



2021 Mortgage Fraud Report

Contributors

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Overview/Highlights

FRAUD REPORT – NATIONAL OVERVIEW

- Nevada moved into the top position for mortgage application fraud risk, with New York, Hawaii, Florida and California rounding out the top five.
 - Nevada had the largest increase – 45% year-over-year. Its index stands at 225, significantly higher than the national index of 132.
- The top five states for increases in risk include: South Dakota, Washington, Alaska, Vermont and West Virginia. Less-populous states are more volatile due to lower levels of lending activity. These states all had below-average index values in 2020.
- Nationally, most fraud types showed increased risk. Transaction risk showed an increase of 34.2% year-over-year. Both income and property fraud risk decreased slightly, which aligns with the strong job market and home price growth.

1 in 120

Mortgage applications estimated to have indications of fraud in Q2 2021

1 in 90 Purchase applications
1 in 169 Refinance applications

Mortgage Application Fraud Risk Index: Overall

UP 37.2%

Q2 2021 compared to Q2 2020

Mortgage Application Fraud Risk Index: Purchase Only

UP 40.0%

Q2 2021 compared to Q2 2020

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.

NATIONAL OVERVIEW (continued)

The CoreLogic Mortgage Application Fraud Risk Index increased 37.2% nationally year-over-year. While this increase seems drastic, it is measuring from the lowest index point (Q2 2020) in our 11-year history. The index is very close to its level from two years ago (Q2 2019), however, the index is currently rising instead of falling.

During the second quarter of 2021, an estimated 0.83% of all mortgage applications included fraudulent activity, about 1 in 120 applications. By comparison, in the second quarter of 2020, our estimate was 0.61 percent, or about 1 in 164 applications.

In both purchase and refinance populations, the highest-risk applications were for investment properties, while the lowest-risk applications were VA-backed programs. This is unchanged from last year.

Investment purchase applications are showing the highest risk, with 1 in 23 applications estimated to have indicated fraud.

The risk for purchase applications has increased by 40%, while the risk for refinance applications has increased by 19.4%.

Purchase versus Refi Fraud Risk Differences

Purchase	Refi
Borrower/Property combination is new	Borrower/Property combination is known
Proceeds usually going to seller	Proceeds usually go to a lender; risk increases for cash-out transactions
Transfer of ownership	No transfer of ownership
Sales commissions	No sales commissions
More parties involved	Fewer parties involved
Down payment and sourcing needed	No down payment
Occupancy is for future	Occupancy is current
Borrower may not have strong financial history	Borrower is more likely to have financial history

“Refinance opportunities that surged lending volumes during the pandemic may be winding down. The outlook is for fewer low-risk refinances compared to purchases and cash-out refinances, which translates to a higher-risk environment for fraud.”

Ann Regan, executive, Product Management

“The growth in homeowner equity provides a strong financial cushion for tens of millions of Americans. For those most impacted by the pandemic, equity gains will help play a critical role in staving off foreclosure. Based on projected increases in economic activity and home values over the next year, we expect to see further gains in equity and a corresponding drop in negative equity, forbearance rates and foreclosure.”

-Frank Martell
president and CEO of CoreLogic

National Fraud Trends

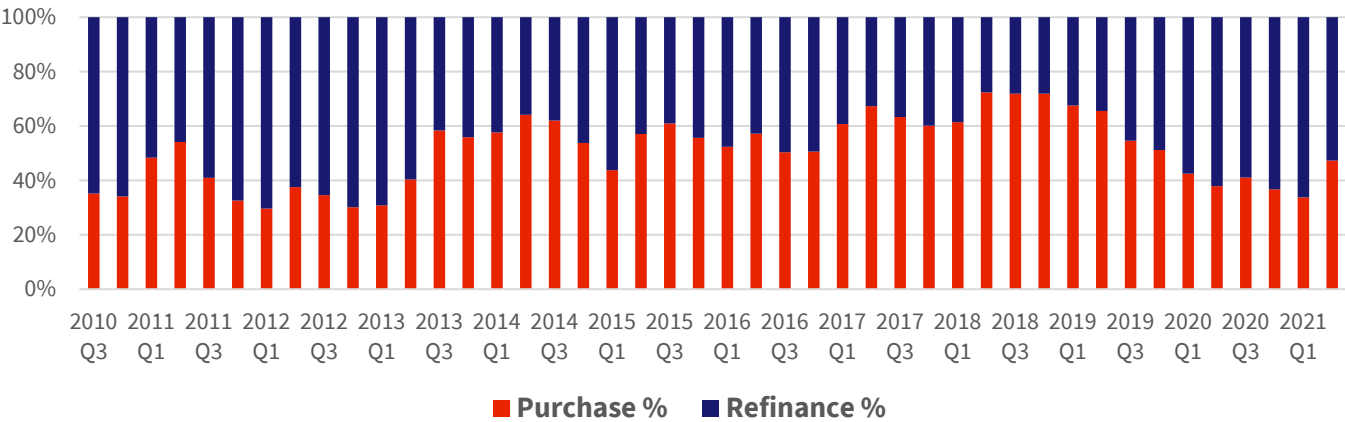
National Mortgage Fraud Index

Risk Overview

The national trend for the 12 months ending June 30, 2021, increased as the risk profiles of both purchase and refinance transactions grew.

