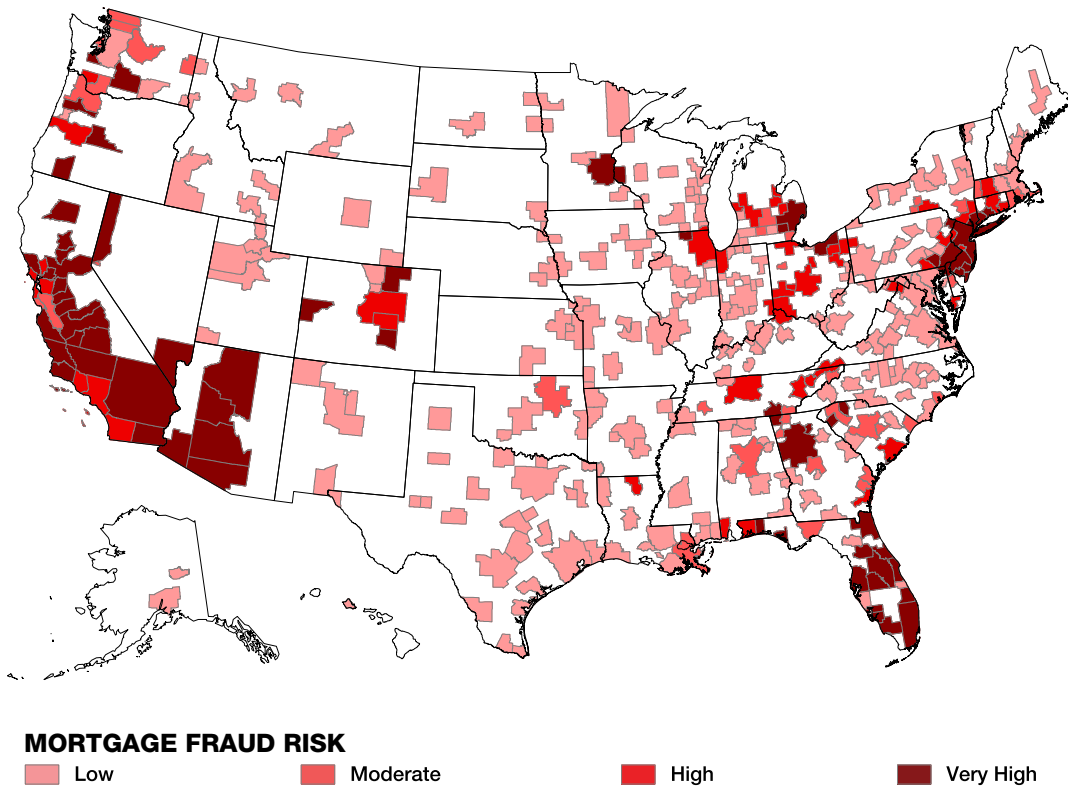


Figure 1: Mortgage Fraud Risk in Q3 2012 by Metropolitan Statistical Area (MSA)

Table 1 displays the 10 MSAs with the highest overall mortgage fraud risk. California and Florida claim nine of the top 10. California has six metros in the top 10, including Merced, which, with a gain of 12 percent, took the top spot. Florida also makes a strong showing with three metros including Miami-Fort Lauderdale, which, despite a small decrease to its index value, moved up one spot to take third place. The only metro not from one of these two states is Reno-Sparks Nevada, whose four percent gain over Q2 moved it into eighth place.












