

Troy Evans
President, Owner, Cinch Home Loans
11576 S State St #101A Draper, UT 84020

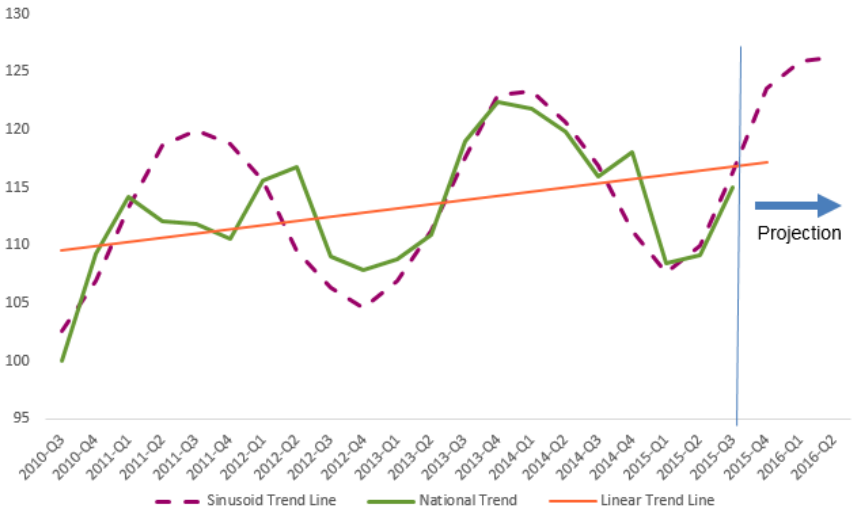
Office: 8019994417
Mobile: 801.792.2697
troy@cinchhomeloans.com
View My Website

CoreLogic Finds Mortgage Fraud Returning, Locus Shifting

Could mortgage fraud be coming back? According to Bret Fortenberry, writing in CoreLogic's *Insights* blog, there are indications the incidence is rising. Fortenberry says the housing industry professionals agree that origination fraud peaked between 2005 and 2008, a period that offered unprecedented opportunities to manipulate the system. The increase regulation, improved controls, and tightened lending standards that followed **strongly reversed** the trend and fraud rates have been very low in the last several years.

Looking toward 2016 however Fortenberry says that it is likely the **loosening credit guidelines** and a recovery of the purchase mortgage market will again return some of the opportunities and motivation for fraud. One possibility is that inflated home prices will be used to cover misrepresentation of down payments.

Figure 1: National Mortgage Application Fraud Index



Source: CoreLogic 2015

Figure 1. The national mortgage fraud risk index starting in the Q3 2010. The green line is the national fraud index and the orange line is the linear trend line that shows the index increasing over time. The dashed purple line is a sinusoidal curve that the index maps to. The dashed blue line for Q4 2015 through Q2 2016 is the predicted extension of the oscillation.

National Average Mortgage Rates



Mortgage News Daily	Rate	Change	Points
30YR Fixed	7.33%	-0.12	0.00
15YR Fixed	6.89%	-0.10	0.00
30YR FHA	6.95%	-0.10	0.00
30YR Jumbo	7.44%	-0.06	0.00
7/6 SOFR	6.81%	-0.19	0.00
30YR VA	6.97%	-0.10	0.00

Rates as of: 11/20

MBS and Treasury

	Price / Yield	Change
MBS UMBS 6.0	99.51	+0.41
10 YR Treasury	4.9403	-0.1033
30 YR Treasury	5.3324	-0.0738

Pricing as of: 11/20 5:59PM EST

Recent Housing Data

		Value	Change
Mortgage Apps	Nov 11	199.8	-2.35%
Building Permits	Oct	1.3M	-7.5%
Housing Starts	Oct	1.31M	+7.21%
New Home Sales	Sep	676K	-1.17%
Pending Home Sales	Oct	63	-4.69%
Existing Home Sales	Oct	3.99M	+0.25%
Builder Confidence	Nov	25	-13.79%

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CoreLogic began tracking mortgage fraud risk in the third quarter of 2010. Since then fraud risk, as shown in Figure 1, has oscillated but the trend has been for fraud to **increase** on a national basis. The green line in Figure 1 represents the national fraud index and the purple line shows a predictive oscillation path the index has been following.

The last peak in the mortgage fraud index occurred in the **first quarter of 2014** with a decreasing trend until the first quarter of 2015. The index leveled off and then started to climb in the third quarter of 2015, an increase that can be attributed to an improving job market and continuing low mortgage interest rates. Fortenberry expects both the pattern and the trend to continue; predicting that the nation is on the bottom cusp of the next period which could peak around the second quarter of 2016, reaching the highest level of risk since 2010.

The increase in mortgage fraud risk is also shifting from historically risky markets to those that have been lower-risk. During 2014, the national fraud risk index decreased overall but in some markets such as Florida, New York, and New Jersey the risk continued to rise. Those regions have now stabilized at a high-risk level along with Las Vegas, Los Angeles and Chicago which have been high risk since early 2014. Now there are stirrings of risk in regions that **previously had relatively little** of it.

