SEPTEMBER 2022

2022 Mortgage Fraud Report

Contents

Overview/Highlights

Fraud Report – National Overview

- New York has the top position for mortgage application fraud risk, with Florida, Rhode Island, Nevada, and Connecticut rounding out the top 5.
- Rhode Island had the largest increase – 60% year-over-year. Its index stands at 170, significantly higher than the national index of 121.
- Rhode Island's risk increase reflects its larger share of government-backed purchases this year, at the same time risk the FHA/VA segments show higher risk than last year. Lower-volume areas are more susceptible to volatility in these measurements.
- The top five states for **increases** in risk include: Rhode Island, South Dakota, Kentucky, New York, and Nebraska. As mentioned, several of these are less-populous states where data can be more volatile due to lower levels of lending activity.
- Income and Property fraud types both showed the greatest risk increases, reversing the prior year trend, where they had decreased. This is not surprising given the lending mix moved from rate refinance predominance to purchase loans being the most common transaction.

Purchase transactions have consistently shown higher risk levels, which is still the case. However, the difference in risk has tightened this year because more of the refinance transactions are in the cash-out category. Last year, the Index ranked purchases as 87% riskier than refinances; that figure is now 37%.

"Signs of a broader slowdown in the housing market are evident, as home price growth decelerated for the second consecutive month. This is in line with our previous expectations and given the notable cooling of buyer demand due to higher mortgage rates and the resulting increased cost of homeownership. Nevertheless, buyers still remain interested, which is keeping the market competitive — particularly for attractive homes that are properly priced."

Selma Hepp, Interim Lead, Deputy Chief Economist for CoreLogic

1 in 131

MORTGAGE APPLICATIONS ESTIMATED TO HAVE INDICATIONS OF FRAUD IN Q2 2022

During the second quarter of 2022, an estimated 0.76% of all mortgage applications contained fraud, about 1 in 131 applications. By comparison, in the second quarter of 2021, our estimate was 0.83%, or about 1 in 120 applications.

MORTGAGE APPLICATION FRAUD RISK INDEX

↓7.5%

YEAR-OVER-YEAR

The CoreLogic Mortgage Application Fraud Risk Index decreased 7.5% nationally year-over-year. The decline in the Index is partially attributed to the recalibration of our updated scoring model, released late Q1. Since the update, we observed increasing risk during Q2 monthly analysis.

The 2- to 4-unit segment showed the highest risk, with an estimated 1 in 34 transactions estimated to have indications of fraud. Purchases in this segment showed higher risk than refinances, but they all showed significant risk and an increase from the prior year.

FHA purchases had the greatest increase in risk year-over-year, with a current estimate of 1 in 96, up from 1 in 172 last year.

Investment purchase risk improved this year, with a current estimate of 1 in 57. Last year the estimate was 1 in 23.

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

"Income fraud risk remains a top concern for lenders, but there is a rising focus on property value risk as home prices slow their growth and homes are taking longer to sell. CoreLogic data backs up those concerns, as our most predictive flags for both income and property frauds increased in the last year more than 20%."

Bridget Berg, Principal, Fraud Solutions

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 going 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

National Fraud Trends

National Mortgage Fraud Index Risk Overview

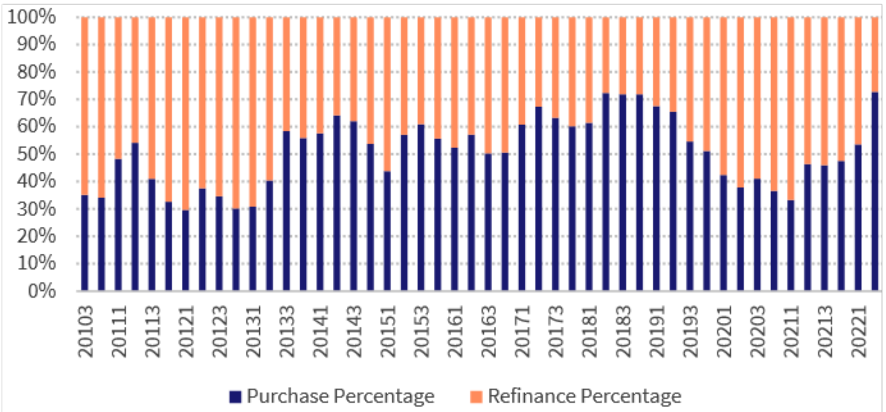
Loan volumes shrank dramatically in the 12 months ending June 2022, as interest rates rose, and the pandemic refi boom ended. Refinance volumes declined 69% while purchases declined by 5%. Volumes, purchase/refinance mix, and other segmentation resembles the market in Q2 2018.

