2018 Mortgage Fraud Report

SEPTEMBER 2018

Table of Contents

Fraud Report

National Overview

- New York, New Jersey, and Florida remain the top 3 states for mortgage application fraud risk, maintaining the same positions as last year. All the top 10 states showed increases in risk year-over-year.
- The states with the greatest year-over-year growth in risk include New Mexico, Mississippi, Illinois, Oklahoma, and Texas. Of these, New Mexico, Illinois and Oklahoma now have risk levels greater than the National Index, which grew from 133 to 149 year-over-year.
- *The Conforming LTV≤80* purchase segment shows the greatest risk increase by loan type.
- Income fraud risk had the greatest increase year-over-year, followed by Occupancy and Transaction fraud. Property and Undisclosed Real Estate Debt showed declines in risk.

The CoreLogic Mortgage Fraud Report analyzes the collective level of loan application fraud risk the mortgage industry is experiencing each quarter. CoreLogic develops the index based on residential mortgage loan applications processed by CoreLogic LoanSafe Fraud Manager™, a predictive scoring technology. The report includes detailed data for six fraud type indicators that complement the national index: **identity, income, occupancy, property, transaction, and undisclosed real estate debt**.

During the second quarter of 2018, an estimated 0.92 percent of all mortgage applications contained fraud, which is 1 in 109 applications. By comparison, in the second quarter of 2017, our estimate was 0.82 percent, or 1 in 122 applications.

1 in 109

MORTGAGE APPLICATIONS ESTIMATED TO HAVE INDICATIONS OF FRAUD IN Q2 2018

The CoreLogic Mortgage Application Fraud Risk Index increased 12.4 percent nationally from the second quarter 2017 to the second quarter of 2018. The index has increased for each of the last seven quarters and has been on a long-term upward trend from Q3 2010. This year's increase is attributed to a smaller share of low-risk applications, such as rate reduction refinances.

Mortgage application Fraud Risk Index

↑12.4%

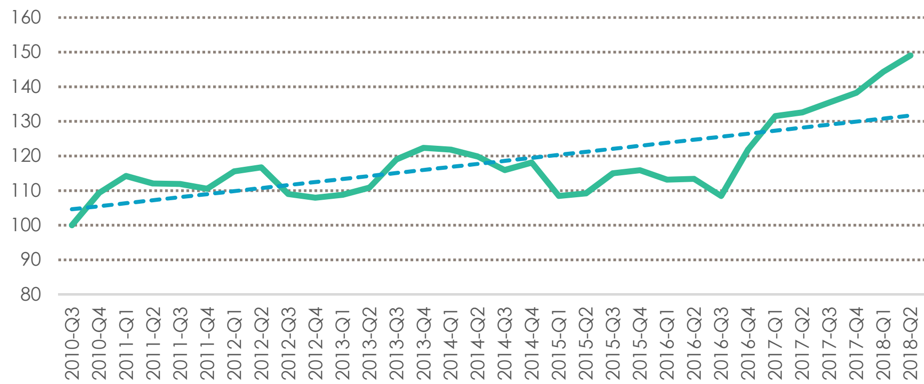
Q2 2018 COMPARED TO Q2 2017

National Mortgage Fraud Index

Risk Overview

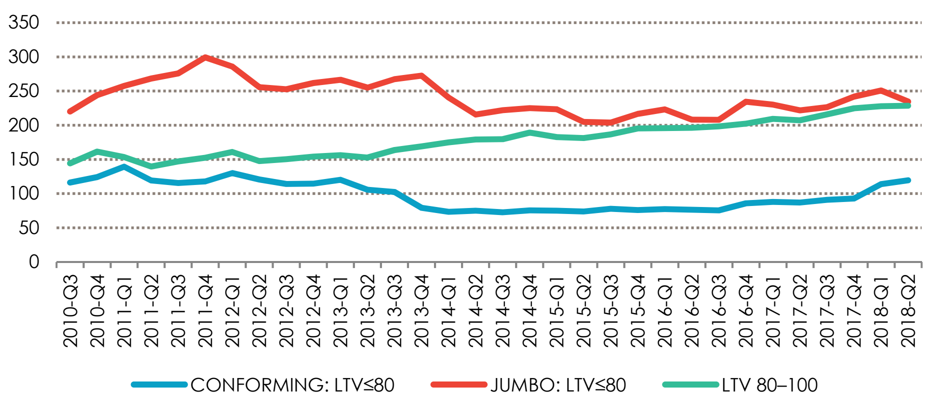
All loan segments showed increased risk year-over-year. Purchase transactions show higher risk levels than refinance transactions except for Jumbo loan segments. The risk index for Jumbo Refinance is 266 compared to 235 for Purchase. Volumes in the Jumbo Refinance segment had the largest relative decrease year-over-year.

