

White Paper

Mortgage Asset Research Institute

Eleventh Periodic Mortgage Fraud Case Report
to Mortgage Bankers Association

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ELEVENTH PERIODIC MORTGAGE FRAUD CASE REPORT TO: MORTGAGE BANKERS ASSOCIATION

Executive Summary

2008 was a dizzying, sobering year for the mortgage industry. By year's end, the landscape of real estate finance had undergone seismic shifts in lending practices, industry participation, and public policy.

The year proved to be a swift introduction to how the industry must and will soon change in order to correct the financial turmoil that so quickly flipped the entire American economy on its head. Two to three years ago, mortgage loans were readily available through a variety of means including numerous small-retail outlets, the Internet-only based non-depository lenders and through various underwriting standards. Increased demand by investors and consumers, quick and easy short-term gains, and plenty of inventory helped to create an alternate real estate reality worth nearly three trillion dollars in 2006. Since then, in a span of less than 18 months, over 300 companies once originating mortgage loans have ceased doing business. Three lending and banking giants were acquired by the other three left standing. Freddie Mac and Fannie Mae, the government sponsored enterprises (GSEs) now under conservatorship of the director of the Federal Housing Finance Agency (FHFA), were subjected to complete restructuring. The federal government issued the financial services industry at-large rescue funds, and giving the government ownership interest in the secondary market firms. Significant mortgage reform legislation is being considered, aimed at policing industry professionals in an attempt to protect consumers and lenders from deceptive acts or practices, some of which are already being implemented through the SAFE Act licensing and registration law. The unprecedented onslaught of financial losses, reputational damages, and rehabilitative public policies will forever reshape the mortgage industry.

As this report will depict, reported mortgage fraud is more prevalent now than in the heyday of the origination boom. The increase in reported fraud incidents to be discussed later in this report is a sign of better detection at the front-end of the origination process and renewed commitment to reporting fraud cases; however, analysis of data by the Mortgage Asset Research Institute (MARI[®]), a LexisNexis Service, reveals that fraud incidence is at an all-time high and is comprised of continuing application misrepresentations and multiple verification-oriented issues. Fewer loan originations coupled with increased fraud incidence equals new times of desperation. Industry expertise and technological advancements, when mixed with desperate people and opportunities, are catalysts for the continuation and growth of fraud.

This is the eleventh annual report by MARI to Mortgage Bankers Association (MBA) members. These annual reports examine the current composition of residential mortgage fraud and misrepresentation in the United States. (See Appendix I at the end of this report for information about MARI and the methods it uses to collect data on mortgage fraud.) This year's report will continue that trend, but will also explore the impact of mortgage fraud on the current mortgage market environment. Included in Appendix III is an in-depth analysis of fraud trends specific to the third quarter of 2008. This Quarterly Report follows similar analyses on the first and second

quarters of 2008 released in August and December 2008, respectively. A detailed analysis of the fourth quarter 2008 will follow in the coming months.

The highlights of this annual report include:

- For the first time, Rhode Island is ranked first in the country for mortgage fraud. Future reports will tell if this is a statistical anomaly; however, current data suggests that the state has emerged with a problematic and heretofore unnoticed mortgage fraud problem. Its strong MARI Fraud Index (MFI), 315, indicates significant fraud activity.
- After improving its rankings in 2006 and 2007, Georgia has risen to fourth place for 2008 originations.
- Conversely, California's MFI has fallen to 111 for 2008, a significant drop from 2007's 175.

The body of this report presents the data and reasoning behind the conclusions cited above.

Data and Information Sources Used in This Case Report

For almost two decades, major mortgage lenders, agencies and insurers have been submitting information describing incidents of alleged fraud and material misrepresentation to a central database, known as MIDEX[®] (the Mortgage Industry Data Exchange), in order to share their experiences within the mortgage industry. Subscribers use the MBA-endorsed MIDEX service to help combat mortgage fraud by performing background checks on mortgage professionals and companies as part of their business relationship credentialing process. MARI utilizes this database to obtain statistics on a wide range of mortgage fraud characteristics. Findings from MARI's research are presented in these Case Reports on a periodic basis, as requested by the MBA, as a means of highlighting mortgage fraud trends.

In addition to MIDEX data, this report utilizes Home Mortgage Disclosure Act (HMDA) data provided by the MBA which is key to calculating a state's MARI Fraud Index (MFI) value. Please refer to Appendix II for information on the MARI Fraud Index and its computation.

