



Tenth Periodic Report To The Mortgage Bankers Association

MBA National Fraud Issues Conference
March 13, 2008 – Chicago

Presented By

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VP-National Manager

ChoicePoint Mortgage/Real Estate Services

Mortgage Asset Research Institute (MARISM)

- **About Us**
 - Established in 1990 (Cooperative database provider)
 - Acquired by ChoicePoint in June 2003
 - Recognized as leading providers of Identity Risk Management tools to the financial services industry
- **Industry Support**
 - Publication of the Annual MBA Report on Mortgage Fraud
 - Administer and manage the only contributory database of derogatory submissions (MIDEX[®])
- **Products and Services**
 - Verification and credentialing of mortgage professionals
 - Identity Risk Management
 - Enhanced due diligence
- **Customer Base**
 - Lenders, bankers and insurers
- **Usage**
 - Quality control, investigative analysis, vendor management
- **All reports returned in real-time**

What is MIDEX?

- **A Cooperative Database Service, that includes:**
 - Public administrative actions (Sanctions and/or Legal Actions)
 - Nonpublic information (Investigations of fraud)
 - Professional License Data
 - Brokers / Originators
 - Appraisers (NEW!)
 - Realtors (NEW!)
 - CPAs (Coming Soon)
 - Closing/Escrow Agents (Coming Soon)
 - And more...
 - Continuous Monitoring
 - Notification of changes or updates related to professionals and companies

MARI's Mortgage Fraud Data

- **Sources of Information**
 - MIDEX Non-Public Cooperative Data
 - Includes ***incidents*** of alleged fraud, material misrepresentation and serious misconduct from several hundred subscribers
 - Nearly 18 years of cooperative information
 - Endorsed by the MBA
 - MIDEX Public Sanctions Data
 - 200+ sources, including state, federal and self-regulating groups
 - Industries include *Mortgage, Securities, Commercial Banking, Real Estate and Appraisal*
 - Offers administrative & some legal actions
 - Information on ***people*** and ***companies***
 - **NEW!** Law Enforcement
 - Industry Partnerships



***MIDEX has
become a
utility in the
mortgage
industry!***

The Magnitude of Fraud

“A staggering estimate of losses around \$638 billion among organizations, despite increased emphasis on anti-fraud controls and recent legislation to combat fraud. “