CoreLogic has produced two heat maps of the 100 largest Core Based Statistical Areas (CBSAs). The first is a snapshot of fraud risk in the third quarter of 2015 demonstrating the concentration of the highest fraud risk in several Florida population centers and in the New York/New Jersey region with Las Vegas following slightly behind.

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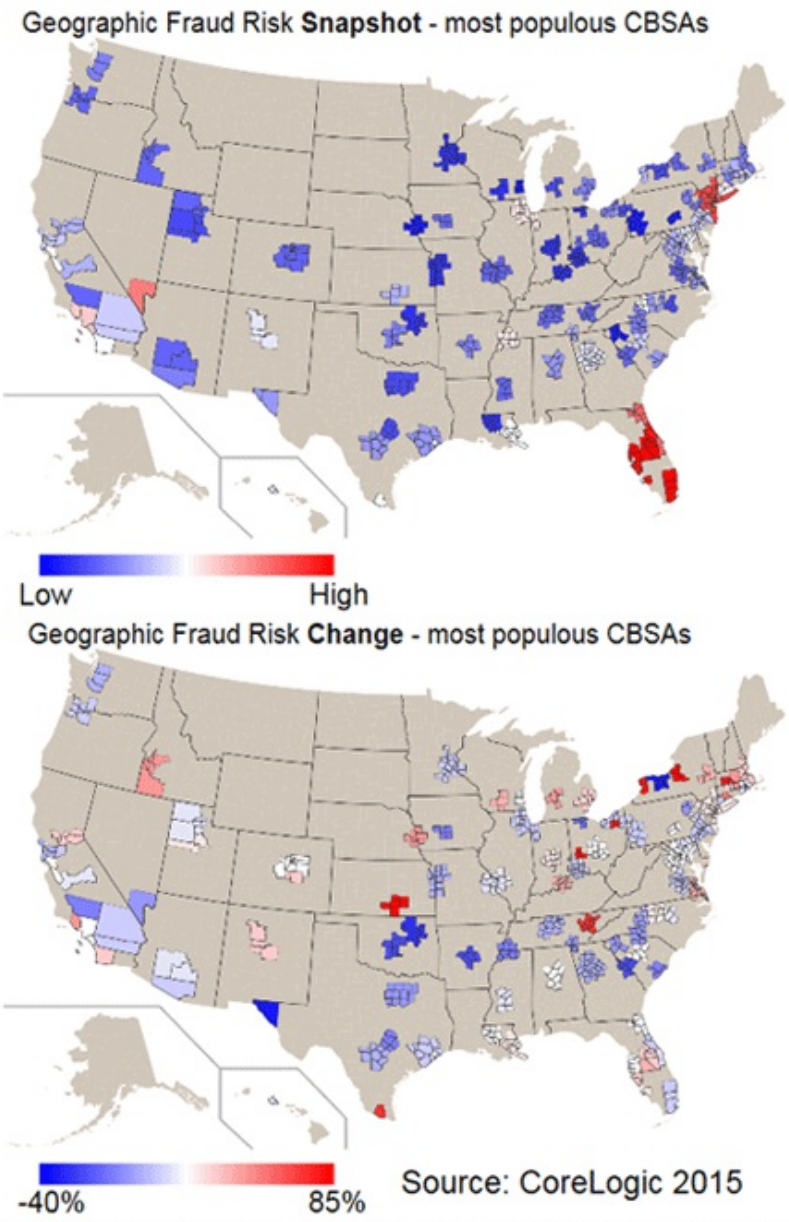

Figure 2. Heat maps displaying mortgage fraud risk across in the nation. The maps display the top 100 CBSAs based on population. The blocks are on a county level and CBSAs containing multiple counties have the same color across all counties. The first map is a snapshot of the highest mortgage fraud risk in Q3 2015, where red areas represent the highest risk and dark blue areas represent the lowest risk. The second map shows the year-over-year change in fraud risk, where red areas represent the highest increases and dark blue areas represent CBSAs experiencing decreases.

The second heat map shows the year-over-year change in risk. It reveals that the top five growing regions, in descending order are Wichita, Dayton, Syracuse, Akron, and Springfield, Massachusetts. None of these areas are currently ranked in the top 30 percent for fraud risk but their risk has increased by 86 percent year over year in Wichita down to 48 percent in Springfield. They are followed by five other CBSA's where risk has increased by at least 24 percent; Buffalo, McAllen, Texas; Knoxville, New Haven-Milford, and Oxnard-Ventura. The last two of those already rank in the **second tier** of riskiest areas at numbers 15 and 13 respectively so if their current rate of increase continues they can be expected to rank among the top ten for risk by next year.

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Two-thirds of the U.S. population lives in the top 100 CBSA but CoreLogic has found a **correlation between rapidly growing CBSAs** and increasing mortgage fraud risk. North Dakota is an interesting example of a lower-risk region that is experiencing a rise in fraud risk. The recent oil boom has brought new businesses and population migration to Williston N.D., the fastest growing micropolitan (and thus not included in the top 100 CBSAs) area in the state This is contributing to the state's rapid increase in occupancy fraud and income fraud risk, 175 percent and 550 percent year over year, respectively.

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