NATIONAL MORTGAGE APPLICATION FRAUD INDEX OVER TIME



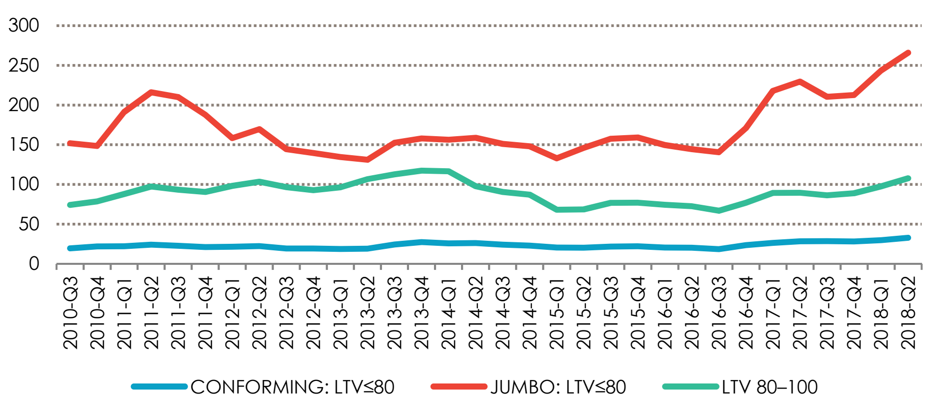
Note: The blue is a trend line.

NATIONAL MORTGAGE APPLICATION FRAUD INDEX BY LOAN SEGMENTS: PURCHASE



Source: CoreLogic 2018

NATIONAL MORTGAGE APPLICATION FRAUD INDEX BY LOAN SEGMENTS: REFINANCE



Source: CoreLogic 2018

Definitions

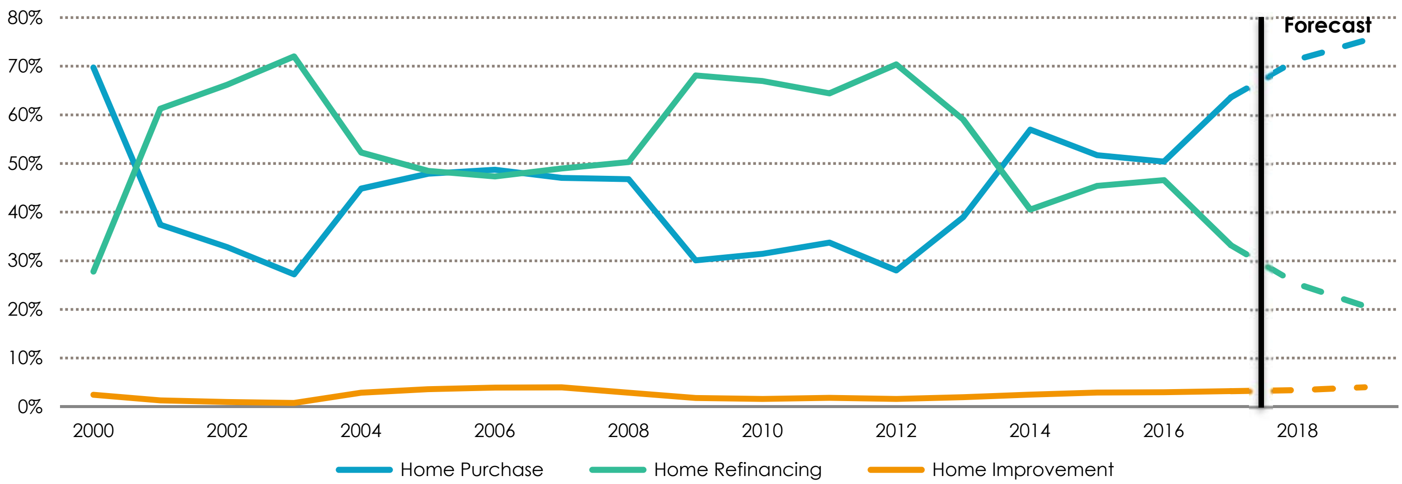
- ***The Conforming LTV≤80*** segment consists of applications for owner-occupied mortgages with Loan-To-Value (LTV) less than or equal to 80 percent and a loan amount less than or equal to the conforming loan limit.
- ***The Jumbo LTV≤80*** segment contains applications for owner-occupied mortgages with LTV less than or equal to 80 percent and a loan amount greater than the conforming loan limit.
- ***The LTV 80–100*** segment consists of applications for all mortgages with LTV greater than 80 percent, but less than or equal to 100 percent.

Factors Affecting Fraud Risk

Market factors that influenced fraud risk during the previous year include:

- The continued shift from a refinance-heavy market to a predominantly purchase market is a key factor in the application fraud risk increase. From Q2 2017 to Q2 2018, the proportion of purchase transactions within the consortium increased from 66 percent to 72 percent of applications. While the shift from refinance to purchase transactions is still forecast to continue, it may be nearing its maximum. Purchase transactions have shown a higher risk profile than refinances due to the stronger motivations to commit fraud.

SHARE OF SINGLE-FAMILY ORIGINATIONS
(Percent)

