

Mortgage Fraud: A Clear and Present Danger

ABA RPTE Symposia

Ann Fulmer | April 30, 2009



fraud protection you can bank on



Definition of Mortgage Fraud

Deliberate and knowing misstatements, misrepresentations, or omissions

- Bank robbery without a gun
- Affects EVERYONE, not just financial institutions

Two types:

For profit

For housing (but industry insiders profit)

Is the “F” word for banking industry



Scope of Mortgage Fraud

Known Incidence and Loss Rates are Tip of the Iceberg

- Historical industry estimate = <10% of originations
 - May be 25% of originations over the last few years
 - May be 60% of total Alt-A originations
 - Lender loss in Alt-A may be \$218 billion from these programs alone
 - Permeates Prime and subprime as well

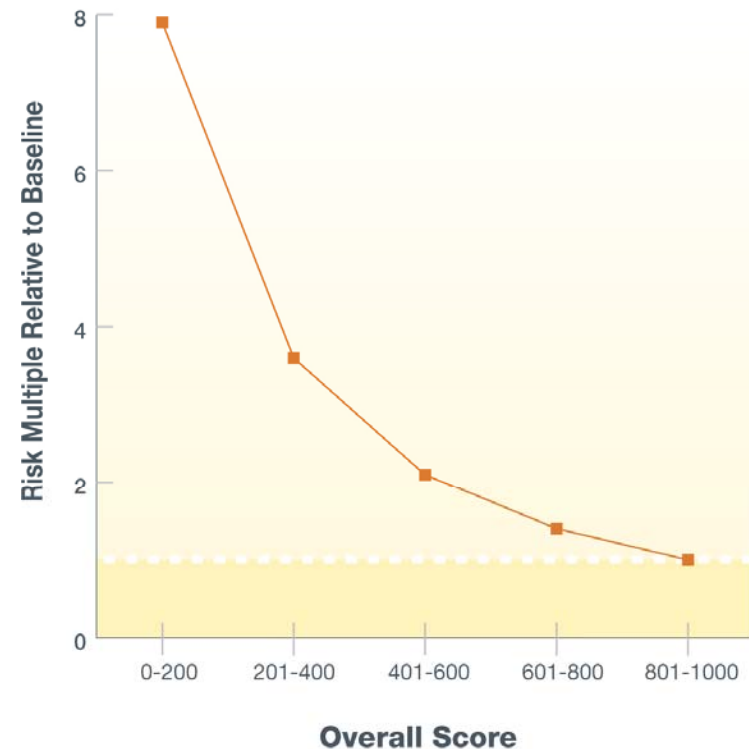
Loss Severity

Fraud in Origination

= **8x** more likely
to default

= **20x** more likely
to enter foreclosure
process

Delinquency Risk vs. Custom Score



The risk of delinquency in the first year is **8 times higher** for loans with a score in the **0-200** range than for loans with a score in the **800-1000** range.

Loss Severity

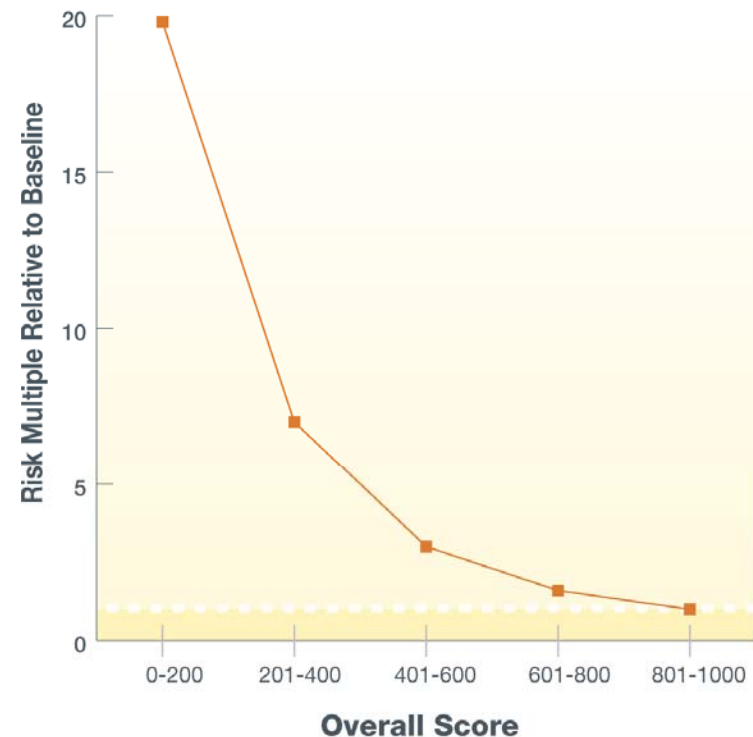
Natural Foreclosure

= 15-60% of original loan amount

Fraud Foreclosure

= 50-100% of original loan amount

Foreclosure Risk vs. Custom Score



The risk of foreclosure in the first year is 20 times higher for loans with a score in the 0-200 range than for loans with a score in the 800-1000 range.



Fraud at Ground Zero

The Effects of Mortgage Fraud at Neighborhood level are

- Pervasive
- Pernicious
- Without income, housing value or geographic boundaries



Mortgage Fraud is Accelerating

Desperation and Opportunity

- “Subprime creep,” career criminals, desperate professionals, Joe Six-pack
- **Current schemes:**
 - Air Loans
 - Double Sales
 - Short Sales/REOs -- the new flipping
 - Settlement agent fraud
 - Condo conversions
 - Builder Bailout/Excessive Sales Concessions



Mortgage Fraud is Accelerating

- **Current schemes:**

- Reverse mortgages: the next subprime meltdown?
 - Non-profits and churches
 - Bogus seller liens/private mortgages
- Loan modifications
 - Second bite at the apple
 - Some lenders not reporting defaults
- Foreclosure Rescue
- Forged documents/fraudulent tax returns



A Clear and Present Danger

Mortgage Fraud math:

- Mortgage fraud = foreclosure
- Foreclosures = investor uncertainty
- Uncertainty = increase in repurchases from individual loans to entire pools
- Repurchases of pools = bank failure and “liquidity crisis”
- Liquidity crisis = recession
- Recession = desperation
- Desperation = more fraud
- More fraud = more foreclosures
- Lather, rinse, repeat



A Clear and Present Danger

The US Treasury is at risk because it originates, purchases or insures more than 80% of mortgages originated today

Confidence will not be restored until loan quality is restored

Crisis will not end until fraud is prevented



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