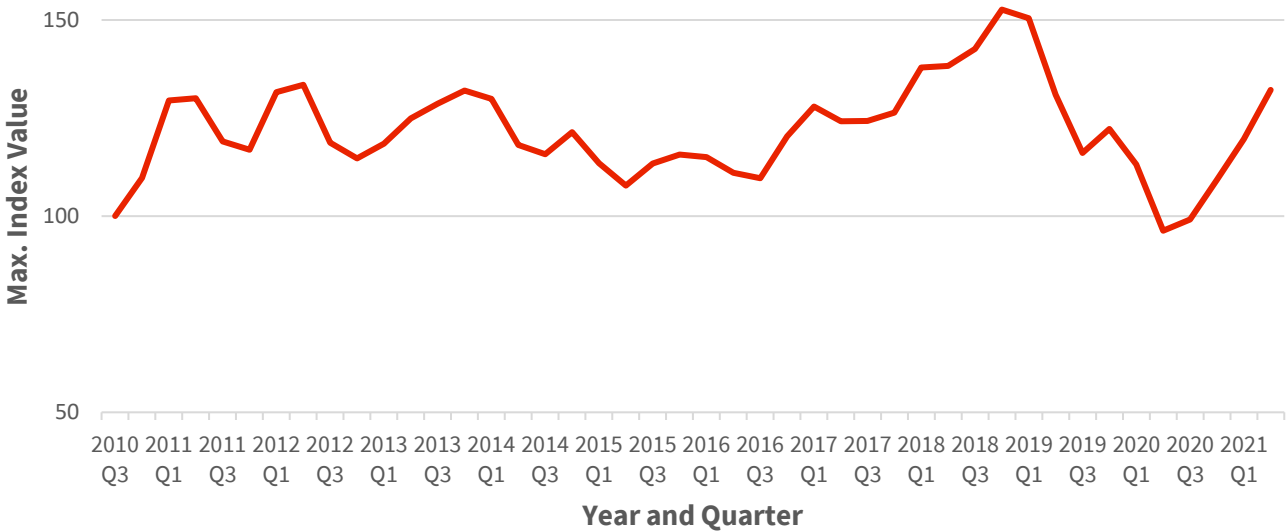
- The largest segment, conforming refinances, decreased in volume and increased in risk. Multifamily refinances (2-4 unit) increased by 70% in volume and decreased slightly in risk.
- All purchase segments increased in both volume and risk, except for government-backed purchases, which showed a slight risk decrease.
- Purchase transactions, as a share of overall volume, have grown from 38% in Q2 2020 to 47% Q2 2021.

Purchase/Refinance Mix

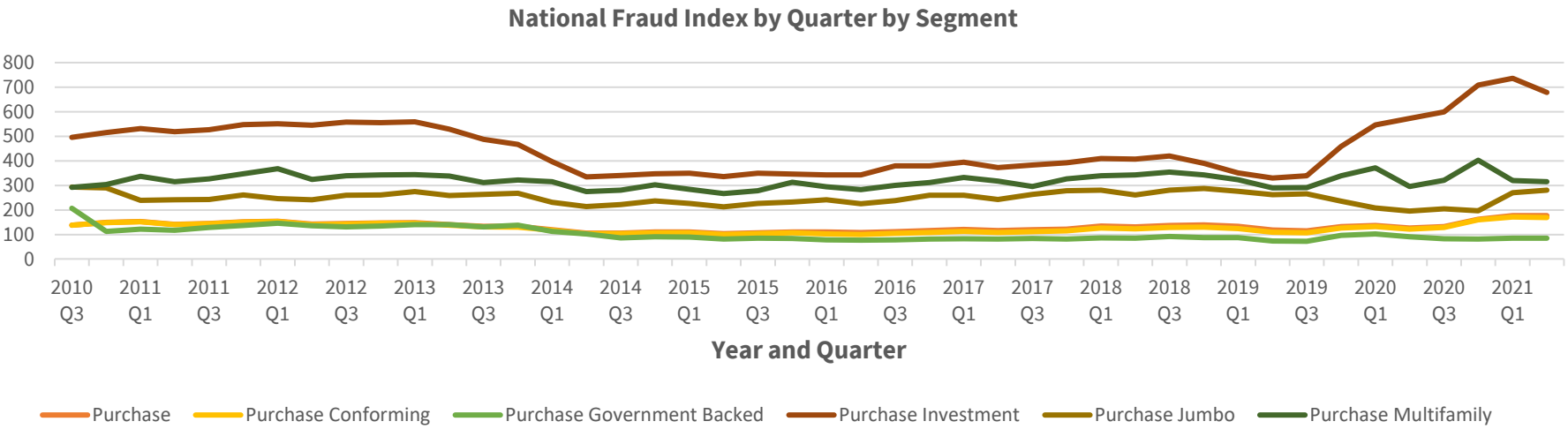


National Trend

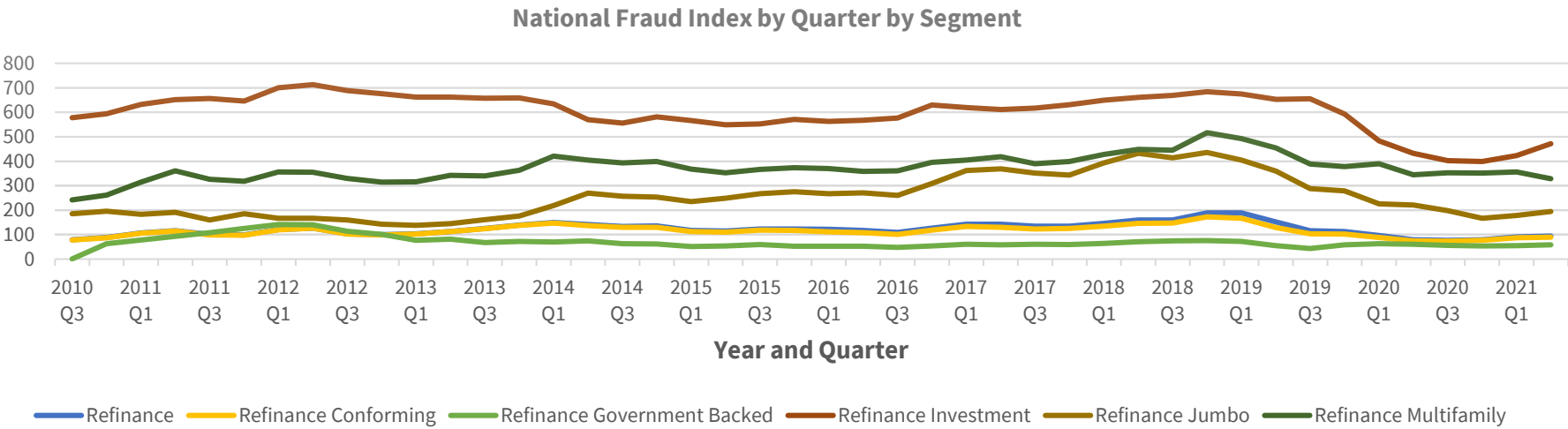
Fraud Index by Quarter









Purchase Segments



Refinance Segments



Fraud Types

Transaction Fraud Risk Transaction fraud occurs when the nature of the transaction is misrepresented, such as undisclosed agreements between parties and falsified down payments. The risk includes third party risk, non-arm's length transactions and straw buyers.	 34.2% Q2 2021 compared to Q2 2020
Identity Fraud Risk 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.	 7.4% Q2 2021 compared to Q2 2020
Occupancy Fraud Risk 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.	 5.6% Q2 2021 compared to Q2 2020
Undisclosed Real Estate Debt Undisclosed real estate debt fraud occurs when a loan applicant intentionally fails to disclose additional real estate debt or past foreclosures.	 4.6% Q2 2021 compared to Q2 2020
Income Fraud Risk Income fraud includes misrepresentation of the existence, continuance, source, or amount of income used to qualify.	 2.0% Q2 2021 compared to Q2 2020
Property Fraud Risk Property fraud occurs when information about the property or its value is intentionally misrepresented.	 5.4% Q2 2021 compared to Q2 2020