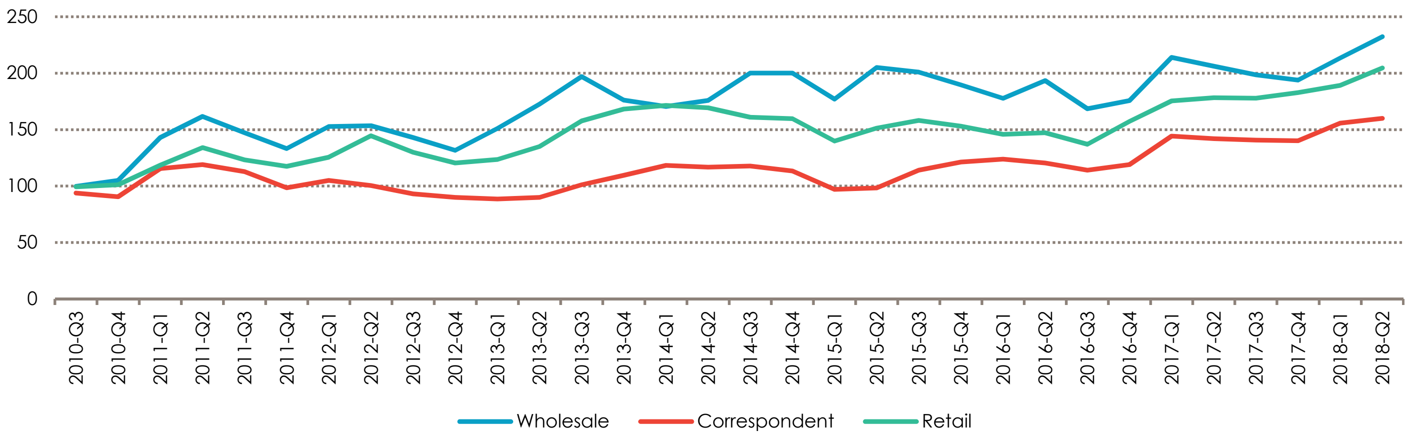


Source: HMDA (2000–2016), CoreLogic public records (2017), average of MBA, Freddie Mac, Fannie Mae projections (2018–2019).

- The second factor leading to an increase in fraud risk was a 16.8 percent increase in the share of loans originated through Wholesale channels, from 7.32 percent to 8.55 percent year-over-year. Wholesale applications have shown a higher risk level than other channels, and the increase in Wholesale lending continues to impact the National Index.

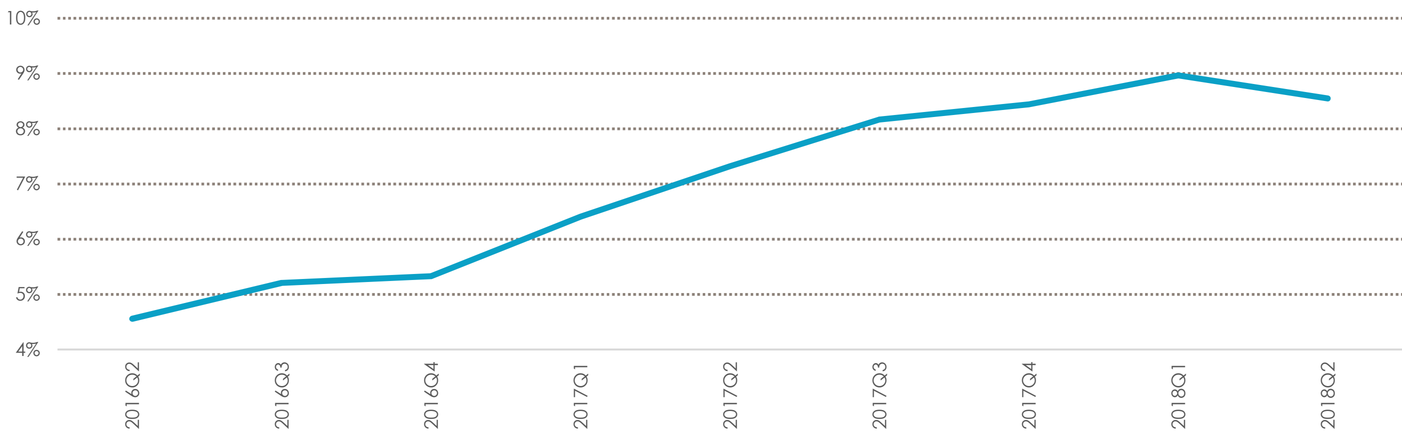
  Note the lower risk for Correspondent loans is due to ordering reports later in the loan process. Many high-risk transactions have fallen out of the pipeline by the time the applications are submitted for scoring.

NATIONAL MORTGAGE APPLICATION FRAUD INDEX
By Loan Channel



Source: CoreLogic

WHOLESALE LOAN SHARE
Percentage of Wholesale Loans



Source: CoreLogic

> *"This year's trend continues to show an increase in mortgage fraud risk year-over-year. Because home prices are rising and demand for homes is strong, most mortgage fraud in this type of market is motivated by bona fide borrowers trying to qualify for a mortgage. Undisclosed real estate liabilities, credit repair, questionable down payment sources, and income falsification are the most likely misrepresentations."*
>
> *Bridget Berg*
> *Principal, Fraud Solutions Strategy at CoreLogic*

National Mortgage Fraud Types

Indicators

Income fraud includes misrepresentation of the existence, continuance, source, or amount of income used to qualify. From the second quarter of 2017 to the second quarter of 2018, the income fraud risk indicator increased 22.1 percent. The risk had a sharp increase in the first quarter of 2018.

States with Largest YoY Increase:

- Massachusetts
- Colorado
- Utah
- Nevada
- Kansas

Income Fraud Risk

↑22.1%

Q2 2018 COMPARED TO Q2 2017

Occupancy fraud occurs when mortgage applicants deliberately misrepresent their intended use of a property (primary residence, secondary residence, or investment). Programs, pricing, and underwriting guidelines are impacted by a property's intended occupancy. From the second quarter of 2017 to the second quarter of 2018, the occupancy- fraud indicator increased 3.5 percent. The risk has been steady over the last year with a slight increase each quarter that has led to the overall increase for the year.