Previous Case Reports included analyses of subprime trends. Given the virtual halt in non-conforming lending and the large number of lender closures, an analysis of subprime fraud is no longer applicable.

Geographical Distribution of Mortgage Fraud

Table 1 on the next page was developed from fraud cases submitted to MARI by MIDEX subscribers. The first three columns of the table show the rankings of states with the most serious mortgage fraud problems in loans originatedⁱ during 2008. The remaining columns of the table show the rankings and a numerical measure of the same 10 states in the years from 2007 back to 2004.

The numerical measure of each state’s fraud problem is represented by the MARI Fraud Index (MFI). An MFI of 0 would indicate no reported fraud from a state. An MFI of 100 would indicate that the reported fraud for a state is exactly what one would expect in terms of fraud rates, given the level of loan originations in that state. That is, a state that has 5 percent of the cases in MIDEX for 2008 and also has 5 percent of the country’s loan originations in the same year would have an MFI of 100. Appendix II at the end of this report explains in detail how the MFI is calculated.

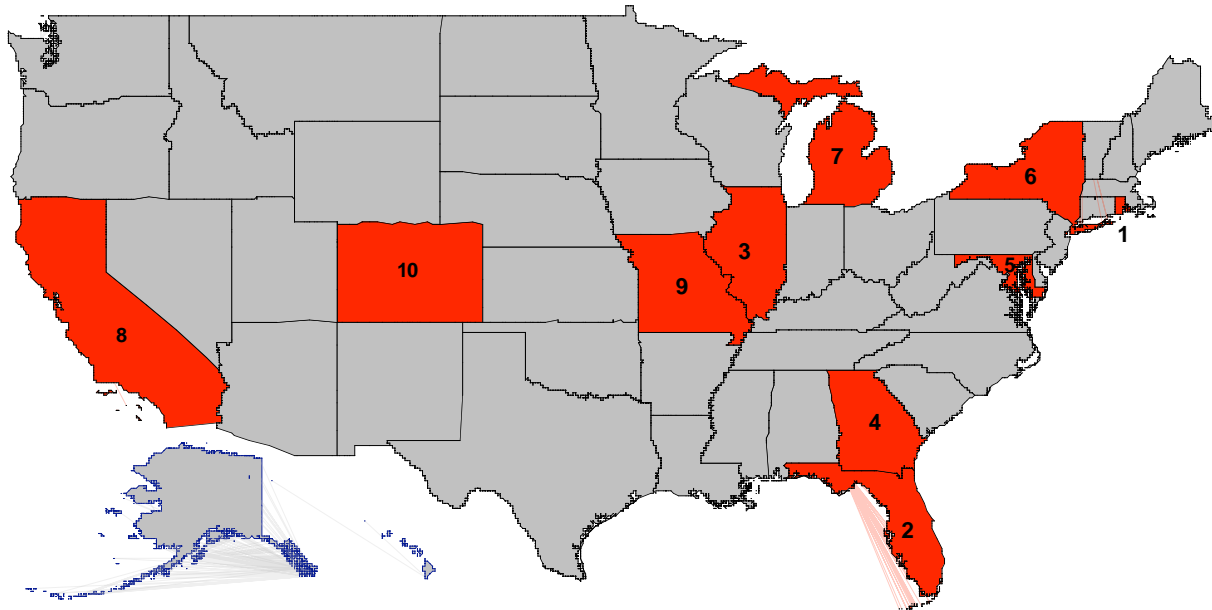
Table 1 details how states rank against one another for reported fraud in the past five years. Based on fraud reports submitted to MARI through the first quarter of 2009, Rhode Island ranked first in the nation for loans with misrepresentation originated in 2008. The reported fraud rate was more than three times ($MFI_{RI/2008} = 315$) what we would expect, based solely on its origination volume. For loans originated in 2007, Rhode Island had a reported fraud rate 73 percent above what it should have had ($MFI_{RI/2007} = 173$) and ranked fifth – or close to half the reported fraud rate of Florida ($MFI_{FL/2007} = 312$), the highest ranked state that year.

It should be noted that the 2004 through 2007 MFI values for all states listed in Table 1 differ somewhat from those shown in the same table of last year’s Case Report to the MBA. This is due to the fact that Table 1 is based on an additional year of submissions, some of which were reported on loans originated in years 2004 through 2007.