Association of Certified Fraud
Examiners Oct 2007

30.2M adults or 13.5% of the U.S. adult population were victims of fraud in 2006

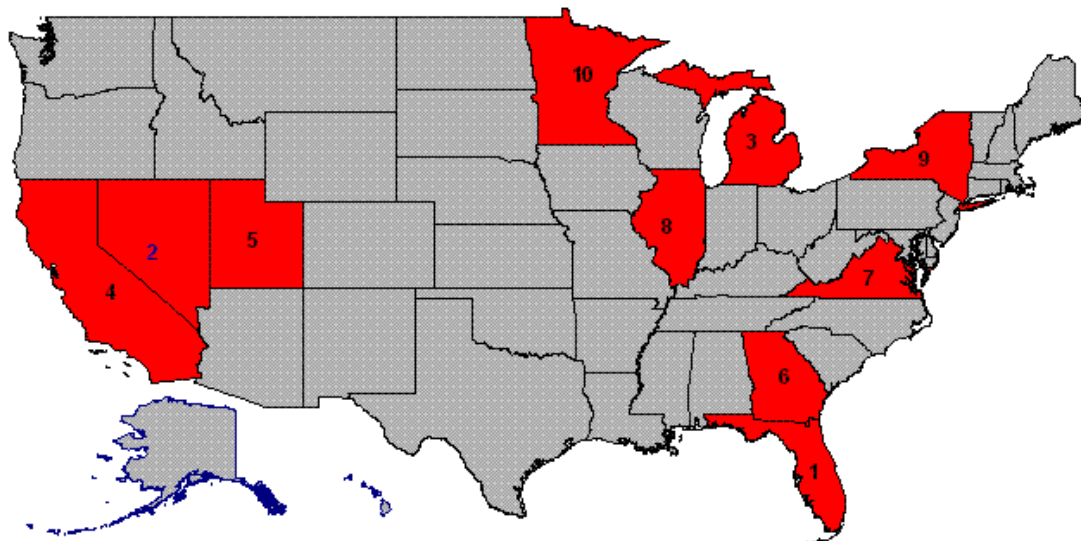
FTC Report
Oct 29, 2007

10th Periodic Mortgage Fraud Report

- Market Highlights
 - Lowest origination volume since 2002
 - Highest number of delinquencies and foreclosures
 - Rapid and near complete shut-down of the non-conforming secondary market
 - Hundreds of announced closures of mortgage originators
- Report Keynotes
 - Florida retains top spot and Nevada moves up to #2
 - Employment, identity and valuation related issues increase
 - The need to know your borrowers, vendors and employees is greater than ever!

Top 10 MFI States – All Originations

1. Florida
2. Nevada
3. Michigan
4. California
5. Utah
6. Georgia
7. Virginia
8. Illinois
9. New York
10. Minnesota



States with...	All Originations
...increased ranking	<ul style="list-style-type: none"> ➤ Nevada ➤ Virginia
...decreased ranking	<ul style="list-style-type: none"> ➤ Colorado ➤ New York ➤ Minnesota ➤ Georgia

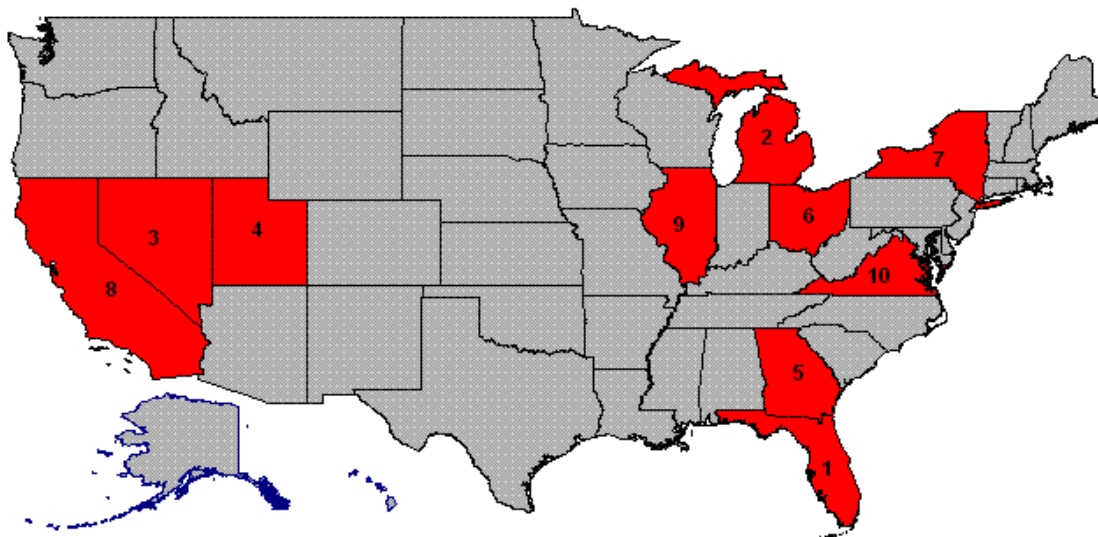
Top 10 MFI States – All Originations

MARI Fraud Index (MFI) By State (2003-2007 All Originations)