Fraud Types

Transaction fraud risk, with the largest increase, reversed its trend from last year, bringing risk back to mid-2019 levels. This risk is specific to purchase transactions only. The increase in this risk was much more pronounced in the wholesale channel than in retail or correspondent.

Identity fraud risk was assessed for purchase transactions only. Synthetic identities are more of a concern in traditional first mortgage transactions than are identity takeovers.

The occupancy fraud uptick was for both purchase and refinance segments, with refinance showing a greater increase.

The undisclosed real estate debt increased 8.7% for refinances but decreased slightly (0.8%) for purchases.

While income risk went down year-over-year, that was due to the high number of streamline refinances. When assessing risk on purchases only, income risk increased 1.5%.

Property risk decreased in both purchases and refinances.

“We deployed our latest Fraud Risk Score Model [4.0] in late 2019. Our 2020 user results show excellent performance, with 46% of the detected frauds falling into the top 5% of our risk-ranked score, and 60% falling into the top 10%. Greater detection and fewer false positives improve the experience for both lender and consumer.”

Fabien Huard, Senior Leader,
Science and Analytics

What We're Watching: Remote Worker Migration and Affordable Housing Policies

Our report provides a retrospective of last year's fraud trends, but it is important to manage future risk, which is impacted by economic trends, the housing market, and housing finance policy. Two areas to watch over the next year are remote worker trends and affordable housing policies.

Remote Worker Migration

We observed a significant increase in people purchasing new primary residences in states where they have never lived before and where the new property is significantly less expensive than their departure residence. Currently this represents almost 2% of all purchases - double the figure in early 2020. Additional migration has been observed in-state, with homeowners moving to suburban or rural areas but not leaving the state. The freedom to work remotely triggered most of this activity, with homeowners fleeing expensive communities for cheaper housing and more space. The places with the most of state-level migration were California and New York, with Texas and Florida as the most common destinations.

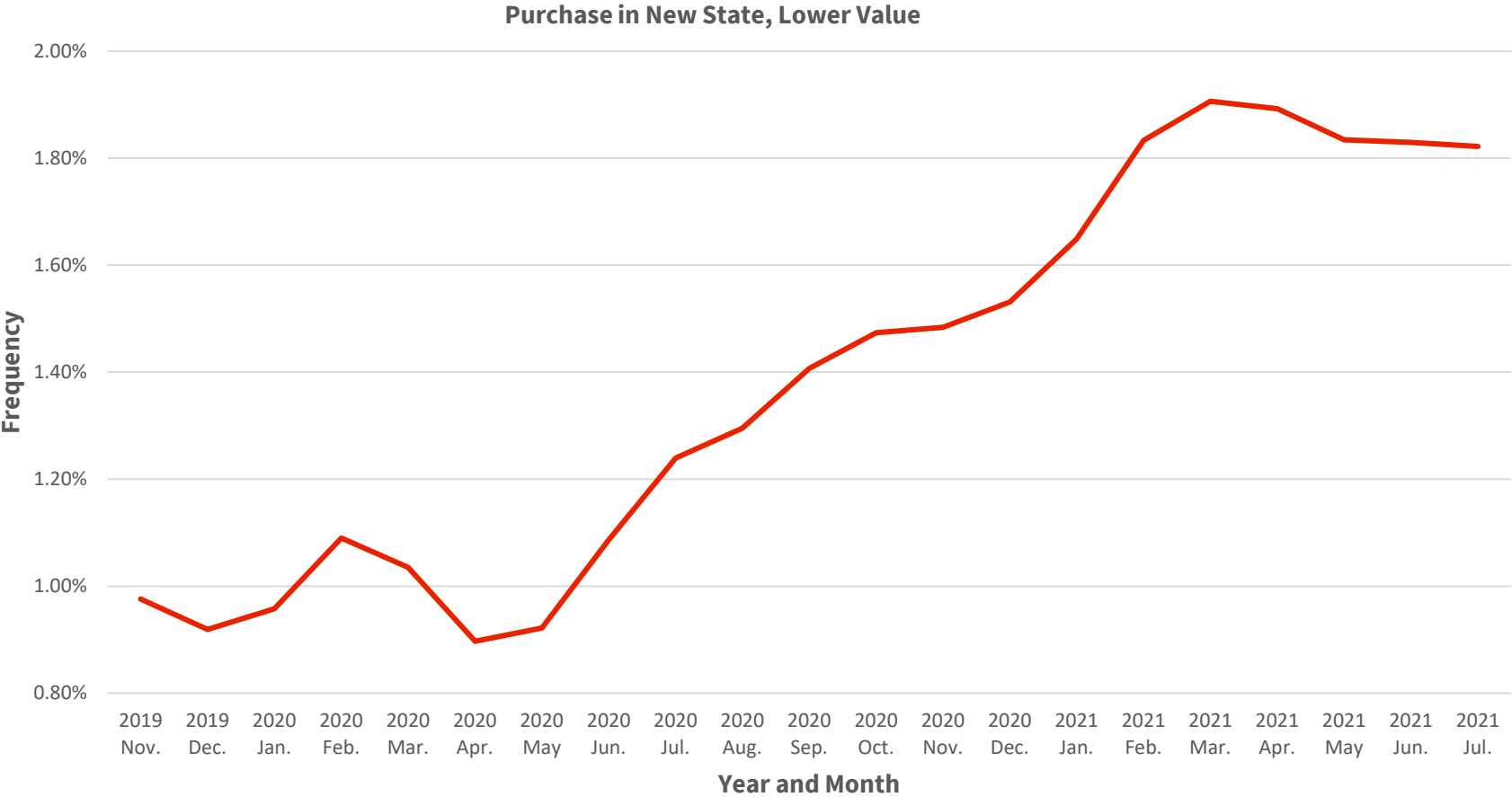
However, the future of remote work is in question. Some of the destination communities may be vulnerable to home price decreases and distress if fully remote work is not as widely supported in the future, especially if the communities lack equivalent local employment alternatives. Other considerations include salary adjustments for employees who have moved from high-cost to low-cost areas. Conversely, if remote work becomes the norm for certain sectors, the departure communities may be more vulnerable. From a fraud risk standpoint, distressed areas are generally more susceptible to fraud schemes.