States with Largest YoY Increase:

- Vermont
- Alaska
- New Mexico
- Hawaii
- Mississippi

Occupancy Fraud Risk

↑3.5%

Q2 2018 COMPARED TO Q2 2017

Transaction fraud occurs when the nature of the transaction is misrepresented, such as undisclosed agreements between parties and falsified down payments. This risk includes third party risk, non-arm's length transactions, and straw buyers.

At the end of the second quarter of 2018, the transaction risk indicator increased 0.6 percent when compared to the same quarter in 2017.

States with Largest YoY Increase:

- Mississippi
- Massachusetts
- Idaho
- Rhode Island
- Vermont

Transaction Fraud Risk

↑0.6%

Q2 2018 COMPARED TO Q2 2017

National Mortgage Fraud Types

Indicators (continued)

Property Fraud Risk

↓0.1%

Q2 2018 COMPARED TO Q2 2017

Property fraud occurs when information about the property or its value is intentionally misrepresented. From the second quarter of 2017 to the second quarter of 2018, property fraud risk decreased 0.1 percent nationally. The trend had a net small decrease over the four quarters.

States with Largest YoY Increase:

- North Dakota
- Alaska
- Arkansas
- Texas
- Delaware

Undisclosed Real Estate Debt Fraud Risk

↓11.4%

Q2 2018 COMPARED TO Q2 2017

Undisclosed real estate debt fraud occurs when a loan applicant intentionally fails to disclose additional real estate debt or past foreclosures. During the second quarter of 2018, this type of fraud risk decreased 11.4 percent compared to the same quarter in 2017. The fraud risk decreased for the first two quarters in 2018. While the risk indicator decreased year-over-year, this is one of the most common issues today.

States with Largest YoY Increase:

- Washington D.C.
- Mississippi
- Alaska
- New Jersey
- Wyoming

Identity Fraud Risk

N/A

NOT REPORTED

Identity fraud occurs when an applicant's identity and/or credit history is altered, a synthetic identity is created, or a stolen identity is used to obtain a mortgage. In the second half of 2017, major data breach notifications prompted many consumers to institute freezes on their credit files. This event impacted the consistency of our trending data, therefore we are not publishing an identity trend for this period. We have not observed any significant changes in identity fraud risk from consortium member reports.

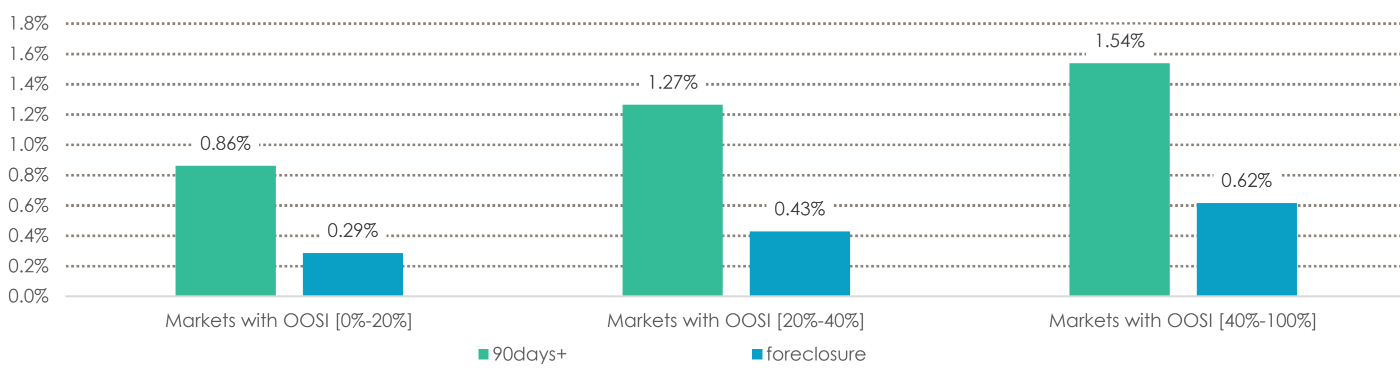
Mortgage Fraud Trends

Out-Of-State Investors

A regular feature of our Quarterly Fraud Brief examines markets where the fraud risk index spikes upward. One of the reasons often cited for a spike is an increase in applications for out-of-state investors (OOSI). A common scenario is the use of turnkey investment companies, designed for people who want to invest in properties, but don't want to undertake traditional landlord duties. These companies fix and flip, selling to investors and then managing the properties for a fee. Because out-of-state investing is a growing trend, we analyzed loan applications, performance, and fraud rates to gain insights to the risk.