State	2007		2006		2005		2004		2003	
	Rank	MFI	Rank	MFI	Rank	MFI	Rank	MFI	Rank	MFI
Florida	1	215	1	217	3	169	5	180	7	159
Nevada	2	204	6	120	14	85	37	27	13	112
Michigan	3	200	3	141	2	200	3	207	4	176
California	4	170	2	204	8	121	18	66	22	55
Utah	5	156	11	95	7	124	6	168	3	181
Georgia	6	125	4	123	1	311	1	417	1	499
Virginia	7	114	14	68	24	49	30	39	37	28
Illinois	8	107	8	102	4	159	7	134	10	145
New York	9	94	9	99	11	106	12	101	14	109
Minnesota	10	99	5	121	9	121	17	72	27	47

Top 10 MFI States – Non-Prime Originations

1. Florida
2. Michigan
3. Nevada
4. Utah
5. Georgia
6. Ohio
7. New York
8. California
9. Illinois
10. Virginia



States with...	Non-Prime Only
...increased ranking	<ul style="list-style-type: none"> ➤ Nevada ➤ California ➤ Virginia
...decreased ranking	<ul style="list-style-type: none"> ➤ Arizona ➤ Indiana ➤ Minnesota

Top 10 MFI States – Non-Prime Originations

MARI Fraud Index (MFI) By State (2003-2007 Non-Prime Originations)

State	2007		2006		2005		2004		2003	
	Rank	MFI	Rank	MFI	Rank	MFI	Rank	MFI	Rank	MFI
Florida	1	260	1	199	4	187	3	198	2	229
Michigan	2	238	4	166	2	211	4	176	4	178
Nevada	3	194	7	127	24	42	26	55	10	109
Utah	4	177	6	153	3	191	2	245	3	179
Georgia	5	141	3	167	1	327	1	376	1	654
Ohio	6	128	13	96	11	109	10	132	13	96
New York	7	121	8	121	10	111	7	155	14	96
California	8	116	5	157	13	88	25	57	21	58
Illinois	9	116	10	106	7	166	14	87	15	94
Virginia	10	114	31	41	22	45	21	60	34	37

Top 5 Application Issues – All Originations

- The most common types of fraud found in 2007 originations were in the areas of employment and claimed income
- Undisclosed or incorrect liabilities sharply increased by 50% from 2006

Application-specific Issue	Frequency	
	All Originations	Non-Prime Only
Incorrect employment history	20.8%	23.6%
Incorrect income	20.5%	19.0%
Incorrect owner/occupant status	20.3%	17.8%
Undisclosed/ incorrect debts/ liens / judgments	12.4%	14.7%
Invalid Social Security Number	8.5%	8.7%