Table 1

MARI Fraud Index (MFI)ⁱⁱ By State (2004-2008 All Originations)										
State	2008		2007		2006		2005		2004	
	Rank	MFI	Rank	MFI	Rank	MFI	Rank	MFI	Rank	MFI
Rhode Island	1	315	5	173	18	66	18	65	41	16
Florida	2	279	1	312	1	210	3	177	5	176
Illinois	3	215	6	122	6	127	5	152	8	134
Georgia	4	180	7	115	5	139	1	305	1	421
Maryland	5	170	15	70	16	67	26	47	29	41
New York	6	165	14	72	12	90	10	104	12	99
Michigan	7	136	3	211	3	158	2	191	4	204
California	8	111	4	175	2	181	8	121	19	65
Missouri	9	98	12	78	20	63	13	94	7	136
Colorado	10	98 ⁱⁱⁱ	17	65	8	105	6	138	3	208

Figure 1 (Top Ten States for 2008)



Further analysis of Table 1 and the map yields the following:

- Rhode Island owns the highest 2008 MFI value, 315. This indicates that Rhode Island has over three times the expected amount of reported mortgage fraud for its origination volume. This is Rhode Island's first official appearance on MARI's Top Ten lists—though since last year's Case Report, reports of material misrepresentation for Rhode Island properties have bolstered the state to number five in our current snapshot of 2007 mortgage activity.
- Florida, ranked first last year, has dropped to second place. Its MFI dropped from 312 in 2007 to 279 in 2008.
- With the exception of California and Colorado, most of the states in the Top Ten are in the eastern half of the country.
- The ninth and tenth ranked states, Missouri and Colorado, have MFI values slightly below 100, the expected or "average" MFI value based on origination volume. These results suggest that the 2008 fraud reports received to date are continuing the trend from previous years in being more uniformly spread among the states rather than being concentrated in just a few states with problems dramatically more serious than the rest of the country.
- After improving its rankings in 2006 and 2007, Georgia has risen to be the fourth ranked state for reported mortgage fraud in 2008.
- Maryland, ranked fifth, makes its first appearance in the Top Ten with an MFI of 170.
- Ranked fourth and second for years 2007 and 2006, respectively, California is now eighth with a 2008 MFI of 111.

Types of Fraud Reported

MARI's MIDEX system classifies the types of alleged fraud involved in each incident reported by its cooperating subscribers. These classifications are shown in Table 2 for loans originated in the five-year period from 2004 through 2008. It should be noted that the numbers for 2008 loans are preliminary, since fraud perpetrated in 2008 will continue to surface and be reported for another two years or more.

In a five-year fraud assessment, Table 2 shows each type of fraud as a percentage of all fraud cases submitted to the MIDEX database. For instance, 61 percent of all fraud incidents reported to the database for mortgages originated in 2008 contained application fraud. Misrepresentation on the application ranks highest percentage among other fraud types for 2007, 2006, 2005, and 2004 as well. These percentages are hardly surprising, given that the application form is comprehensive in collecting borrower personal identity, employment, asset and liability information.

Table 2

2008 Mortgage Fraud Types^{iv}					
Fraud Classification	Mortgage Origination Year (All States)				
	2008	2007	2006	2005	2004
Application	61%	62%	67%	67%	65%
Tax Return/Financial Statements	28%	17%	18%	18%	24%
Appraisal/Valuation	22%	19%	16%	20%	23%
Verification of Deposit (VOD)	21%	24%	19%	17%	16%
Verification of Employment (VOE)	15%	12%	11%	10%	12%
Escrow/Closing Documents	10%	12%	11%	11%	11%
Credit Report	4%	9%	14%	11%	9%

Many of the percentage figures shown in this table are similar to those MARI has reported for several years. Notable differences in the 2008 data include:

- The percentage of reports of tax return and financial statement misrepresentation nationwide is higher in 2008 than in previous years. The same is true for VOE misrepresentation.
- Credit report fraud has decreased in the years leading up to 2008.

Table 3 presents a closer look at 2008's Top Ten States and the most prevalent mortgage fraud issues within those states.