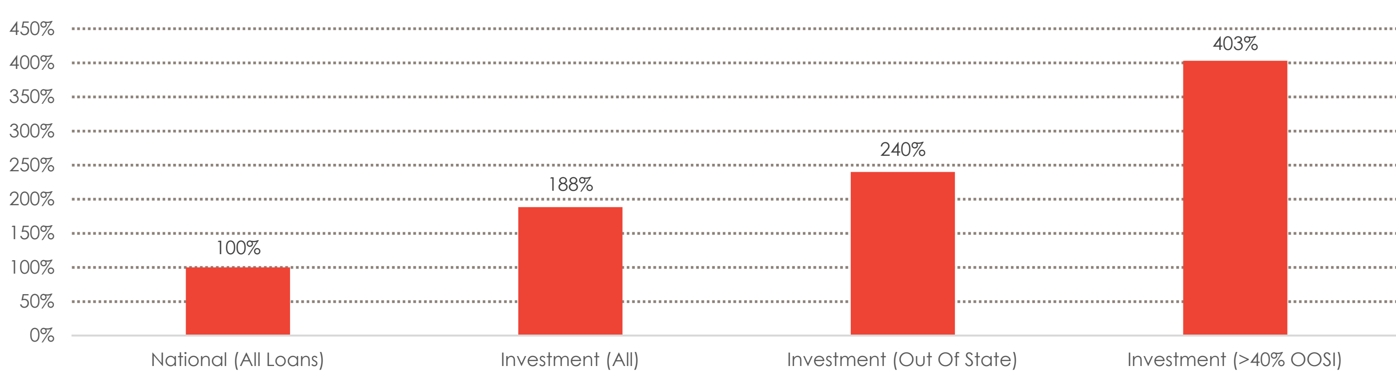
- As the concentration of OOSI in a market increases, so does the default risk on the investment loans in that market. Comparing markets with high OOSI concentrations to those with low concentrations, the 90-day delinquency was 80 percent higher, and the foreclosure rate was 114 percent higher (2013–2017 vintages).
- The highest concentration large markets (>40 percent OOSI) included: Memphis TN, Jacksonville FL, Washington DC, and Las Vegas NV.
- The percentage of OOSI has increased 25 percent from 2013 to 2017, and by 2017 20 percent of investment applications were for out-of-state borrowers.
- Fraud rates for investment properties are 88 percent higher than the baseline.
  - Rates are 140 percent higher than baseline for out-of-state investors.
  - Investment loans in markets with high concentrations of out-of-state investors had fraud rates 303 percent higher than baseline.

DELINQUENCY RISK
Risk as % of Loan Count



Source: CoreLogic

RELATIVE FRAUD RISK
Relative Fraud Rate To Benchmark



Benchmark: National (rebased at 100%)

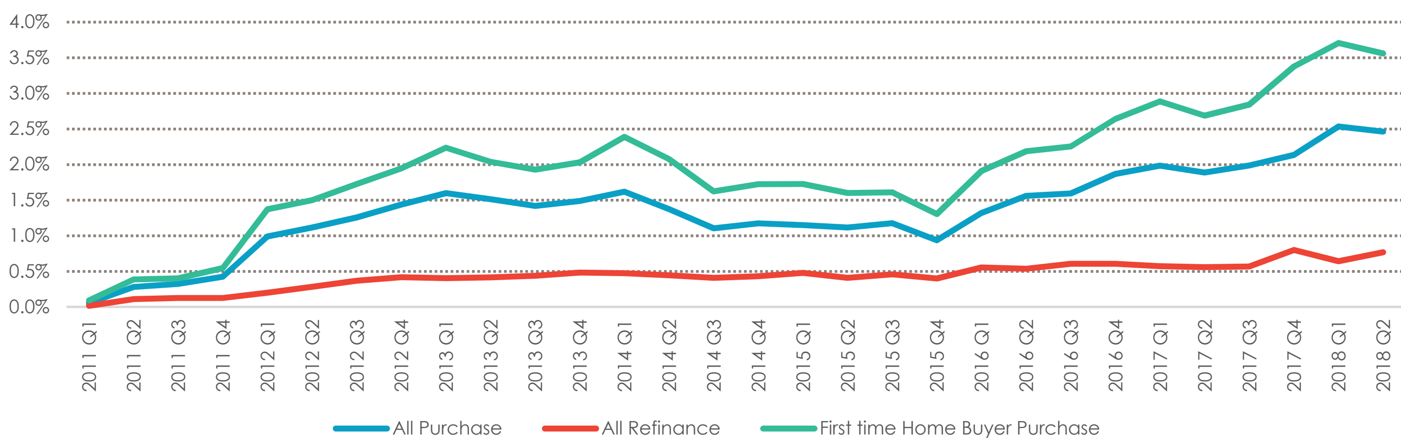
Mortgage Fraud Trends

Employment Tenures Less Than One Year

Fannie Mae released a fraud alert in May regarding a 3-year trend of fake employers used to validate borrower income. While the Fannie Mae schemes were in California and involved mortgage brokers, similar activity is taking place across the country in all channels, according to reports from lenders in our consortium. The typical scenario is a new job with a significant pay increase, or a high-paying first job out of college. Falsifying a new job removes the option for the lender to validate the income with the IRS. Some fake employer setups are well-organized and provide paystubs, phone verifications, and VOE returns. Fake diplomas are also used. Some of these services are openly advertised on the Internet and offer different service levels.

We analyzed applications where the primary borrower has less than one year in their current job and found that while it is a low percentage of applications, it is growing, especially for purchase transactions. Lenders should ensure underwriters are educated on the red flags provided by Fannie Mae and understand that similar tactics are being used in all areas of the country.