Every Relationship is both an Opportunity & Risk

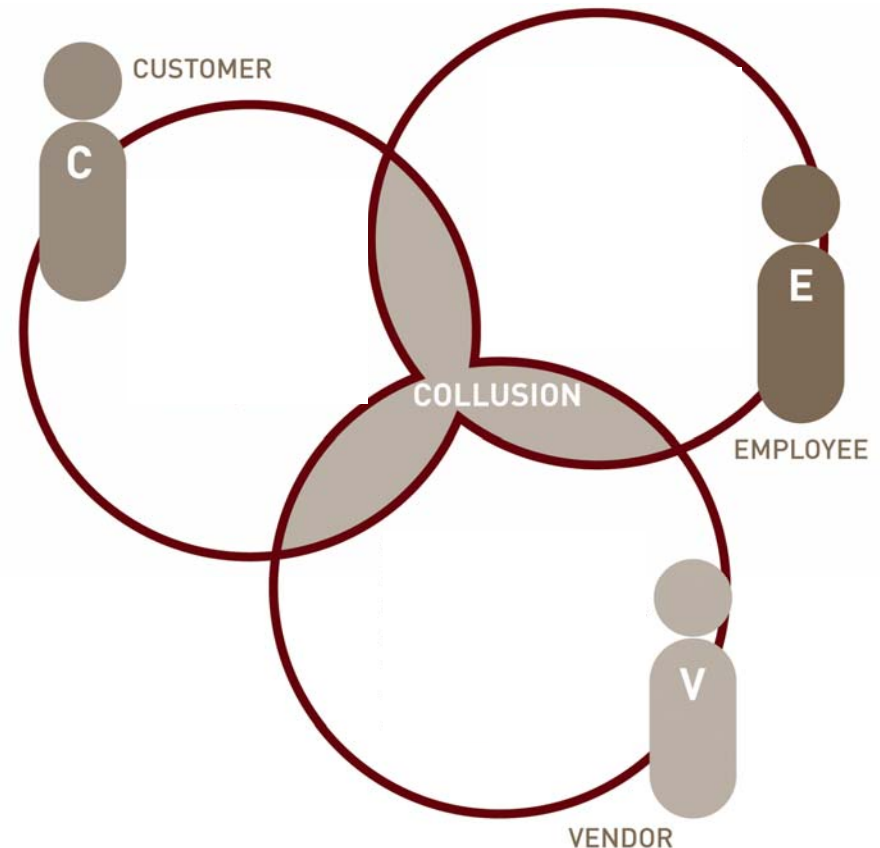
Customers, Employees and Vendors

- Singular risk-focus?
- Collective risk-focus?

Relationships matter

Why life / business events matter

- **Customer**
 - “Past is a predictor of the future”
 - Job loss, gambling, sickness
- **Employee**
 - New hire exposure
 - Tenured employee exposure
 - Life events....
- **Third Parties / Vendors**
 - License revocation / suspension
 - Regulatory sanctions affecting FSP's
 - Large contract/customer loss
 - Bankruptcy, liens, judgments
 - Criminal activity



Key Questions about your relationships

Why life / business events matter

Customer

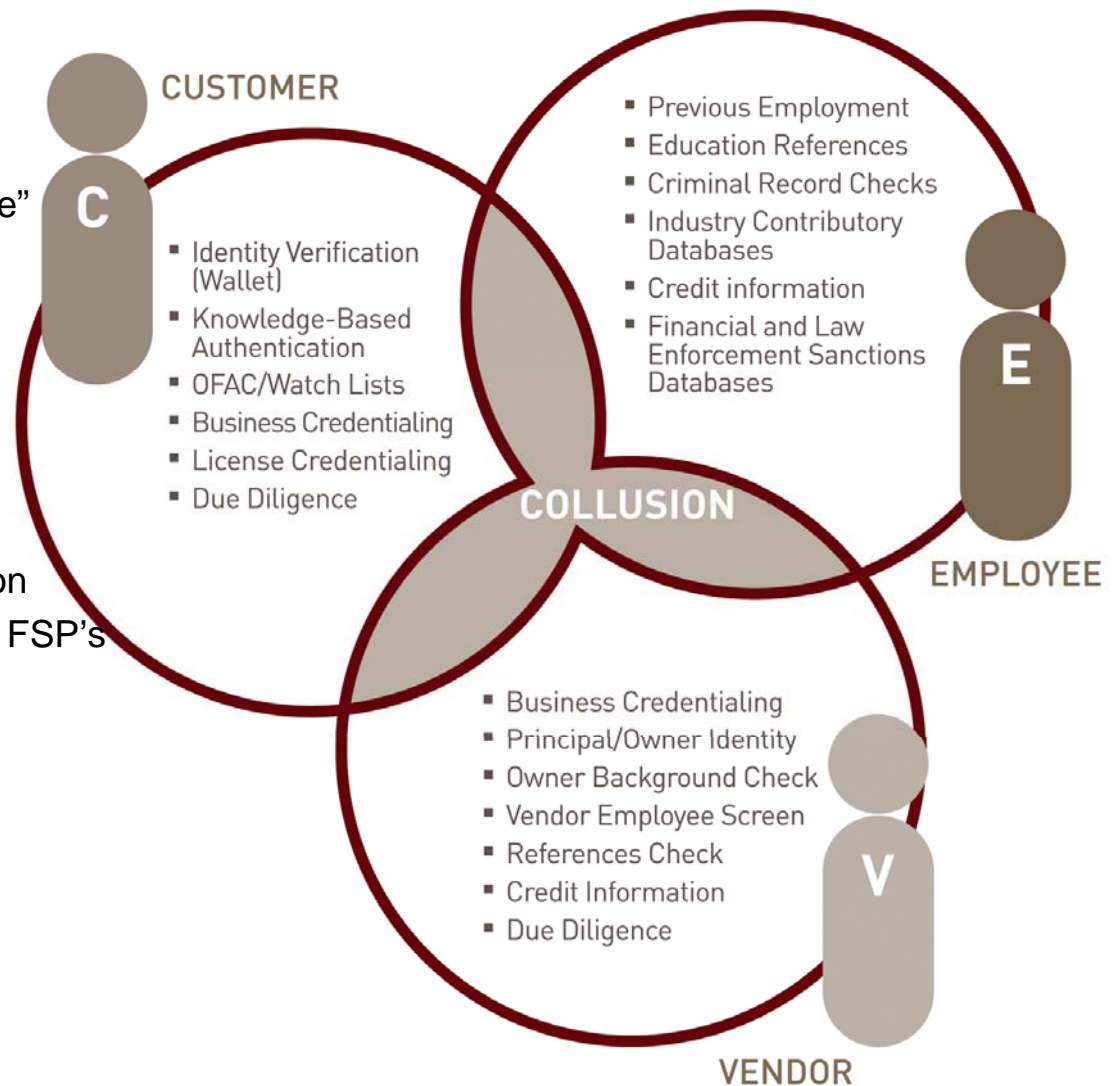
- “Past is a predictor of the future”
- Job loss, gambling, sickness

