



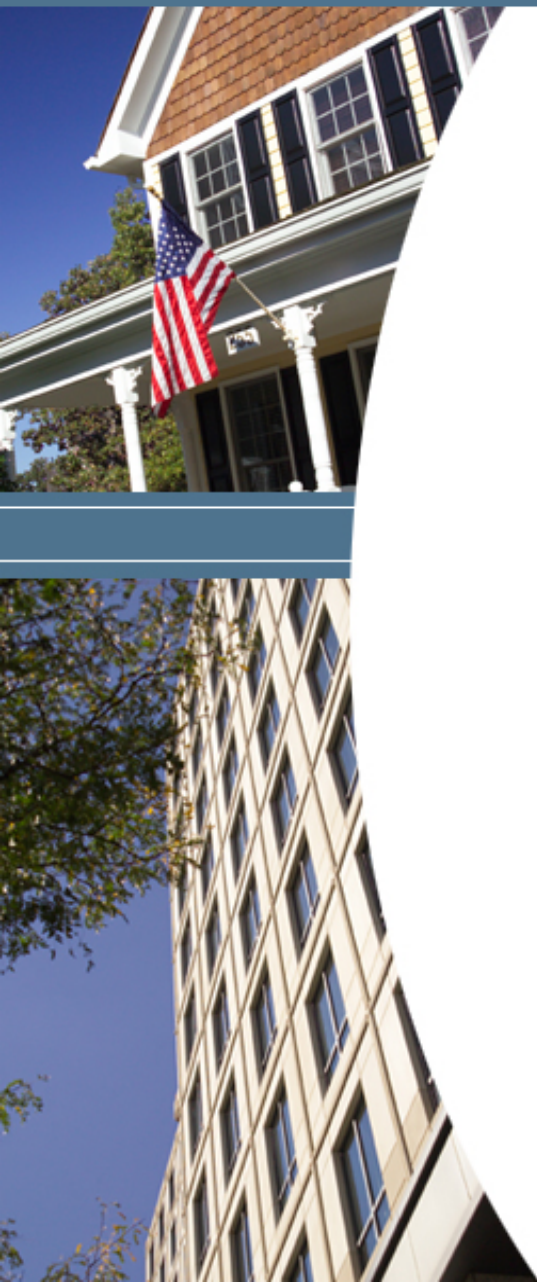
Understanding High Risk Underwriting



**MBA Underwriting Conference
November 2007**

Debra Brown
Anti-Fraud Industry Liaison

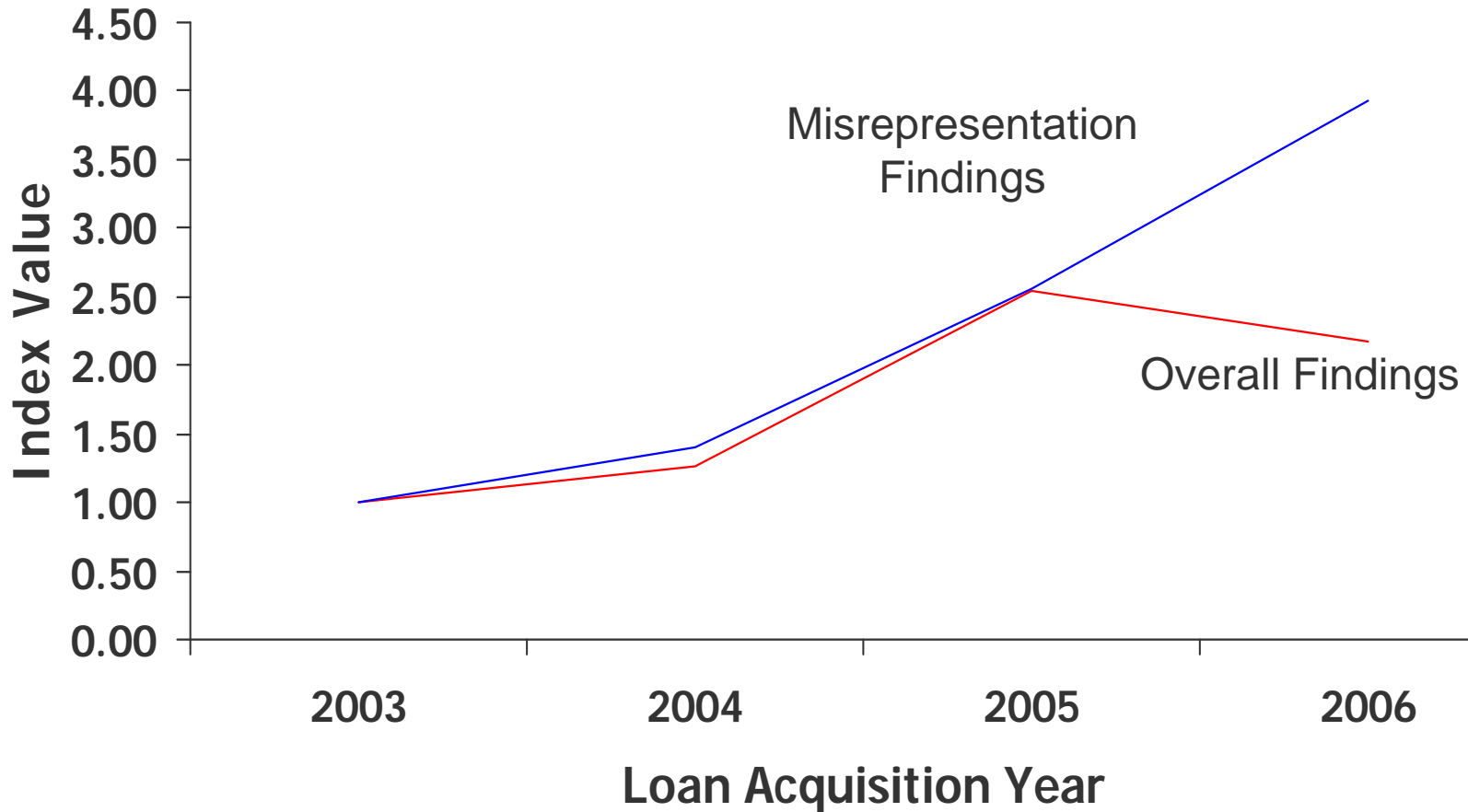




- **Layering of Risk**
- **Potential for Fraud**

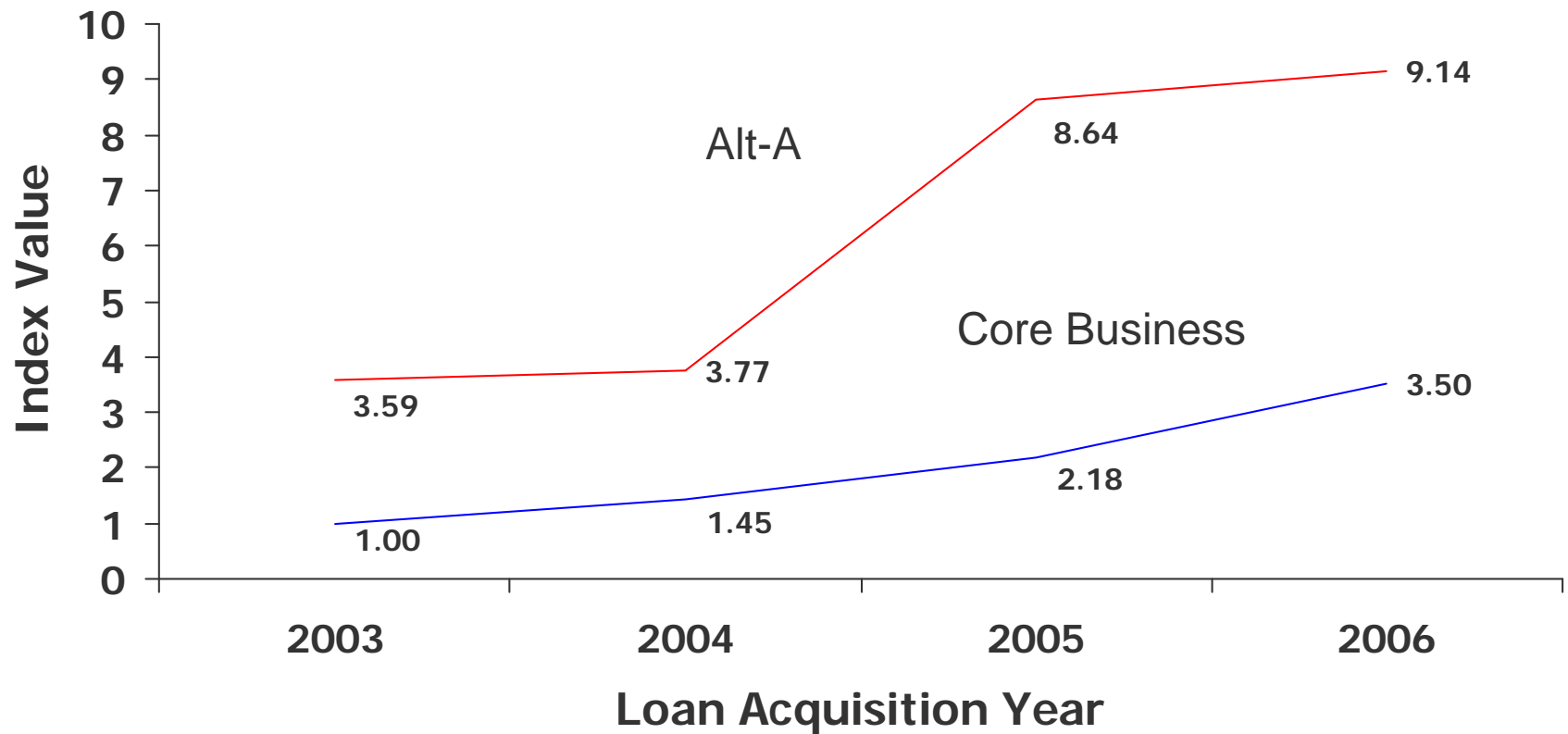
Fannie Mae Mortgage Fraud Trend

Random Finding Rate Index by Year
1.00 = 2003 Finding Rate



Source: Fannie Mae Random Post-Purchase Reviews

Fannie Mae Mortgage Fraud Trend



- **Primary Risk Factors**
 - **Equity Investment**
 - **Credit**

- **Contributory Risk Factors**
 - **Liquid Financial Resources**
 - **Employment Classification**
 - **Mortgage Term**
 - **Product Type**
 - **Type of Property**
 - **Transaction Type**
 - **Presence of Co-borrowers**
 - **Total Debt-to-Income Ratio**
 - **Previous Mortgage Delinquency**
 - **Prior Bankruptcy or Foreclosure**

Income

- *Falsified employment*
- *Inflated income*

Credit

- *Falsified credit*
- **SSN**
 - *SSN discrepancy*
 - *Identity Theft/Creation*
- **Liabilities**
 - *Undisclosed liabilities*

Property

- *Undisclosed prior sale(s) (subject and/or comps) - “Flip”*
- *Falsified characteristics of subject and/or comp(s) – (condition, size, price, date, location, type, etc.)*
- **Value**
 - *Inflated appraised value in conjunction with misrep findings.*