Rank	Metropolitan Statistical Area	Mortgage Fraud Risk Index Q3 2012	% Change since Q3 2011	% Change since Q2 2012	8-quarter Trend
1	Merced, CA Metro	281	15.8%	12.3%	
2	Stockton, CA Metro	246	-18.8%	6.4%	
3	Miami-Fort Lauderdale-Pompano Beach, FL Metro	233	-4.2%	-1.8%	
4	Yuba City, CA Metro	231	7.5%	-1.2%	
5	Tampa-St. Petersburg-Clearwater, FL Metro	229	31.0%	23.7%	
6	Redding, CA Metro	228	35.8%	9.6%	
7	Modesto, CA Metro	228	-23.8%	-8.0%	
8	Reno-Sparks, NV Metro	223	-3.6%	4.2%	
9	Jacksonville, FL Metro	222	19.8%	14.0%	
10	Salinas, CA Metro	220	-4.1%	18.7%	
	UNITED STATES	137	-4.5%	-7.7%	

Table 1: MSAs with the Highest Fraud Risk in Q3 2012

Table 2 lists the 10 ZIP codes with the highest Mortgage Fraud Risk Index values. While last quarter the top 10 riskiest ZIPs were concentrated in only three states – New York, Florida and Pennsylvania – eight states are represented in this quarter. New York led the category in Q2 with five of the top 10 riskiest ZIPs, but is noticeably absent in this quarter. The Northeast is represented by Litchfield, Connecticut and Newark, New Jersey, in first and third places, respectively. Litchfield is the riskiest ZIP by a large margin.

Rank	ZIP	City and State	Mortgage Fraud Risk Index Q3 2012
1	06759	Litchfield, Connecticut	551
2	41071	Newport, Kentucky	488
3	07107	Newark, New Jersey	478
4	92227	Brawley, California	465
5	49321	Comstock Park, Michigan	455
6	95948	Gridley, California	448
7	60623	Chicago, Illinois	425
8	34116	Naples, Florida	420
9	33470	Loxahatchee, Florida	418
10	80011	Aurora, Colorado	409

Table 2: ZIP codes with the Highest Fraud Risk in Q3 2012

Geographic Fraud Risk Migration

Mortgage fraud migrates geographically to take advantage of local market conditions. This section examines the geographic migration of mortgage fraud risk within the 50 States and the District of Columbia.

Figure 2 depicts the Mortgage Fraud Risk Index for the 50 States and the District of Columbia, with the 10 riskiest states shown in red. Eight of the top 10 states return from last quarter. The newcomers are Illinois, which moved from 15th place to 10th, and Minnesota at 9th place, up from 18th in Q2. Florida replaces Nevada in the number one spot with a Mortgage Fraud Risk Index value of 206, while California returns to the top five after falling to sixth place in Q2. Seven of the 10 lowest risk states from Q2 returned this quarter, and are joined by New Mexico, Idaho, and Wyoming. Eight of these states have index values less than half that of the national value.