Employee

- New Hire Exposure
- Tenured Employee Exposure
- Life events....

Third Parties / Vendors

- License revocation / suspension
- Regulatory sanctions affecting FSP's
- Large contract/customer loss
- Bankruptcy, Liens, Judgments
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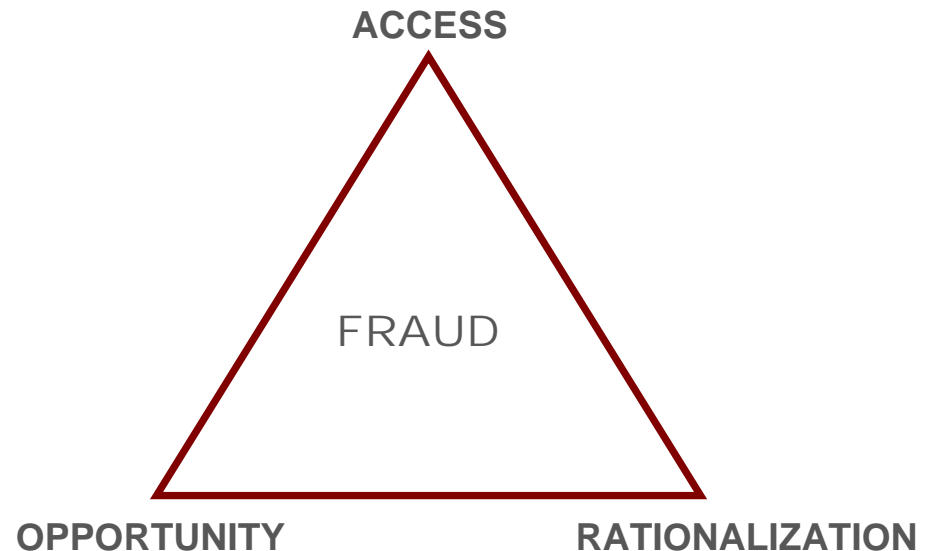
Why pursue a monitoring strategy?

Relationships Change.

Are yours at risk?

How do you know?

- Nearly 40% of fraud cases involved collusion*
- Fraud involving multiple parties can multiply the damage



Cressey, D.R. 1953, *Other People's Money: A Study in the Social Psychology of Embezzlement*, Free Press, Glencoe, Illinois.