Table 3

2008 Mortgage Fraud Types for the Top Ten States							
	Application	Tax Return/ Financial Statements	Appraisal/ Valuation	Verification of Deposit (VOD)	Verification of Employment (VOE)	Escrow/ Closing Documents	Credit Report
Rhode Island	31%	23%	38%	15%	0%	8%	8%
Florida	67%	29%	18%	20%	21%	10%	4%
Illinois	66%	30%	16%	26%	13%	15%	6%
Georgia	52%	34%	31%	11%	11%	6%	3%
Maryland	54%	42%	22%	26%	14%	16%	2%
New York	74%	32%	15%	27%	21%	15%	12%
Michigan	67%	22%	27%	18%	11%	18%	9%
California	56%	26%	14%	37%	14%	7%	3%
Missouri	63%	17%	29%	4%	25%	0%	0%
Colorado	63%	25%	38%	8%	17%	4%	0%

This breakdown of state-specific trends reveals the following:

- The state with the highest MFI, Rhode Island, has a significantly lower percentage of fraud on the mortgage application than other states.
- New York has slightly higher than average rates of application and credit report misrepresentation.

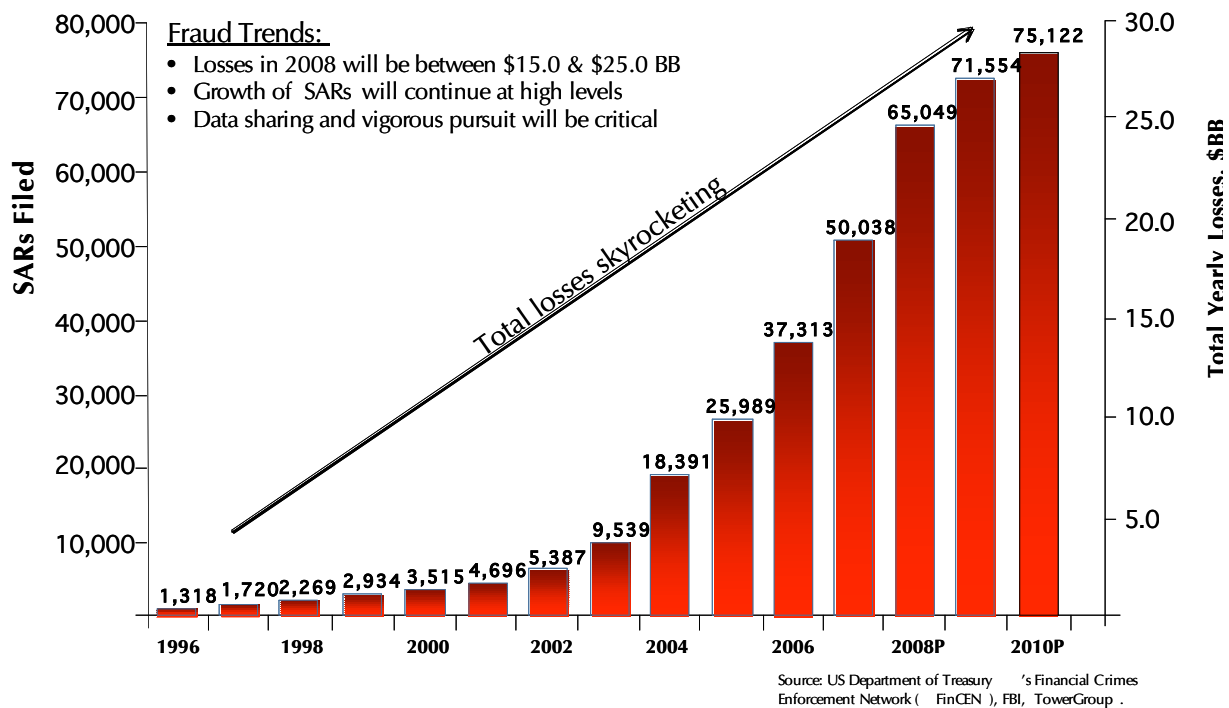
- Appraisal misrepresentation is most prevalent in Rhode Island and Colorado—38 percent of incidents reported for properties in each state contained appraisal issues.
- Maryland has the highest percentage of tax return and financial statement fraud.
- Thirty-seven percent of incidents reported for California properties have incorrect information on the borrower's VOD and/or bank statements.