Assets

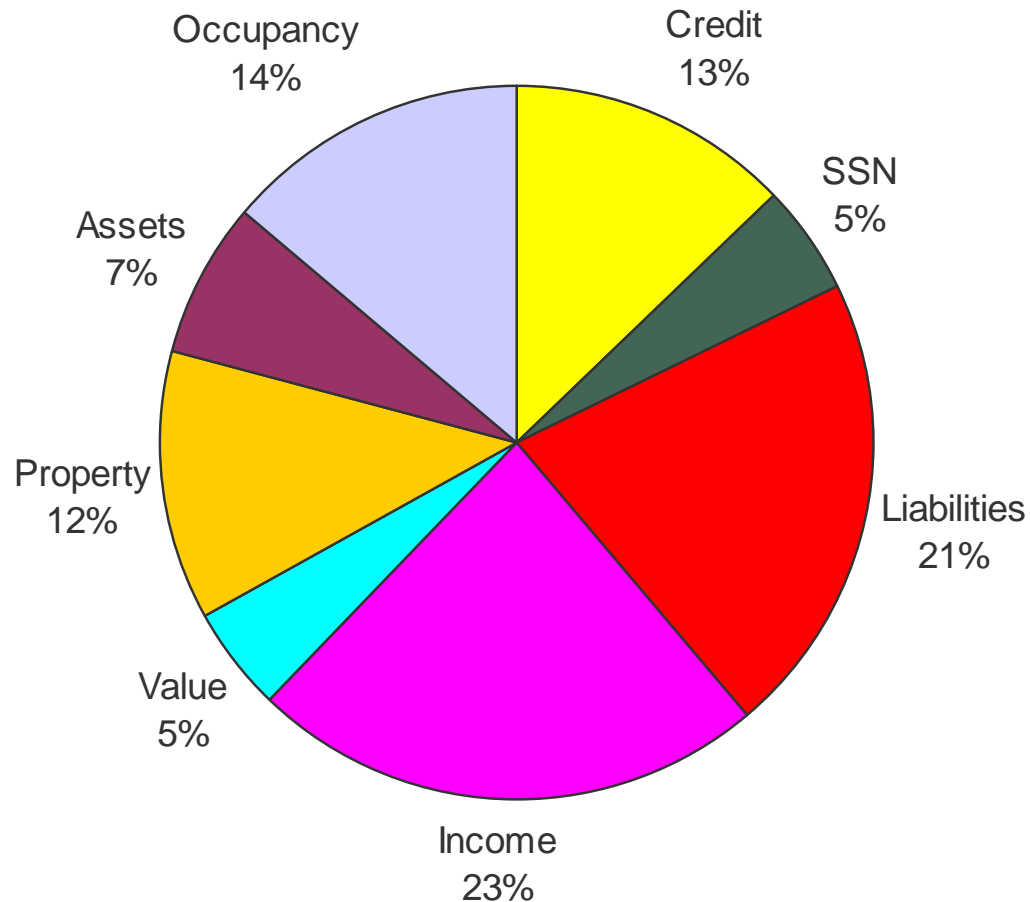
- *Falsified bank statements*
- *Falsified earnest money deposit*
- *Falsified gift letter*
- *Inflated assets*