*"2006 Report to the Nation on Occupational Fraud and Abuse. Copyright 2006 by the Association of Certified Fraud Examiners, Inc."

ChoicePoint & MARI Mortgage Services

- **Mortgage Industry Data Exchange (MIDEX)**
 - A share-safe repository containing Industry-contributed incidents of alleged fraud and misrepresentations
 - Supports business due diligence when establishing relationships with professionals and companies
- **Identity Risk Management**
 - Professional License Verifications
 - Identity Authentication and Verifications (Individuals & Companies)
 - Loan Fraud Alert Service (LFAS)
 - Criminal Background Checks
 - “Soft Hit” Credit Checks
- **Other Services**
 - Mortgage Fraud Alert System (MFAS)
 - Continuous Monitoring
 - Annual Case Report to the MBA on Mortgage Fraud
 - ChoicePoint products and services

For More Information

10th Periodic Fraud Report - MARI <http://www.mari-inc.com/resources-news/reports.asp>

2006 ACFE Report to the Nation <http://www.acfe.com/documents/2006-rtn.pdf>

*For more information on ChoicePoint's
privacy and information security programs,
please visit:*

<http://www.privacyatchoicepoint.com>

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Appendix

- **Operational Risk Areas in Business**
- **Describing the Magnitude of Fraud**
- **What does fraud look like in the financial services sector?**
- **Company Overview: ChoicePoint**

Operational risk areas in businesses

Mortgage

- Applicants, buyers, sellers identity theft / impersonation
- All application supporting documentation
- Any industry insider (Third Party) licensure or work product (certifications, insurance riders, county / notary stamps, etc...)
- Professional insider public sanction / status
- Any lender insider (Employee) work product or approval
- Any loan process – whether conducted by employees' or third-parties

Insurance

- Customer identity theft / impersonation
- Claims (mortgage short-fall) disbursements
- Non-Group product type selection & cash or investment options
- Dual-Employee arrangements (Agency / Brokers)
- Product to Liquidity conversion
- Sale of products by non-licensed impostors

Commercial Banking

- Hidden customer identities / owners / principals
- Business or professional licensing
- Appraisal of property for foreign investors
- Bankruptcy, Lien, Judgment of Sellers / Buyers
- Criminal history of Buyers)
- Hidden investments / claims / insurance
- Investment or collateral trail

Retail Banking

- Customer / member identity theft / impersonation
- Account opening / joining (deposit or credit)
- Account activated cards
- Address changes
- Currency handling (employees)
- Call-center / Interactive Voice Banking
- Wire-Transfer / Direction of ACH
- Branches, online, call-center, IVR/VRU operations