< 1 YEAR ON JOB

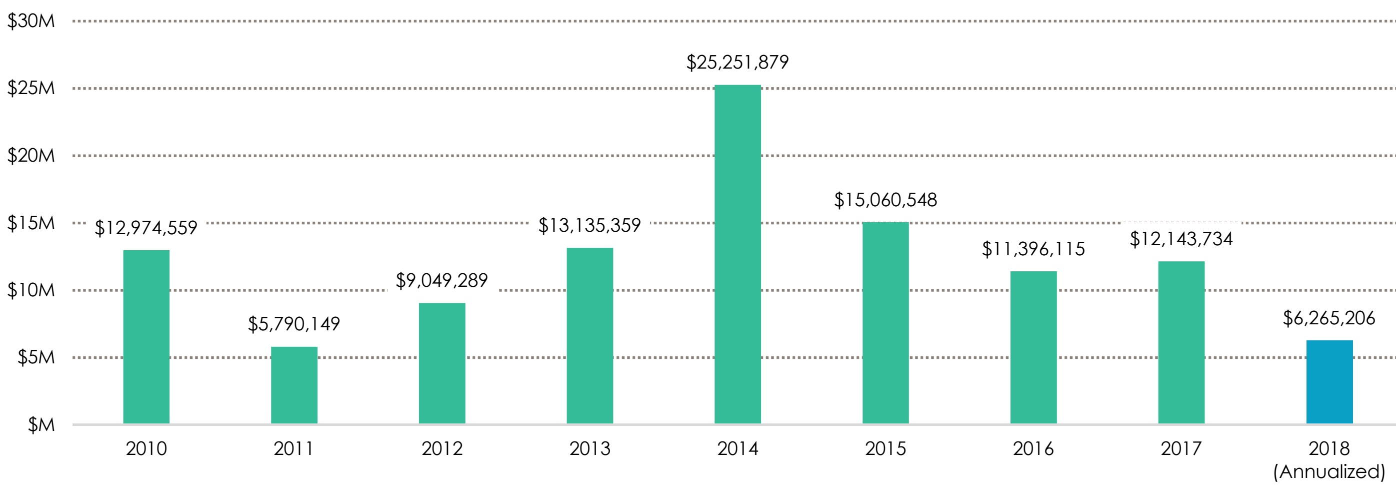


Source: CoreLogic

Multi-Closing Fraud Risk

Multi-lien fraud is an extremely profitable scam that takes advantage of the lag between closing and recording to solicit multiple loans on a single property. According to the CoreLogic Multi-Close Alert Program (MCAP) 2018 is projected to show a decrease in multi-lien fraud.

LOAN AMOUNTS AVERTED THROUGH MULTI-CLOSING ALERT PROGRAM



Source: CoreLogic

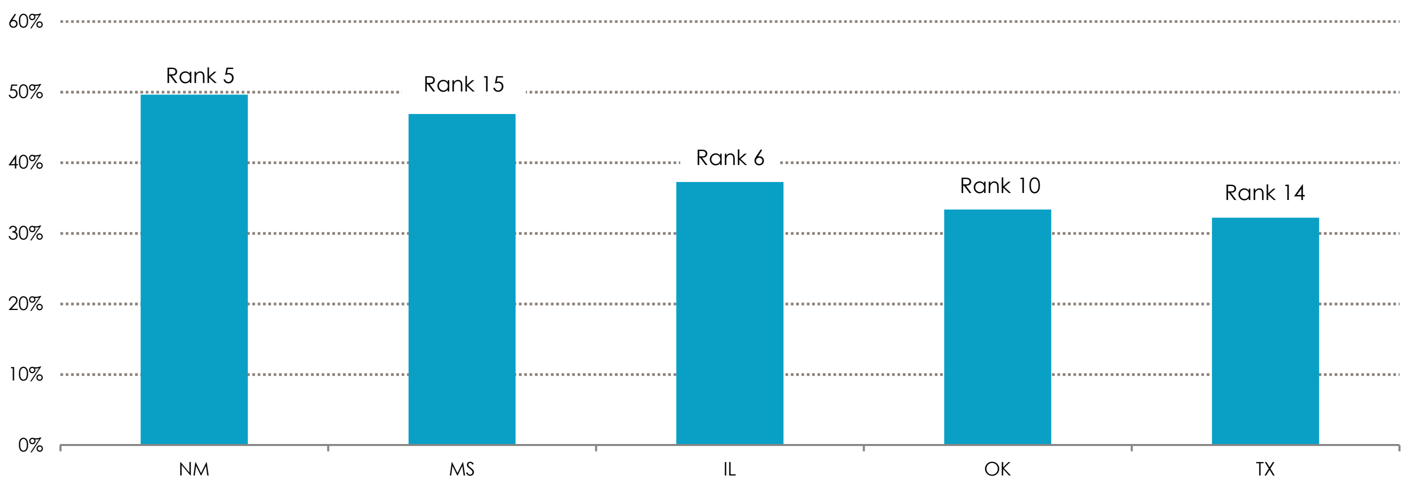
Mortgage Fraud Risk Highlights

By State

Missouri was in the top five states for fraud risk increases for each of the past two years, moving from a ranking of 38 as of Q2 2016 to a ranking of 15 this period. Income risk was a top factor for all the states with high growth in risk.

A breakout of states provides a better look into which states are experiencing fraud risk growth and those that appear to be decreasing in risk.

HIGHEST ANNUAL RISK GROWTH
By State



Risk Rankings are based on state-level Mortgage Application Fraud Index. States with statistically insignificant application volumes are excluded for this analysis.