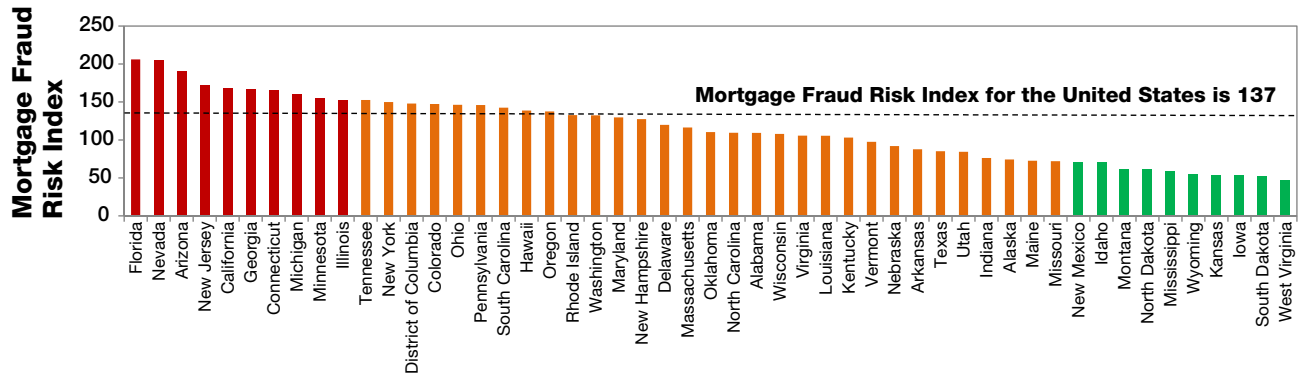


Figure 2: Mortgage Fraud Risk Index in Q3 2012 by State

Type-Specific Mortgage Fraud Risk Hot Spots and Trends

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 shows the 10 MSAs with the highest Property Valuation Fraud Risk. While the top 10 were distributed among five states last quarter, in Q3 this risk became more concentrated geographically with only three states represented: California with five MSAs, Florida with four, and Nevada with one. The riskiest MSA in the country is Merced California with an index value of 498, a 23 percent increase from Q2. Despite declines to their index values, Cape Coral-Fort Myers and Miami-Fort Lauderdale-Pompano Beach Florida and Modesto California and return from last quarter. At the national level, Property Valuation Fraud Risk is down 11 percent from Q2, continuing the downward trend that began in early 2010 that has resulted in a decrease of 23 percent over the last two years.


Rank	Metropolitan Statistical Area	Property Valuation Fraud Risk Index Q3 2012	% Change since Q3 2011	% Change since Q2 2012	8-quarter Trend
1	Merced, CA Metro	498	-3.4%	22.9%	
2	Lakeland-Winter Haven, FL Metro	438	6.4%	32.7%	
3	Yuba City, CA Metro	432	1.0%	9.1%	
4	Reno-Sparks, NV Metro	412	-17.5%	5.9%	
5	Tampa-St. Petersburg-Clearwater, FL Metro	410	32.5%	32.8%	
6	Stockton, CA Metro	404	-37.4%	7.6%	
7	Modesto, CA Metro	403	-37.6%	-5.0%	
8	Redding, CA Metro	402	28.5%	16.2%	
9	Miami-Fort Lauderdale-Pompano Beach, FL Metro	401	-6.7%	-3.7%	
10	Cape Coral-Fort Myers, FL Metro	399	-9.4%	-11.2%	
	UNITED STATES	203	-9.2%	-11.3%	

Table 3: MSAs with the Highest Property Valuation Fraud Risk

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 lists the 10 MSAs with the highest Identity Fraud Risk Index values. The national index declined one percent from last quarter despite the huge gains seen in three of the top 10 MSAs. These metros are Bellingham Washington in 5th place (+ 114 percent), Midland Texas in 4th place (+175 percent), and Iowa City Iowa in first place with an Identity Fraud Risk Index value of 325 – an increase of 118 percent from Q2 2012. Three MSAs return from Q2’s top 10 list: Burlington-South Burlington Vermont, New Haven Connecticut, and San Jose-Sunnyvale-Santa Clara California. The San Jose-Sunnyvale-Santa Clara metro was Q2’s riskiest metro for identity fraud but fell to the number three spot with a three percent decrease this quarter. Joining the Q3 top 10 riskiest MSAs for identity fraud are El Paso and Lubbock Texas, Anchorage Alaska and Miami-Fort Lauderdale-Pompano Beach Florida. The Identity Fraud Risk Index has declined by 24 percent in the last two years.












Rank	Metropolitan Statistical Area	Identity Fraud Risk Index Q3 2012	% Change since Q3 2011	% Change since Q1 2012	8-quarter Trend
1	Iowa City, IA Metro	325	-134.2%	118.4%	
2	San Jose-Sunnyvale-Santa Clara, CA Metro	272	-21.5%	-3.0%	
3	Midland, TX Metro	265	164.6%	175.3%	
4	Bellingham, WA Metro	264	203.3%	113.8%	
5	Lubbock, TX Metro	261	133.8%	79.6%	
6	Anchorage, AK Metro	243	183.0%	14.3%	
7	Burlington-South Burlington, VT Metro	238	-35.5%	7.4%	
8	Miami-Fort Lauderdale-Pompano Beach, FL Metro	215	-28.3%	19.0%	
9	New Haven-Milford, CT Metro	208	26.5%	-9.9%	
10	Lexington-Fayette, KY Metro	205	101.1%	10.7%	
	UNITED STATES	145	-7.1%	-1.0%	