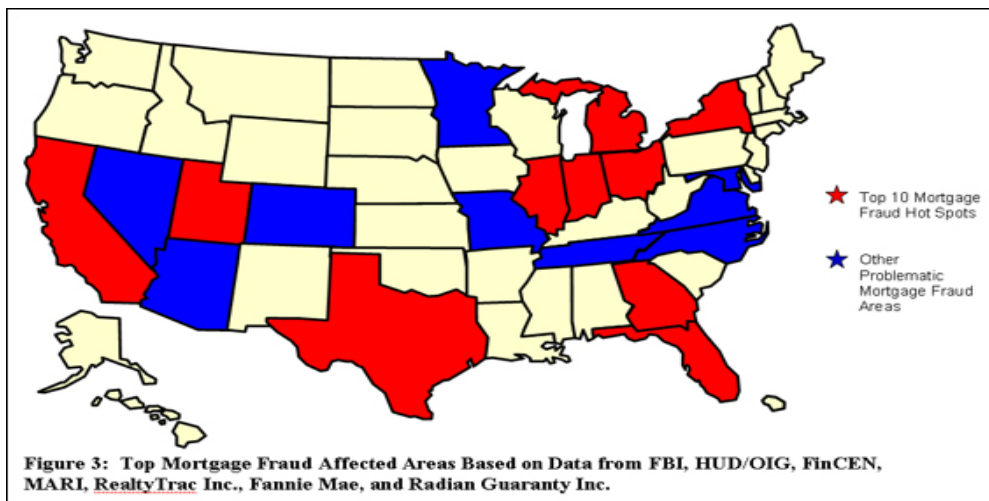
Securities

- Customer identity theft / impersonation
- Account opening / joining
- Dual-Employee (Broker / Dealers)
- Product type selection & investment schedule
- Securities to Liquidity process
- Account activated cards / online wire transfer
- Fund sourcing documentation

Describing the magnitude of fraud

The Prieston Group calculated that losses attributed to mortgage fraud will “most likely reach \$4.2 billion for 2006”. This figure does not take into account another estimated \$1.2 billion spent on fraud prevention tools.-.

The Prieston Group, 2006 Data, 16 February 2007, and 2 April 2007



AFCE Report to the Nation – 2006

Banking & Finance has the highest number of cases (\$258K median loss)

Insurance is 5th (\$100K median loss)

Real Estate is 13th (\$200K median loss)

"2006 Report to the Nation on Occupational Fraud and Abuse. Copyright 2006 by the Association of Certified Fraud Examiners, Inc."

Occupational Frauds Based On Industry – Sorted By Frequency			
Industry	# Cases	% Cases	Med. Loss
Banking/Financial Services	148	14.3%	\$258,000
Government and Public Administration	119	11.5%	\$82,000
Manufacturing	101	9.7%	\$413,000
Health Care	89	8.6%	\$160,000
Insurance	78	7.5%	\$100,000
Retail	75	7.2%	\$80,000
Education	73	7.0%	\$100,000
Service (general)	60	5.8%	\$163,000
Service (professional, scientific or technical)	58	5.6%	\$300,000
Construction	35	3.4%	\$500,000
Utilities	34	3.3%	\$124,000
Oil and Gas	32	3.1%	\$154,000
Real Estate	30	2.9%	\$200,000
Wholesale Trade	30	2.9%	\$1,000,000
Transportation and Warehousing	27	2.6%	\$109,000
Arts, Entertainment and Recreation	22	2.1%	\$175,000
Communications/Publishing	16	1.5%	\$225,000
Agriculture, Forestry, Fishing and Hunting	8	.08%	\$71,000
Mining	1	.01%	\$17,000,000

What does fraud look like in the financial services sector?

Securities Trading

The S.E.C. complaint said that Mr. Gashichev “initially funded the Grand Logistic account with \$30,000, and, in approximately seven weeks, realized \$353,609 in profits from his fraudulent scheme.” It said the trades, from Aug. 28 through Oct. 13, were in 21 securities.

New York Times, December 20, 2006

Employee Risk

Criminal checks crucial for safety

According to a legislative audit conducted last spring, the UW system employed 40 felons, and 27 of these felons worked on the UW-Madison campus. Of these, two individuals were convicted murderers.

Editorial, *The Daily Cardinal* (University of Wisconsin), December 12, 2006

Mortgage Insider Fraud

West Los Angeles Mortgage Banker to Plead Guilty to Flipping Scheme

After allegedly participating in a massive mortgage fraud scam that caused more than \$18.5 million in losses to banks, including his former employer, a West Los Angeles mortgage banker has agreed to plead guilty to federal criminal charges, according to the U.S. attorney's office for the Central District of California.

By James Comtois, *National Mortgage News Online*, June 12, 2006

Company Overview: ChoicePoint

- NYSE listed in 1997
- 5000+ employees; 60 offices globally
- We have existing relationships with the top 83% of the top 30 commercial banks as listed in the Fortune 500.
- On an annual basis our Financial Services industry relationships contribute approximately 60% of our annual revenues, spanning institutions from \$10 million to over \$1 trillion in assets.
- ChoicePoint has been called a “model” company for protecting privacy and information
- Millions of transactions weekly