July 2021's annual home price growth was the most that we have ever seen in the 45-year history of the CoreLogic Home Price Index. This price gain has far exceeded income growth and eroded affordability. In the coming months this will temper demand and lead to a slowing in price growth."

Dr. Frank Nothaft,
Chief Economist for CoreLogic

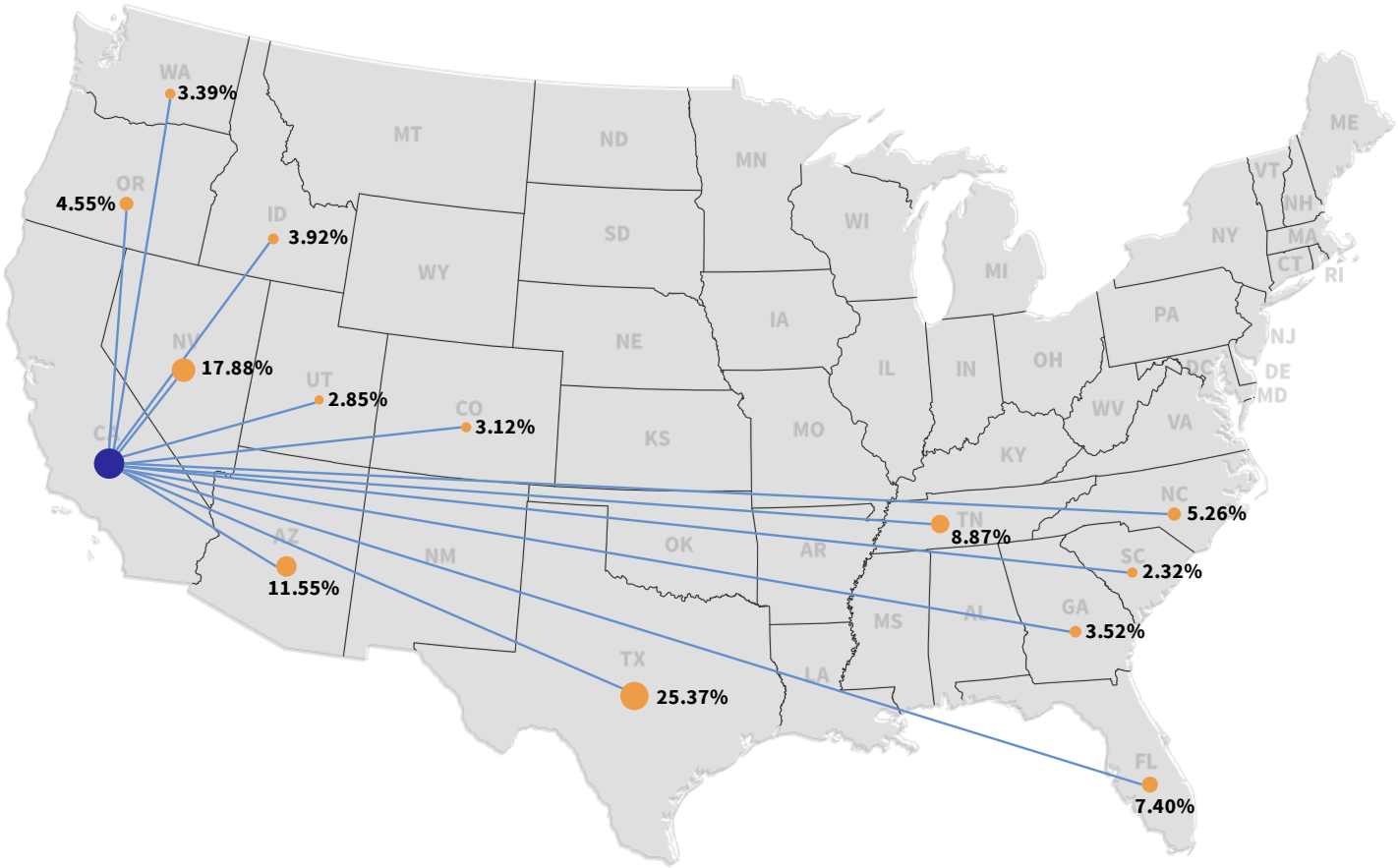
Purchases in New State, Lower Value

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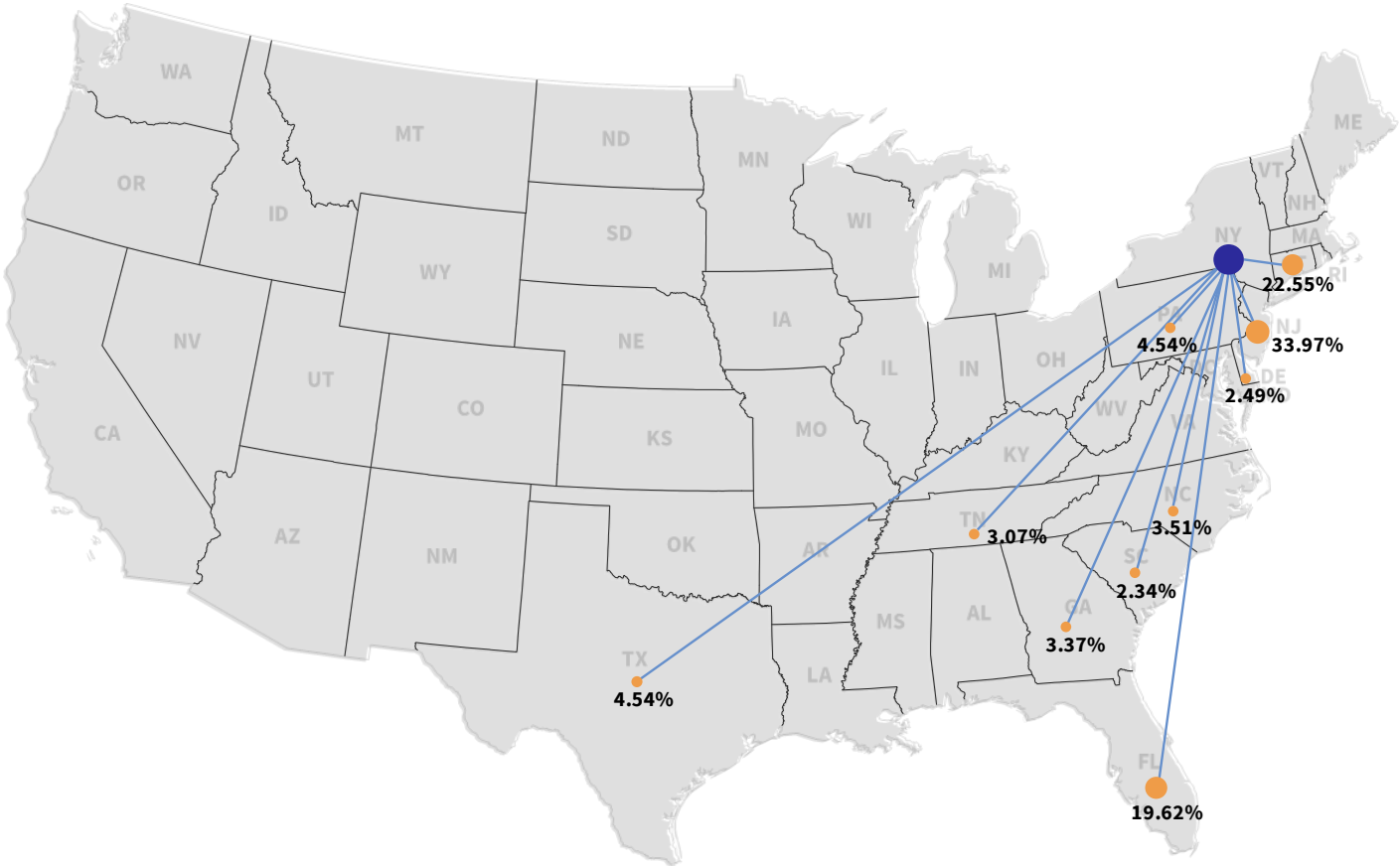