- The largest risk segment is conforming purchases. In the last year, this segment decreased 5% in volume and 22% in risk.
- The only segments with volume growth were investment purchases (+12%), jumbo purchases (+5%), and VA purchases (+5%). Each of these segments decreased in risk.
- Segments with increasing risk included FHA purchases (+79%), multifamily / 2–4-unit purchases (+63%), multifamily / 2–4-unit refinances (+23%), and jumbo refinances (+19%).
- Purchase transactions, as a share of overall volume, have grown from 53% in Q2 2021 to 71% Q2 2022.

"We deployed a Fraud Risk Model update at the end of Q1 2022 to incorporate recent fraud findings and adjust the score calibration. Keeping the model current helps our clients manage their risk efficiently. The current performance shows 46% detection at a 5% review rate, focusing resources on the most important areas."

Josh Wilson, Primary Fraud Risk Modeler, Science and Analytics

Purchase/Refinance Mix



National Index

Fraud Types

The largest fraud type increases this year are in income and property fraud risk.

Income risk increased 27.3% overall, with most of the increase attributed to the reduction in streamline refinances, which may not include income data. Looking at purchase transactions only, the income risk increase was a more moderate 1.7%, consistent with the prior year (1.5%).

Property risk increased for both purchases and refinances in the last year, reversing the decreases we reported last year. The slowing of home price increases is expected to continue and there may be more pressure on valuations than there have been in the last two years.

Identity fraud risk was assessed for purchase transactions only. Synthetic identities are much more common than actual identity takeovers for first mortgages. This indicator was up 4.7% for the year.

Transaction and occupancy fraud risk were mostly flat year-over year, at +1.6% and +0.8%, respectively. Transaction risk is specific to purchase transactions only.

The undisclosed real estate debt risk decreased 12% overall. For purchase transactions, it decreased 21.8% but increased 9.3% for refinances.

Income fraud includes misrepresentation of the existence, continuance, source, or amount of income used to qualify.	**INCOME FRAUD RISK** ↑27.3% Q2 2022 compared to Q2 2021
Property fraud occurs when information about the property or its value is intentionally misrepresented.	**PROPERTY FRAUD RISK** ↑22.6% Q2 2022 compared to Q2 2021
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.	**IDENTITY FRAUD RISK** ↑4.7% Q2 2022 compared to Q2 2021
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.	**TRANSACTION FRAUD RISK** ↑1.6% Q2 2022 compared to Q2 2021
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.	**OCCUPANCY FRAUD RISK** ↑0.8% Q2 2022 compared to Q2 2021
Undisclosed real estate debt fraud occurs when a loan applicant intentionally fails to disclose additional real estate debt or past foreclosures.	**UNDISCLOSED REAL ESTATE DEBT** ↓12.0% Q2 2022 compared to Q2 2021