Table 4: MSAs with the Highest Identity Fraud Risk

OCCUPANCY FRAUD RISK INDEX

Occupancy fraud is perpetrated 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 shows the 10 MSAs with the highest Occupancy Fraud Risk. Four of the 10 riskiest MSAs in Q3 return from Q2, with McAllen-Edinburg-Mission Texas and Lansing-East Lansing Michigan swapping the top spots. Lansing-East Lansing now claims first place with an Occupancy Fraud Risk Index value of 165. Miami-Fort Lauderdale-Pompano Beach Florida, which is also in the top 10s for Property Valuation and Identity Fraud Risk this quarter, is in fourth place. New entrants this quarter include Monroe Michigan, Stockton California, Ocala Florida, Mobile Alabama, Salinas California and Poughkeepsie-Newburgh-Middletown New York. Overall, the national value fell nearly 4 percent from Q2 2012 and 10 percent from a year ago, but remains essentially flat compared to two years ago.












Rank	Metropolitan Statistical Area	Occupancy Fraud Risk Index Q3 2012	% Change since Q3 2011	% Change since Q2 2012	8-quarter Trend
1	Lansing-East Lansing, MI Metro	165	143.7%	17.5%	
2	McAllen-Edinburg-Mission, TX Metro	142	96.7%	-12.9%	
3	Monroe, MI Metro	117	129.7%	29.5%	
4	Miami-Fort Lauderdale-Pompano Beach, FL Metro	104	-24.5%	-2.8%	
5	Stockton, CA Metro	103	33.8%	12.8%	
6	Ocala, FL Metro	101	10.9%	64.4%	
7	Mobile, AL Metro	101	16.0%	3.8%	
8	Salinas, CA Metro	100	-2.8%	33.8%	
9	Poughkeepsie-Newburgh-Middletown, NY Metro	97	61.5%	104.5%	
10	Modesto, CA Metro	96	-17.8%	-13.6%	
	UNITED STATES	63	-9.6%	-3.8%	

Table 5: MSAs with the Highest Occupancy Fraud Risk

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. Eight of these 10 are repeats from last quarter. The new entrants – Salinas California and Burlington-South Burlington Vermont – are both notable. Salinas California catapulted into the table at number one this quarter with a Risk Index value of 187 – a 49 percent increase from Q2 2012. Burlington-South Burlington Vermont, which has been a regular in this table – often in the top spot – fell out of the top 10 last quarter with a drop of 53 percent but now returns in the ninth spot with a 30 percent increase from Q2. As has become the norm, California MSAs dominate this list, representing eight of the top 10. While the US value did not change from last quarter, it is up more than 15 percent over the last two years.

Rank	Metropolitan Statistical Area	Employment/Income Fraud Risk Index Q3 2012	% Change since Q3 2011	% Change since Q2 2012	8-quarter Trend
1	Salinas, CA Metro	187	17.0%	48.9%	
2	Oxnard-Thousand Oaks-Ventura, CA Metro	185	9.2%	6.4%	
3	Los Angeles-Long Beach-Santa Ana, CA Metro	184	10.0%	8.8%	
4	San Diego-Carlsbad-San Marcos, CA Metro	183	3.3%	0.5%	
5	Redding, CA Metro	179	42.7%	-6.1%	
6	Stockton, CA Metro	178	17.6%	3.8%	
7	Honolulu, HI Metro	172	1.9%	5.4%	
8	San Luis Obispo-Paso Robles, CA Metro	171	86.1%	-3.0%	
9	Burlington-South Burlington, VT Metro	167	-19.9%	30.0%	
10	San Jose-Sunnyvale-Santa Clara, CA Metro	162	-5.5%	0.3%	
	UNITED STATES	109	-4.9%	0.0%	

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

High Fraud Risk in Florida

Florida is the state with the highest Mortgage Fraud Risk Index this quarter. Figure 3 shows the fraud risk and state rank for Florida since the inception of this report in Q2 of 2009. Florida's risk had been on a downward trend but a spike in risk this quarter, coupled with declining risk nationally – particularly in Nevada and Arizona – was enough to bring Florida to the forefront.