Primary Purchases from CA in 2021 Q1

Migration from California in the first quarter of this year showed primary residence purchases were highest in Texas, Nevada, Arizona, Tennessee and Florida.



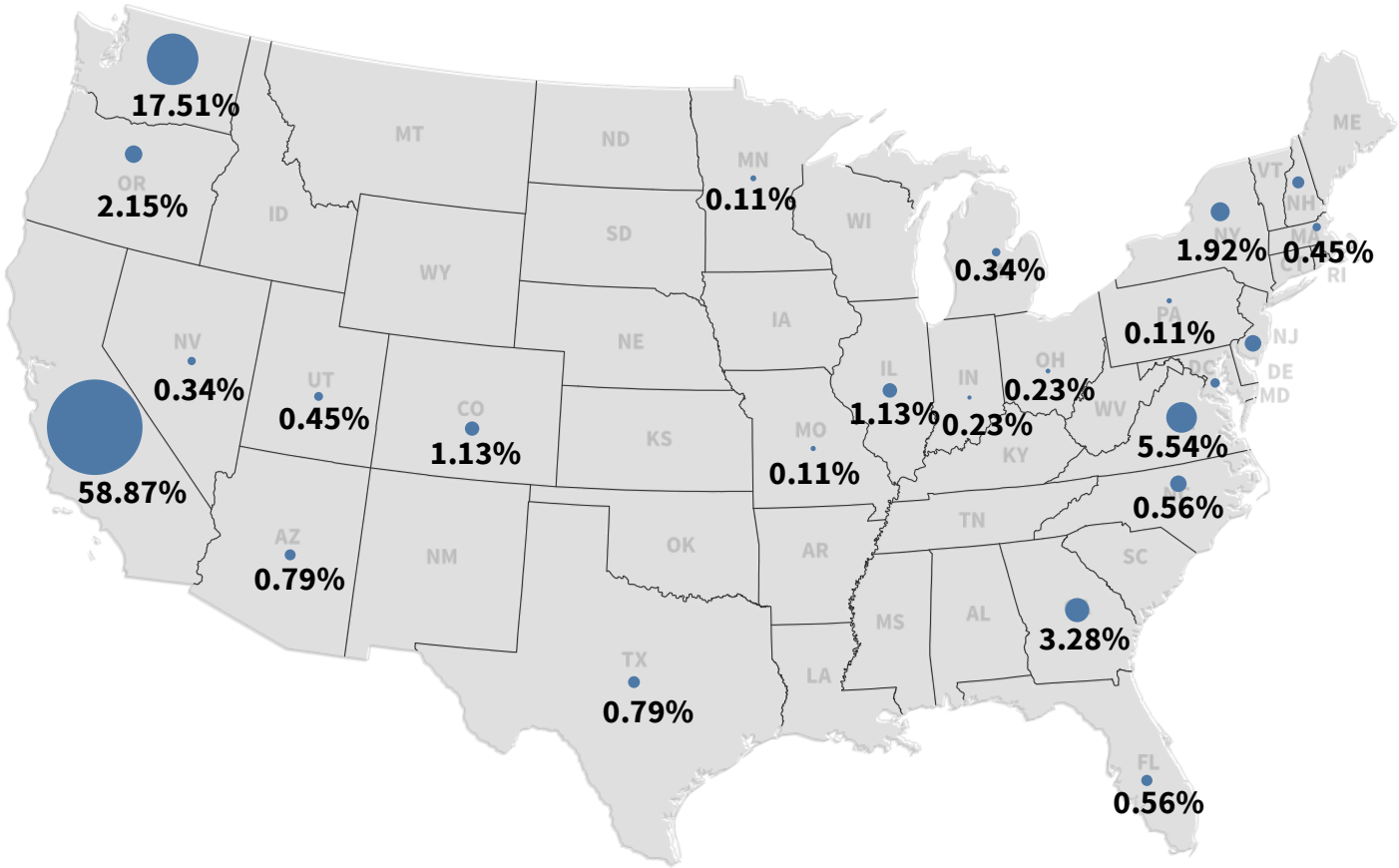
Primary Purchases from NY in 2021 Q1

Migration from New York in the first quarter of this year showed primary residence purchases were highest in New Jersey, Connecticut, Florida, Pennsylvania and Texas.