What We're Watching

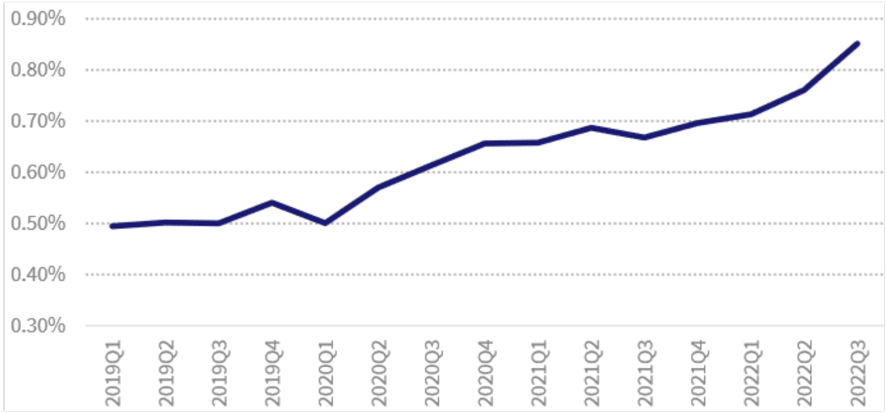
Income Fraud

Most industry experts and risk managers state that income fraud is their number one concern right now. Fannie Mae reports Income and Employment fraud as more than half of their Investigative Findings in the last year. There are a variety of tactics used, ranging from low-tech doctored paystubs and W-2s to schemes involving outside parties that pose as employers, working with insiders such as loan officers or mortgage brokers. The most diligent falsifications cross-reference and "season" the fake information with bank statements that show the deposits over several months.

Many income sources have no definitive source of truth, and the rise in remote work has further complicated the verification processes. There is no simple solution to income fraud, but we continue to build our techniques and data to identify high-risk situations.

Based on consortium member use cases, we recently added a layered risk alert that is a combination of existing income validation red flags. We found the combination provided significant lift over the individual alerts, improving detection and reducing false positives. In our back-testing, we found this combination has had a significant increase since 2019, consistent with industry reports of increasing income fraud risk. This analysis is independent of our year-over-year estimated 27.3% increase based on existing indicative alerts.

Layered Income Risk Alert



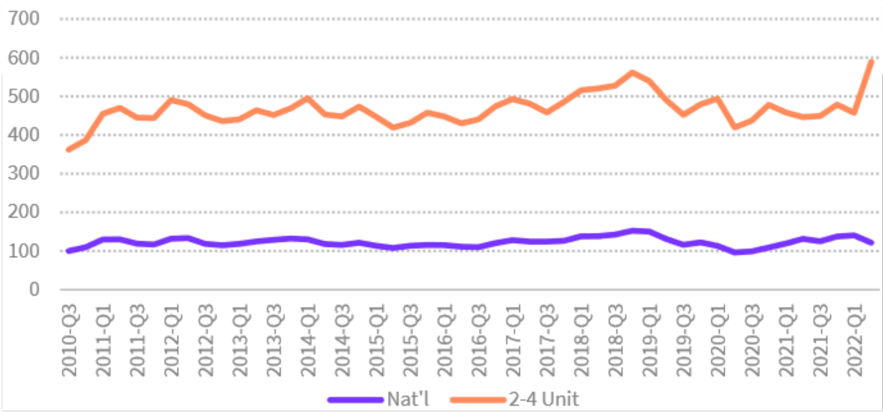
What We're Watching

Affordable Housing Policies

In our 2021 Annual Report, we highlighted the increased risk in 2- to 4-unit properties (also referred to in this report as multifamily) as a trend to watch, as the White House had announced efforts to expand financing for owner-occupied 2- to 4-unit properties. In the past year, we have not yet seen an increase in multifamily loan volumes - relative to other loan types, the volumes have declined slightly.

We have noted increasing fraud risk associated with these loans, with risk estimated at 4 times the risk for single family loans. Last year, our estimate was 2.5 times.

National Fraud Index and Multifamily Index



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 for 2- to 4-units 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, make these attractive targets for fraud schemes. Risk trends and levels for 2- to 4-unit purchases and refinances are similar.