MARI Reports and SAR Filing Trends

The Financial Crimes Enforcement Network of the Department of the Treasury (FinCEN) is the agency that collects Suspicious Activity Reports (SARs) from all federally-insured financial institutions. Table 4 shows the significant increase in mortgage fraud SAR submissions to FinCEN over the past several years. From 2007 to 2008, the total number of mortgage fraud SARs rose 30 percent. From 2006 to 2007, that number increased by 34 percent. These increases mirror increases in reporting incidents of fraud and material misrepresentation to MARI: from 2007 to 2008, MARI received a 26 percent increase in submissions from its subscribers; and from 2006 to 2007, a 25 percent increase.

Table 4

Mortgage Fraud is a Giant and Growing Cause of Losses



Prior MARI Case Reports to the MBA explained how these year-over-year increases in SAR submissions are not entirely reflective of fraud activity. SAR submissions are currently only required of federally-insured financial institutions and their affiliates. Therefore, the fraud experiences of independent mortgage banking companies are not reflected in Table 4. These companies are represented, among others, in MARI's MIDEX data. In addition, data submitted to MARI must be verified material misrepresentation, criteria that is slightly different from SAR reporting rules.

As previously noted, the increases in reporting fraudulent activity noted above can be partially attributed to increased investigation and vigorous reporting by the industry; however, the unfortunate truth presented by these numbers is that even given fewer loans being processed, mortgage fraud is on the rise.

In Conclusion: Emerging Fraud Schemes

Emerging fraud trends are further draining lender, law enforcement, and consumer resources in the industry's most challenging times. As the lending landscape evolves, so do the fraud schemes that take advantage of it. In addition to seeing an increase in more traditional mortgage misrepresentations like income inflation and bank statement fraud through 2008, MARI is taking note of new schemes to watch in 2009. Three emerging scenarios to which the industry should be currently paying attention include foreclosure prevention schemes, elderly and immigrant identity fraud, and builder bail-out scams.

- ✚ **Foreclosure Prevention Schemes** – These generally involve fraudsters posing as professional, knowledgeable foreclosure specialists. Homeowners facing the threat of foreclosure and nearing eviction are contacted by these “foreclosure specialists” who promise to work out their loan problems or buy their home and offer the homeowners tenancy. Unfortunately for the homeowner, the fraudster has no intention of following through with these promises and instead will manipulate the homeowner into deeding the property to them. Once the fraudster obtains the signed documents, a false lien release is generally filed or leveraged to secure funds from a fabricated sale or refinance on the property. In many cases, the homeowner is under the belief that they will rent the property for a period of time until they are in a better position to regain ownership rights. The fraudster continues to accept payments made by the homeowner while selling the property, absconding with the funds, and eventually evicting the homeowners. Perpetrators of this type of fraud often move from town to town, sizing up their opportunities, quickly scamming as many homeowners as possible, inflicting costly damages, and then moving on to the next location.
- ✚ **Elderly and Immigrant Identity Fraud** -- While not new, elderly and immigrant fraud is regaining popularity. In this predatory practice elderly and non English-speaking consumers are taken advantage of by fraudsters who steal their identities and use them in strawbuying or other property transactions. This is currently happening in some reverse mortgage situations. Similarly, some immigrants who rent properties are discovering that their identities have been used on fabricated loan transactions. A simple inquiry about a loan product that leverages investment or rental properties can be enough to obtain information for use on fabricated loan transactions.
- ✚ **Builder Bail-Out Fraud** – This involves securing funds for condominium conversion or planned community development properties that, unbeknownst to the investor, will not be completed. The scams entail multiple purchases from would-be investors or false identities on fabricated loan transactions. Investors are lured by photos or inspections of a few converted units used as models with promises of further rehabilitation of remaining units. Once the contracts are in place, the fraud continues as the perpetrator secures funding for the contracts; however, no additional work is done and the investors and lenders are left with incomplete and, in some cases, uninhabitable dilapidated buildings.

The descriptions above are just a few examples of rising trends that impacted and are currently impacting consumers and the industry at large. However, more traditional fraud-for-profit and housing schemes still account for increasing incidents resulting in financial losses incurred by lenders and consumers alike.