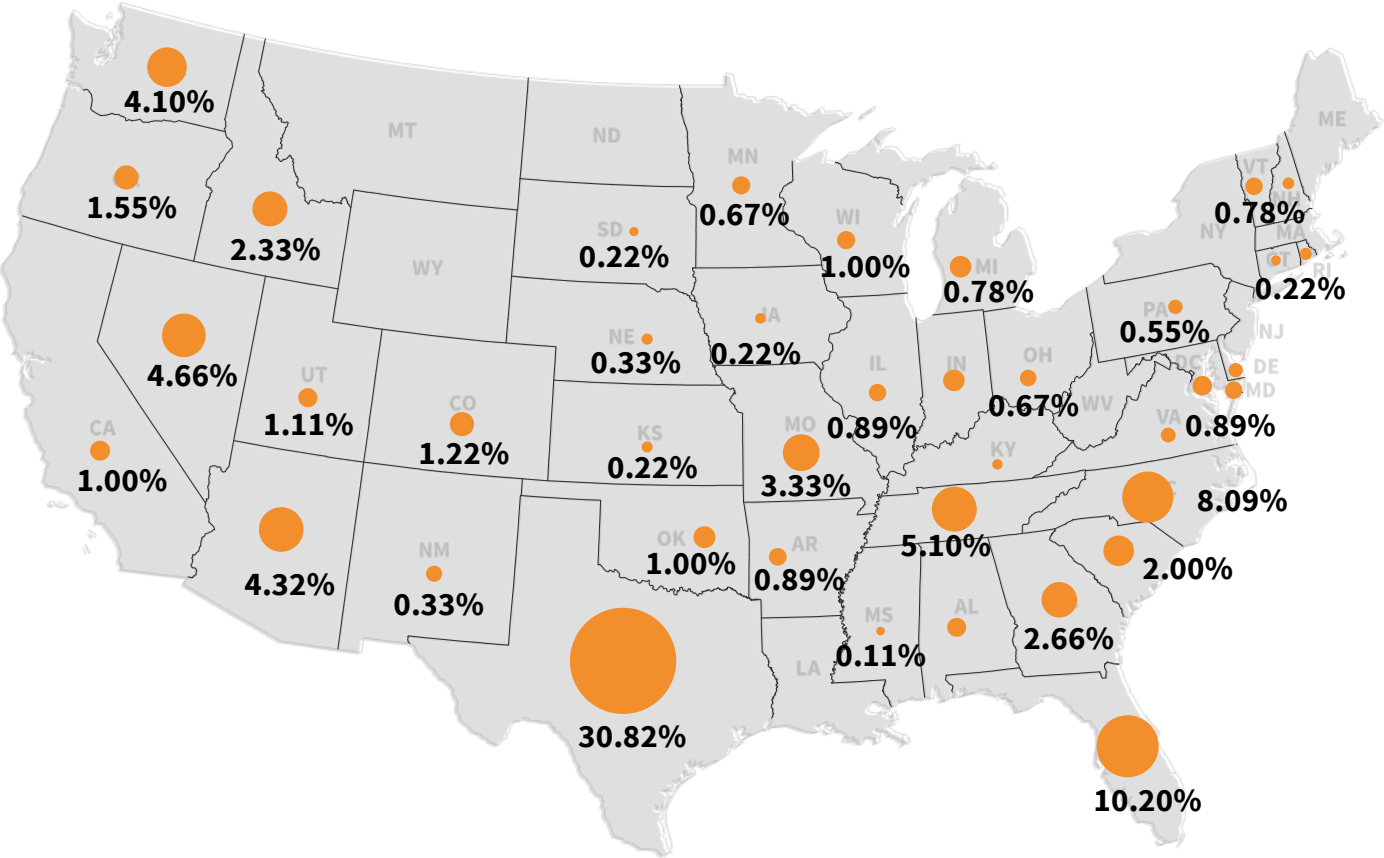
Big Tech Departures – 2021 Q1

The map below shows the percentage of Big Tech worker migration out of states during the first quarter of the year. The next page highlights the primary destinations. Areas with large departure amounts could become distressed markets, making them more vulnerable to increased fraud risk.



Big Tech Destinations – 2021 Q1

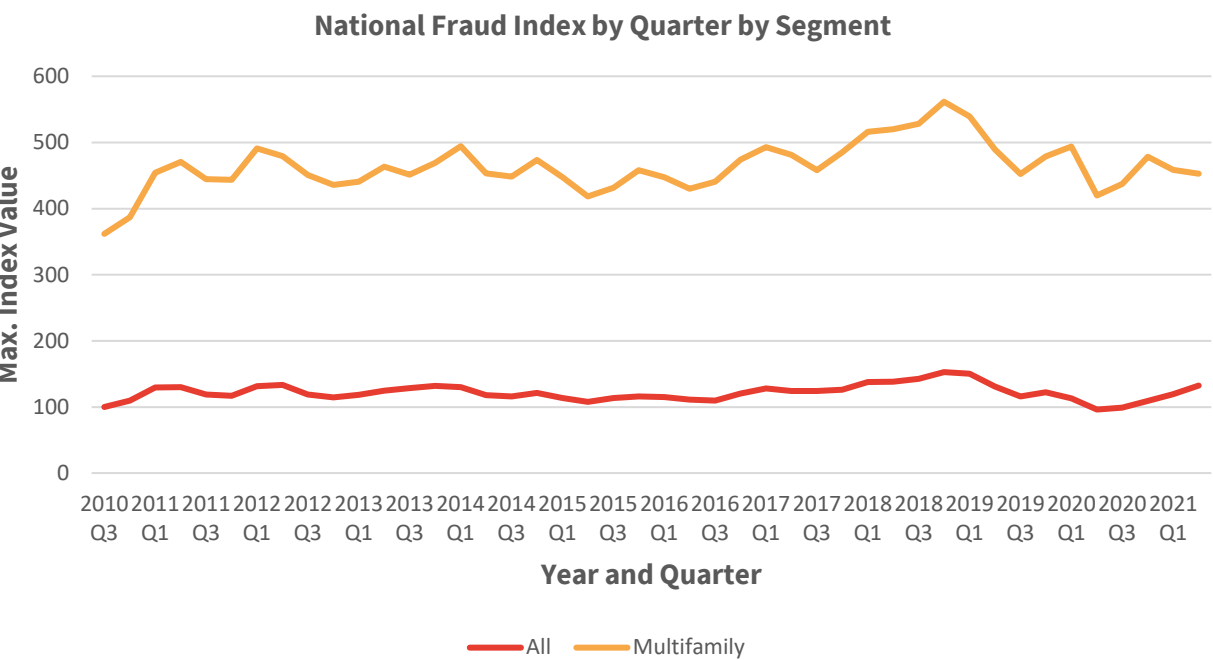
The map below highlights primary destinations for big tech worker departures in the first quarter of the year. Some issues to keep an eye on when relocating to lower cost areas include salary adjustments and the possible end of remote work assignments. These changes could impact future delinquency risk and/or local home prices.