Figure 3:
Florida's Mortgage
Fraud Risk Index
and Rank

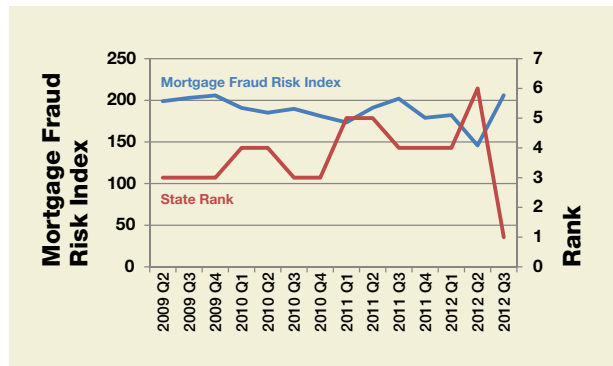


Figure 4 shows the distribution of Florida's fraud risk by county. It is clear that the high risk is spread throughout the state, with numerous counties having fraud risk indices greater than 150. Roughly a dozen counties have indices greater than 200, with the highest risk being found in Miami-Dade in the southeast, Pasco in the west, and Duval and Clay counties in the northeast.

Figure 4:
Florida's Fraud
Risk by County

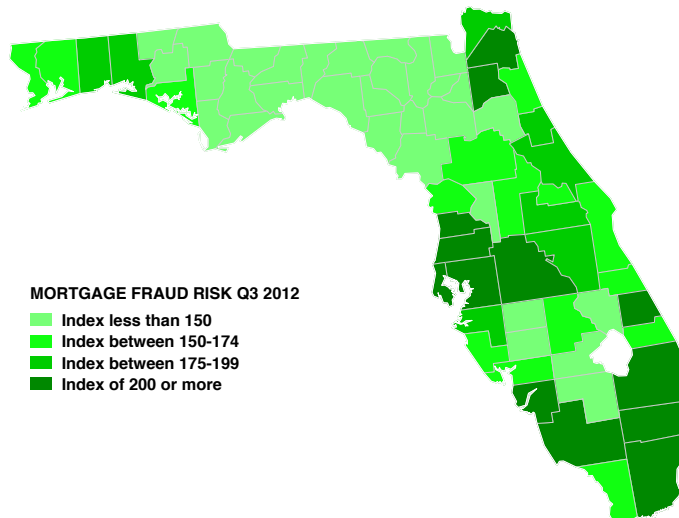
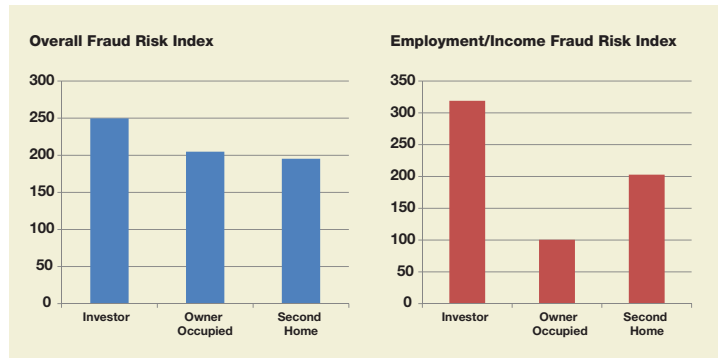