To survive the wave of uncertainty engendered by the turbulence of 2008, lenders are tightening loan approval guidelines by implementing more rigid credit scrutiny, manual application reviews, and increased quality audits of loan pipelines. The quality and performance of loans mortgage bankers make today and going forward will restore investor and consumer confidence and usher in more private capital into real estate investments. Legislation and public policy activities have forced lenders to be accountable for knowing their customers, employees and business partners. Traditional competition among financial institutions is being tempered with cooperation. Information sharing is the key to successfully combating fraud and those who perpetrate it. To reiterate, application misrepresentation was once again the most reported form of fraud to the MIDEX database in 2008, making up more than 60 percent of the total incidents submitted by MARI subscribers. MARI advocates the use of specialized technologies that support more visibility of application information across internal and industry pipelines early in the process, strengthen risk decisioning, significantly reduce downstream origination costs, and minimize adverse selection by insiders in the business of monetary theft induced by fraud.

To combat fraud, the industry must pay attention to details. Mortgage bankers must act with a sense of constant vigilance to protect their pipelines from becoming tainted with preventable fraud risk by leveraging smarter technologies and acquiring more relevant information about their customers, employees and vendors. Community bankers, steadily growing their own mortgage pipelines, are learning from the mistakes of others that they must do the same. The rules have changed and the stakes have been raised. The burden of responsibility rests with the industry if it is to sustain itself and prevent further losses due to reasons other than the rise of delinquencies and foreclosures and recession-related jobless claims.

Appendix I

Source and Analysis of MARI's Mortgage Fraud Data

The statistical data presented in Tables 1 through 3 of this report were derived from information in a cooperative mortgage fraud database operated by the Mortgage Asset Research Institute (MARI). MARI has designed and offered various mortgage industry databases for the past 18 years. Its most recognized database system is the Mortgage Industry Data Exchange (MIDEX®) that contains information about licensing, public sanctions and incidents of alleged fraud reported to MARI by MIDEX subscribers.

The MIDEX statistical data discussed in this document were derived from the incidents that MIDEX subscribers describe in reports to MARI. (Agreeing to submit reports describing their fraud investigation findings to the non-public section of MARI's MIDEX system is required for those who wish to access other subscribers' non-public reports.) Only "material misrepresentations" are included in these reports. That is, companies only submit reports to MIDEX in cases where, knowing what they know after thorough investigations, they would not have originated, bought or insured the loans in question.

The reports submitted to MARI include the following information about each incident:

- Location of the collateral (state, city and address, to the extent known)
- Names of the originating entity and the loan officer who took the application
- Date the misrepresentation took place
- The method used to verify the existence of the reported misrepresentation(s)
- A short narrative description of the misrepresentation(s) found during the MIDEX subscriber's investigation
- Names of any other professionals who appear to be in a position to influence the accuracy of the information found to be misrepresented; e.g., the name of the appraiser and appraisal firm in cases where the property value is found to be significantly inflated
- A certification from an authorized individual at the submitting mortgage entity that the report is, to the best of his/her knowledge, complete and accurate

MARI staff reviews the reports to assure they meet submission standards for severity and consistency. Submissions are input directly by MIDEX subscribers via an online form, or data entry staffers convert hard copy submissions to a standard, searchable format for inclusion in the MIDEX system. After reading the report's narrative description, MARI will classify the incident as involving one or more of the types of misrepresentations listed in Tables 2 and 3.

If MARI makes any changes to a submitted report, it is returned to the submitting subscriber for review prior to its being entered into the system.

The subscribers participating in the MIDEX system represent a wide range of mortgage entities. They include secondary market agencies, all of the major private mortgage insurance companies, and lenders that account for the vast majority of wholesale lending in the country. To access a MIDEX Client List, go to <http://www.marisolutions.com/> and click on "About MARI."

Appendix II

Computation of the MARI Fraud Index (MFI)

The MARI Fraud Index, or MFI, is an indication of the amount of mortgage fraud found through MIDEX subscriber fraud investigations in various geographical areas within any particular year. It involves very straightforward calculations.

To come up with Table 1's 2008 MFI for loans in a sample state, Florida, MARI staff determines the percentage of all U.S. MIDEX fraud reports that were submitted for Florida-originated loans in 2008. They determined that, to date, more than 19 percent of MIDEX reports submitted from across the country by subscribers for 2008 originations involved loans on Florida properties. But according to HMDA data, Florida had slightly over 7 percent of the nation's total 2007 mortgage originations – the most recent year such data are available.