Affordable Housing Policies

Demand for investment and second home financing has risen above pre-pandemic levels. In January, the Treasury Department placed a cap of 7% of total fundings on Government Sponsored Enterprise (GSE) financing for these non-primary properties. The cap caused lenders to increase pricing for these loans, increasing the motivation and risk of occupancy fraud. That cap has recently been retracted, so we will monitor changes in our occupancy fraud indicators for 2021.

2- to 4-Unit Segment Risk



Changes in the availability of investment and second home financing may have contributed to higher occupancy risk in 2021, as borrowers sought to avoid the more restrictive policies and worse pricing given to non-primary residences.

Bridget Berg, principal, Fraud Solutions

In early September, The White House issued an announcement regarding steps to increase the affordable housing supply. They include prioritizing sales of FHA-insured and HUD-owned properties to owner occupants and expanding financing for owner-occupied 2- to 4-Unit properties and manufactured housing through Freddie Mac.

Our consortium has observed higher fraud risk in 2- to 4-Unit properties, currently running at an estimated fraud rate of 1 in 50 loans versus the overall estimated fraud rate of 1 in 120 loans. The ability to qualify using future income from the property being financed, along with higher loan amounts, makes these attractive targets for fraud schemes. Risk trends and levels for 2- to 4-Unit purchases and refinances are similar.

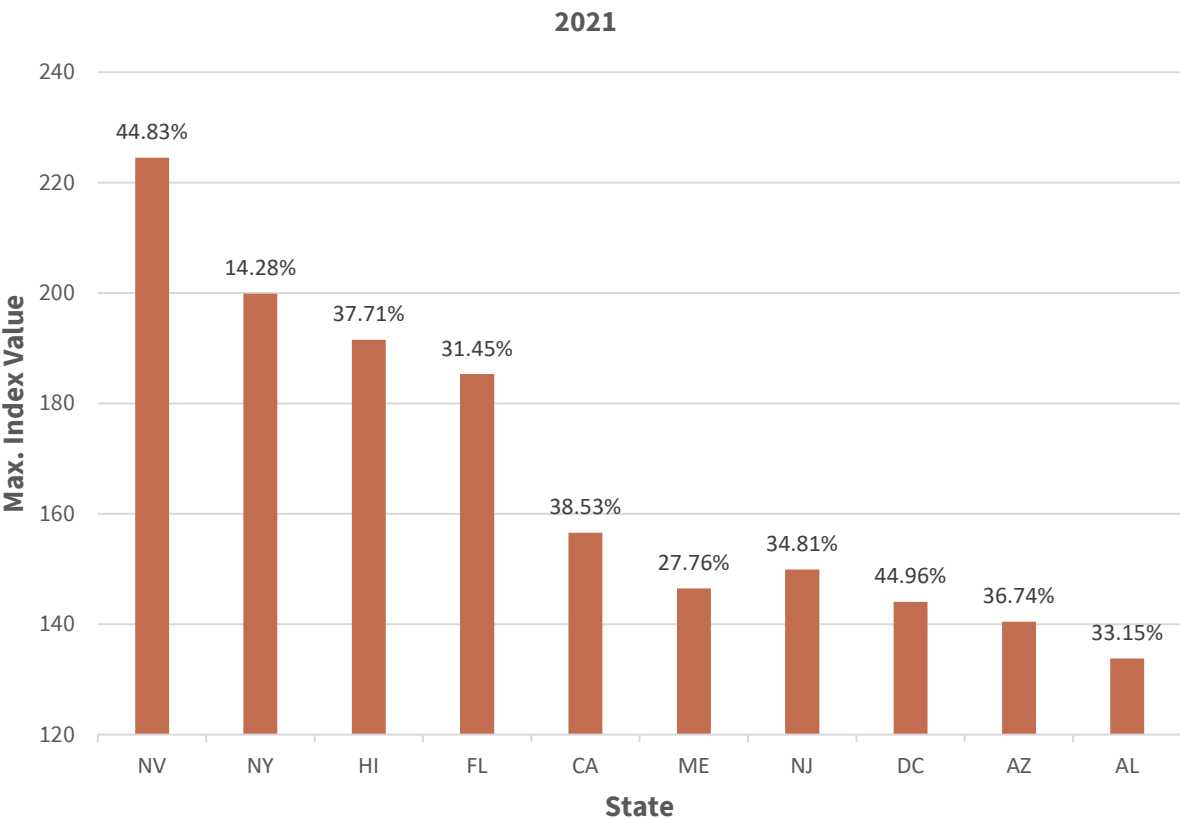
Experience has shown opportunists may exploit policy changes. Some possible fraudulent tactics include the use of straw buyers to take advantage of the improved financing options and falsified qualifications for first-time home buyers (often facilitated by an industry insider).

Mortgage Fraud Risk Highlights By State

Top Ten States with the Highest Application Fraud Risk

Nevada overtook New York as the state with the highest fraud risk, with a nearly 45% increase in risk year-over-year. In early September, The White House issued an announcement regarding steps to increase the affordable housing supply. They include prioritizing sales of FHA-insured and HUD-owned properties to owner occupants and expanding financing for owner-occupied 2–4-unit properties and manufactured housing through Freddie Mac.