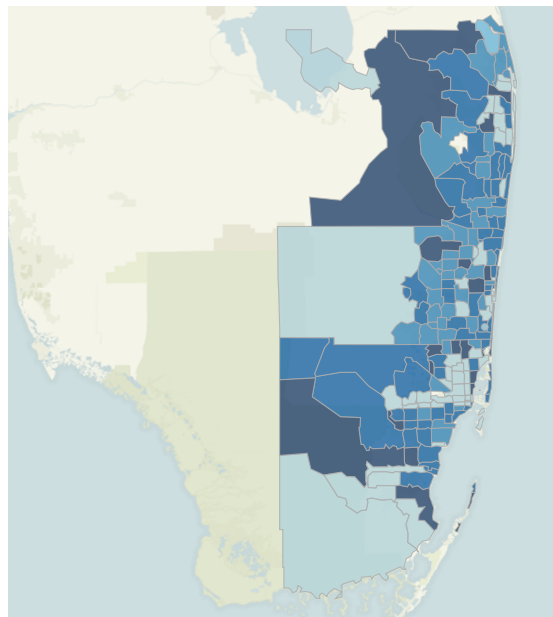
Figure 5 shows that properties purchased as investments have a higher overall risk than owner occupied or second home properties. More strikingly, investor properties are over three times as risky for employment/income fraud as compared to owner occupied properties.

Figure 5:
Florida's
Fraud Risk by
Occupancy Type.



Within Florida the riskiest MSA by far is the Miami-Fort Lauderdale-Pompano Beach metro which consists of Miami-Dade, Broward and Palm Beach counties. This metro was the third riskiest in the nation, and also appears on three of the four type-specific top 10 lists. The Miami MSA has, since the inception of this report, been the most frequently occurring MSA in the type-specific risk lists. Figure 6 displays the fraud risk in the Miami metro at the ZIP code level, and shows that risk is highest in the northwestern and southwestern regions of the MSA.

Figure 6:
Fraud risk in the
Miami metro by
ZIP code. (Darker
colors represent
greater risk)



Extended Forecast

The Interthinx Fraud Risk Indices are a proven leading indicator of default and foreclosure activity. Thus, areas that have high Fraud Risk Indices are likely to continue experiencing high foreclosure rates. Based on the Fraud Risk Indices, regions that bear close scrutiny include:

- Florida and Nevada, the two riskiest states with index values of 206 and 205, respectively. Additionally, Florida currently has 17 MSAs classified as very high risk.
- Arizona, the third riskiest state for Mortgage Fraud, with a Risk Index value of 191.
- California, which is the 5th riskiest state in the country; has six of the top 10 riskiest metros including Merced, the riskiest metro in the nation; one of the 10 riskiest MSAs for Identity Fraud; three of the 10 riskiest MSAs for Occupancy Fraud; five of the 10 riskiest MSAs for Property Valuation Fraud; and eight of the 10 riskiest MSAs for Employment/Income Fraud.
- Iowa City Iowa, which leads the nation in Identity Fraud Risk with an Identity Fraud Risk Index of 325; a 118.4 percent increase from Q2 2012.
- Miami-Fort Lauderdale-Pompano Beach Florida metro, which is on all of the top 10 riskiest type-specific lists except Employment/Income.

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, is a leading national provider of comprehensive risk mitigation solutions focusing on mortgage fraud, collateral risk and valuation, regulatory compliance, forensic loan audit services, loss mitigation, and loss forecasting. With more than 20 years of experience in customizable risk evaluation technology, Interthinx offers proven and effective predictive analytics to the residential mortgage industry through its experience with millions of loan applications and fraud incident data from thousands of monthly loan reviews. Throughout the mortgage life cycle, the Interthinx suite of services can increase the value of client portfolios with its comprehensive and holistic approach to loan quality and compliance. Winner of multiple awards for technology, Interthinx helps clients reduce risk, increase operational efficiencies, satisfy regulator demands, manage data verification, remain compliant, and mitigate loan buybacks. The Interthinx quarterly Mortgage Fraud Risk Report is a standard for the financial services industry. For more information, visit www.interthinx.com or call 1-800-333-4510.

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