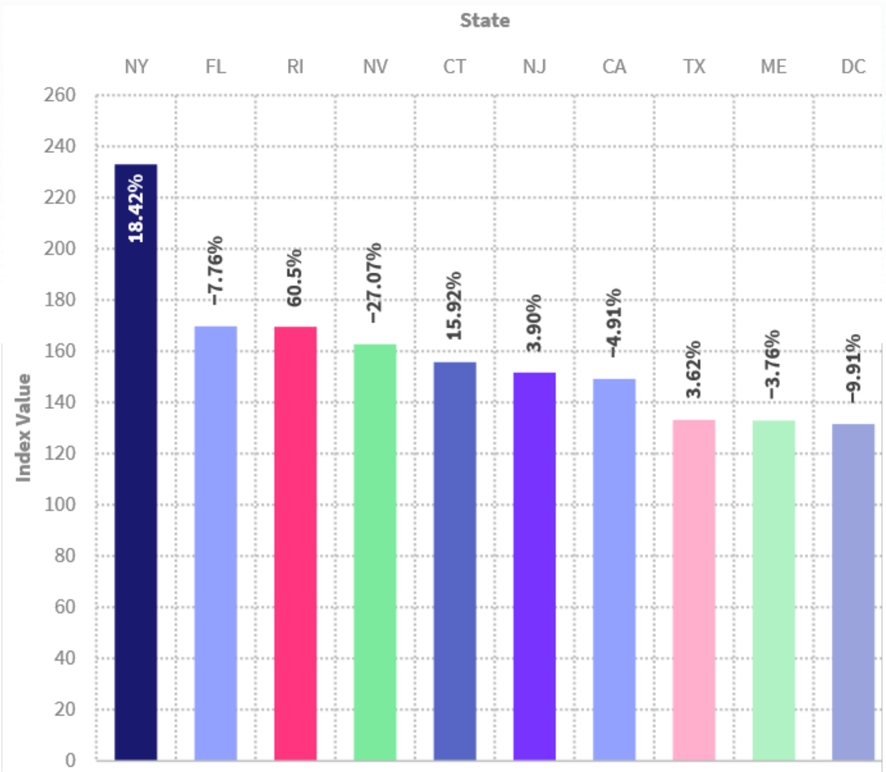
Experience has shown opportunists may exploit the policy changes. Some possible fraudulent tactics include the use of straw buyers to take advantage of the improved financing options and falsified qualifications for first-time home buyers (often facilitated by an industry insider).

Mortgage Fraud Risk Highlights

States with the Highest Application Fraud Risk

New York retains its top spot and had an 18.4% increase year-over-year.