Source: CoreLogic

Fraud Type Indicators for States with Highest Year-Over-Year Risk Growth

NEW MEXICO

- **Income**
- **Occupancy**

MISSOURI

- **Income**
- **Occupancy**

ILLINOIS

- **Income**
- **Occupancy**

OKLAHOMA

- **Income**
- **Transaction**

TEXAS

- **Property**
- **Income**

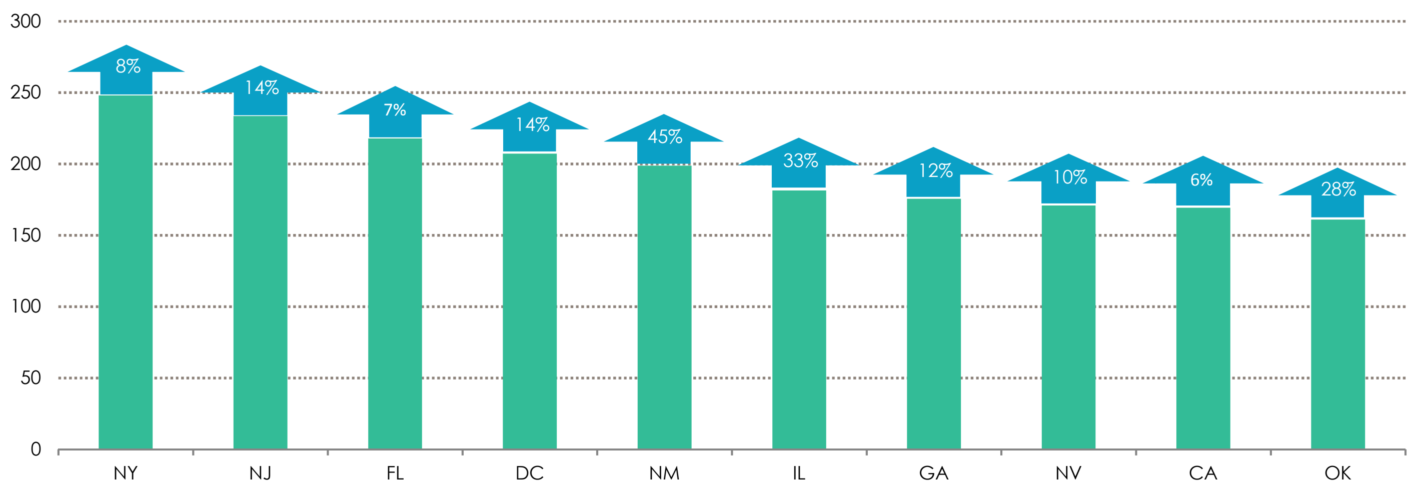
Mortgage Fraud Risk Highlights

By State (continued)

Ten States with the Highest Application Fraud Risk

Louisiana has dropped out of the top 10, replaced by Oklahoma.

TOP 10 RISKIEST STATES AS OF Q2 2018
Arrows Show Year-Over-Year Change



Source: CoreLogic

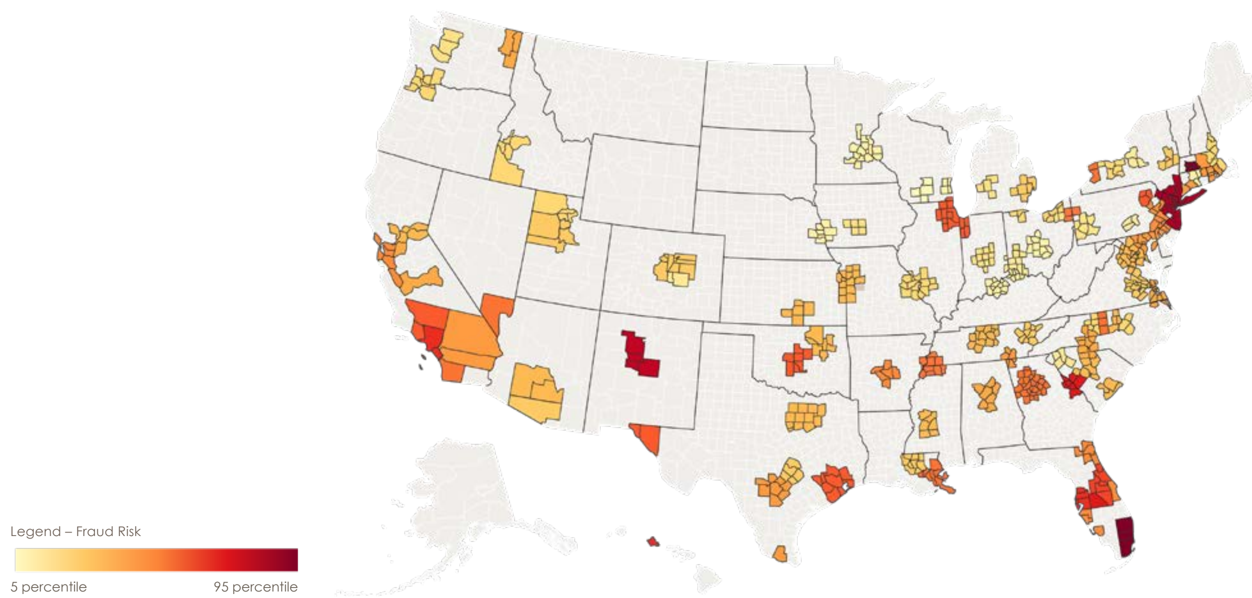
Mortgage Fraud Risk Highlights

By Geography

Fraud Risk Heat Map

The Fraud Risk heat map displays the CBSA rank for fraud risk as of Q2 2018. Only the top 100 CBSAs by population are considered.

All tables or graphs below are limited to the top 100 Metropolitan areas based on population.