If mortgage fraud were distributed throughout the country like originations, then we would expect 19 percent of mortgage fraud to occur in Florida. But the 19 percent fraud figure for Florida in 2008 was more than double its origination figure. Therefore, the 2008 MARI Fraud Index for Florida, as of this report's date, is:

$$MFI_{FL/2008} = (19.91/7.14) \times 100 = 279$$

This is, of course, a dynamic figure. Often, a fraud investigation is not completed until a year or two after the loan was originated. MARI will continue to receive Florida fraud reports for another two to three years from its MIDEX subscribers that find misrepresentation in their 2004-2008 books of business. Therefore, Florida's (and all other states') MFI figures will continue to change somewhat in future MBA/MARI Periodic Reports, especially those containing recent years like 2007 and 2008.

It should be noted that the MFI is based on the number of fraud incidents reported for each state, and not the dollar amounts of those mortgages. Therefore, a fraud on a \$120,000 loan in Des Moines, Iowa, is counted the same as a fraud on a \$720,000 loan in Los Angeles, California. Also, there is currently no distinction made between purchases, refinances or home improvement loans in these figures.

Appendix III

Quarterly Fraud Report 3Q 2008

Like MARI's annual *Mortgage Fraud Case Reports to the MBA*, the *MARI Quarterly Fraud Report* is intended to provide industry insight into current and emerging fraud trends, as well as enable awareness of pending mortgage fraud risk. Our quarterly analyses provide more in-depth discussions of fraud types and trends over a shorter period of time.

MARI continued to see an increase in submissions from our subscribers in the third quarter of 2008. Fraud reporting increased by 14 percent over submissions received in the third quarter of 2007. Additionally, MARI's third quarter 2007 submissions were 52 percent higher than submissions received in the third quarter of 2006. Subscribers reporting to MARI are doing their part to report mortgage fraud, which contributes to the spread of overall industry knowledge and awareness.

Quarterly Report Highlights and Trends

- MARI received a 14 percent increase in submissions in the third quarter of 2008 over the third quarter of 2007.
- The top three mortgage fraud states for loans originated during the third quarter are:
 - Number 1: Florida
 - Number 2: California
 - Number 3: New York
- Fraud types that increased during the third quarter include: income misrepresentation on the loan application, VOD and/or bank statement fraud, and fictitious tax returns and/or other financial statements.

Third Quarter 2008 State Rankings

The top states for fraudulent mortgage activity for loans originated during the third quarter of 2008 are shown in Table 5 below.

Table 5

3Q 2008 Mortgage Fraud Rankings^y	
1	Florida
2	California
3	New York

As was the case for the first and second quarters of 2008, Florida tops the list with the most reported loans with misrepresentation in the third quarter with 19 percent of all loans reported associated with Florida properties. In second place is California, with 11 percent of submitted mortgage fraud cases. With nine percent of third quarter reports, New York ranks third.

The Miami Metropolitan Statistical Area (MSA) ranks first in Florida as the MSA with the most reported mortgage fraud during the third quarter. Twenty-seven percent of reports for properties in Florida are in the Miami MSA. The Orlando MSA is second, with 25 percent.

In California, most mortgage fraud occurs in the Los Angeles MSA—59 percent of reported incidents involve this area. Twenty-one percent of reports involve San Francisco MSA properties.

Not surprisingly, the New York City MSA ranks first in the state of New York with seventy-four percent of all reported mortgage fraud for that state in the third quarter. In second place is the Rochester MSA, with four percent.

Quarter versus Quarter Mortgage Fraud Analysis

A closer look at mortgage fraud types across the first three quarters of 2008 reveals that most categories have similar distribution percentages across the quarters. Notable increases in the third quarter include misrepresentations of the borrower's finances—income on the loan application, VOD and/or bank statements, and tax returns and other financial statements. The third quarter saw a decrease in reported incidents of employment and asset and debt information on the loan application.

Table 6

Mortgage Fraud Types – All States			
Fraud Classification	Analysis of Quarter Vs. Quarter Findings		
	1Q 2008	2Q 2008	3Q 2008
General Application Misrepresentation ^{vi}	64%	65%	64%
Income Misrepresentation on the Application	31%	36%	38%
Employment Misrepresentation on the Application	21%	20%	17%
Asset and/or Debt Misrepresentation on the Application	21%	28%	20%
Occupancy Misrepresentation on the Application	14%	6%	8%
ID Theft	1%	1%	1%
Verification of Employment Misrepresentation	18%	16%	11%
Verification of Deposit and/or Bank Statement Misrepresentation	18%	21%	22%
Tax Return and/or Financial Statement Misrepresentation	24%	28%	35%
Undisclosed Non Arm's Length Transactions	6%	6%	4%
Appraisal Misrepresentation	15%	21%	19%
Credit History Documentation Misrepresentation	6%	3%	3%
Escrow and/or Closing Document Misrepresentation	3%	4%	3%

Fraud Types

Table 7 breaks down the percentages for specific mortgage fraud types in each of the top three states for the second and third quarters of 2008.