Occupancy

- *Falsified intent to occupy*

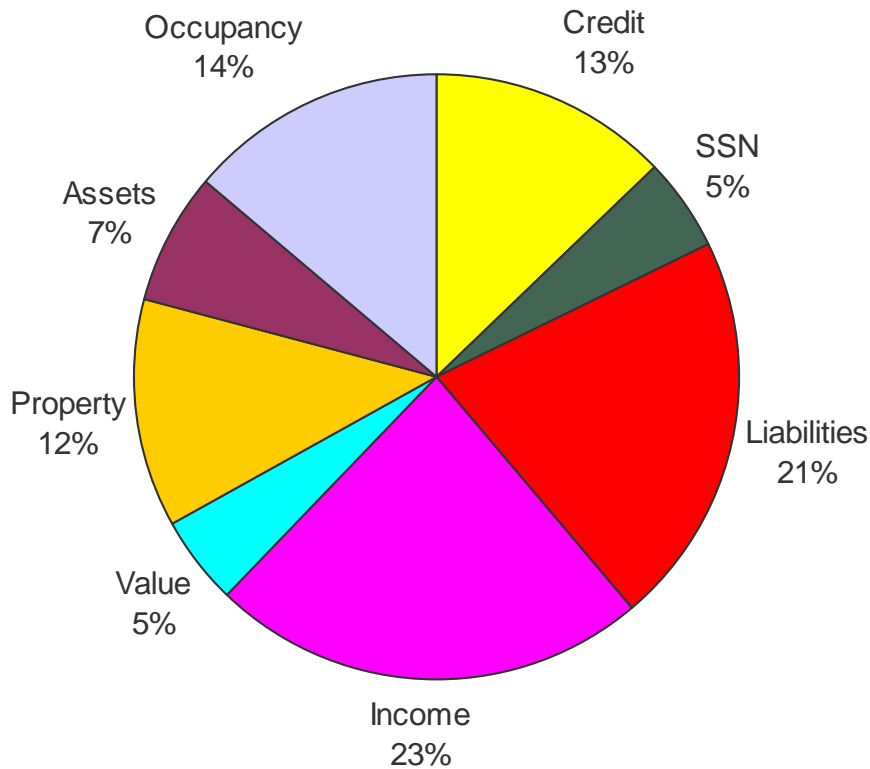


Distribution of misrepresentation findings for 2006-2007 originations

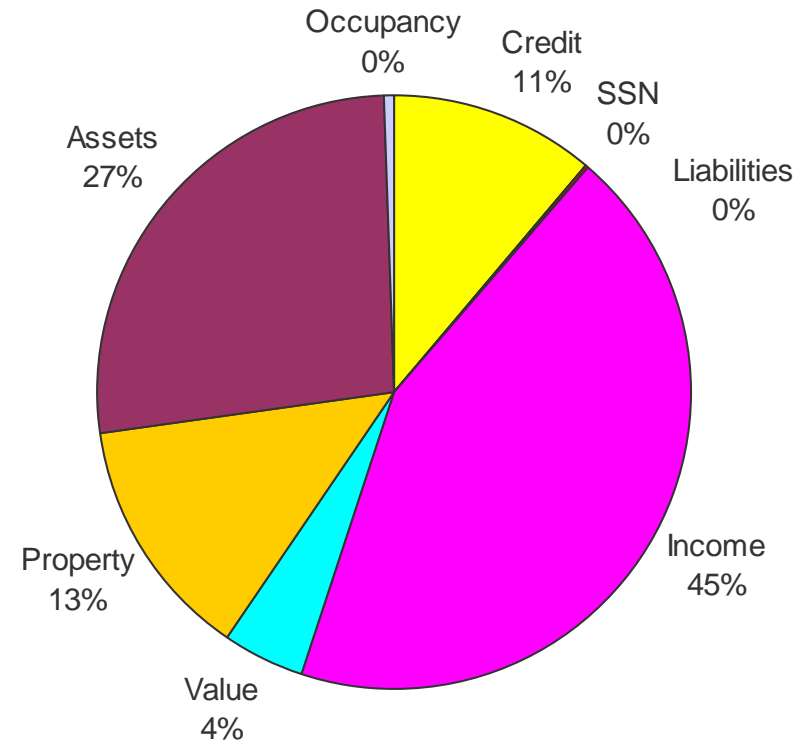


Distribution of misrepresentation findings by origination year

2006-2007



1996-1997



“Hot” Mortgage Fraud Areas

Reviews of loans originated in 2006-2007

Listed by first three zip code digits, representative city & most common misrep findings.

1.	381 -	Memphis, TN	Income & Assets
2.	482 -	Detroit, MI	Credit & Property/Value
3.	303 -	Atlanta, GA	Credit & Income
4.	330 -	Pompano Beach, FL	Income & Credit
5.	770 -	Houston, TX	Income & Credit
6.	331 -	Miami, FL	Income & Assets
7.	339 -	Fort Myers, FL	Credit & Occupancy
8.	606 -	Chicago, IL	Credit & Income
9.	300 -	Decatur, GA	Income & Property/Value
10.	481 -	Dearborn, MI	Credit & Income

Top ten zip code areas represent 21 percent of misrepresentation cases.

- Fabricated Data
- Appraiser Identity Theft
- Concealed Seller Contributions
- Chunking
- Undisclosed Flips
- Fabricated (Forged) Transfers
- Undisclosed Mortgages



Making it Easy for the Fraudsters -- Inadequate QC may miss large fraud patterns



SSN/Identity Fraud - 10 loans @ \$1.7 million

- Credit reports indicated SSNs were invalid; SSA verifications were fabricated



Property Flipping & Income Fraud - 112 loans @ \$10 million

- DU messages; verification documents were clearly fabricated



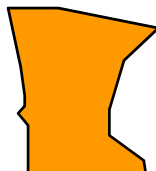
Developer Property Flipping & Forgery/Straw Buyers - 123 loans @ \$15.5 million

- Same appraiser; borrowers from out of state; varying signatures
- Disbursements to parties not on sales contract



Value/Appraisal Fraud - 771 loans @ \$113 million

- Same appraiser; appraiser clearly fabricated comparable sales prices



SSN/Identity Fraud - 684 loans @ \$123.4 million

- Files contained credit and QC reports with clear indications that SSNs were invalid.

- ***Desktop Underwriter® Messaging***
- ***To Report Possible Fraud to Fannie Mae***
 - 1-800-7FANNIE
 - fraud_tips@fanniemae.com
- ***Mortgage Fraud Information:***
 - eFannieMae.com