Source: CoreLogic

Five Metro Areas with the Highest Year-Over-Year Growth in Application Fraud Risk

Core-Based Statistical Area	Risk Index	Fraud Risk Index Change
Oklahoma City, OK	194	70%
El Paso, TX	190	65%
Springfield, MA	279	62%
Albuquerque, NM	246	60%
Spokane-Spokane Valley, WA	141	54%

Source: CoreLogic

Five Metro Areas with the Largest Year-Over-Year Declines in Application Fraud Risk

Core-Based Statistical Area	Risk Index	Fraud Risk Index Change
Rochester, NY	112	-34%
Madison, WI	67	-28%
Syracuse, NY	94	-26%
Buffalo-Cheektowaga-Niagara Falls, NY	178	-22%
Omaha-Council Bluffs, NE-IA	80	-21%

Source: CoreLogic

Mortgage Fraud Risk Highlights

By Geography (continued)

Top 25 Metro Areas With The Highest Application Fraud Risk

Core-Based Statistical Area	Population	2018Q2 Risk Index	Year-Over-Year 2017 Q2 to 2018 Q2	Quarter-Over-Quarter Q2 to Q1, 2018	Risk Rank
Miami-Fort Lauderdale-West Palm Beach, FL	6,158,824	288	11%	3%	1
Springfield, MA	631,652	279	62%	8%	2
New York-Newark-Jersey City, NY-NJ-PA	20,320,876	261	12%	0%	3
Albuquerque, NM	910,726	246	60%	0%	4
Lakeland-Winter Haven, FL	686,483	229	29%	20%	5
Augusta-Richmond County, GA-SC	600,151	221	19%	7%	6
Los Angeles-Long Beach-Anaheim, CA	13,353,907	220	11%	6%	7
Tampa-St. Petersburg-Clearwater, FL	3,091,399	212	5%	2%	8
Urban Honolulu, HI	988,650	210	24%	1%	9
Deltona-Daytona Beach-Ormond Beach, FL	649,202	201	5%	2%	10
Orlando-Kissimmee-Sanford, FL	2,509,831	201	11%	10%	11
Memphis, TN-MS-AR	1,348,260	200	19%	-10%	12
Chicago-Naperville-Elgin, IL-IN-WI	9,533,040	194	38%	5%	13
Oklahoma City, OK	1,383,737	194	70%	-24%	14
Scranton--Wilkes-Barre--Hazleton, PA	555,426	191	28%	39%	15
Oxnard-Thousand Oaks-Ventura, CA	854,223	191	17%	11%	16
El Paso, TX	844,818	190	65%	-15%	17
Bakersfield, CA	893,119	189	51%	9%	18
Houston-The Woodlands-Sugar Land, TX	6,892,427	188	51%	17%	19
Atlanta-Sandy Springs-Roswell, GA	5,884,736	185	15%	4%	20
Las Vegas-Henderson-Paradise, NV	2,204,079	184	10%	6%	21
New Orleans-Metairie, LA	1,275,762	182	9%	6%	22
Buffalo-Cheektowaga-Niagara Falls, NY	1,136,856	178	-22%	-23%	23
San Diego-Carlsbad, CA	3,337,685	177	1%	-2%	24
Greensboro-High Point, NC	761,184	175	39%	37%	25

Source: CoreLogic; top 100 CBSAs are determined by population, estimated from U.S. Census Bureau Population Division March 2017 release.

National Mortgage Fraud Index

Methodology

Comprehensive fraud risk analysis based on the industry's largest lender-driven mortgage fraud consortium and leading predictive-scoring technology.

The CoreLogic Mortgage Application Fraud Risk Index represents the collective level of fraud risk the mortgage industry is experiencing in each time period, based on the share of loan applications with a high risk of fraud. The index is standardized to a baseline of 100 for the share of high-risk loan applications nationally in the third quarter of 2010. Each 1-point change in the index represents a 1 percent change in the share of mortgage applications having a high risk of fraud.

The estimated number of fraudulent applications is derived by applying the current risk level of CoreLogic Mortgage Fraud Consortium applications to industry volumes.

The Fraud Type Indicators are based on specific CoreLogic LoanSafe Fraud Manager alerts. These alerts are compiled consistently for all CoreLogic Mortgage Fraud Consortium members. Indicator levels are based on the prevalence and predictiveness of the relevant alerts. An increase in the indicator correlates with increased risk of the corresponding fraud type.

About CoreLogic

CoreLogic (NYSE: CLGX) is a leading global property information, analytics and data-enabled services provider. The company's combined data from public, contributory and proprietary sources includes over 4.5 billion records spanning more than 50 years, providing detailed coverage of property, mortgages and other encumbrances, consumer credit, tenancy, location, hazard risk and related performance information. The markets CoreLogic serves include real estate and mortgage finance, insurance, capital markets, and the public sector. CoreLogic delivers value to clients through unique data, analytics, workflow technology, advisory and managed services. Clients rely on CoreLogic to help identify and manage growth opportunities, improve performance and mitigate risk. Headquartered in Irvine, Calif., CoreLogic operates in North America, Western Europe and Asia Pacific. For more information, please visit www.corelogic.com.

For more information, please visit corelogic.com/mortgagefraud, call 866.774.3282 or email loansafe@corelogic.com

Additional CBSA-level data available by request.

17-FRDRPT18-0918-01

CoreLogic®

corelogic.com