Top 10 States with the Highest Application Fraud Risk



Mortgage Fraud Risk Highlights By Metropolitan Area

Fraud Risk Heat Map

The Fraud Risk heat map displays the Metropolitan Area rank for fraud risk as of Q2 2019. Only the top 100 Metropolitan Areas by population are considered.

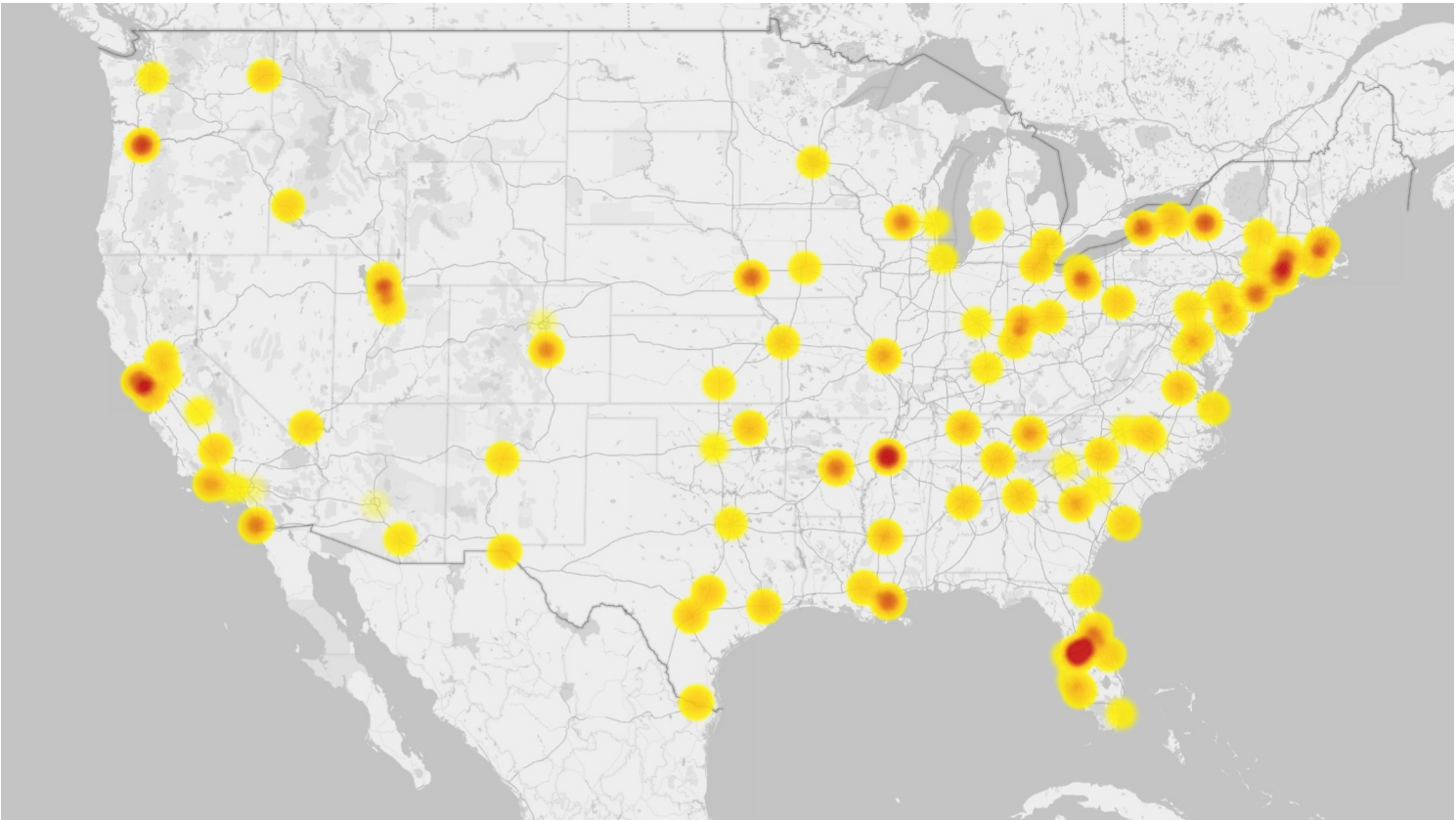
All tables or graphs below are limited to the top 100 Metropolitan Areas based on population.

Top 100 Metropolitan Areas

2021-Q2



Fraud Risk Top 100 Metropolitan Areas by Population



Mortgage Fraud Risk Highlights By Metropolitan Area (continued)

Top 25 Metro Areas with the Highest Application Fraud Risk

Metro Area Name	Population	Risk Index for Metro Area
Las Vegas-Henderson-Paradise, NV	2,315,963	251
Miami-Fort Lauderdale-Pompano Beach, FL	6,173,008	235
Poughkeepsie-Newburgh-Middletown, NY	678,527	206
Tampa-St. Petersburg-Clearwater, FL	3,243,963	191
San Jose-Sunnyvale-Santa Clara, CA	1,971,160	189
New York-Newark-Jersey City, NY-NJ-PA	19,124,359	186
Orlando-Kissimmee-Sanford, FL	2,639,374	181
Cape Coral-Fort Myers, FL	790,767	180
North Port-Sarasota-Bradenton, FL	854,684	178
Los Angeles-Long Beach-Anaheim, CA	13,109,903	176
San Francisco-Oakland-Berkeley, CA	4,696,902	171
McAllen-Edinburg-Mission, TX	875,200	169
Columbia, SC	847,397	166
Bridgeport-Stamford-Norwalk, CT	942,426	160
Lakeland-Winter Haven, FL	744,552	158
Deltona-Daytona Beach-Ormond Beach, FL	679,948	158
New Orleans-Metairie, LA	1,272,258	156
Palm Bay-Melbourne-Titusville, FL	608,459	153
Albany-Schenectady-Troy, NY	878,550	153
Stockton, CA	767,967	151
Austin-Round Rock-Georgetown, TX	2,295,303	150
Jacksonville, FL	1,587,892	147
New Haven-Milford, CT	851,948	146
Seattle-Tacoma-Bellevue, WA	4,018,598	145
Sacramento-Roseville-Folsom, CA	2,374,749	142

Methodology

Data sources

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About CoreLogic

CoreLogic is a leading global property information, analytics and data-enabled solutions 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.

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