Top Ten States
YOY%



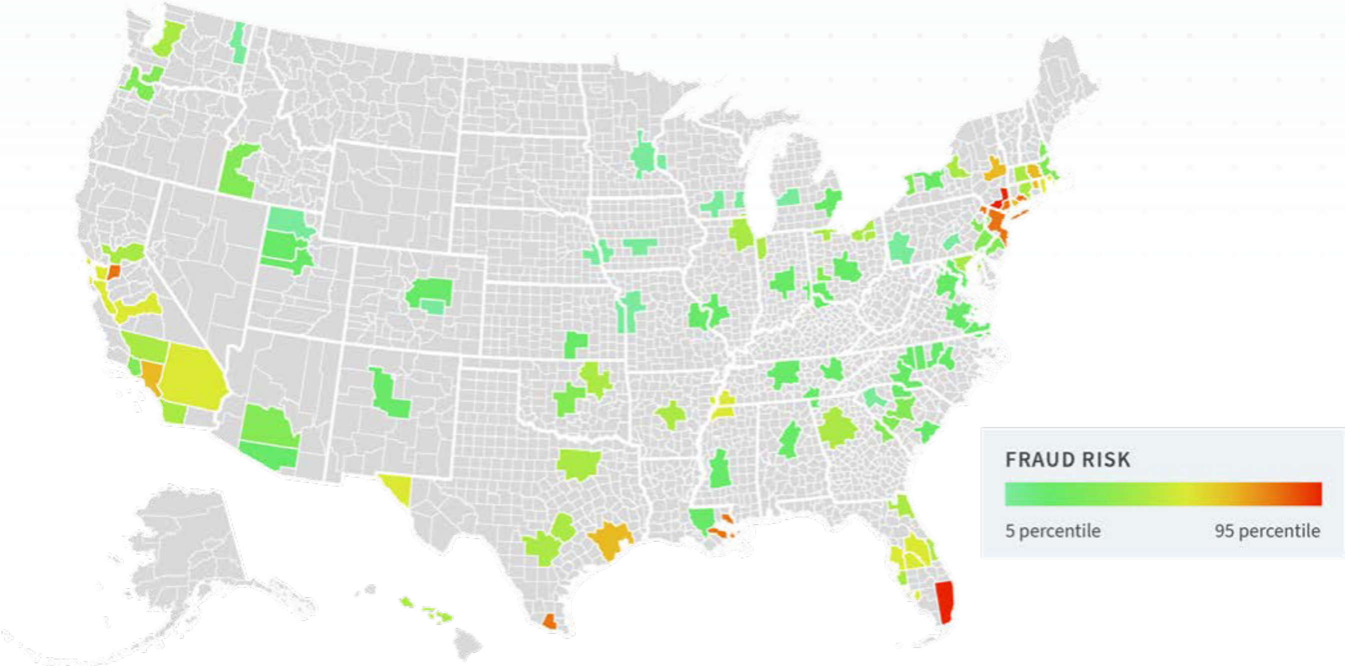
Mortgage Fraud Risk Highlights

By Geography

The Fraud Risk heat map displays the CBSA rank for fraud risk as of Q1 2022. 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.

Fraud Risk Heat Map



Mortgage Fraud Risk Highlights

By Geography *(continued)*

Top 25 CBSAs with the Highest Application Fraud Risk

CBSA	CBSA Name	Population	2022-Q2
33100	Miami-Fort Lauderdale-Pompano Beach, FL	6,173,008	293
39100	Poughkeepsie-Newburgh-Middletown, NY	678,527	260
35620	New York-Newark-Jersey City, NY-NJ-PA	19,124,359	204
44700	Stockton, CA	767,967	199
35380	New Orleans-Metairie, LA	1,272,258	192
32580	McAllen-Edinburg-Mission, TX	875,200	191
35300	New Haven-Milford, CT	851,948	190
29820	Las Vegas-Henderson-Paradise, NV	2,315,963	183
31080	Los Angeles-Long Beach-Anaheim, CA	13,109,903	182
14860	Bridgeport-Stamford-Norwalk, CT	942,426	182
26420	Houston-The Woodlands-Sugar Land, TX	7,154,478	177
49340	Worcester, MA-CT	945,752	174
10580	Albany-Schenectady-Troy, NY	878,550	168
39300	Providence-Warwick, RI-MA	1,623,890	158
15980	Cape Coral-Fort Myers, FL	790,767	156
23420	Fresno, CA	1,000,918	150
36740	Orlando-Kissimmee-Sanford, FL	2,639,374	148
29460	Lakeland-Winter Haven, FL	744,552	146
40140	Riverside-San Bernardino-Ontario, CA	4,678,371	145
41940	San Jose-Sunnyvale-Santa Clara, CA	1,971,160	145
41860	San Francisco-Oakland-Berkeley, CA	4,696,902	143
32820	Memphis, TN-MS-AR	1,348,678	139
45300	Tampa-St. Petersburg-Clearwater, FL	3,243,963	137
21340	El Paso, TX	846,192	136
40900	Sacramento-Roseville-Folsom, CA	2,374,749	134

National Mortgage Fraud Index

Methodology

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.

ABOUT CORELOGIC

CoreLogic is the leading provider of property insights and solutions, promotes a healthy housing market and thriving communities. Through its enhanced property data solutions, services and technologies, CoreLogic enables real estate professionals, financial institutions, insurance carriers, government agencies and other housing market participants to help millions of people find, buy and protect their homes. For more information, please visit www.corelogic.com.

For more information, visit corelogic.com/mortgagefraud or call 866-774-3282.

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