Table 7

Fraud Classification	Analysis of 2008 State-Specific Findings, Second Quarter vs. Third Quarter Top States					
	Florida 2Q	Florida 3Q	California 2Q	California 3Q	New York 2Q	New York 3Q
General Application Misrepresentation	79%	63%	56%	72%	88%	91%
Income Misrepresentation on the Application	37%	48%	29%	38%	25%	61%
Employment Misrepresentation on the Application	16%	15%	9%	21%	31%	4%
Asset and/or Debt Misrepresentation on the Application	40%	19%	22%	24%	50%	22%
Occupancy Misrepresentation on the Application	6%	2%	4%	7%	6%	22%
Verification of Employment Misrepresentation	19%	15%	13%	24%	25%	17%
Verification of Deposit and/or Bank Statement Misrepresentation	31%	13%	31%	38%	25%	35%
Tax Return and/or Financial Statement Misrepresentation	26%	33%	27%	31%	19%	57%
Undisclosed Non Arm's Length Transactions	2%	6%	7%	0%	0%	4%
Appraisal Misrepresentation	21%	15%	13%	7%	13%	13%
Credit History Documentation Misrepresentation	3%	2%	0%	0%	13%	9%
Escrow and/or Closing Document Misrepresentation	13%	0%	2%	3%	19%	4%

This state-by-state comparison yields several interesting findings:

- All three states showed increased income misrepresentation on the loan application and tax return and financial statement fraud.
- Florida's percentage of application misrepresentation dropped from 79 percent of all reported incidents for Florida properties to 63 percent. The state also saw decreases in percentages for asset and debt misrepresentation on the application and VOD and/or bank statement fraud.
- California saw increases in most fraud categories from quarter to quarter—most significantly, in overall loan application misrepresentation, fabricated employment information on the application, and VOE fraud.
- Although New York had higher than average percentages of overall loan application misrepresentation in both quarters, analysis of other fraud types reported for the state shows several inconsistencies. Percentages were significantly higher in the third quarter for income and occupancy fraud on the application, as well as VOD and/or bank statement fabrication. In contrast, percentages were significantly lower for employment and asset/debt fraud on the application and closing document misrepresentation.

MARI continues to note that the vast majority of mortgage fraud happens on the loan application. These numbers, above-average for California and New York in the third quarter and consistently high for all states in all quarters, reveal that misrepresentation most often happens at the first official step of the loan transaction. It is this step that must be the most scrutinized.

- ⁱ The dates used in MARI's Fraud Index are when the fraud occurred, which are typically the loan origination or closing dates. Subscribers to the MIDEX system may not discover that a loan involved fraud for several months, or even one or two years after it was originated. As a result, numbers for recent years are dynamic.
- ⁱⁱ Readers that compare the MFI figures in Table 1 for the same states to those found in previous Reports in this series will find that the rates have changed. This is due to the fact that MIDEX subscribers in 2008 continued to uncover and report fraud findings from 2004 through 2007. Therefore all numbers in this Report are dynamic and will undergo some changes as time passes.
- ⁱⁱⁱ MFIs are rounded up to the nearest whole number. Colorado's 2008 MFI is 97.79; Missouri's is 98.00.
- ^{iv} The total percentage for each year (the sum of each column in Table 3) exceeds 100 percent because most incidents involve more than one type of fraud.
- ^v Quarterly ranking is based solely on investigations submitted to MARI by its subscribers for loans originated during the third quarter of 2008. Unlike the annual rankings, this is not an MFI ranking as it does not take into account HDMA data.
- ^{vi} General application misrepresentation includes, but is not limited to, the following categories of fraud on the loan application: incorrect name(s) used; occupancy, income, employment, debt, and asset misrepresentation; different signatures for the same name; invalid Social Security number(s); incorrect address(es); and incorrect transaction type.

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